Revised Auditing Standards Committee Statements (ASCSs) and Quality Control Standards Committee Statement 1 (QCSCS 1) - Comparison with International Standards on Auditing (ISAs) and International Standard on Quality Control 1 (ISQC 1) -

18 September, 2013

The original texts of Auditing Standards Committee Statements (ASCSs) and Quality Control Standards Committee Statement 1 (QCSCS 1) are prepared in the Japanese language, and the provisional translation and relevant explanation included in this document is to be used solely as reference material to aid in the understanding of the ASCSs and QCSCS 1.

For all purposes of interpreting and applying ASCSs and QCSCS 1, users should consult the original Japanese texts available on the following website:
http://www.hp.jicpa.or.jp/specialized_field/audit/05/

<u>**Contents**</u>

Introduction

1. Purpose of this Document

1.1 The purpose of this document is to provide the readers with an overview of Auditing Standards Generally Accepted in Japan (Japanese GAAS), by comparing to the clarified International Standards of Auditing (ISAs) and the International Standard on Quality Control 1 (ISQC 1) issued by the International Auditing and Assurance Standards Board (IAASB).

2. Content of this Document

2.1 Part I provides high-level explanation of Japanese GAAS, including the following information:

- The structure of Auditing Standards Generally Accepted in Japan (*1.The Structure of Japanese GAAS*);
- Information regarding additional requirements to ISAs and ISQC 1 ("additional requirements"), which are included in Japanese GAAS (*2.Standard to Address Risks of Fraud in an Audit,* and *3. The revision of relevant Auditing Standards Committee Statements (ASCSs) and Quality Control Standards Committee Statement 1 (QCSCS 1), based on the Fraud Risk Standard*);
- Information regarding other modifications to requirements of ISAs and ISQC 1 which exist in Japanese GAAS. (*4. Other Modifications, including Additional Requirements*)

2.2 Part II provides provisional translation of the relevant part of ASCSs and QCSCS 1, to identify key modifications to requirements of ISAs and ISQC 1. This Part consists of four sections as follows:

(Section A) QCSCS 1 "Quality Control for Audit Firms"
(Section B) ASCS 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements"
(Section C) ASCS 900 "Change of Auditors"
(Section D) Comparison of Requirements between other ASCSs and ISAs

With regard to QCSCS 1, ASCS 240 and ASCS 900, provisional translation of all requirements together with "Introduction", "Objectives" and "Definitions" sections are provided.

Part I. Overview of Japanese GAAS

1. The Structure of Japanese GAAS

1.1 Auditing standards generally accepted in Japan (Japanese GAAS) consist of the following:

- Auditing Standards issued by the Business Accounting Council (BAC), an advisory body established within the Financial Services Agency (FSA), which include:

  - ***The Auditing Standards***
    The Auditing Standards stipulate principles and key concepts about the financial statement audit, agreed among broad stakeholders.
  - ***Standard to Address Risks of Fraud in an Audit***
    The standard is newly issued on March 26, 2013 (see 2. Standard to Address Risks of Fraud in an Audit).
  - ***The Standard on Quality Control for Audits***
    The Standard on Quality Control for Audits is required to be applied together with *the Auditing Standards*.

  The BAC consists of practitioners as well as non-practitioners including academics, executives of major companies, investors, a representative from the stock exchanges, and is observed by the Ministry of Justice.

- ***Auditing Standards Committee Statements*** **(ASCSs)** and a ***Quality Control Standards Committee Statement*** **(QCSCS)** issued by the Japanese Institute of Certified Public Accountants (JICPA).

  - The BAC requests the JICPA to develop detailed requirements to implement Auditing Standards issued by the BAC in practice. These requirements, together with relevant application materials, are included in the ASCSs and QCSCS 1.

  - The ASCSs and QCSCS 1 are developed based on Auditing Standards issued by the BAC, and to converge with the clarified International Standards of Auditing (ISAs) and the International Standard on Quality Control 1 (ISQC 1) issued by the International Auditing and Assurance Standards Board (IAASB).

1.2 The JICPA redrafted all ASCSs and QCSCS 1 based on the clarified ISAs and ISQC 1. Clarity ASCSs and QCSCS 1 use the same structure as the clarity ISAs and ISQC 1, (i.e. "Introductions", "Objectives", "Definitions", "Requirements", and "Application and Other Explanatory Material").[1] Clarified ASCSs and QCSCS 1 are effective for audits of financial statements for period beginning on or after April 1, 2012.

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[1] The list of ASCSs and QCSCS 1 (in English) is available from
http://www.hp.jicpa.or.jp/english/accounting/system/pdf/2012auditing.pdf

2. Standard to Address Risks of Fraud in an Audit

2.1 Background

- Over the past few years, several cases of fraudulent financial reporting were identified in documents filed under the requirements of the Financial Instruments and Exchange Act of Japan.

- Accordingly, since May 2012, the subcommittee on auditing standards of the BAC deliberated on effective audit procedures to address the risk of material misstatements due to fraud, and determined to establish the new standard addressing risks of fraud, so that financial statement audits would be more effective.

- On March 26, 2013, the BAC published a new standard, ***Standard to Address Risks of Fraud in an Audit*** ("the Fraud Risk Standard"). The Fraud Risk Standard consists of following 3 parts.
  - Part I: Emphasis on Professional Skepticism
  - Part II: Conducting the Audit to Address Risks of Fraud
  - Part III: Audit Firm's Quality Control to Address Risks of Fraud

  The provisional translation of the Standard is available from http://www.fsa.go.jp/en/news/2013/20130411-1.html

2.2 Applicability of the Fraud Risk Standard

- The Standard is intended to apply primarily to audits of companies that are required to provide disclosures under the Financial Instruments and Exchange Act (excluding unlisted companies with a stated capital less than 500 million yen or with annual sales less than one billion yen and total liabilities less than 20 billion yen), whose financial statements or the audit report thereon are used by a broad range of users (hereinafter referred to as the "publicly traded companies"). Accordingly, the Fraud Risk Standard is only applicable to the audits of listed companies and certain unlisted companies. The scope of application of the Standard is clarified in the relevant laws and regulations. Therefore, unless explicitly required by the relevant laws or regulations, the Standard is not applicable.

- The Fraud Risk Standard was established as a standard that is separate from the Auditing Standards and the Standard on Quality Control for Audits since: (i) as stated above, the Standard would only be applied if it is required by the relevant laws and regulation, which include the audits of the publicly traded companies, and (ii) it would be more understandable for auditors if the requirements to address the risks of fraud were organized in one standard.

- The Fraud Risk Standard is part of Japanese GAAS, together with the Auditing Standards and Standard on Quality Control for Audits, when applicable. In addition, it is necessary for auditors to apply in an integrated manner the Standard together with the ASCSs and QCSCS 1, prepared by the JICPA.

3. The Revision of Relevant ASCSs and QCSCS 1, Based on the Fraud Risk Standard

3.1 Background and the approaches of the revision

- Based on the Fraud Risks Standard, on June 17 2013, the JICPA published the revised ASCSs and QCSCS 1 ("the Revised JICPA Statements").
- The basic approaches that the JICPA adopted in revising the ASCSs and QCSCS 1 are as follows:
  - In order to maintain the existing structure of the Statements as a whole:
    - New requirements and relevant application and other explanatory materials are incorporated into the existing Statements, rather than developing a new Statement for the Fraud Risk Standard.
    - New paragraphs are assigned sub-numbers to the existing paragraphs (i.e. "10-2"), except for a few cases where the modification to the existing paragraph is needed to implement the relevant provision in the Fraud Risk Standard.
  - Since the Fraud Risk Standard is applied to the audit engagement only if it is required by the relevant laws and regulations, new paragraphs are clearly identified by adding the letter F at the beginning of the paragraph number (i.e. "F10-2").

3.2 The Revised JICPA Statements

- The following Statements were revised based on the Fraud Risk Standard. Some contain new requirements that are the additions to the requirements of ISAs / ISQC 1.

Title	**New Requirement added to the extant statements? / Notes**
QCSCS 1 *Quality Control for Audit Firms*	Yes / The firm is required to establish policies and procedures that address the risks of fraud in each element of quality control system. (See *II. A* on pages 8 to 32)
Preface of the Auditing Standards Committee Statement	No / The modifications relate only to the guidance that explains the structures of Japanese GAAS.
ASCS 200 *Overall Objectives of the Financial Statement Audits*	No / The modifications relate only to the guidance that explains the structures of Japanese GAAS
ASCS 220 *Quality Control for an Audit of Financial Statements*	Yes / Relevant amendments were made in line with the revision of QCSCS 1.
ASCS 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*	Yes / Several requirements are added to enhance an assessment of and response to the risks of fraud. (See *II.B* on pages 33 to 52).
ASCS 330 *The Auditor's Responses to Assessed Risks*	No / Conforming amendment to the application and explanatory materials only.
ASCS 505 *External Confirmations*	Yes / The requirement regarding Non-Responses is enhanced. (See *II.D* on page 64)
ASCS 600 *Group Audits*	Yes / A communication requirement between the group engagement team and the component auditor is added when either auditor identify any circumstances that indicate the possibility of a material misstatement due to fraud relating to the group financial statements.(See *II.D* on page 67)
ASCS 900 *Change of Auditors*	Yes / Requirements regarding communication of significant matters between predecessor and the successor auditors are enhanced. (See *II.C* on pages 53 to 59)
ASCS 910 *Semi Annual Audit*	No / Amendment to the application and explanatory materials only.

4. Other Modifications, including Additional Requirements

4.1 Other Additional Requirements

Other than those relevant to the Fraud Risk Standard above, there are certain additional requirements.

- **QCSCS 1 Quality Control for Audit Firms**

  - Engagement Quality Control Review

    The firm is required to establish policies and procedures requiring for all audit engagements an engagement quality control review, unless certain conditions are met (see paragraphs 34, 34-2 and 41-2, on pages 22 to 24 and 26).

  - Change of Auditors

    QCSCS 1 included 2 requirements that required the firm to establish policies and procedures regarding the communication between the predecessor and successor auditors when there has been a change of auditors, and evaluate whether such communication are in accordance with its policies and procedures (see paragraphs 59 and 60, on page 31). Based on the Fraud Risk Standard, one requirement is added (see paragraph 60-2 on page 31).

  - Joint Audit

    QCSCS 1 includes one requirement regarding joint audit (see paragraph 61 on page 31 to 32).

- **ASCS 510 Initial Audit Engagements – Opening Balances**

  ASCS 510 includes an additional requirement to hold a discussion among the entity, predecessor auditor and the current auditor when possible material misstatement is identified in opening balances (see pages 64 to 65).

- **ASCS 900 Change of Auditors**

  ASCS 900 deals with the auditor's responsibilities regarding the communication between the predecessor and the successor auditors when there has been a change of auditors.

4.2 Other Modifications to the requirements

- In developing clarity ASCSs and QCSCS 1, the meaning of the original text of ISAs and ISQC 1 was maintained in ASCSs and QCSCS 1, except for minimum modifications. The following are modifications made throughout the ASCS clarity project, in order to reflect the local regulatory environment.

  - Deletion of references to "true and fair view" throughout ASCSs. In Japan, the audit opinion refers to "fair presentation", and "true and fair view" is not used in practice.

  - Deletion of the phrase "where appropriate, those charged with governance" in some cases, if it is not applicable for Japanese companies incorporated under the Companies Act of Japan.

  - Deletion of the phrase "where withdrawal is possible under applicable law or regulation" because, under the Japanese law, there is no restriction on withdrawal from an engagement..

  - Change of references, from IESBA *Code of Ethics for Professional Accountants* to JICPA *Code of Ethics and Guidance on Independence*.

- Certain modifications to ISAs were made in order to eliminate certain options not applicable in Japan, or to slightly change the meaning of the original ISAs in the context of the local regulatory and legal environment. Also, the transitional measure was made for paragraphs 18 to 21 of ISA 210 (see *II. D* on pages 61 to 63.).

- In addition, the application and other explanatory material under the heading "Considerations Specific to Public Sector Entities" has not been included in ASCSs and QCSCS 1.

Part II. Provisional Translation of the Excerpts of ASCSs and QCSCS 1

A. Provisional Translation of Introduction, Objective, Definitions and Requirements Sections in QCSCS 1 (Revised) *Quality Control for Audit Firms*

Notes:

- This is the provisional translation of all requirements together with "Introduction", "Objective" and "Definitions" sections in QCSCS 1 (Revised), published on June 17, 2013.
- The explanations regarding respective columns are as follows:
  - The column "Para. No. (ISQC 1)" refers to the equivalent paragraph number in ISQC 1. "Para. No (ISA)" and "Para. No. (ASCS)" is not the same number since the JICPA pronouncements include the "Effective Date" section at the end of the pronouncements.
  - The mark up shows the change from the ISQC 1. In addition, the revisions based on the Fraud Risk Standard are highlighted in yellow. (i.e. the paragraphs marked up with yellow highlight are the modifications to reflect the Fraud Risk Standard, and the paragraphs marked up without yellow highlight are the differences that do not relate to the Fraud Risk Standard)

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
Introduction			
1	1	**Scope of this QCSCS ~~ISQC~~** (*1) This Quality Control Standards Committee Statement (QCSCS) ~~International Standard on Quality Control (ISQC)~~ deals with a firm's responsibilities for its system of quality control for audits ~~and reviews~~ of financial statements, audits of semi-annual financial statements, reviews of quarterly financial statements and audits of internal controls over financial reporting performed by the entity's auditors ~~and other assurance and related services engagements~~. The audit of semi-annual financial statements and the review of quarterly financial statements are performed in connection with the financial statement audit. Also, the audit of internal controls over financial reporting is performed integrally with the financial statement audit. Therefore, the firm establishes and maintains the system of quality control for audits of semi-annual financial statements, reviews of quarterly financial statements, and audits of internal controls over	(*1): Some modifications were made to paragraphs 1 and 2 to explain the applicability of QCSCS 1 in the context of the specific engagements that are existing in Japanese practice, and for which the subject-matter specific Statements have been established by the JICPA.

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
		financial reporting, as part of the system of quality control for audits of financial statements. Special considerations for these engagements are provided in application and other explanatory materials as necessary. In addition, this QCSCS applies to firms that perform: (a) Assurance engagements in accordance with Auditing and Assurance Practice Committee Statement No. 86 *Assurance Reports on Controls at a Service Organization*(*2) (b) Other engagements for which relevant JICPA Statements require the firm to comply with this QCSCS. This QCSCS ~~ISQC~~ is to be read in conjunction with relevant ethical requirements.	(*2):Equivalent to ISAE 3402
N/A	1-2	This QCSCS includes the requirements and relevant application and other explanatory materials that are only applicable for the firm which conducts the audit engagements to which *the Standard to Address Risks of Fraud in an Audit* ("The Fraud Risk Standard") applies. They are identified by adding the letter F at the beginning of the paragraph number. (Ref: Para. A1)	
2	2	~~Other pronouncements of the International Auditing and Assurance Standards Board (IAASB) set out additional standards and guidance on the responsibilities of firm personnel regarding quality control procedures for specific types of engagements.~~ ASCS ~~ISA~~ 220, ~~for example,~~ deals with quality control procedures for audits of financial statements.(*)	(*): Please see "Notes" on paragraph 1 above.
3	3	A system of quality control consists of policies designed to achieve the objective set out in paragraph 10 ~~11~~ and the procedures necessary to implement and monitor compliance with those policies.	
4	4	**Authority of this QCSCS ~~ISQC~~** This QCSCS ~~ISQC~~ applies to all firms of professional accountants in respect of the engagements specified in paragraph 1 ~~audits and reviews of financial statements, and other assurance and related services engagements~~. The nature and extent of the policies and procedures developed by an individual firm to comply with this QCSCS ~~ISQC~~ will	

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
		depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.	
5	5	This QCSCS ~~ISQC~~ contains the objective of the firm in following the QCSCS ~~ISQC~~, and requirements designed to enable the firm to meet that stated objective. In addition, it contains related guidance in the form of application and other explanatory material, as discussed further in paragraph 8, and introductory material that provides context relevant to a proper understanding of the QCSCS ~~ISQC~~, and definitions.	
6	6	The objective provides the context in which the requirements of this QCSCS ~~ISQC~~ are set, and is intended to assist the firm in: ・ Understanding what needs to be accomplished; and ・ Deciding whether more needs to be done to achieve the objective.	
7	7	The requirements of this QCSCS ~~ISQC~~ are expressed using "shall."	
8	8	Where necessary, the application and other explanatory material provides further explanatory of the requirements and guidance for carrying them out. In particular, it may: ・ Explain more precisely what a requirement means or is intended to cover; and ・ Include examples of policies and procedures that may be appropriate in the circumstances. While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this QCSCS ~~ISQC~~. Where appropriate, ~~additional considerations specific to public sector audit organizations or~~ (*) smaller firms are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in this QCSCS ~~ISQC~~. They do not, however, limit or reduce the responsibility of the firm to apply and comply with the requirements in this QCSCS ~~ISQC~~.	(*): The application and other explanatory material under the heading "Considerations Specific to Public Sector Entities" has not been included in ASCSs and QCSCS 1. Please see Part I *4.2 Other Modifications to the requirements,* on page 7.

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
9	9	This QCSCS ~~ISQC~~ includes, under the heading "Definitions," a description of the meanings attributed to certain terms for purposes of this QCSCS ~~ISQC~~. These are provided to assist in the consistent application and interpretation of this QCSCS ~~ISQC~~, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. Auditing Standards Committee Statements ~~The Glossary of Terms relating to International Standards issued by the IAASB in the Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements published by IFAC~~ includes the terms defined in this QCSCS ~~ISQC~~. It also includes descriptions of other terms found in this QCSCS ~~ISQC~~ to assist in common and consistent interpretation~~ and translation~~. (*)	(*): The Glossary of Terms included in Preface to Auditing Standards Committee Statements contains a complete listing of terms defined in this QCSCS.
Objective			
11	10	The objective of the firm is to establish and maintain a system of quality control to provide it with reasonable assurance that: (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.	
Definitions			
12	11	In this QCSCS ~~ISQC~~, the following terms have the meanings attributed below:	
(a)	(a)	Date of report – The date selected by the practitioner to date the report.	
(b)	(b)	Engagement documentation – The record of work performed, results obtained, and conclusions the practitioner reached (terms such as "working papers" or "workpapers" are sometimes used).	
(c)	(c)	Engagement partner – The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm~~, and who, where required, has the appropriate authority from a professional, legal or regulatory body~~(*).	(*):This phrase was deleted, because this condition is not relevant in Japanese environment.

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
(d)	(d)	Engagement quality control review – A process designed to provide an objective evaluation, on or before the date of the report, of the significant judgments the engagement team made and the conclusions it reached in formulating the report. ~~The engagement quality control review process is for audits of financial statements of listed entities, and those other engagements, if any, for which the firm has determined an engagement quality control review is required.~~(*)	(*):In Japan, the firm is required to establish policies and procedures requiring for all audit engagements an engagement quality control review, unless the firm decides to use the requirement in paragraph 34-2. Please see paragraphs 34, 34-2 and 41-2 below.
(e)	(e)	Engagement quality control reviewer – A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made and the conclusions it reached in formulating the report.	
(f)	(f)	Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm.	
(g)	(g)	Firm – A sole practitioner, partnership or corporation or other entity of professional accountants.	
(h)	(h)	Inspection – In relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.	
(i)	(i)	~~Listed entity – An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.~~ Large company, etc. (public interest entity) – (a) A listed entity; and (b) An entity:	The Certified Public Accountants Act, Japanese legislation governing CPAs and auditor activities, stipulates the rotation rule for audits of financial

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
		(i) <u>For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities; or</u> (ii) <u>Which the firm determined to treat as a large company, etc. in accordance with Section I paragraph 26 of JICPA Guidance on Independence.</u> <u>In Japan, Certified Public Accountants Act defines "large company, etc." as those companies which meet (a) and (b)(i) above.</u>	statements of "large company, etc.". "Large company, etc." includes listed entities. Regarding EQCR, please see "Notes" on paragraph 12(d).
(j)	(j)	Monitoring – A process comprising an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements, designed to provide the firm with reasonable assurance that its system of quality control is operating effectively.	
(k)	(k)	Network firm – A firm or entity that belongs to a network.	
(l)	(l)	Network – A larger structure: (i) That is aimed at cooperation, and (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.	
(m)	(m)	Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.	
(n)	(n)	Personnel – Partners and staff.	
(o)	(o)	Professional standards <u>and applicable legal and regulatory requirements</u> – ~~IAASB Engagement Standards, as defined in the IAASB's Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services, and relevant ethical requirements.~~ <u>Standards and applicable legal and regulatory requirements that the practitioner is required to be comply with when performing a professional services engagement. This includes, among other things, the Auditing Standards, the Fraud Risk Standard</u>	(*): The definition of "Professional standards" is modified to reflect Japanese environment.

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
		(when required by applicable law), the Auditing Standards Committee Statements, the Standard on Quality Control for Audits, the Quality Control Standards Committee Statement, the Certified Public Accountants Act, the Order for Enforcement of the Certified Public Accountants Act, the Ordinance for Enforcement of the Certified Public Accountants Act, the Financial Instruments and Exchange Act, the Companies Act, the JICPA Constitution, the JICPA Code of Ethics, and other Statements.(*)	
(p)	~~(p)~~	~~Reasonable assurance – In the context of this ISQC, a high, but not absolute, level of assurance.~~	The definition of "reasonable assurance" is not included in QCSCS 1, because in Japan, the term "reasonable assurance" is defined in the context of explaining the types of assurance engagement (i.e. "reasonable assurance engagement" vs. "limited assurance engagement").
(q)	(q)	Relevant ethical requirements – Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which comprise the Certified Public Accountants Act, the Order for Enforcement of the Certified Public Accountants Act, the Ordinance for Enforcement of the Certified Public Accountants Act, the JICPA Constitution, the JICPA Code of Ethics, the Guidance on Independence, and other ethical requirements ~~Parts A and B of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with national requirements that are more restrictive~~.	(*): Modification to the definition of "Relevant ethical requirements" was made to reflect Japanese environment.
(r)	(r)	Staff – Professionals, other than partners, including any experts (i.e. individual possessing expertise in a field other than accounting or auditing) (*) the firm employs.	(*): Added the explanation regarding the expert.
(s)	(s)	Suitably qualified external person – An individual outside the	(*): Deleted the examples

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
		firm with the competence and capabilities to act as an engagement partner, for example, a partner of another firm~~, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audits and reviews of historical financial information, or other assurance or related services engagements, or of an organization that provides relevant quality control services~~.(*)	that are not common in Japan.
Requirements			
13	12	**Applying, and Complying with, Relevant Requirements** Personnel within the firm responsible for establishing and maintaining the firm's system of quality control shall have an understanding of the entire text of this <u>QCSCS</u> ~~ISQC~~, including its application and other explanatory material, to understand its objective and to apply its requirements properly.	
14	13	The firm shall comply with each requirement of this <u>QCSCS</u> ~~ISQC~~ unless, in the circumstances of the firm, the requirement is not relevant to the services provided in respect of <u>the engagements specified in paragraph 1</u> ~~audits and reviews of financial statements, and the other assurance and related services engagements~~. (Ref: Para. A1)	
15	14	The requirements are designed to enable the firm to achieve the objective stated in this <u>QCSCS</u> ~~ISQC~~. The proper application of the requirements is therefore expected to provide a sufficient basis for the achievement of the objective. However, because circumstances vary widely and all such circumstances cannot be anticipated, the firm shall consider whether there are particular matters or circumstances that require the firm to establish policies and procedures in addition to those required by this <u>QCSCS</u> ~~ISQC~~ to meet the stated objective.	
16	15	**Elements of a System of Quality Control** The firm shall establish and maintain a system of quality control that includes policies and procedures that address each of the following elements: (a) Leadership responsibilities for quality within the firm. (b) Relevant ethical requirements. (c) Acceptance and continuance of client relationships and	

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
		specific engagements. (d) Human resources. (e) Engagement performance. (f) Monitoring.	
N/A	F15-2	The firm shall establish appropriate quality control policies and procedures taking into consideration the risks of fraud.	
17	16	The firm shall document its policies and procedures and communicate them to the firm's personnel. (Ref: Para. A2–A3)	
18	17	**Leadership Responsibilities for Quality within the Firm** The firm shall establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing engagements. Such policies and procedures shall require the firm's chief executive officer (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent) to assume ultimate responsibility for the firm's system of quality control. (Ref: Para. A4–A5)	
19	18	The firm shall establish policies and procedures such that any person or persons assigned operational responsibility for the firm's system of quality control by the firm's chief executive officer or managing board of partners has sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility. (Ref: Para. A6)	
N/A	F18-2	*The Person Responsible for Quality Control to Address Risks of Fraud* The firm shall appoint a person responsible for quality control to address the risks of fraud. (Ref: Para. FA6-2)	
20	19	**Relevant Ethical Requirements** The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. (Ref: Para. A7–A10)	
21	20	*Independence* The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including network firm personnel) maintain independence where required by relevant	

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
		ethical requirements. Such policies and procedures shall enable the firm to: (Ref: Para. A10) (a) Communicate its independence requirements to its personnel and, where applicable, others subject to them; and (b) Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement, where withdrawal is possible under applicable law or regulation.	
22	21	Such policies and procedures shall require: (Ref: Para. A10) (a) Engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements; (b) Personnel to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken; and (c) The accumulation and communication of relevant information to appropriate personnel so that: (i) The firm and its personnel can readily determine whether they satisfy independence requirements; (ii) The firm can maintain and update its records relating to independence; and (iii) The firm can take appropriate action regarding identified threats to independence that are not at an acceptable level.	
23	22	The firm shall establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures shall include requirements for: (Ref: Para. A10) (a) Personnel to promptly notify the firm of independence breaches of which they become aware; (b) The firm to promptly communicate identified breaches of these policies and procedures to:	

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
		(i) The engagement partner who, with the firm, needs to address the breach; and (ii) Other relevant personnel in the firm and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action; and (c) Prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph 22(b)(ii) of the actions taken to resolve the matter, so that the firm can determine whether it should take further action.	
24	23	At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements. (Ref: Para. A10–A11)	
25	24	The firm shall establish policies and procedures: (Ref: Para. A10, A12-A14) (a) Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and (b) Requiring, for audits of financial statements of ~~listed entities~~ large companies, etc.(*), the rotation of the engagement partner and the individuals responsible for engagement quality control review, and, where applicable, others subject to rotation requirements, after a specified period in compliance with relevant ethical requirements.	(*): The Certified Public Accountants Act, Japanese legislation governing CPAs and auditor activities, stipulates the rotation rule for audits of financial statements of large company, etc. "Large company, etc." includes listed entity. Please see Para. 12(i) above.
26	25	**Acceptance and Continuance of Client Relationships and Specific Engagements** The firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm: (a) Is competent to perform the engagement and has the capabilities, including time and resources, to do so; (Ref: Para. A15)	

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
		(b) Can comply with relevant ethical requirements; and (c) Has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity. (Ref: Para. A16-A17)	
27	26	Such policies and procedures shall require: (a) The firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. (Ref: Para. A18) (b) If a potential conflict of interest is identified in accepting an engagement from a new or an existing client, the firm to determine whether it is appropriate to accept the engagement. (c) If issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, the firm to document how the issues were resolved.	
N/A	F26-2	*Considerations of Risks of Fraud in the Acceptance and Continuance of Audit Engagement* The firm shall establish policies and procedures for the acceptance and continuance of audit engagements, which include the evaluation of risks relating to the acceptance and continuance of the audit engagement considering the risks of fraud. The policies and procedures shall also require that the evaluation be reviewed by an appropriate department or person outside the engagement team. The review is required for the acceptance of all new engagements, however, depending on the risks identified, a review is not necessarily required for the continuance of an engagement. (Ref: Para. FA17-2)	
28	27	*Obtaining Information that would Have Caused it to Decline the Engagement Had that Information been Available Earlier* The firm shall establish policies and procedures on continuing an engagement and the client relationship, addressing the circumstances where the firm obtains information that would have caused it to decline the engagement had that information	Addition of the sub-heading only.

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		been available earlier. Such policies and procedures shall include consideration of: (a) The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and (b) The possibility of withdrawing from the engagement or from both the engagement and the client relationship. (Ref: Para. A19)	
29	28	**Human Resources** The firm shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to: (a) Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and (b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances. (Ref: Para. A20–A25)	
N/A	F28-2	*Education and Training concerning Fraud* The firm shall establish policies and procedures for education and training to provide appropriate opportunities for firm personnel to receive education and training concerning fraud, including training seminars within or outside the firm. The education and training will enable personnel to gain knowledge on the instances of frauds and to develop skills to perform the audit procedures related to fraud.	
30	29	*Assignment of Engagement Teams* The firm shall assign responsibility for each engagement to an engagement partner and shall establish policies and procedures requiring that: (a) The identity and role of the engagement partner are communicated to key members of client management and those charged with governance; (b) The engagement partner has the appropriate competence, capabilities, and authority to perform the	

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		role; and (c) The responsibilities of the engagement partner are clearly defined and communicated to that partner. (Ref: Para. A26)	
31	30	The firm shall also establish policies and procedures to assign appropriate personnel with the necessary competence, and capabilities to: (a) Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and (b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances. (Ref: Para. A27)	
32	31	**Engagement Performance** The firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include: (a) Matters relevant to promoting consistency in the quality of engagement performance; (Ref: Para. A28-A29) (b) Supervision responsibilities; and (Ref: Para. A30) (c) Review responsibilities. (Ref: Para. A31)	
33	32	The firm's review responsibility policies and procedures shall be determined on the basis that work of less experienced team members is reviewed by more experienced engagement team members.	
N/A	F32-2	*Change of All of the Engagement Partners within the Engagement Team* The firm shall establish policies and procedures for quality control of the engagement performance requiring significant matters arising from the audit, including the risks of fraud, be appropriately communicated between the predecessor and the successor engagement partners when there has been a change of all of the engagement partners within the	

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		engagement team.	
N/A	F32-3	*Supervision and Review of the Audit Work in Order to Properly Address the Risks of Fraud* The firm shall establish policies and procedures for supervision and review of the audit work in order to properly address the risks of fraud.	
34	33	*Consultation* The firm shall establish policies and procedures designed to provide it with reasonable assurance that: (a) Appropriate consultation takes place on difficult or contentious matters; (b) Sufficient resources are available to enable appropriate consultation to take place; (c) The nature and scope of, and conclusions resulting from, such consultations are documented and are agreed by both the individual seeking consultation and the individual consulted; and (d) Conclusions resulting from consultations are implemented. (Ref: Para. A32–A36)	
N/A	F33-2	Consultation When the Auditor has Identified a Circumstance that Indicates the Possibility of a Material Misstatement Due to Fraud, or the Auditor Has Determined that a Suspicion of a Material Misstatement Due to Fraud Exists The firm shall establish policies and procedures for consultation so that the members of the engagement team undertake consultation with others at the appropriate level within or outside the firm as necessary, when the auditor has identified a circumstance that indicates the possibility of a material misstatement due to fraud or the auditor has determined that a suspicion of a material misstatement due to fraud exists. (Ref: Para. FA35-2)	
35	34	*Engagement Quality Control Review* (Ref: Para. A46) The firm shall establish policies and procedures requiring for all audit ~~appropriate~~ engagements (unless the firm decides to use the requirement in paragraph 34-2), an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and	

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		the conclusions reached in formulating the report. (Ref: Para. A37)~~ Such policies and procedures shall:~~ ~~(a) Require an engagement quality control review for all audits of financial statements of listed entities;~~ ~~(b) Set out criteria against which all other audits and reviews of historical financial information and other assurance and related services engagements shall be evaluated to determine whether an engagement quality control review should be performed; and (Ref: Para. A41)~~ ~~(c) Require an engagement quality control review for all engagements, if any, meeting the criteria established in compliance with subparagraph 35(b).~~	
N/A	34-2	The firm is permitted to establish policies and procedures not requiring an engagement quality control review for the following engagements: (a) Statutory audit of an incorporated educational institution in accordance with Private Educational Institution Promotion Subsidy Act, provided that the audited institution founded kindergartens only; and/or (b) Voluntary audit, provided that the effect of the audited financial statements to the public and users of the audit reporting is limited. Nevertheless, the firm shall carefully consider whether an engagement quality control review should be performed for such engagements in the following circumstances. (Ref: Para. A37) (a) The use of an engagement quality control review may be effective as a safeguard to the identified threat to independence; (b) There are significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures that may have implication on the audit opinion (see paragraph 14(a) of ASCS 260(*1)); (c) The auditor encountered significant difficulties (see paragraph 14(b) of ASCS 260(*2)); (d) There are significant matters arising from the audit that	(*1): Equivalent to paragraph 16(a) of ISA 260 (*2): Equivalent to paragraph 16(b) of ISA 260

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		were discussed, or subjects to correspondence with management, that may have implication on the audit opinion (see paragraph 14(c) of ASCS 260(*3)); (e) There are significant transactions with related parties who have dominant influence (see paragraph 18 of ASCS 550(*4)); or (f) Events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern. (see paragraph 15 of ASCS 570(*5)) The scope of audit engagements which are not to be subject to an engagement quality control review, including above criteria, shall be clearly set out in the policies and procedures for engagement quality control review.	(*3): Equivalent to paragraph 16(c) of ISA 260 (*4): Equivalent to paragraph 19 of ISA 550 (*5): Equivalent to paragraph 16 of ISA 570
36	35	The firm shall establish policies and procedures setting out the nature, timing and extent of an engagement quality control review. Such policies and procedures shall require that the engagement report not be dated until the completion of the engagement quality control review. (Ref: Para. A38–A39)	
37	36	The firm shall establish policies and procedures to require the engagement quality control review to include: (Ref: Para. A40) (a) Discussion of significant matters with the engagement partner; (Ref: Para. FA 40-2) (b) Review of the financial statements or other subject matter information and the proposed report; (c) Review of selected engagement documentation relating to significant judgments the engagement team made and the conclusions it reached (Ref: Para. FA 40-2); and (d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate.	
38	37	~~For audits of financial statements of listed entities, t~~The firm shall establish policies and procedures to require the engagement quality control review to also include consideration of the following: (a) The engagement team's evaluation of the firm's independence in relation to the specific engagement; (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or	

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
		contentious matters, and the conclusions arising from those consultations; and (c) Whether documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached. (Ref: Para. A41)	
N/A	F37-2	Engagement Quality Control Review When the Auditor Has Determined That a Suspicion of a Material Misstatement Due to Fraud Exists The firm shall establish policies and procedures requiring an engagement quality control review to be conducted as to whether the revision of the risk assessment and the modification of the further audit procedures are appropriate, and whether sufficient appropriate audit evidence has been obtained, when the auditor has determined a suspicion of material misstatement due to fraud exists. (Ref: Para. FA41-2)	
39	38	Criteria for the Eligibility of Engagement Quality Control Reviewers The firm shall establish policies and procedures to address the appointment of engagement quality control reviewers and establish their eligibility through: (a) The technical qualifications required to perform the role, including the necessary experience and authority; and (Ref: Para. A42) (b) The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity. (Ref: Para. A43)	
N/A	F38-2	Engagement Quality Control Reviewer When the Auditor has Determined That Suspicion of a Material Misstatement Due to Fraud Exists The firm shall establish policies and procedures regarding the appointment of qualified engagement quality control reviewer with sufficient and appropriate experience, authority and other qualifications that is responsive to the relevant suspicion. (Ref: Para. FA42-2)	
40	39	The Objectivity of the Engagement Quality Control Reviewer The firm shall establish policies and procedures designed to maintain the objectivity of the engagement quality control	Addition of the sub-heading only.

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		reviewer. (Ref: Para. A44–A45)	
41	40	The firm's policies and procedures shall provide for the replacement of the engagement quality control reviewer where the reviewer's ability to perform an objective review may be impaired.	
42	41	Documentation of the Engagement Quality Control Review The firm shall establish policies and procedures on documentation of the engagement quality control review which require documentation that: (a) The procedures required by the firm's policies on engagement quality control review have been performed; (b) The engagement quality control review has been completed on or before the date of the report; and (c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions it reached were not appropriate.	
N/A	41-2	<u>The Audit Engagements that the Engagement Quality Control Review are not Required</u> <u>For audit engagements that the engagement quality control reviews are not required, the firm shall establish other measures, including the documentation requirements, so as to evaluate the appropriateness of the conclusions the engagement team reached in formulating the report. (Ref: Para. A46-2)</u>	
43	42	*Differences of Opinion* The firm shall establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer. (Ref: Para. A47–A48)	
44	43	Such policies and procedures shall require that: (a) Conclusions reached be documented and implemented; and (b) The report not be dated until the matter is resolved.	
		Engagement Documentation Completion of the Assembly of Final Engagement Files	

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
45	44	The firm shall establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized. (Ref: Para. A49–A50)	
46	45	Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation The firm shall establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. (Ref: Para. A51–A54)	
47	46	Retention of Engagement Documentation The firm shall establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation. (Ref: Para. A55–A58)	
48	47	**Monitoring** *Monitoring the Firm's Quality Control Policies and Procedures* The firm shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. This process shall: (a) Include an ongoing consideration and evaluation of the firm's system of quality control including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner; (b) Require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility; and (c) Require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagements. (Ref: Para. A59–A63)	
N/A	F47-2	Monitoring as to How the Risks of Fraud Have been Addressed in the Audit The firm shall ascertain whether the following matters have been conducted in conformity with the policies and procedures	

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
		of the firm, by monitoring of the system of quality control to address the risks of fraud: (a) Acceptance and continuance of audit engagements (b) Education and training concerning fraud (c) Engagement performance (including supervision and review, dealing with information provided from within and outside the firm, consultations, engagement quality review and communication between the predecessor and the successor engagement partner when there have been a change of all of engagement partners within the engagement team) (d) Communication between the predecessor and the successor auditors.	
49	48	*Evaluating, Communicating and Remedying Identified Deficiencies* The firm shall evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either: (a) Instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and applicable legal and regulatory requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances; or (b) Systemic, repetitive or other significant deficiencies that require prompt corrective action.	
50	49	The firm shall communicate to relevant engagement partners and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action. (Ref: Para. A64)	
51	50	Recommendations for appropriate remedial actions for deficiencies noted shall include one or more of the following: (a) Taking appropriate remedial action in relation to an individual engagement or member of personnel; (b) The communication of the findings to those responsible for training and professional development; (c) Changes to the quality control policies and procedures;	

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
		and (d) Disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly.	
52	51	The firm shall establish policies and procedures to address cases where the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement. Such policies and procedures shall require the firm to determine what further action is appropriate to comply with relevant professional standards and applicable legal and regulatory requirements and to consider whether to obtain legal advice.	
53	52	The firm shall communicate at least annually the results of the monitoring of its system of quality control to engagement partners and other appropriate individuals within the firm, including the firm's chief executive officer or, if appropriate, its managing board of partners. This communication shall be sufficient to enable the firm and these individuals to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities. Information communicated shall include the following: (a) A description of the monitoring procedures performed. (b) The conclusions drawn from the monitoring procedures. (c) Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies.	
54	53	Some firms operate as part of a network and, for consistency, may implement some of their monitoring procedures on a network basis. Where firms within a network operate under common monitoring policies and procedures designed to comply with this QCSCS ~~ISQC~~, and these firms place reliance on such a monitoring system, the firm's policies and procedures shall require that: (a) At least annually, the network communicate the overall scope, extent and results of the monitoring process to appropriate individuals within the network firms; and (b) The network communicate promptly any identified deficiencies in the system of quality control to appropriate	

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
		individuals within the relevant network firm or firms so that the necessary action can be taken, in order that engagement partners in the network firms can rely on the results of the monitoring process implemented within the network, unless the firms or the network advise otherwise.	
55	54	*Complaints and Allegations* The firm shall establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with: (a) Complaints and allegations that the work performed by the firm fails to comply with professional standards and applicable legal and regulatory requirements; and (b) Allegations of non-compliance with the firm's system of quality control. As part of this process, the firm shall establish clearly defined channels for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals. (Ref: Para. A65)	
N/A	F54-2	Dealing with the Information Related to Risks of Fraud, Provided From Within or Outside the Firm The firm shall establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with information relating to the risks of fraud provided from within or outside the firm. This process shall be set out in the policies and procedures regarding complaints and allegations, and shall require: (a) The firm to receive the information; (b) The firm to communicate the information to the relevant engagement team; and (c) The engagement team to report to the appropriate department or person outside the engagement team on how the engagement team addressed the information during the course of the audit.	
56	55	Investigations into Complaints and Allegations If during the investigations into complaints and allegations, deficiencies in the design or operation of the firm's quality control policies and procedures or non-compliance with the	Addition of the sub-heading only.

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
		firm's system of quality control by an individual or individuals are identified, the firm shall take appropriate actions as set out in paragraph 51. (Ref: Para. A66–A67)	
57	56	**Documentation of the System of Quality Control** The firm shall establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control. (Ref: Para. A68–A70)	
58	57	The firm shall establish policies and procedures that require retention of documentation for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.	
59	58	The firm shall establish policies and procedures requiring documentation of complaints and allegations and the responses to them.	
N/A	59	**Communication Between the Predecessor and the Successor Auditors Where there have been a Change of Auditors** The firm shall establish policies and procedures designed to provide it with reasonable assurance that appropriate communication between the predecessor and successor auditors takes place when there has been a change of auditors. Such policies and procedures shall cover both the situations when the firm is a predecessor and successor auditors. (Ref: Para. A71-A72)	
N/A	60	The firm shall ascertain whether the communication between the predecessor and the successor auditors are in accordance with its policies and procedures.	
N/A	60-2	The firm shall establish policies and procedures for communication between the predecessor and the successor auditors requiring, at least for the audit engagement to which Standard to Address the Risks of Fraud applies, the engagement team to report the results of the communications to the appropriate department or person outside the engagement team.	
		Joint Audit	

Para. No. (ISQC 1)	Para. No. (QCSCS 1)	QCSCS 1 (Revised)	Notes
N/A	61	The firm shall establish policies and procedures regarding joint audit where the audit engagement is jointly conducted by other auditors. This shall include policies and procedures to evaluate whether other firm's system of quality control provides reasonable assurance that the audit engagement is performed in accordance with professional standards and regulatory and legal requirements. This evaluation shall be conducted at the engagement acceptance or continuance stage, and as necessary during the course of the audit. (Ref: Para. A73)	

B. Provisional Translation of Introduction, Objectives, Definitions and Requirements Sections in ASCS 240 (Revised) *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

Notes:

- This is the provisional translation of all requirements together with "Introduction", "Objectives" and "Definitions" sections in ASCS (Revised) 240, published on June 17, 2013.
- The explanations regarding respective columns are as follows:
  - The column "Para. No. (ISA)" refers to the equivalent paragraph number in ISA 240. "Para. No (ISA)" and "Para. No. (ASCS)" is not the same number since the JICPA pronouncements include the "Effective Date" section at the end of the pronouncements.
  - The mark up shows the change from ISA 240. In addition, the revisions based on the Fraud Risk Standard are highlighted in yellow. (i.e. The paragraphs marked up in yellow highlight are the modifications to reflect the Fraud Risk Standard, and the paragraphs marked up without yellow highlight are the difference that do not relate to the Fraud Risk Standard)

Para. No. (ISA)	Para. No. (ASCS)	ASCS 240 (Revised)	Notes
Introduction			
1	1	**Scope of this ISA** This Auditing Standards Committee Statement (ASCS) ~~International Standard on Auditing (ISA)~~ deals with the auditor's responsibilities relating to fraud in an audit of financial statements. Specifically, it expands on how ASCS ~~ISA~~ 315 and ASCS ~~ISA~~ 330 are to be applied in relation to risks of material misstatement due to fraud.	
N/A	1-2	This ASCS includes the requirements and relevant application and other explanatory materials that are only applicable to the audit engagements to which *the Standard to Address Risks of Fraud in an Audit ("Fraud Risk Standard")* applies. They are identified by adding the letter F at the beginning of the paragraph number (see paragraph 21(3) of ASCS 200). (Ref: Para. A5-2)	
2	2	**Characteristics of Fraud** Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.	
3	3	Although fraud is a broad legal concept, for the purposes of the ASCSs ~~ISAs~~, the auditor is concerned with fraud that causes a	

Para. No. (ISA)	Para. No. (ASCS)	ASCS 240 (Revised)	Notes
		material misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred. (Ref: Para. A1–A5)	
4	4	**Responsibility for the Prevention and Detection of Fraud** The primary responsibility for the prevention and detection of fraud rests with ~~both those charged with governance of the entity and~~ management, with the oversight of those charged with governance of the entity(*). It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behavior which can be reinforced by an active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage earnings in order to influence the perceptions of analysts as to the entity's performance and profitability.	(*): This sentence is modified to include explanation about the respective responsibilities of management and those charged with governance.
5	5	*Responsibilities of the Auditor* An auditor conducting an audit in accordance with Auditing Standards Generally Accepted in Japan ~~ISAs~~ is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with Auditing Standards Generally Accepted in Japan ~~the ISAs~~ (see paragraphs A 50 to A 51 of ASCS 200).(*1)(*2)	(*1): The footnotes in ISAs are included in respective paragraphs since the JICPA pronouncements do not use the footnotes. (*2): Equivalent to paragraphs A51 to A52 of ISA 200.
6	6	As described in paragraph A50 of ASCS ~~ISA~~ 200 (*), the potential effects of inherent limitations are particularly significant in the case of misstatement resulting from fraud. The risk of not detecting a	(*): Equivalent to paragraph A51 of ISA 200.

Para. No. (ISA)	Para. No. (ASCS)	ASCS 240 (Revised)	Notes
		material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. This is because fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor. Such attempts at concealment may be even more difficult to detect when accompanied by collusion. Collusion may cause the auditor to believe that audit evidence is persuasive when it is, in fact, false. The auditor’s ability to detect a fraud depends on factors such as the skillfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. While the auditor may be able to identify potential opportunities for fraud to be perpetrated, it is difficult for the auditor to determine whether misstatements in judgment areas such as accounting estimates are caused by fraud or error.	
7	7	Furthermore, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud, because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information or override control procedures designed to prevent similar frauds by other employees.	
8	8	When obtaining reasonable assurance, the auditor is responsible for maintaining professional skepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud. The requirements in this ISA are designed to assist the auditor in identifying and assessing the risks of material misstatement due to fraud and in designing procedures to detect such misstatement.	
Objectives			
10	9	The objectives of the auditor are: (a) To identify and assess the risks of material misstatement of the financial statements due to fraud; (b) To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and	

Para. No. (ISA)	Para. No. (AS CS)	ASCS 240 (Revised)	Notes
		(c) To respond appropriately to fraud or suspected fraud identified during the audit.	
Definitions			
11	10	For purpose of the ASCSs ~~ISAs~~, the following terms have the meanings attributed below.	
(a)	(a)	Fraud – An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.	
(b)	(b)	Fraud risk factors – Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud, or an attitude or rationalization that justifies the fraudulent action. (Ref: Para. A21-A23)	
N/A	(c)	Risks of fraud – The term “risks of fraud” is an abbreviation of the term “risks of material misstatement due to fraud”. The ASCSs use both terms “risks of fraud” and “risks of material misstatement due to fraud”.	
N/A	(d)	Circumstances that may indicate the possibility of a material misstatement due to fraud – Circumstances that may indicate the possibility that the financial statement may contain a material misstatement resulting from fraud. If, as a result of performing the audit procedures, the auditor identifies any circumstances that may indicate the possibility of a material misstatement due to fraud, the auditor is required to take into account the identified circumstances in evaluating whether the assessments of the risks of material misstatement at the assertion level remain appropriate.	
N/A	F(e)	Circumstances that indicate the possibility of a material misstatement due to fraud – “Circumstances that indicate the possibility of a material misstatement due to fraud” are treated in *Standard to Address Risks of Fraud in an Audit* as the possibility that the material misstatement due to fraud is higher as compared to other circumstances that may indicate the possibility of a material misstatement due to fraud. If the auditor identifies any circumstance that indicate the possibility of a material misstatement due to fraud, the auditor is required to make inquiries of and ask for explanations from management and perform additional audit procedures.	
N/A	F(f)	Suspicion of a material misstatement due to fraud –The suspicion of	

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		a material misstatement due to fraud exists when: - The auditor has determined that management's explanations, together with the audit evidence obtained relevant thereto, are not considered reasonable in relation to a certain circumstance that indicates the possibility of a material misstatement due to fraud; or - The auditor is unable to obtain sufficient appropriate audit evidence related to the identified and assessed risk of fraud, even after performing additional audit procedures that the auditor determined necessary as a result of performing the audit procedures originally designed in response to the assessed risks of fraud.	
Requirements			
12	11	**Professional skepticism** In accordance with paragraph 14 of ASCS ~~ISA~~ 200(*), the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance. (Ref: Para. A6-A7)	(*): Equivalent to paragraph 15 of ISA 200
N/A	F11-2	The auditor shall exercise professional skepticism in: (a) Assessing risks of material misstatement due to fraud; (b) Performing audit procedures to address the identified fraud; and (c) Evaluating the audit evidence obtained, so as not to overlook any circumstances that indicate the possibility of a material misstatement due to fraud. In addition, the auditor shall exercise increased professional skepticism in determining whether there is any suspicion of a material misstatement due to fraud, and in performing the audit procedures to address such suspicion.	
13	12	Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further. (Ref: Para. A8)	
14	13	Where responses to inquiries of management or those charged with	

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		governance are inconsistent, the auditor shall investigate the inconsistencies.	
15	14	**Discussion among the Engagement Team** Paragraph 9 of ASCS ~~ISA~~ 315(*) requires a discussion among the engagement team members and a determination by the engagement partner of which matters are to be communicated to those team members not involved in the discussion. This discussion shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur. The discussion shall occur setting aside beliefs that the engagement team members may have that management and those charged with governance are honest and have integrity. (Ref: Para. A9-A10)	(*): Equivalent to paragraph 10 of ISA 315
N/A	F14-2	*Direct Engagement Team Members to Bring Significant Issues to the Attention of the Engagement Partner and More Experienced Engagement Team Members* Paragraph 14 of ASCS 220(*) requires the engagement partner to take responsibility for the direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements. The engagement partner shall direct engagement team members to bring matters arising during the audit which could be significant accounting and auditing issues relevant to fraud to the attention of the engagement partner and more experienced engagement team members. (Ref: Para. FA10-2-FA10-3)	(*) Equivalent to paragraph 15 of ISA 220
16	15	**Risk Assessment Procedures and Related Activities** When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the entity's internal control, required by paragraphs 4 to 23 of ASCS ~~ISA~~ 315(*), the auditor shall perform the procedures in paragraphs 16 to 23(paragraphs F15-2 to 23, if *Standard to Address Risks of Fraud in an Audit* applies) to obtain information for use in identifying the risks of material misstatement due to fraud.	(*): Equivalent to paragraphs 5 to 24 of ISA 315
N/A	F15-2	*Obtaining an Understanding of the Instances of Fraud in the Entity and the Industry in Which the Entity Operates* To obtain information for use in identifying the risks of material misstatement due to fraud, the auditor shall obtain an understanding	

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		of the following: (a) The typical instances of fraud which have been made public; and (b) General and industry-specific business practices that are likely to be used for fraud. (Ref: Para. FA10-4-FA10-5)	
17	16	*Management and Others within the Entity* The auditor shall make inquiries of management regarding: (a) Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments; (Ref: Para. A11–A12) (b) Management's process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist; (Ref: Para. A13) (c) Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity; and (d) Management's communication, if any, to employees regarding its views on business practices and ethical behavior.	
18	17	The auditor shall make inquiries of management, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. (Ref: Para. A14–A16)	
19	18	For those entities that have an internal audit function, the auditor shall make inquiries of internal audit to determine whether it has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud. (Ref: Para. A17)	
20	19	Those Charged with Governance ~~Unless all of those charged with governance are involved in managing the entity, t~~(*)The auditor shall obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has	(*): The phrase of "unless" was deleted to avoid unintended misinterpretation, because the situation described in the ISA

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		established to mitigate these risks. (Ref: Para. A18–A19)	is extremely rare in Japanese entities subject to an audit by independent auditors.
21	20	~~Unless all of those charged with governance are involved in managing the entity, t~~(*)The auditor shall make inquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. These inquiries are made in part to corroborate the responses to the inquiries of management.	(*): Please see above.
22	21	*Unusual or Unexpected Relationships Identified* The auditor shall evaluate whether unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, may indicate risks of material misstatement due to fraud.	
23	22	*Other Information* The auditor shall consider whether other information obtained by the auditor indicates risks of material misstatement due to fraud. (Ref: Para. A20)	
24	23	*Evaluation of Fraud Risk Factors* The auditor shall evaluate whether the information obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present. While fraud risk factors may not necessarily indicate the existence of fraud, they have often been present in circumstances where frauds have occurred and therefore may indicate risks of material misstatement due to fraud. (Ref: Para. A21–A25)	
25	24	**Identification and Assessment of the Risks of Material Misstatement Due to Fraud** In accordance with paragraph 24 of ASCS ~~ISA~~ 315(*), the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures, taking into account the fraud risk factors identified in accordance with paragraph 23.	(*): Equivalent to paragraph 25 of ISA 315
26	25	When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are	

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		risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. Paragraph 46 specifies the documentation required where the auditor concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud. (Ref: Para. A26–A28)	
27	26	The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks. (Ref: Para. A29–A30)	
28	27	**Responses to the Assessed Risks of Material Misstatement Due to Fraud** *Overall Responses* In accordance with <u>paragraph 4 of ASCS</u> ~~ISA~~ 330(*), the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level. (Ref: Para. A31)	(*):Equivalent to paragraph 5 of ISA 330
29	28	In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall: (a) Assign and supervise personnel taking account of the knowledge, skill and ability of the individuals to be given significant engagement responsibilities and the auditor's assessment of the risks of material misstatement due to fraud for the engagement; (Ref: Para. A32–A33) (b) Evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings; and (c) Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures. (Ref: Para. A34)	
30	29	*Audit Procedures Responsive to Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level* In accordance with <u>paragraph 5 of ASCS</u> ~~ISA~~ 330(*), the auditor	(*): Equivalent to

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		shall design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level. The auditor shall obtain more relevant, reliable and/or quantity of audit evidence for an assertion with identified risk of fraud than for the assertion in which no risk of fraud has been identified. (Ref: Para. A35-A38)	paragraph 6 of ISA 330
31	30	*Audit Procedures Responsive to Risks Related to Management Override of Controls* Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.	
32	31	Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform audit procedures to: (a) Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. In designing and performing audit procedures for such tests, the auditor shall: (i) Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments; (ii) Select journal entries and other adjustments made at the end of a reporting period; and (iii) Consider the need to test journal entries and other adjustments throughout the period. (Ref: Para. A39–A42) (b) Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, the auditor shall: (i) Evaluate whether the judgments and decisions made by management in making the accounting estimates included in the financial statements, even if they are individually	

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		reasonable indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. If so, the auditor shall reevaluate the accounting estimates taken as a whole; and (ii) Perform a retrospective review of management judgments and assumptions related to significant accounting estimates reflected in the financial statements of the prior year. (Ref: Para. A43–A45) *(c)* For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and other information obtained during the audit, the auditor shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets. (Ref: Para. A46)	
N/A	32-2	**Evaluation of Audit Evidence** *Circumstances that may Indicate the Possibility of a Material Misstatement due to Fraud* If the auditor identifies a circumstance that may indicate the possibility of a material misstatement due to fraud, the auditor shall take into account the identified circumstance in evaluating whether the assessments of the risks of material misstatement at the assertion level remain appropriate in accordance with paragraph 24 of ASCS 330 (*1). (Ref: Para. A 47(*2))	(*1): Equivalent to paragraph 25 of ISA 330 (*2): Equivalent to paragraph A49 of ISA 240
N/A	F32-3	The auditor shall conclude whether sufficient appropriate audit evidence has been obtained for the assessed risks of material misstatement due to fraud. If the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion, the auditor shall perform procedures to obtain further audit evidence (see paragraphs 25 and 26 of ASCS 330(*)).	(*): Equivalent to paragraphs 26 and 27 of ISA 330
34	33	*Analytical Procedures Performed Near the End of the Audit in Forming an Overall Conclusion* The auditor shall evaluate whether analytical procedures that are performed near the end of the audit, when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity, indicate a previously unrecognized risk of material misstatement due to fraud. (Ref: Para.	Addition of the sub-heading only.

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		A48)	
35	34	*Identification of a Misstatement* If the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud. If there is such an indication, the auditor shall evaluate the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence. (Ref: Para. A49)	Addition of the sub-heading only.
36	35	If the auditor identifies a misstatement, whether material or not, and the auditor has reason to believe that it is or may be the result of fraud and that management (in particular, senior management) is involved, the auditor shall reevaluate the assessment of the risks of material misstatement due to fraud and its resulting impact on the nature, timing and extent of audit procedures to respond to the assessed risks. The auditor shall also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained. (Ref: Para. A50)	
N/A	F35-2	*Suspicion of a Material Misstatement due to Fraud* If the auditor identifies during the audit any circumstances that indicate the possibility of a material misstatement due to fraud (see Appendix 4), the auditor shall make inquiries of and ask for explanations from management and perform additional audit procedures in order to determine whether there is a suspicion of a material misstatement due to fraud.	
N/A	F35-3	If: (a) The auditor has determined that management's explanations, together with the audit evidence obtained relevant thereto, are not considered reasonable in relation to certain circumstance that indicates the possibility of a material misstatement due to fraud; or (b) The auditor is unable to obtain sufficient appropriate audit evidence related to the identified and assessed risk of fraud, even after performing the additional audit procedures that the auditor determined necessary as a result of performing the audit procedure originally designed in response to the assessed risk	

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		of fraud, the auditor shall treat it as a suspicion of material misstatement due to fraud. When the auditor has concluded not to treat a circumstance as a suspicion of a material misstatement due to fraud, the auditor shall include in audit documentation the conclusion and the rationale for that conclusion, in accordance with paragraph F44-2.	
N/A	F35-4	When the auditor has determined that any suspicion of a material misstatement due to fraud exists, in order to obtain sufficient appropriate audit evidence in relation to the suspicion, the auditor shall revise the risk assessment and modify the further planned audit procedures, and perform such procedures that are specifically responsive to the types of possible fraud, including sufficient investigation on such a suspicion.	
37	36	*The Evaluation of the Implications for the Audit* If the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud the auditor shall evaluate the implications for the audit. (Ref: Para. A51)	Addition of the sub-heading only.
N/A	F36-2	**Using the Work of an Auditor's Expert** In accordance with paragraph 6 of ASCS 620(*), the auditor shall determine whether the skill and knowledge of an expert is needed to: (a) Perform assessments of risks of fraud; (b) Perform audit procedures; or (c) Evaluate audit evidence, according to the nature and significance of the risks of fraud. (Ref: Para. FA51-2-FA51-3)	(*): Equivalent to paragraph 7 of ISA 620
38	37	**Auditor Unable to Continue the Engagement** If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall: (a) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities; (b) Consider whether it is appropriate to withdraw from the engagement, where withdrawal is possible ~~under applicable law~~	(*): The phrase

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		~~or regulation~~(*); and (c) If the auditor withdraws: (i) Discuss with the appropriate level of management and those charged with governance the auditor's withdrawal from the engagement and the reasons for the withdrawal; and (ii) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal. (Ref: Para. A52–A54)	"under applicable law or regulation" was deleted, because, under the Japanese law, there is no restriction on withdrawal from an engagement.
39	38	**Written Representations** The auditor shall obtain written representations from management and, where appropriate, those charged with governance that: (a) They acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; (b) They have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; (c) They have disclosed to the auditor their knowledge of fraud, or suspected fraud, affecting the entity involving: (i) Management; (ii) Employees who have significant roles in internal control; or (iii) Others where the fraud could have a material effect on the financial statements; and (d) They have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others. (Ref: Para. A55–A56)	
N/A	F38-2	If the auditor has determined that a suspicion of a material misstatement due to fraud exists, the auditor shall consider whether to request management to provide written representation relevant to such suspicion. (Ref: Para. FA56-2-FA56-3)	
N/A	F38-3	**Engagement Quality Control Review** An engagement quality control review shall be conducted at appropriate stages during the audit for significant judgments made and conclusions reached to address the risks of fraud in compliance	

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		with the policies and procedures of the audit firm. If the auditor determines that a suspicious of material misstatement due to fraud exits, the auditor shall not express an opinion until the engagement quality control review has been completed by an appropriate engagement quality control reviewer in compliance with the policies and procedures of the audit firm in regard to the auditor's responses to the suspicious of material misstatement due to fraud.	
40	39	**Communications to Management and with Those Charged with Governance** *Communications to Management* If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters on a timely basis to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref: Para. A57 and FA57-2)	Addition of the sub-heading only.
N/A	F39-2	If the auditor has identified or suspected fraud involving management, including suspicion of a material misstatement due to fraud, defined in *Fraud Risk Standard*, the auditor shall discuss such a suspicion with those charged with governance in accordance with paragraph 40, and request management to take appropriate remedial actions.	
41	40	*Communications with Those Charged with Governance* ~~Unless all of those charged with governance are involved in managing the entity,~~ (*)~~i~~If the auditor has identified or suspects fraud involving: (a) management; (b) employees who have significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements, the auditor shall communicate these matters to those charged with governance on a timely basis. When *Standard to Address Risks of Fraud in an Audit* is applied to the audit, a suspected fraud, required to be communicated in accordance with this paragraph, includes a suspicion of a material misstatement due to fraud. If the auditor identifies or suspects fraud involving management, the auditor shall communicate these suspicions to those charged with governance and discuss with them the nature, timing and extent of audit	(*): Please see the notes to Para. 19 above

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		procedures necessary to complete the audit. (Ref: Para. A58–A60)	
42	41	The auditor shall communicate with those charged with governance any other matters related to fraud that are, in the auditor's judgment, relevant to their responsibilities. (Ref: Para. A61)	
43	42	**Communications to Regulatory and Enforcement Authorities** If the auditor has identified or suspects a fraud, the auditor shall determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. The auditor has a professional duty to maintain the confidentiality of client information. Therefore, the auditor shall refrain from disclosing outside the firm confidential information unless there is a justifiable reason to disclose, such as when the disclosure is authorized by the client or when the disclosure is required by relevant laws ~~Although the auditor's professional duty to maintain the confidentiality of client information may preclude such reporting, the auditor's legal responsibilities may override the duty of confidentiality in some circumstances~~. (*) (Ref: Para. A62)	(*): Modification was made based on the requirement of the JICPA Code of Ethics.
44	43	**Documentation** The auditor shall include the following in the audit documentation of the auditor's understanding of the entity and its environment and the assessment of the risks of material misstatement required by paragraph 31 of ASCS ~~ISA~~ 315(*1): (a) The significant decisions reached during the discussion among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud; and (b) The identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level.(See paragraphs 7-10 and A6 of ASCS 230(*2))	(*1): Equivalent to paragraph 32 of ISA 315 (*2): Equivalent to paragraphs 8-11 and A6 of ISA 230
45	44	The auditor shall include the following in the audit documentation of the auditor's responses to the assessed risks of material misstatement required by paragraph 27 of ASCS ~~ISA~~ 330(*): (a) The overall responses to the assessed risks of material misstatement due to fraud at the financial statement level and the nature, timing and extent of audit procedures, and the linkage of those procedures with the assessed risks of material misstatement due to fraud at the assertion level; and	(*): Equivalent to paragraph 28 of ISA 330

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		(b) The results of the audit procedures, including those designed to address the risk of management override of controls.	
N/A	F44-2	When the auditor identified during the audit a circumstance that indicate the possibility of a material misstatement due to fraud but has concluded not to treat it as a suspicion of a material misstatement due to fraud, the auditor shall include in audit documentation the conclusion and the rationale for that conclusion.	
N/A	F44-3	When the auditor has determined that a suspicion of a material misstatement due to fraud exists, the auditor shall include in the audit documentation the nature of the suspicion, the audit procedures performed and the result thereof, the conclusion reached, and the significant professional judgments made in reaching those conclusions.	
46	45	The auditor shall include in the audit documentation communications about fraud made to management, those charged with governance, regulators and others.	
47	46	If the auditor has concluded that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the auditor shall include in the audit documentation the reasons for that conclusion.	
N/A	F-Appendix 4	**F – Appendix 4** **Examples of Circumstances that Indicate the Possibility of a Material Misstatement Due to Fraud** If, during the audit, the auditor identifies any circumstances that indicate the possibility of a material misstatement due to fraud, the auditor is required to make inquiries of and ask for explanations from management and perform additional audit procedures in order to determine whether there is a suspicion of a material misstatement due to fraud. The evaluation of whether the assessments of the risks of material misstatement at the assertion level remain appropriate as required by paragraph 32-2 is conducted through this procedure. Following are examples of circumstances that indicate the possibility of material misstatement due to fraud; however, the list is not necessarily complete.	

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		1. Information in Relation to Fraud ・ Information which has been provided to the entity through the whistle-blowing system and disclosed to the auditor containing information which is deemed to have a material effect on the financial statements. ・ Information related to the possibility of fraud has been provided to the auditor, from employees, counterparties or others (including information received through the whistle-blower channel of the audit firm) 2. Unusual Transactions, etc. To Be Considered (1) Circumstances that indicate the possibility of improper revenue recognition ・ Significant transactions that are outside the normal course of business of the entity and significant unusual transactions in light of the auditor’s understanding of the entity and the environment surrounding the industry in which it operates, for which the business rationale appears unclear. (2) Circumstances that indicate the possibility of off-balance transactions such as fictitious cash disbursement and reimbursement ・ Acquisition of significant assets or a business, significant new investments or significant expenses which are not directly related to the entity’s business activities or for which the business rationale appears unclear. (3) Others ・ Significant loan agreement (receivable or payable), provision of a security or guarantee provided or accepted, for which the business rationale appears unclear, with related parties or other parties (including individuals) whose relationship with the entity remains unclear. 3. Circumstances that Indicate the Possibility of Alteration, Forgery or Concealment of Evidence	

Para. No. (ISA)	Para. No. (ASCS)	ASCS 240 (Revised)	Notes
		· Documents that appear to be altered or forged. · Inconsistent evidence included in important records, etc. or missing important documents to be used as evidence in relation to significant transactions. · Unavailability of important documents or availability of important documents in draft-form only in relation to significant transactions without reasonable grounds. 4. Circumstances that Indicate the Possibility of Inappropriate Accounting Adjustment · Significant transactions that are not recorded in a complete or timely manner until near the balance sheet date or are improperly recorded as to the amount, accounting period or classification. · Unsupported or unauthorized significant balances or transactions (by evidence). · Last-minute unusual adjustments made near the balance sheet date that would significantly affect the financial results. · Disagreement among figures, which are expected to be in agreement, in the vouchers, books of account, or accounting records (such as general ledger, subsidiary ledger, or account detail) in relation to significant transactions without reasonable explanations. · Change in significant accounting policies without reasonable grounds. · Frequent changes in significant accounting estimates that do not appear to result from changed circumstances. 5. Results of Confirmation · Significant discrepancies between the entity's records and confirmation replies without reasonable grounds. · Repeated failures of confirmation replies to be returned from certain specific customers directly to the auditor without reasonable grounds. 6. Management's Responses to Audit · Entity's denial, interference or request of change, for the auditor's access to records, facilities, certain employees,	

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		customers, vendors, or others from whom audit evidence might be sought, without reasonable grounds. ・ Entity's request for the auditor to change the confirming party or refusal to send a confirmation letter to a certain confirming party without reasonable grounds, or existence of any confirming party for which the entity takes much longer to prepare the confirmation letter compared with other confirming parties. 7. Others ・ Entity's use of an expert, whose capability or objectivity is in doubt, related to transactions which have a significant effect on the financial statements. ・ Failure of the entity to provide the auditor with sufficient information regarding a significant investee or counterparty, or custodian of significant assets.	

C. Provisional Translation of Introduction, Objective, Definitions, and Requirements Sections in ASCS 900 (Revised) *Change of Auditors*

Notes:

- This is the provisional translation of all requirements together with “Introduction”, “Objective” and “Definitions” sections in ASCS 900 (Revised), published on June 17, 2013.

Para. No. (ASCS)	ASCS 900 (Revised)	Notes
Introduction		
1	**Scope of this ISA** This ASCS deals with the auditor’s responsibilities regarding the communications between predecessor and successor auditors when there has been a change of auditors (*). This ASCS is to be read in conjunction with relevant ethical requirements. ASCS 300, *Planning an Audit of Financial Statements* includes additional requirements and guidance regarding activities prior to starting an initial audit. Also, ASCS 510, *Initial Audit Engagements – Opening Balances* deals with the auditor’s responsibilities relating to opening balances in an initial audit engagement, and ASCS 210, *Agreeing the Terms of Audit Engagements* deals with the auditor’s responsibilities in agreeing the terms of the audit engagement with management.	(*): The phrase ”when there has been a change of auditors” includes both situations when a change of auditors is in process and has taken place.
2	In accordance with QCSCS 1 *Quality Control for Audit Firms*, the firm is required to establish and maintain policies and procedures designed to provide it with reasonable assurance that appropriate communication between the predecessor and successor auditors takes place when there has been a change of auditors, and such policies and procedures shall cover both the situations when the firm is a predecessor and successor auditors. This ASCS is premised on the basis that the firm is subject to QCSCS 1. In addition, ASCS 220, *Quality Control for an Audit of Financial Statements* requires the engagement partners in both predecessor and successor audit firms to communicate appropriately in compliance with the firms’ quality control policies and procedures.	
3	**Responsibilities of the Auditor** The determination regarding the acceptance of the engagement and the expression of audit opinion is the sole responsibility of the proposed auditor and the auditor, even if he or she uses the	

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	information that was obtained from the communication with predecessor auditor. When the predecessor auditor was engaged to perform but did not complete an audit of the most recent financial statements, the results of the audit procedures that were performed by the predecessor auditor may affect the work of the auditor. However, the determination as to whether, and to what extent, to use the information from the predecessor auditor is the responsibility of the auditor, and the auditor is solely responsible for the expression of its audit opinion.	
Objective		
4	The objective of the auditor, when there has been a change of auditor, is to obtain information that assist in determining whether to accept the engagement and in planning the audit, through appropriate communication between predecessor and successor audit firms in accordance with professional standards and applicable legal and regulatory requirements.	
Definitions		
5	For purposes of the ASCS, the following terms have the meanings attributed below:	
(a)	Proposed auditor – The auditor who is asked by the client to replace an existing auditor.	
(b)	Predecessor auditor - The auditor from a different audit firm who has reported on the most recent audited financial statements or was engaged to perform but did not complete an audit of the financial statements. Depending on the circumstances, there may be more than one predecessor auditors.	
Requirements		
6	**Communication between the Predecessor and Successor Auditor – the Proposed auditor and the Auditor** The proposed auditor and the auditor (hereinafter referred to “the proposed auditor and the auditor” as “successor auditor”) shall apply the conceptual framework approach and identify threats to compliance with the fundamental principles. (see paragraph 16(1) of the JICPA Code of Ethics). (Ref: Para. A1)	
7	The proposed auditor shall request the client to notify the proposed and predecessor auditors in writing regarding the designation of the proposed auditor. (Ref: Para. A2)	

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8	The successor auditor shall request the predecessor auditor to provide relevant information. This communication is conducted primarily through the successor auditor's inquiries of the predecessor auditor, and the successor auditor's review of the predecessor auditor's working papers. (Ref: Para. A3)	
9	The proposed auditor shall make inquiries of the predecessor auditor regarding maters that will assist the proposed auditor in determining whether to accept the engagement. Matters subject to inquiry shall include the existence of, and, if existed, the nature of: (a) Concerns about the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these; (b) The predecessor auditor's understanding as to the reasons for the change of auditors; (c) Disagreements with management as to accounting treatments, presentations, or audit procedures; (d) Identified or suspected fraud involving: (i) Management; (ii) Employees who have significant roles in internal control; (iii) Others where the fraud results in a material misstatement in the financial statements. In accordance with paragraph 40 of ASCS 240(*1), the auditor is required to communicate these matters to those charged with governance. (e) Matters involving identified or suspected non-compliance with laws and regulations that, in accordance with paragraph 21 of ASCS 250(*2), the auditor is required to communicate with those charged with governance; (f) The following matters that, in accordance with paragraph 14 of ASCS 260(*3), the auditor is required to communicate with those charged with governance: (i) The auditor's views about significant qualitative aspects of the entity's accounting practices, including policies, accounting estimates and financial statement disclosures; (ii) Significant difficulties, if any, encountered during the audit; (iii) Significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management; (iv) Other matters, if any, arising from the audit that, in the auditor's professional judgment, are significant to the	(*1): Equivalent to paragraph 41 of ISA 240 (*2): Equivalent to paragraph 22 of ISA 250 (*3): Equivalent to paragraph 16 of ISA 260

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	oversight of the financial reporting process; (g) Significant deficiencies in internal control identified during the audit that, in accordance with paragraph 8 of ASCS 265(*4), the auditor is required to communicate with those charged with governance; (h) Significant matters arising during the audit in connection with the entity's related parties that, in accordance with paragraph 26 of ASCS 550(*5), the auditor is required to communicate with those charged with governance; (i) Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern that, in accordance with paragraph 22 of ASCS 570(*6), the auditor is required to communicate with those charged with governance; (j) Uncorrected misstatements that, in accordance with paragraphs 11 and 12 of ASCS 450(*7), the auditor is required to communicate with those charged with governance, and corrected misstatements that had been accumulated in accordance with paragraph 4 of ASCS 450(*8). In the case of the audit under the Financial Instruments and Exchange Act, uncorrected misstatements include those in quarterly financial statements and in semi-annual financial statements; (k) If the predecessor auditor was engaged to perform but did not complete an audit of the financial statements, uncorrected and corrected misstatements in the current year financial statements that the predecessor auditor detected; and (l) Significant contingent events and events that may become significant contingent liabilities that, in accordance with paragraph 8 of ASCS 706(*9), the auditor is required to communicate with those charged with governance. (Ref: Para. A4)	(*4): Equivalent to paragraph 9 of ISA 265 (*5): Equivalent to paragraph 27 of ISA 550 (*6): Equivalent to paragraph 23 of ISA 570 (*7): Equivalent to paragraphs 12 and 13 of ISA 450 (*8): Equivalent to paragraph 5 of ISA 450 (*9): Equivalent to paragraph 9 of ISA 706. In accordance with paragraph 8 of ASCS 706, if the auditor expects to include an Emphasis of Matter paragraph, the auditor is required to communicate with those charged with governance regarding this expectation.
10	The proposed auditor shall consider whether appropriate procedures regarding the change of the auditors in accordance with the relevant laws and regulations are conducted by the client.	
11	If the proposed auditor is unable to communicate sufficiently with the predecessor auditor, the proposed auditor shall take reasonable steps to obtain information about any possible threats by other means, such as through inquiries of third parties or background investigations of senior management or those charged with	

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	governance of the client (see paragraph 16(5) of the JICPA Code of Ethics), and shall determine in a more cautious manner whether the proposed auditor is able to reduce the risks involved in accepting the engagement to a low level. (Ref: Para. A5)	
12	The proposed auditor shall not accept an engagement if the proposed auditor determines that a threat to one or more of the fundamental principles cannot be eliminated or reduced to an acceptable level through the application of safeguards (see paragraph 16(2) of the JICPA Code of Ethics). (Ref. Para. A6)	
13	**Communication between the Predecessor and Successor Auditors – Predecessor Auditor** The predecessor auditor who receives the notification described in paragraph 7 shall, in compliance with professional standards and applicable laws and regulations, provide to the successor auditor on a timely basis relevant information that assists the proposed auditor in determining whether to accept the engagement, and the auditor in planning the audit. Where the predecessor auditor provides information, it shall be provided honestly and unambiguously (see paragraph 16(4) of the JICPA Code of Ethics).	
14	The predecessor auditor shall communicate to the successor auditor significant audit matters that the predecessor auditor identified, such as how the predecessor auditor addressed the risks of material misstatement due to fraud, and matters that the auditor is required to communicate with those charged with governance in accordance with Auditing Standards Committee Statements. (Ref: Para. A7- A8) Significant audit matters include material misstatements that affected the predecessor auditor's opinion, or, when the predecessor auditor did not complete the audit, information or circumstances relevant to material misstatements in the current year financial statements that the predecessor auditor determine that could affect the auditor's opinion. (See paragraph 1, section 10 "Communication between the predecessor and successor auditors when there has been a change of auditor" of Standard on Quality Control for Audits)	
15	The predecessor auditor shall allow the successor auditor to review the predecessor auditor's working papers that are relevant to : (a) The matters stipulated in paragraph 14; and (b) The opening balances. (Ref: Para. A9-A11) In addition, the predecessor auditor shall discuss with the successor	

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	auditor how to review the predecessor auditor's working papers, including which working papers may be copied. Before reviewing the working papers, the predecessor auditor and the successor auditor shall confirm in written agreement regarding the duty of confidentiality for the review of the working papers. The written agreement shall specify that the successor auditor's use of the information obtained from the review for purpose other than original intent is restricted.	
16	If the predecessor auditor is not able to sufficiently communicate with the successor auditor, the predecessor auditor shall provide relevant information to the successor auditor to the extent practicable. (Ref: Para. A5)	
Acknowledgement of the Communication		
17	The successor and predecessor auditors shall mutually confirm what has been communicated. The successor auditor and predecessor auditors shall retain the record of this confirmation. (Ref: Para. A12)	
Duty of Confidentiality		
18	The principle of confidentiality impose an obligation on all professional accountants, including the predecessor and successor auditors, to refrain from: (a) Disclosing outside the firm confidential information acquired during the engagement unless there is a justifiable reason to disclose; and (b) Using confidential information acquired during the engagement to their personal advantage or the advantage of third parties (see paragraph 6(1) of the JICPA Code of Ethics). The circumstances where there is justifiable reason for the professional accountant to disclose confidential information include communication between the predecessor auditor and the successor auditor when there has been a change of the auditors (see paragraph 6(8)(iii)(d) of the JICPA Code of Ethics). The audit engagement letter shall include a reference regarding this ethical provision.	
19	The successor auditor shall use the information obtained from the predecessor auditor in determining whether to accept the engagement and in planning the audit, and shall not use this information for other purpose.	
20	The proposed auditor shall maintain confidentiality of information	

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	disclosed by the client and the predecessor auditor, and confirm it in writing with the client, whether or not the proposed auditor accepts the engagement (see paragraph 6(4) of the JICPA Code of Ethics). (Ref: Para. A13)	

D. Comparison of Requirements between other ASCSs and ISAs

Notes:

- This provides other modifications that have not been provided above.
- This does not include the information regarding ISQC 1 / QCSCS 1, ISA 240 / ASCS 240, and ASCS 900, included in Section A, B and C, respectively.
- The explanations regarding respective columns are as follows:
  - The column "Para. No. (ISA)" refers to the equivalent paragraph number in respective ISA. "Para. No (ISA)" and "Para. No. (ASCS)" is not the same number since the JICPA pronouncements include the "Effective Date" section at the end of the pronouncements.
  - The mark up shows the change from ISA 240. In addition, the revisions based on the Fraud Risk Standard are highlighted in yellow. (i.e. The paragraphs marked up in yellow highlight are the modifications to reflect the Fraud Risk Standard, and the paragraphs marked up without yellow highlight are the difference that do not relate to the Fraud Risk Standard)

Para. No. (ISA)	Para. No. (ASCS)	ASCS	Notes
ASCS 210 Agreeing the Terms of Audit Engagements			
7	5	If management ~~or those charged with governance~~ impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements, the auditor shall not accept such a limited engagement as an audit engagement~~, unless required by law or regulation to do so~~.	The phrase of "unless" was deleted, because there is no requirement by law or regulation to accept such engagement, and, therefore, it is not applicable in Japan. The same modification in paragraph 8 of ISA 210 / ASCS 210 (second sentence) was made.
11	N/A	~~If law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in paragraph 10, the auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities as set out in paragraph 6(b).~~ (Delete whole paragraph)	This paragraph was deleted, because the situation described in the ISA is not applicable in Japan. In Japan, no law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in paragraph 10 of ISA 210.
12	N/A	~~If law or regulation prescribes responsibilities of management similar to those described in paragraph~~	This paragraph was deleted, because the situation

Para. No. (ISA)	Para. No. (ASCS)	ASCS	Notes
		~~6(b), the auditor may determine that the law or regulation includes responsibilities that, in the auditor's judgment, are equivalent in effect to those set out in that paragraph. For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the written agreement. For those responsibilities that are not prescribed by law or regulation such that their effect is equivalent, the written agreement shall use the description in paragraph 6(b).~~ (Delete whole paragraph)	described in the ISA is not applicable in Japan. In Japan, no law or regulation prescribes responsibilities of management similar to those described in paragraph 6(b) of ISA 210.
18	14	<u>(【Transitional Measure】 The auditor may allow not applying paragraphs 18 to 21 for the time being, provided that the audit is conducted in accordance with the JICPA pronouncements for such engagement that has existed before the issuance of clarified ASCSs.)</u> If financial reporting standards established by an authorized or recognized standards setting organization are supplemented by law or regulation, the auditor shall determine whether there are any conflicts between the financial reporting standards and the additional requirements. If such conflicts exist, the auditor shall discuss with management the nature of the additional requirements and shall agree whether: (a) The additional requirements can be met through additional disclosures in the financial statements; or (b) The description of the applicable financial reporting framework in the financial statements can be amended accordingly. If neither of the above actions is possible, the auditor shall determine whether it will be necessary to modify the auditor's opinion in accordance with <u>ASCS</u> ~~ISA~~ 705. (Ref: Para. A34)	Transitional measures have been provided, because there are many audits which are stipulated by relevant law or regulation in Japan. In these cases, relevant law or regulation often supplements Accounting Standards established by the Accounting Standards Board of Japan (ASBJ), and prescribes the layout and wording of the auditor's report.
19	15	If the auditor has determined that the financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation, the auditor shall accept the audit engagement only if the following conditions are present: (Ref: Para. A35)	Please see "Notes" on paragraph 18 of ISA 210 above, regarding the transitional measure.

Para. No. (ISA)	Para. No. (ASCS)	ASCS	Notes
		(a) Management agrees to provide additional disclosures in the financial statements required to avoid the financial statements being misleading; and (b) It is recognized in the terms of the audit engagement that: (i) The auditor's report on the financial statements will incorporate an Emphasis of Matter paragraph, drawing users' attention to the additional disclosures, in accordance with ISA 706;4 and (ii) Unless the auditor is required by law or regulation to express the auditor's opinion on the financial statements by using the phrases " present fairly, in all material respects," or "give a true and fair view" in accordance with the applicable financial reporting framework, the auditor's opinion on the financial statements will not include such phrases.	
20	16	If the conditions outlined in paragraph 19 are not present and the auditor is required by law or regulation to undertake the audit engagement, the auditor shall: (a) Evaluate the effect of the misleading nature of the financial statements on the auditor's report; and (b) Include ~~appropriate reference to this matter~~ in the terms of the audit engagement <u>the statements that explains:</u> (i) <u>The audit is required by law or regulation even if the conditions outlined in paragraph 19 are not present; and</u> (ii) <u>The auditor will evaluate the effect of the misleading nature of the financial statements on the auditor's report</u>	Please see "Notes" on paragraph 18 of ISA 210 above, regarding the transitional measure. Subparagraphs (i) and (ii) were added to make clear the meaning of "appropriate reference to this matter".
21	17	In some cases, law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor's report in a form or in terms that are significantly different from the requirements of ISAs. In these circumstances, the auditor shall evaluate: (a) Whether users might misunderstand the assurance	See "Note" on paragraph 18 of ISA 210 above, regarding the transitional measure.

Para. No. (ISA)	Para. No. (ASCS)	ASCS	Notes
		obtained from the audit of the financial statements and, if so, (b) Whether additional explanation in the auditor's report can mitigate possible misunderstanding. If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, the auditor shall not accept the audit engagement, unless required by law or regulation to do so. An audit conducted in accordance with such law or regulation does not comply with ISAs. Accordingly, the auditor shall not include any reference within the auditor's report to the audit having been conducted in accordance with ISAs.6 (Ref: Para. A36–A37)	
ASCS 260　Communications with Those Charged with Governance			
13	N/A	~~In some cases, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters required by this ISA are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role. These matters are noted in paragraph 16(c). The auditor shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity.~~ (Delete whole paragraph)	This paragraph was deleted to avoid unintended misinterpretation, because the situation described in the ISA is extremely rare in Japanese entities, subject to an audit by independent auditors. Similar modifications were made in the following paragraphs: ・ ISA 240 / ASCS 40 Para. 20, 21 and 41 ・ ISA 250 / ASCS 250 Para. 22 ・ ISA 260 / ASCS 260 Para. 16(c) ・ ISA 550 / ASCS 550 Para. 27 ・ ISA 560 / ASCS 560 Para. 13(b) and 17 ・ ISA 570 / ASCS 570 Para. 23 ・ ISA 710 / ASCS 710 Para. 18

Para. No. (ISA)	Para. No. (ASCS)	ASCS	Notes
ASCS 402 Audit Considerations Relating to an Entity Using a Service Organization			
21	20	The auditor has a sole responsibility for the audit opinion expressed. As a result, t~~T~~he user auditor shall not refer to the work of a service auditor in the user auditor's report containing an unmodified opinion ~~unless required by law or regulation to do so. If such reference is required by law or regulation, the user auditor's report shall indicate that the reference does not diminish the user auditor's responsibility for the audit opinion~~. (Ref: Para. A43)	Modifications were made, because the situation described in the ISA is not applicable in Japan. In Japan, no law or regulation requires the reference to the work of a service auditor in the user auditor's report.
ASCS 450 Evaluation of Misstatements Identified during the Audit			
8	7	The auditor shall communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management~~, unless prohibited by law or regulation~~. The auditor shall request management to correct those misstatements.	The phrase of "unless" was deleted, because it is not applicable in Japan. Similar modification was made in paragraph 12 of ISA 450 / ASCS 450 first sentence.
12 (2nd sentence)	11 (2nd sentence)	If uncorrected misstatements are material, t~~T~~he auditor's communication shall identify material uncorrected misstatements individually so that those charged with governance are able to request management to correct those misstatements. ~~The auditor shall request that uncorrected misstatements be corrected.~~	Modifications were made in order to make clear that those charged with governance request management to correct misstatements and management corrects those misstatements.
ASCS 505 External Confirmations			
N/A	F11-2	**Non-Responses** When the auditor uses a positive conformation request to address assessed risks of fraud, but the confirming party fails to respond or does not fully respond to such a positive confirmation request, the auditor shall carefully determine if the auditor will be able to obtain sufficient appropriate audit evidence, using alternative procedures. If the auditor performs an alternative procedure and uses as only audit evidence information that was prepared by the entity or its affiliates, the auditor shall determine the reliability of such information in a more cautions manner. (Ref: Para. FA19-2 - FA19-3)	Based on the Fraud Risk Standard, this new requirement is added between paragraphs that are equivalent to paragraphs 12 and 13 of ISA 505.
ASCS 510 Initial Audit Engagements - Opening Balances			

Para. No. (ISA)	Para. No. (ASCS)	ASCS	Notes
7	6	If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period's financial statements, the auditor shall perform such additional audit procedures as are appropriate in the circumstances to determine the effect on the current period's financial statements. If the auditor concludes that such misstatements exist in the current period's financial statements, the auditor shall communicate the misstatements with the appropriate level of management and those charged with governance in accordance with ASCS ~~ISA~~ 450. In addition, the auditor shall request the entity to hold a meeting to discuss the issue between the entity, the predecessor and the current auditors.	Addition that is relevant to change of auditors.
ASCS 560 Subsequent Events			
13	12	~~In some jurisdictions, management may not be required by law, regulation or the financial reporting framework to issue amended financial statements and, accordingly, the auditor need not provide an amended or new auditor's report. However, i~~If management does not amend the financial statements in circumstances where the auditor believes they need to be amended, then: (Ref: Para. A13–A14) (a) If the auditor's report has not yet been provided to the entity, the auditor shall modify the opinion as required by ISA 705 and then provide the auditor's report; or (b) If the auditor's report has already been provided to the entity, the auditor shall notify management and~~, unless all of those charged with governance are involved in managing the entity,~~ those charged with governance, not to issue the financial statements to third parties before the necessary amendments have been made. If the financial statements are nevertheless subsequently issued without the necessary amendments, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report. (Ref. Para: A15–A16)	The first sentence was deleted, because the situation described in the ISA is not applicable in Japan.

Para. No. (ISA)	Para. No. (ASCS)	ASCS	Notes
ASCS 580 Written Representations			
14	13	The date of the written representations shall be ~~as near as practicable to, but~~ not after~~,~~ the date of the auditor's report on the financial statements. The written representations shall be for all financial statements and period(s) referred to in the auditor's report. (Ref: Para. A15–A18)	Modifications were made, because the auditor obtains written representations dated with the same as the date of the auditor's report in Japanese practice.
(A15)	(A14)	Because written representations are necessary audit evidence, the auditor's opinion cannot be expressed, and the auditor's report cannot be dated, before the date of the written representations. Furthermore, because the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the financial statements, the written representations are *ordinarily* dated as ~~near as practicable to, but not after,~~ the *same* date of the auditor's report on the financial statements.	
15	14	The written representations shall be in the form of a representation letter addressed to the auditor. ~~If law or regulation requires management to make written public statements about its responsibilities, and the auditor determines that such statements provide some or all of the representations required by paragraphs 10 or 11, the relevant matters covered by such statements need not be included in the representation letter. (Ref: Para. A19–A21)~~	The second sentence was deleted, because the situation described in the ISA is not applicable in Japan. No law or regulation requires management to make written public statements about its responsibilities.
ASCS 600 *Group Audits*			
11	10	The group engagement partner is responsible for the direction, supervision and performance of the group audit engagement in compliance with professional standards and applicable legal and regulatory requirements, and whether the auditor's report that is issued is appropriate in the circumstances. As a result, the auditor's report on the group financial statements shall not refer to a component auditor~~, unless required by law or regulation to include such reference. If such reference is required~~	Modifications were made, because the situation described in the ISA is not applicable in Japan. No law or regulation requires the reference to the component auditor in the auditor's report on the group financial statements.

Para. No. (ISA)	Para. No. (ASCS)	ASCS	Notes
		~~by law or regulation, the auditor's report shall indicate that the reference does not diminish the group engagement partner's or the group engagement partner's firm's responsibility for the group audit opinion~~.	
N/A	F39-2	**Communication with the Component Auditor** If the group engagement team identifies during the audit a circumstance that indicates the possibility of a material misstatement due to fraud that is relevant to the work of the component auditor, the group engagement team shall communicate it to such component auditor on a timely basis. The group engagement team shall request the component auditor to communicate on a timely basis with the group engagement team any circumstances that indicate the possibility of a material misstatement due to fraud that are identified as a result of the procedures performed by the component auditor. (Ref: Para. FA58-2)	Based on the Fraud Risk Standard, this new requirement is added between paragraphs that are equivalent to paragraphs 40 and 41 of ISA 600.
ASCS 620 Using the Work of an Auditor's Expert			
14	13	The auditor has a sole responsibility for the audit opinion expressed. As a result, t~~T~~he auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion ~~unless required by law or regulation to do so~~. ~~If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the auditor's opinion.~~	Modifications were made, because the situation described in the ISA is not applicable in Japan. No law or regulation requires the reference to the auditor's expert in the auditor's report.
ASCS 700 Forming an Opinion and Reporting on Financial Statements			
18	16	There may be cases where the financial statements, although prepared in accordance with the requirements of a fair presentation framework, do not achieve fair presentation, due to necessity for management to include additional disclosures in the financial statements beyond those specifically required by the framework or, in extremely rare circumstances, to depart from a requirement in the framework in order to achieve fair presentation of the financial statements. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the	A sentence was added to explain the difference between the fair presentation framework and the compliance framework, so that Japanese readers can easily understand the difference, since the concept of fair presentation framework vs. compliance framework is new to Japanese readers.

Para. No. (ISA)	Para. No. (ASCS)	ASCS	Notes
		matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, shall determine whether it is necessary to modify the opinion in the auditor's report in accordance with ISA 705. (Ref: Para. A11)	
19	17	When the financial statements are prepared in accordance with a compliance framework, management prepares the financial statements in compliance with the requirements of the framework and the auditor is not required to evaluate whether the financial statements achieve fair presentation. However, if in extremely rare circumstances the auditor concludes that such financial statements are misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report. (Ref: Para. A12)	See "Notes" on paragraph 18 of ISA 700 above.
24	N/A	~~This section of the auditor's report describes the responsibilities of those in the organization that are responsible for the preparation of the financial statements. The auditor's report need not refer specifically to "management," but shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction. In some jurisdictions, the appropriate reference may be to those charged with governance.~~ (Delete whole paragraph)	The paragraph was deleted, because the situation described in the ISA is not applicable in Japan. In Japanese practice, the auditor's report refers to "management".
30	27	The auditor's report shall state that the audit was conducted in accordance with ~~International Standards on~~ Auditing Standards Generally Accepted in Japan. ~~The auditor's report shall also explain that t~~Those standards require that the auditor comply with ethical requirements. ~~and that~~ The auditor's report also shall state that those standards require the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. (Ref: Para. A25–A26)	In Japan, the auditor's report does not specifically refer to the compliance with ethical requirements. This is because it is accepted that "compliance with Auditing Standards Generally Accepted in Japan" automatically includes "compliance with ethical requirements".
30(b)	28(b)	The procedures selected depend on the auditor's judgment, including the assessment of the risks of	The auditor's report in Japan includes the phrase "the

Para. No. (ISA)	Para. No. (ASCS)	ASCS	Notes
		material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but <u>the purpose of the financial statement audit is</u> not for ~~the purpose of~~ expressing an opinion on the effectiveness of the entity's internal control. ~~In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control~~	purpose of the financial statement audit is not for expressing an opinion on the effectiveness of the entity's internal control", even if the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements. Modifications were made in a way that the intent of paragraph 30(b) of ISA 700 is retained.
37	34	If the reference to the applicable financial reporting framework in the auditor's opinion is not to International Financial Reporting Standards issued by the International Accounting Standards Board ~~or International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board~~, the auditor's opinion shall identify the jurisdiction of origin of the framework.	The reference to IPSASs was deleted. The same modification was made in paragraph 43(f) of ISA 700 / ASCS 700 (first sentence).