

April 10th 2020

To JICPA members

The Japanese Institute of Certified Public Accountants

Audit Consideration related to COVID-19 (Part 2)

Today, JICPA issued a note titled “Audit Consideration related to COVID-19 (Part 2)” that mainly focus on audit consideration under the high degree of estimation uncertainty. Please find below the English translation summary of the note (original note is in Japanese). Full translation of the note will be released afterward.

In accordance with Auditing Standards Generally Accepted in Japan, the auditor is required to disclaim an opinion when involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

However, it should be noted that such circumstances are extremely rare. Under the current evolving environment due to the impact of COVID-19, professional judgment is key in forming an opinion. The purpose of an audit is, by expressing an opinion, to enhance the degree of confidence of intended users in the financial statements to make their decision. The auditor also needs to be mindful of the public interest.

The auditor is required to evaluate whether the accounting estimates in the financial statements are reasonable in the context of the applicable financial reporting framework, or are misstated.

Under the current environment, following considerations may be particularly important:

- Whether management has incorporated the best information available in the circumstances
- Whether selection of a point estimate may indicate a pattern of optimism or pessimism

If the uncertainty associated with the accounting estimates has a significant impact on the judgement of users of the financial statements, the auditor considers if it is necessary that the financial statements include additional disclosure in order to provide clear, reliable,

transparent, and useful information to users. In addition, the auditor may consider it necessary to include an Emphasis of Matter paragraph in the auditor's report.