

April 7th, 2022

To JICPA members

The Japanese Institute of Certified Public Accountants

**Audit Considerations for the Fiscal Year Ended March 31, 2022 (Summary)
(Regarding audit responses in light of the current international situation
surrounding Ukraine)**

Please find below the summarized English translation of the original in Japanese.

Please be reminded that JICPA shall provide this English translation to be used solely as a reference material (concise translation, not word-for-word translation of original full sentences) to aid in the understanding of our original release in Japanese.

The international situation surrounding Ukraine has affected the business activities of the companies and auditors operating globally, and it has been reported that some Japanese companies have also been affected. The auditor considers the possibility that business risks and other factors may give rise to a material misstatement of the financial statements through obtaining an understanding of the impact of the international situation surrounding Ukraine on the business activities of the audited entity, and is required to obtain sufficient appropriate audit evidence to express an audit opinion. The following are the matters the auditor should be aware of during the audit for the fiscal year ended March 31, 2022. Additional matters may be added as the situation changed. The following provisions in the Auditing Standards Committee Statement (ASCS¹) 315 "Identifying and Assessing the Risks of Material Misstatement" and the ASCS 540 "Auditing Accounting Estimates and related Disclosures" are based on the provisions applied in principle for the fiscal year ended March 31, 2022.

1. Communication with management and those charged with governance

In order to provide a basis for the identification and assessment of risks of material misstatement under the current international situation surrounding Ukraine, it is considered

¹ Auditing standards generally accepted in Japan consist of Auditing Standards codified by the Business Accounting Council (BAC), and Auditing Standards Committee Statements (ASCSs) and a Quality Control Standard Committee Statement (QCSCS) issued by the Japanese Institute of Certified Public Accountants (JICPA). The ASCSs and a QCSCS are developed based on Auditing Standards codified by the BAC, and to converge with the International Standards of Auditing (ISA) and the International Standard on Quality Control 1 (ISQC 1) issued by the International Auditing and Assurance Standards Board (IAASB)."

to communicate with the management and those charged with governance of the audited entity in a timely manner to understand how management assesses and responds to the risks regarding the current and future situation. (ASCS 315, Paragraph 5(1))

2. Consideration of whether or not the risk assessment needs to be revised based on the situation

If there is direct or indirect impact on the business activities of the audited entity with respect to the current international situation surrounding Ukraine, the auditor needs to consider whether to update and change the overall audit strategy and the audit plan as necessary during the course of the audit in accordance with the paragraph 9 of ASCS 300 "Planning an Audit of Financial Statement". As a result of the need to update and change the overall audit strategy or the audit plan, it may be necessary to update and change the nature, timing and extent of originally planned further audit procedures.

3. Auditing Accounting Estimates

The impact of the current international situation surrounding Ukraine on the business operated by the audited entity, as described in Section 2 above, is expected to affect the various assumptions on which the accounting estimates made by management are based. In addition, at the moment, this situation has not yet been resolved, which is considered to be increasing the estimation uncertainty. Considering the impact of changes in circumstances on the risk assessment of the accounting estimates, the auditor considers whether to revise the risk assessment and modify the further planned audit procedures accordingly. (ASCS 315, Paragraphs 30 and A38)

For the environment with a high degree of estimation uncertainty, such as when the outcome of the events is uncertain, "Audit Consideration related to COVID-19 (Part 2)" published by JICPA (revised on May 12, 2020) may also provide useful guidance.

It should be noted that, in the audit of the financial statements for the year ended March 31, 2022, the auditor shall include in the auditor's report, those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements as key audit matters with respect to the accounting estimates.

4. Communicating key audit matters in the independent auditor's report

The purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. The auditors consider carefully the impact of the current international situation surrounding Ukraine.

In determining those matters that required significant auditor attention in performing the audit from the matters communicated with those charged with governance, the auditor needs to consider the direct and indirect impact of the international situation surrounding Ukraine on the audited entity in accordance with ASCS 701 “Communicating Key Audit Matters in the independent Auditor’s Report” Paragraph 8.

The auditor shall determine which of the matters determined in accordance with paragraph 9 were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters. (ASCS 701, Paragraph 9)

5. Group audit

When there are restrictions on the corporate activities of the components or on the work of the component auditors due to the current international situation surrounding Ukraine, or when the risks of material misstatement and/or the significant risks of the group financial statement are newly identified, the group audit team will need to communicate more closely with the audited entity and the component auditors. The group auditor shall evaluate the effect on the group audit opinion in instances where there has been an inability to obtain sufficient appropriate audit evidence. (ASCS 600, Paragraph 44)

6. Written representations from the management

The auditor may ask management to make written representations regarding the impact of the current international situation surrounding Ukraine on the business. In accordance with ASCS 580 “Written Representations” and other ASCSs, in some cases it may be necessary for the auditor to confirm the appropriateness of accounting or the completeness of information provided from management.

7. Other information

ASCS 720 “The Auditor’s Responsibilities Relating to Other Information”, which was revised in January 2021, becomes effective from the audits of financial statements for the periods ending on and after March 31, 2022 as the first year of the mandatory application. In obtaining the other information, the auditor shall (1) Read the other information, (2) Consider the other information, and then include the result of the auditor’s work in the auditor’s report. In particular, it should be noted that other information may include descriptions regarding the international situation surrounding Ukraine at this time, such as the outlook for future business, and therefore the auditor may need to communicate more closely with management, those charged with governance and others within the entity, in performing procedures required on the other information.