

**Summary of the Case Analysis of
the First Year Mandatory
Application of KAM
(Listed Companies in Japan,
Fiscal year ended March 31, 2021)**



Overview of the first year mandatory application of KAM ①

● Number of KAMs in audit report (by Accounting Standard)

Number of KAMs	Consolidated financial statements				Separate financial statements
	Number of entities	Applicable accounting standard			
		J-GAAP	IFRS	US-GAAP	J-GAAP
5	1	1	—	—	—
4	12	6	4	2	—
3	69	53	16	—	29
2	524	460	59	5	321
1	1,494	1,423	68	3	1,873
0	2	2	—	—	119
Total number of entities	2,102	1,945	147	10	2,342
Total number of KAMs	2,802	2,531	250	21	2,602
Average number of KAMs per entity	1.3	1.3	1.7	2.1	1.1

Overview of the first year mandatory application of KAM ②

- Average number of KAMs in audit report (by industry)

Industry (Major Classification)	Consolidated	Separate
Fisheries, Agriculture & Forestry	1.0	1.0
Mining	1.3	1.0
Construction	1.3	1.2
Manufacturing	1.3	1.1
Electric Power & Gas	1.6	1.2
Transportation, Information & Communication ^(Note 1)	1.3	1.1
Wholesale & Retail Trade	1.3	1.1
Banks & Financials ^(Note 2)	1.3	1.0
Real Estate	1.5	1.3
Services	1.3	1.1
Total	1.3	1.1

(Note 1) The average number of KAMs in the Air Transportation (3 entities) were 3.0 (consolidated) and 2.3 (separate), respectively.

(Note 2) The average number of KAMs in Insurance (12 entities), Banks (86 entities), and Securities & Commodities Futures (35 entities) industries were less than 1.0.

Overall trends in the content of KAM ①

● Number of KAMs by audit area

Audit area	Consolidated financial statements	Separate financial statements	Total
Valuation of fixed assets	1,100	563	1,663
Revenue recognition	567	561	1,128
Valuation of deferred tax assets	351	355	706
Valuation of investments and loans	68	536	604
Valuation of inventories	235	226	461
Valuation of trade receivables	154	126	280
Provision of liabilities	90	77	167
Organizational restructuring	92	28	120
Going Concern	25	40	65
Assessment of IT systems	22	20	42
Related party transactions	16	14	30
COVID-19 related matters	11	9	20
Valuation of financial instruments	10	6	16
Other audit areas	61	41	102
Total	2,802	2,602	5,404

Overall trends in the content of KAM ②

Reasons for determining KAMs by audit area other than Going Concern (Consolidated)

	Valuation of fixed assets	Revenue recognition	Valuation of deferred tax assets	Valuation of investments and loans	Valuation of inventories	Valuation of trade receivables	Provision of liabilities	Organizational restructuring	Assessment of IT systems	Related party transactions	COVID-19 related matters	Valuation of financial instruments	Other audit areas
Uncertainties or management judgment	1,083	325	351	68	207	145	86	61	1	2	9	7	34
	98%	57%	100%	100%	88%	94%	96%	66%	5%	13%	82%	70%	56%
Materiality	742	444	152	49	187	101	45	62	17	10	8	7	33
	67%	78%	43%	72%	80%	66%	50%	67%	77%	63%	73%	70%	54%
Complexity	87	80	8	5	16	8	9	17	3	3	2	5	14
	8%	14%	2%	7%	7%	5%	10%	18%	14%	19%	18%	50%	23%
Unusual transactions	—	2	—	—	—	—	—	13	—	—	—	—	3
	—	0%	—	—	—	—	—	14%	—	—	—	—	5%
Specialized knowledge and expertise	180	59	3	6	5	7	9	43	3	—	—	3	13
	16%	10%	1%	9%	2%	5%	10%	47%	14%	—	—	30%	21%
Availability of audit evidence	4	10	1	—	—	4	2	—	—	—	—	—	1
	0%	2%	0%	—	—	3%	2%	—	—	—	—	—	2%
Internal control deficiency	—	1	—	—	—	—	—	—	—	1	—	—	6
	—	0%	—	—	—	—	—	—	—	6%	—	—	10%

(NOTE) The upper row shows the total number of disclosed audit responses, while the lower row indicates the percentage to the total KAMs identified in each audit area. Note that the total number of disclosed audit responses in the table is greater than the total number of KAMs identified in each audit area, since certain KAMs relate multiple audit responses.

Overall trends in the content of KAM ③

● Audit Response by audit Area (Consolidated)

	Valuation of fixed assets	Revenue Recognition	Valuation of deferred tax assets	Valuation of investments and loans	Valuation of inventories	Valuation of trade receivables	Provision of liabilities	Organizational restructuring	Going concern	Assessment of IT systems	Related party transactions	COVID-19 related matters	Valuation of financial instruments	Other audit areas
Internal control Assessment	622	511	211	47	177	136	67	39	2	17	7	2	8	40
	57%	90%	60%	69%	75%	88%	74%	42%	8%	77%	44%	18%	80%	66%
Inquiries to management	979	396	307	54	194	132	75	81	24	9	13	7	5	51
	89%	70%	87%	79%	83%	86%	83%	88%	96%	41%	81%	64%	50%	84%
Analytical procedures	660	208	182	27	81	61	28	43	10	4	5	5	6	24
	60%	37%	52%	40%	34%	40%	31%	47%	40%	18%	31%	45%	60%	39%
Examination of books and records	574	450	144	41	126	129	55	71	17	11	15	5	6	46
	52%	79%	41%	60%	54%	84%	61%	77%	68%	50%	94%	45%	60%	75%
Physical counts / observations	33	219	—	2	33	2	3	4	3	—	1	—	—	6
	3%	39%	—	3%	14%	1%	3%	4%	12%	—	6%	—	—	10%
Recalculation / Reperformance	87	47	20	5	47	18	13	10	2	9	1	1	1	9
	8%	8%	6%	7%	20%	12%	14%	11%	8%	41%	6%	9%	10%	15%
Use of experts	327	49	50	24	28	21	16	51	1	16	2	1	4	19
	30%	9%	14%	35%	12%	14%	18%	55%	4%	73%	13%	9%	40%	31%
Component Auditor	76	52	8	5	15	7	9	11	—	1	—	—	—	6
	7%	9%	2%	7%	6%	5%	10%	12%	—	5%	—	—	—	10%

(NOTE) The upper row shows the total number of disclosed audit responses, while the lower row indicates the percentage to the total KAMs identified in each audit area. Note that the total number of disclosed audit responses in the table is greater than the total number of KAMs identified in each audit area, since certain KAMs relate to multiple audit responses.

Additional statement

This document is an English translation by the Japanese Institute of Certified Public Accountants (JICPA) of statistical portion of the "[Case analysis of the first year mandatory application of KAMs \(Fiscal year ended March 31, 2021\)](#)“, which is commissioned by JICPA and prepared by the following analysis team:

Akira Kanie (Professor, Aoyama Gakuin University, Graduate School of Professional Accountancy)

Analysis team members followed by the areas of responsibilities:

- Sugako Ijima (Professor, Kurume University) - summarizing the analyses and data validation
- Taiki Okano (Associate Professor, Hokkaido University) - analyses of audit areas and data validation
- Sayako Matsumoto (Associate Professor, Hokkaido Information University) - analyses of audit areas and data validation
- Kazuya Kinoshita (Professor, Kurume University) - data processing

Note

- The Number of Listed Companies in Japan (March 31, 2021) : 3,863
- The Number of Listed Companies in Japan Fiscal year ended March 31,2021 which have filed Annual Securities Reports by June 30,2021 : 2,342

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