

April 10th 2020
Updated on May 12th 2020

To JICPA members

The Japanese Institute of Certified Public Accountants

Audit Consideration related to COVID-19 (Part 2)

Today, JICPA updated “Audit Consideration related to COVID-19 (Part 2)” (originally released on April 10th) that mainly focuses on audit consideration under the high degree of estimation uncertainty.

Please find below the updated 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 (not necessarily word-for-word translation of original full sentences) to aid in the understanding of our original release in Japanese.

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.

(Postscript added on May 12th, 2020)

In a note released on May 11, 2020 by the Accounting Standards Board of Japan (ASBJ), the following implication was introduced:

*For accounting estimates made to reflect the impact of COVID-19, it is necessary to specifically disclose information that enables users of financial statements to understand the underlying assumptions and if the impact is material, entities shall disclose "additional information" as required by the Ordinance on Financial Statements. Materiality of such impact should be determined not only based on the impact on figures in the financial statement for the current fiscal year but also based on the impact it may have on the financial statements for the next fiscal year. The disclosure of "additional information" including the assumptions on how further the pandemic will develop in the future and when it will be brought under control shall be beneficial for the users of the financial information.*¹

The auditor, in examining the forthcoming legal disclosure documents, is advised to take into consideration of the above situations where it is highly recommended to disclose such additional information.

¹ From the summary of the discussion at the Board Meeting Held on May 11, 2020 by Accounting Standards Board of Japan (ASBJ). https://www.asb.or.jp/en/wp-content/uploads/20200511_e.pdf