

To JICPA members

The Japanese Institute of Certified Public Accountants

Audit Considerations related to COVID-19 (Part 6)

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

JICPA has hereby released “Audit Considerations related to COVID-19 (Part 6),” which summarizes what should be considered during the quarterly financial statement review with regard to COVID-19. We have released this statement because preparation of the quarterly financial statements requires accounting treatments that differ, in some respects, from those for preparation of the annual financial statements. The auditor should also note that, according to the Council Opinion on the Establishment of Quarterly Review Standards issued by the Business Accounting Council on March 27, 2007, the auditor should exercise the due professional care in the quarterly financial statement review as well as in the annual financial statement audit. Specifically, the auditor should plan and perform the quarterly review with professional skepticism recognizing that circumstances may exist that cause the quarterly financial statements being not prepared, in all material respects, in accordance with generally accepted accounting standards for preparation of quarterly financial statements.

1. Quarterly review considerations related to application of the Guidance on Accounting Standard for Quarterly Financial Reporting to identify signs of impairment of fixed assets (under simplified accounting treatment for quarterly financial statements)

(1) Treatment under the standard for preparation of quarterly financial statements
(details omitted)

(2) Considerations in performing quarterly review procedures

The quarterly review procedures are limited compared to those for the annual financial statement audit performed in accordance with the audit standards. They consist principally of performing analytical procedures and making inquiries of management and persons responsible for financial and accounting matters and other appropriate relevant matters. In particular with regard to the COVID-19 pandemic, the auditor should perform the inquiries by taking into account the possibility that the entity has determined

the scope or method of use of an asset or an asset group that may significantly reduce the recoverable amount of the asset or asset group, or the possibility that an event has occurred that caused a significant deterioration in the business environment. To this end, the auditor is required to make adequate inquiries against appropriately selected respondents, such as management or other appropriate persons with sufficient knowledge to answer questions in a responsible manner. When making those inquiries, the auditor is required to pay careful attention to whether their answers are reasonable and consistent (See paragraph 31 of the Auditing and Assurance Practice Committee Statement No. 83 Practical Guideline on Quarterly Review). If, it is deemed highly probable, or there are suspicions, that the quarterly financial statements do not present fairly the entity's financial position, financial performance and other such information in material respects, the auditor is required to perform additional review procedures, including additional inquiries and inspection of relevant documents, to clarify whether there actually are some issues, and evaluate the impact on the conclusion on that issue (See paragraph 33 of the same guidance).

2. Quarterly review considerations related to application of the Guidance on Accounting Standard for Quarterly Financial Reporting to assess recoverability of deferred tax assets (under simplified accounting treatment for quarterly financial statements)

(1) Treatment under the standard for preparation of quarterly financial statements
(details omitted)

(2) Considerations in performing quarterly review procedures

As mentioned in 1. (2) above, the quarterly review procedures are limited compared to those for the annual financial statement audit. In particular with regard to the COVID-19 pandemic, the auditor should make inquiries by taking into account the possibility that there is a significant deterioration in business performance or a significant change in the business environment, as well as the possibility that a significant change in temporary differences or other relevant events may have occurred since the end of the previous fiscal year. To this end, the auditor is required to perform adequate inquiries of appropriately selected respondents, such as management or other appropriate persons with sufficient knowledge to answer questions in a responsible manner. In addition, when performing analytical procedures, the auditor should do so in an appropriate manner based on an understanding of the entity and its environment such as characteristics of the industry where it operates (paragraph 31 of the "Practical Guideline on Quarterly Review").

3. Additional disclosures (accounting estimates) in Quarterly Securities Report for the current fiscal year

On June 26, 2020, the ASBJ updated the summary of the discussions: "Incorporating the Effects of the Novel Coronavirus Pandemic when Making Accounting Estimates under Japanese GAAP" (issued on April 10, 2020 and supplemented on May 11, 2020) and clarified how to incorporate effects of COVID-19 in quarterly financial reporting as follows. The auditor should also pay due attention to the following details:

- (1) If the entity disclosed information related to (4) in the summary of the discussions at the 429th Board meeting under the heading of "additional information" in the annual financial statements of the previous year and made significant changes to its assumptions, including how the novel coronavirus pandemic will develop in the future and when it will be brought under control, in this quarter, such entity should describe such changes under the heading of "additional information" in the quarterly financial statements, unless they are described in other notes.
- (2) Even if the entity did not disclose assumptions in the annual financial statements of the previous year but circumstances have changed in this quarter and the assumptions have become material and thus should be newly disclosed, such entity should be described under the heading of "additional information" in the quarterly financial statements, unless they are described in other notes.
- (3) An entity may disclose information related to (4) in the summary of the discussions at the 429th Board meeting under the heading of "additional information" in the annual financial statements of the previous year, but may not make significant changes to its assumptions, including how the novel coronavirus pandemic will develop in the future and when it will be brought under control, in this quarter. It is nevertheless desirable to disclose that significant changes were not made under the heading of "additional information" in the quarterly financial statements if it is determined that the fact that significant changes were not made provides useful information to users of financial statements.

4. Considerations related to going concern assumption in quarterly review

The auditor is required to evaluate management's assessment and plans for future actions taken by management for reasonable period of time concerning events or circumstances that may cast significant doubt on the entity's ability to continue as a going concern. In that evaluation, the auditor should perform the review procedures depending on circumstances during the previous accounting period.

- (1) When events or circumstances identified at the closing date of the previous accounting

period that may cast significant doubt on the entity's ability to continue as a going concern, and a material uncertainty regarding the going concern assumption also existed:

- (a) If there is no significant change in any of these events or circumstances that may cast significant doubt on the entity's ability to continue as a going concern and management's assessment and plans for future action against such events or circumstances:

The auditor should perform review procedures including inquiries about changes in events or circumstances that may cast significant doubt on the entity's ability to continue as a going concern as well as changes to management's assessment and plans for future actions against these events or circumstances in this quarter. As a result, if it is found that there is no significant change in any of such events or circumstances identified at the closing date of the previous accounting period and management's assessment of and plans for future actions against them, the auditor should evaluate whether adequate disclosures have been made in light of the disclosures in the previous accounting period.

- (b) If there are significant changes in any of these events or circumstances that may cast significant doubt on the entity's ability to continue as a going concern or management's assessment of and countermeasures against such events or circumstances:

If the auditor finds, as a result of the inquiries and other review procedures, that there are significant changes in any of these events or circumstances identified at the closing date of the previous accounting period that may cast significant doubt on the entity's ability to continue as a going concern or management's assessment of and plans for future actions against such events or circumstances, the auditor is required to carefully evaluate whether it is appropriate to prepare the quarterly financial statements based on the going concern assumption.

- (2) When events or circumstances were identified at the closing date of the previous accounting period that may cast significant doubt on the entity's ability to continue as a going concern, but no material uncertainty regarding the going concern assumption existed:

- (a) If there are no significant changes in any of these events or circumstances that may cast significant doubt on the entity's ability to continue as a going concern and management's assessment and plans for future actions against such events or circumstances:

The auditor should perform review procedures including inquiries about changes in events or circumstances that may cast significant doubt on the entity's ability to continue as a going concern as well as changes to management's assessment of and

plans for future actions against these events or circumstances in this quarter. If the auditor finds, as a result of the above, that there are no significant changes in any of such events or circumstances identified at the closing date of the previous accounting period and management's assessment and plans for future actions against them, the auditor should conclude that there is no material uncertainty regarding the going concern assumption as is the case in the previous accounting period.

- (b) If there are significant changes in any of these events or circumstances that may cast significant doubt on the entity's ability to continue as a going concern or management's assessment of and plans for future actions against such events or circumstances:

If the auditor finds, as a result of the inquiries and other review procedures, that there are significant changes in any of these events or circumstances identified at the closing date of the previous accounting period that may cast significant doubts on the entity's ability to continue as a going concern or management's assessment and plans for future actions against such events or circumstances, the auditor is required to carefully evaluate whether there is a material uncertainty regarding the going concern assumption.

- (3) When no events or circumstances were identified at the closing date of the previous accounting period that may cast significant doubt on the entity's ability to continue as a going concern, but such events or circumstances were identified in this quarter:

If no events or circumstances identified at the closing date of the previous accounting period that may cast significant doubt on the entity's ability to continue as a going concern, but such events or circumstances were identified in this quarter as a result of the inquiry and quarterly review procedures, including inspection of meeting minutes and other relevant documents and analytical procedures, the auditor is required to carefully evaluate whether anything has come to his/her attention that causes himself/herself to believe that the quarterly financial statements do not present fairly a material uncertainty regarding the going concern assumption.

- (4) Period of management's assessment and plans for future actions that the auditor should evaluate

The periods for management's assessment and plans for future actions taken by management vary in each case from (1) to (3) as follows.

(details omitted)

Assessment at the end of the previous accounting period	Changes in this quarter	Periods for management's assessment and plans for future actions taken by management to be considered by the auditor
(1) Events or circumstances: Yes Uncertainty: Yes (Where the information concerning going concern is disclosed in the notes to the financial statements)	(a) Events or circumstances Management's assessment Management's plan for future actions	No significant change in any of them
	(b) Events or circumstances Management's assessment Management's plans for future actions	
(2) Events or circumstances: Yes Uncertainty: No (Where the information concerning going concern is disclosed in the other section in Annual Securities Report)	(a) Events or circumstances Management's assessment Management's plans for future actions	No significant change in any of them
	(b) Events or circumstances Management's assessment Management's plans for future actions	
(3) Events or circumstances: No	When events or circumstances were identified	

(Note) "Events or circumstances" denotes events or circumstances that may cast significant doubts on the entity's ability to continue as a going concern.

"Uncertainty" denotes a material uncertainty regarding the going concern assumption.

¹ When a material uncertainty regarding the going concern assumption existed at the closing date of the previous accounting period and there are no significant changes in this quarter, management's assessment and plans for future actions are required to cover the full one year period up to the closing date of this year's accounting period as required at the previous accounting period.