



**The Japanese Institute of  
Certified Public Accountants**

4-4-1 Kudan-Minami, Chiyoda-ku, Tokyo 102-8264, Japan  
Phone: 81-3-3515-1130 Fax: 81-3-5226-3356  
Email: international@sec.jicpa.or.jp  
Website: www.jicpa.or.jp

December 27, 2007

Executive Director, Professional Standards  
International Auditing and Assurance Standards Board  
545 5th Avenue, 14th Floor  
New York, New York 10017 USA

JICPA Comments on the Proposed International Standard on Auditing, ISA 220 (Redrafted), *Quality Control for an Audit of Financial Statements*, and the Proposed International Standard on Quality Control, ISQC 1 (Redrafted), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*.

The Japanese Institute of Certified Public Accountants (“we”, “our”, “us” and “JICPA”) is pleased to provide you with our comments on the Proposed International Standard on Auditing, ISA 220 (Redrafted), *Quality Control for an Audit of Financial Statements* (“Proposed ISA 220”), and the Proposed International Standard on Quality Control, ISQC 1 (Redrafted), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* (“Proposed ISQC 1”). Based on our review, we have the following comments:

**Specific Comments**

1. Are the objectives stated in the proposed redrafted ISA and ISQC appropriate?

Comment

Yes, the objectives to be achieved by the auditor are appropriate.

2. Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and reporting, and the use of professional judgment by auditors?

Comment

Please see “Other Comments” below.

## **Other Comments**

### *Date of Completion of Engagement Quality Control Review*

The date of completion of the engagement quality control review should not be changed from “before the issuance of the auditor’s report” to “before the date of the auditor’s report”, since the engagement quality control review, which is required in order to confirm whether sufficient appropriate audit evidence has been obtained and whether the auditor’s report to be issued is appropriate, does not constitute sufficient appropriate audit evidence.

Although “the issuance of the auditor’s report” is not defined, paragraph 12 of Proposed ISA 560 (Redrafted) uses the concept of “the issuance of the auditor’s report”, and prescribes audit procedures before and after “the issuance of the auditor’s report”.

Also, since “the date of the auditor’s report” concerns the auditor’s responsibilities relating to subsequent events, “the date of engagement quality control review” should not affect “the date of the auditor’s report” unless the auditor performs new or additional audit procedures as a result of an engagement quality control review. In such cases, “the date of the auditor’s report” should be changed after the date of completion of such new or additional audit procedures.

### *ISA 220*

#### Paragraph 6(h)

To be consistent with paragraph 25 of Proposed ISA 220 and paragraph 55 of Proposed ISQC 1, we propose the following revision:

“A process comprising an ongoing consideration and evaluation of the firm’s system of quality control, including a periodic inspection of a selection of completed engagements, designed to enable the firm to obtain reasonable assurance that its system of quality control is relevant, adequate, operating effectively and compliance with in practice.”

#### Paragraph 8

Paragraph 8 sections (a) and (b) should be moved to “Application and Other Explanatory Material”, since they are too prescriptive, and the first sentence of paragraph 8 already provides sufficient overall requirement.

#### Paragraph 13

To be consistent with the form of paragraph 37 of Proposed ISQC 1, which relates to paragraph 13 of Proposed ISA 220, we propose the following revision:

“The engagement partner shall be satisfied that the engagement team, and any auditor’s external experts, collectively have the appropriate capabilities, competence and time to:

- (a) Perform the audit engagement in accordance with professional standards and regulatory and legal requirements; and
- (b) Enable an auditor’s report that is appropriate in the circumstances to be issued.”

#### Paragraph 15

Paragraph 15 should be moved to “Application and Other Explanatory Material”, since it is not appropriate to describe “review responsibilities” in “Requirement”. It is not clear from paragraph 15 who is responsible for, and who should determine, the review responsibilities.

#### Paragraph 19(b)

Paragraph 7(c) of Proposed ISA 230 (Redrafted) also uses the expression “significant matters arising during the audit engagement” and requires that they be documented. If these “significant matters” are appropriately documented, the engagement partner does not need to discuss all of them with the engagement quality control reviewer. Although we recognize that paragraph 19(b) of Proposed ISA 220 is a bold-type paragraph in extant ISA 220, to clarify the relationship with Proposed ISA 230 (Redrafted), we propose the following revision:

“As necessary, discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer”

#### Paragraph 21 first sentence

“Discussion with the engagement partner”, which is not always necessary in the engagement quality control review of all audit engagements, should be moved to “Application and Other Explanatory Material”. Reviewing selected working papers may be sufficient, depending on the complexity and risks of the audit engagement.

#### Paragraph A 7 first sentence

The term “review” is also used in paragraph 15. To avoid translation difficulty, we propose the following revision:

“When considering ~~reviewing~~ the appropriate capabilities and...”

#### ISQC 1

##### Paragraph 17 last sentence

To avoid confusion with “Objective” of Proposed ISQC 1, the word “objectives” should be changed to “purposes”.

#### Paragraph 18

We recommend that paragraph 18 be referenced to paragraph 63, since “communication of their views or concerns on quality control matters” is encouraged by establishing clearly defined channels.

#### Paragraphs 20, 21 and 22

The relationship with the sub-heading “Leadership Responsibilities for Quality within the Firm” is not clear. Since paragraph A 2, which is currently only referenced to paragraph 21, also relates to paragraphs 20 and 22, we propose the following revision based on paragraph 11 of extant

ISQC 1:

“Of particular importance in promoting an internal culture based on quality is the need for the firm’s leadership to recognize that the firm’s business strategy is subject to the overriding requirement for the firm to achieve quality in all the engagements that the firm performs.

Accordingly, the firm shall:

- (a) establish policies and procedures addressing performance evaluation, compensation, and promotion (including incentive systems) with regard to its personnel which are designed to demonstrate the firm’s overriding commitment to quality;
- (b) assign management responsibilities so that commercial considerations do not override the quality of work performed; and
- (c) devote sufficient resources for the development, documentation and support of its quality control policies and procedures.”

Paragraph 35

Since partners’ capabilities and competence should also be covered by the assessment, we propose the following revision:

“The firm shall establish policies and procedures regarding assessment of its personnel’s ~~staff’s~~ capabilities and competence designed to provide it with reasonable assurance that...”

Paragraph 39

Paragraph 39 should be moved to “Application and Other Explanatory Material”, since “Review Responsibilities” is not appropriate to be described in “Requirement”. It is not clear from paragraph 39 who is responsible for, and who should determine, the review responsibilities.

Paragraph 40 (c) and (d)

Not only the nature and scope of the consultations, but also the conclusions resulting from the consultations should be agreed. To be consistent with paragraph 18 (c) of Proposed ISA 220, we propose the following revision:

- “(c) The nature and scope of and conclusions resulting from, such consultations are documented and are agreed by both the individual seeking consultation and the individual consulted; and
- (d) Conclusions resulting from consultations are ~~documented and~~ implemented.”

Paragraph 44 first sentence

“Discussion with the engagement partner”, which is not always necessary in the engagement quality control review of all audit engagements, should be moved to “Application and Other Explanatory Material”. Reviewing selected working papers may be sufficient, depending on the complexity and risks of the audit engagement.

Paragraph A 58 second bullet

To be consistent with paragraph 52, we propose the following revision:

“Provide, where necessary, a record of changes made to engagement documentation after the *assembly of final* engagement files have been completed; and”

Paragraph A 59

“Application and Other Explanatory Material”, which provides further explanation of, and guidance for carrying out, the requirements of an ISA (See paragraph A 49 of proposed ISA 200 (Revised and Redrafted)), should be referenced to “Requirement” as possible. We recommend that paragraph A 59, which has no specific related requirement, be referenced to the sub-heading of paragraph 52 “Engagement Documentation”.

In closing, we wish to express our appreciation for this opportunity to comment on this Proposed International Standard on Auditing and hope you will consider our comments.

Sincerely yours

Makoto Shinohara  
Executive Board Member - Auditing Standards  
The Japanese Institute of Certified Public Accountants