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Technical Director

International Auditing and Assurance Standards Board

International Federation of Accountants

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**JICPA Comments on Proposed Amendments to the Preface to the International Standards  
on Quality Control, Auditing, Assurance and Related Services, and Proposed ISAs 240,  
300, 315 and 330**

The Japanese Institute of Certified Public Accountants (“we”, “our”, “us” or “JICPA”) are pleased to provide you with our comments on the above Proposed Amendments to the Preface and Proposed International Standard on Auditing. Based on our review, we have the following comments:

**Questions for Respondents**

Q1 In the light of the separation of requirements and application material, as presented in the four ISA Exposure Drafts, do you believe there is a need to repeat the requirements at relevant points within the application material to enhance context and reference, as discussed on page 10?

Although a repeat of the requirement in the application material would enhance understandability of ISAs, we wonder if unnecessary repeat would reduce clarity of ISAs. We recommend that a repeat of the requirement in the application material is separately determined by each ISA based on analysis of merit and demerit regarding understandability.

Inclusion of essential explanatory material in the requirement should be limited only in the case where enhancement of context of the requirement is required to understand purpose of

the requirement.

Q2	Are the objectives to be achieved by the auditor, stated at the beginning of the proposed ISAs, appropriate?
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We propose that a policy regarding establishment of objective is set up for the purpose of a consistency in the objectives.

Please refer the comment on each exposure draft to the section of comment on each exposure draft.

Q3	Have the guidelines identified by the IAASB for determining whether a requirement should be specified, as set out on page 6, been applied appropriately and consistently, such that the resulting requirements are at a level that promotes consistency in performance and the use of professional judgment by the auditors?
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The basis to determine the requirements of a Standard does not include applicability in audit practices and, accordingly, we wonder if the requirement, which is not practicable, would be determined by the IAASB. We have a concern that the requirement would not applied to every engagement because a number of requirements would result in complex working paper. We propose the following change to the guidelines set out on page 6.

“The IAASB will determine the requirements of a Standard as follows:

- The requirement is necessary to achieve the objective stated in the Standard;
- The requirement is expected to be applicable and practicable in virtually all engagements to which the Standard is relevant;
- The objective stated in the Standard is unlikely to have been met by the requirements of other Standards.”

Please refer the comment on each exposure draft to the section of comment on each exposure draft.

Q4	Has the application material been edited in a way that makes it clearer?
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The reference between the requirement and application material is not consistent in the ISAs.

The location of the reference (e.g., the last section of the paragraph, and the reference by detail in the paragraph) should be consistent in the ISAs.

Please refer the comment on each exposure draft to the section of comment on each exposure draft.

Q5	Has an appropriate balance been achieved between eliminating duplicative material and retaining some repetition in the proposed ISAs to help users understand a particular ISA or how the ISAs interrelated?
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Please refer to the comment on each exposure draft.

Q6	Do you support the way in which special considerations in the audits of SMEs and public sector entities have been presented in the application material?
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The special consideration in the audits of SMEs and public sector would be located at the last section of the application material. However, if the number of the special consideration is small, such consideration would not need to be located at the last section. The way in which special considerations in the audits of SMEs and public sector entities have been presented in the application material can be separately determined by each ISA.

Q7	Do respondents from developing nations foresee difficulties arising from the changes in the proposed ISAs in their environment?
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We do not have a comment.

Q8	Do you foresee any potential translation issues?
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Please refer to the comment on each exposure draft.

Q9	Do you agree with the proposed implementation approach, including priorities and timetable, as discussed on pages 8 and 9 and as set out in Appendix 1?
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We wonder if many standards can be redrafted in the shortest time because of the workload of the IAASB and other. In addition, the increase in the requirement would result in significant effect in the audit practices. Accordingly, we propose that enough time should be reserved

for the work of the IAASB and other.

The International Standard on Review Engagements (ISRE 2410), which is based on audit, should be included in the Clarity Implementation Timetable for ISAs because the same form as ISAs is more readable for the readers who are familiar with the ISAs.

We propose that ISA 545, *Auditing Fair Value Measurements and Disclosures* change to IAPS because ISA 545 is included in ISA 540, *Auditing Accounting Estimates and Related Disclosures*.

The effective date should be carefully considered because it takes enough time to make the ISAs after clarity known to all professions in order to avoid any confusion in the practice.

Q10 Do you have any comments on the necessary changes to the Preface to reflect the new drafting conventions?

The Preface does not refer to essential explanatory material in the requirement. We propose that the following paragraph is added to paragraph 21.

“The essential explanatory material contained in a section of the requirements in a Standard is intended to provide a context that is necessary for the professional accountant to understand the purpose of the relevant requirements. Such guidance is not intended to impose a requirement for the professional accountant to perform suggested procedures or actions.”

#### **Other Comments on ISAs (Redrafted)**

##### ISA 240, *The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements*

###### Paragraph A4

We propose that earnings management is an essential explanatory material in the requirement because earnings management is important in understanding ISA 240.

###### Paragraphs 5 and A7

We propose that oversight of management by those charged with governance is an essential explanatory material in the requirement because such oversight is important in understanding ISA 240.

Paragraph 11 (c)

We propose deletion or modification of the objective in paragraph 11(c) because this objective may cause misunderstanding.

Paragraph 14

We propose a transfer of the following portion of paragraph 14 to the application material because paragraph 13 already covers this portion.

“Although the auditor cannot be expected to disregard past experience of the honesty and integrity of the entity’s management and those charged with governance,”

Paragraph 17 (a)(iii)

Paragraph 17 (a)(iii) was gray letter in ISA 240 before redrafted. We propose a transfer of paragraph 17 (a)(iii) to the application material.

ISA 300, *Planning an Audit of Financial Statements*

Paragraph 7 (c)

We propose to add “and direction of the audit” to the end of paragraph 7 (c) in terms of consistency with Appendix.

Paragraph 7 (e)

We propose a transfer of paragraph 7 (e) to the application material because this is covered by paragraph 19 of ISA 220, *Quality Control for Audits of Historical Financial Information*.

ISA 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*

Paragraph 11

We propose a transfer of paragraph 10 to the application material because it is not significant.

Limitations of Internal Control

We propose that an essential explanatory material regarding limitations of internal control is included in the requirement because limitation of internal control is a key element of the

auditors' understanding of internal control.

#### Nature and Complexity of the Use of IT

We propose that an essential explanatory material regarding nature and complexity of the use of IT is included in the requirement because IT is key element in understanding internal control.

#### Paragraph A22

Paragraph A22 is an example and relatively long sentence. Therefore, we propose that paragraph A22 is transferred to Appendix as this paragraph was Appendix in ISA 315 before redrafted.

#### Paragraph A39

ISA 315 before redrafted did not use "put in place" in the definition of internal control. We propose to use "effected" in the definition as follows:

"Internal control is the process designed and effected ~~put in place~~ by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to."

#### Paragraph A44

We see difficulty in understanding "informed judgment" in paragraph A44 and issue in its translation. We proposed to make this word more readable and understandable.

#### Other

Description of component of internal control is separated into three sections: requirements, application material and appendix. Such structure reduces readability of the standards. We recommend that the description of component of internal control be less duplicated than the ED.

#### ISA 330, *The Auditor's Procedures in Response to Assessed Risks*

#### Paragraphs 5, A1 and 29

We propose the following changes in terms of consistency in wording.

- Paragraph 5 "response to address the risks" → "response to assessed risk"
- Paragraph A1 "responses to address the risks" → "responses to assessed risks"

- Paragraph 29 (a) “the overall responses to address the assessed risks” → “the overall responses to assessed risks”

#### Paragraph A4

We propose that the work “For example” is deleted and the sentence begin with “In some cases” in paragraph A4 because three cases in paragraph A4 cover all possible cases.

#### Paragraph A8

We propose that the following sentence is modified to clarify the relation with assessed risk because this example is not understandable in relation to assessed risk.

“For example, the auditor may confirm the completeness of the terms of a contact with third party, in addition to inspecting the document.”

#### Paragraph A9

In the first sentence of paragraph 9A, “a risk” is not clear. We propose that “a risk” change to “the risk of material misstatement at the assertion level for each class of transactions, account balances, and disclosure.”

#### Paragraph A16

With respect to the second sentence of paragraph A16, we propose an explanation about “a single objective” because it is not understandable.

In paragraph A16, when sufficient appropriate audit evidence is obtained by combination of procedures, the extent of each procedure is considered separately. We wonder if the extent of procedure is considered on a combined basis because audit evidence is obtained by combination of procedure. We propose to clarify the basis for considering the extent of procedure separately when audit evidence is obtained by combination of procedures.

#### Paragraph A19

We propose the following change because “the same types of audit procedures” is not reason for the auditor to decide it is efficient to test the operating effectiveness of controls at the same time as evaluating their design and determining that they have been implemented.

~~“However, the same types of audit procedures are used. The auditor may, therefore, decide~~  
it is efficient to test the operating effectiveness of controls at the same time as evaluating their

design and determining that they have been implemented.”

Paragraph A25

We propose that “the type of procedure” changes to “the types of audit procedures” in terms of consistency in wording.

In closing, we would like 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

Atsushi KATO

Executive Board Member - Auditing Standards

The Japanese Institute of Certified Public Accountants