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JICPA Comments on Proposed International Standard on Auditing 600 (Revised and Redrafted) *The Audit of Group Financial Statements (Including the Work of Other Auditors)*

The Japanese Institute of Certified Public Accountants (“we”, “our”, “us” or “JICPA”) are pleased to provide you with our comments on the above Proposed International Standard on Auditing 600 (Revised and Redrafted), *The Audit of Group Financial Statements (Including the Work of Other Auditors)* (“Proposed ISA”). Based on our review, we have the following comments:

Request for Specific Comments

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| (a) What is your comment on the proposed definitions of “group auditor,” “member of the engagement team under the direct supervision of the group engagement partner,” and “other auditor or another auditor”? |
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(Comment)

Group auditor

The auditor is defined as the person or the audit firm with responsibility for the audit in the Glossary of Terms, however, an audit firm is eliminated from the definition of the group auditor in the Proposed ISA. Accordingly, the group engagement partner alone is responsible for the audit opinion on the group financial statements in the paragraph 4, which is not appropriate because the group engagement partner’s firm is involved in the audit. (See ISQC 1.3.)

In the Proposed ISA, the obligations or responsibilities of the group auditor may be fulfilled by either the group engagement partner or another member of the engagement team under the direct supervision of the group engagement partner. In certain circumstance, such obligation or responsibilities may be fulfilled by the auditor of the group engagement partner’s firm, which is other than the member of the engagement team under the direct supervision of the group engagement partner.

Members of the engagement team under the direct supervision of the group engagement partner

We have no comment.

Other auditor or another auditor

The understanding of the other auditors by the group auditor is important in determining the extent of the group auditor to be involved in the work performed by the other auditors. Such extent of the involvement is not distinguished by whether the other auditor is an auditor of the network firm or not. Consequently, it is appropriate to eliminate “related auditor” from the definition of other auditor or another auditor.

Group auditor is defined to be an engagement partner alone in the definition at paragraph 7. (d) in the Proposed ISA. Auditor is defined to be an engagement partner or an audit firm in the Glossary of terms. We propose that the Proposed ISA clarify whether or not the definition of other auditor include other auditor’s firm.

(b) Do you think that the Proposed ISA will result in consistency in group audit practices and enhance the quality of group audit?
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(Comment)

The auditing standards applicable to the audit of the group financial statements are provided in the ISAs issued. Also, the Proposed ISA is IAPS in terms of the definition of IAPS in the Preface as noted below because the Proposed ISA provides more reasonable practices in variable current practices of the audit. Therefore, we propose that he Proposed ISA should not be issued as a revision of the ISA, but as an International Auditing Practice Statement (IAPS).

(Note) - Extract of the Preface paragraph 14

International Auditing Practice Statement (IAPSs) are issued to provide interpretive guidance and

practical assistance to professional accountants in implementing ISAs and to promote good practice.

(c) (i) Is the objective to be achieved by the auditor, stated in paragraph 6 of the proposed ISAs, appropriate?

(Comment)

The first sentence in paragraph 6 states objective which is principally based on overall results of the audit procedures performed. However, it is difficult for the auditor to determine whether the objective is achieved because such objective is not clear in relation to the purpose of audit.

The item in (a) – (d) of paragraph 6 seems to be a summary of requirement which focuses on the process of audit. However, a summary of requirement is not appropriate because the objective is achieved by completing each requirement. We propose that the item in (a) – (d) of paragraph 6 should be deleted.

(c) (ii) Have the guidelines identified by the IAASB for determining whether a requirement should be specified 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 auditors?

(Comment)

Requirement is so detail that it is not appropriately applied to all audit engagements. In addition, some requirements are duplicate of the requirements with other ISAs. Please refer to our other individual comment to below for detail.

Other Individual Comments

The Proposed ISA should not be issued as a revision of the ISA, but as an International Auditing Practice Statement (IAPS). However, we provide comments on the ISA because comments on the Proposed ISA are required.

Definitions

Paragraph 7 (j)

In paragraph 22, it is assumed that significant risks of material misstatements of the group financial

statements are identified in the financial information of significant components. Therefore, the definition of significant components should not be based on likelihood that significant risks are included in the financial information of that component. We propose that significant components are identified based on significant risks in the financial information of that component. In addition, we propose a separate definition for financially significant component. Our proposed revisions are as follows:

“Significant component - A component identified by the group auditor that, due to the nature of, or circumstances specific to, that component ~~or the individual financial significance of that component to the group~~, has been identified ~~as likely~~ to include significant risks of material misstatement of the group financial statements (i.e., significant risks that require special audit consideration - see ISA 315, “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement”).”

“Financially significant component - A component identified by the group auditor that, due to the individual financial significance of that component to the group, has been identified as likely to include significant risks of material misstatement of the group financial statements.”

Requirements

Acceptance and Continuance as Group Auditor

Paragraph 10

We propose that paragraph 10 should be more concise. In addition, the requirement for understanding of the group, its components and their environment is confusing because such requirement is similar to risk assessment procedures in ISA 315. We propose that the word “understanding” should not be used in determining acceptance and continuance of audit engagement as follows:

“For this purpose, the group auditor shall ~~obtain an understanding of the group, its components, and their environments, sufficient to determine which of the components are likely to be significant and, where other auditors will perform the work on the financial information of such components, whether the group auditor will be able to be involved in the work that the of those other auditors will perform on the financial information of the components that are likely to be significant to the extent necessary~~ to obtain sufficient appropriate audit evidence.”

Obtaining an Understanding of the Other Auditors

Paragraph 14 (b)

Ethical requirements relevant to the group auditor are not clear. For example, when ethical requirements relevant to the group auditor, including requirement for independence, are include ethical requirements of the group auditor's firm, or when country's ethical requirements complied by the group auditor is more restrictive than ethical requirements in other countries, other auditor may not comply with ethical requirements relevant to the group auditor. Consequently, we propose the following revision:

"The other auditors' compliance with ~~those relevant~~ ethical requirements ~~relevant to the group audit~~, sufficient to fulfill their responsibilities in the group audit, and, in particular, their independence and professional competence"

In addition, the independence of the network firm is required in audit (see IFAC Code of Ethics 290.1). If the definition of other auditor or another auditor at paragraph 7 (i) does not include audit firm, paragraph 14 (b) should include other auditor's firm into the scope for ethical requirements.

Obtaining an Understanding of the Group, Its Components, and Their Environments, and Assessing the Risks of Material Misstatement of the Group Financial Statements

Paragraph 16

ISA 315 provides the risk assessment procedures, and therefore, the risk assessment procedures other than the procedures particular to the audit of group financial statements should not be duplicate in ISA 600. In addition, group-wide controls should be included into the factor which the group auditor understands in the risk assessment procedures. Our proposed revisions are as follows:

"~~As part of the group auditor shall enhance~~ obtaining an understanding of the group, its components, and their environments, the group auditor shall ~~and~~ obtain an understanding of the group-wide controls and the consolidation process, including the instructions issued by the group management to components."

Materiality

Paragraph 19

We propose that the first sentence should be deleted because component materiality is not tolerable error for group financial statements; an amount lower than the materiality level for the financial

statements as a whole. In addition, component materiality should be concisely described by using the definition of component materiality at paragraph 7 (c). Our proposed revisions are as follows:

~~“[Proposed ISA 320 (Revised) requires the auditor to determine an amount lower than the materiality level for the financial statements as a whole for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks. Accordingly, †To reduce the risks that the aggregate of detected and undetected misstatements in the group financial statements exceeds the materiality level for the group financial statements as a whole, the group auditor shall determine component materiality levels for the components that are lower than the materiality level for the group financial statements as a whole. Moreover, the group auditor or the other auditor shall also determine an amount lower than the component materiality level for the component for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks at the component level.....”~~

Responding to Assessed Risks

Paragraph 26

The first sentence in paragraph 26 may cause a misunderstanding that the group auditor’s involvement is determined according to paragraphs 22-24.

(c) should be revised to be consistent with ISA 315 because the second sentence of paragraph 26 explains the group auditor’s involvement.

(d) also should be revised to be consistent with ISA 330.

Our proposed revisions are as follows:

“The group auditor shall determine the nature, timing and extent of the group auditor’s involvement in the work that the other auditors perform on the financial information of components performed by the other auditors in accordance with paragraphs 22-24.....

(c) Performing risk assessment procedures and participating in the assessment of identifying and assessing risks of material misstatement at the component level.

(d) ~~Determining~~ Designing and performing further audit procedures.”

Paragraph 28

Because the first sentence of paragraph 28 may cause a misunderstanding that the group auditor shall be satisfied with the further audit procedures even if such procedures are not appropriate, we propose that sentence should be modified as follows:

“When significant risks of material misstatement of the group financial statements have been identified in a component on which another auditor performs the work, the group auditor shall ~~be satisfied with~~ evaluate whether the further audit procedures ~~to be performed to respond~~ are responsive to the identified significant risks.....”

Consolidation Process

Paragraphs 31-34

Paragraphs 31-34 should be combined into one paragraph because the audit procedures in paragraphs 31-34 are substantive procedures (see ISA 330.50).

Subsequent Events

Paragraph 35

Paragraph 35 should be limited to financially significant components since paragraph 28 is already applied when significant risks related to subsequent events are identified at significant components. Our proposed revision is as follows:

“For financially significant components, the group auditor shall perform, or request the other auditors to perform, procedures designed to identify events at those components between the dates of the financial information of the components and the date of the auditor’s report on the group financial statements that may require adjustment to or disclosure in the group financial statements.”

Paragraph 36

We propose that the scope of paragraph 36 should be modified to make it clearer as follows:

“For components ~~that are~~ selected as not individually significant in accordance with paragraph 24, the group auditor shall request the other auditors to communicate to the group auditor if they become aware of subsequent events that may require an adjustment to or a disclosure in the group financial statements.”

Communication with the Other Auditors

Paragraph 38

Types of the work to be performed by the other auditor, which is included in communication with other auditor in accordance with paragraphs 22-24, should be provided as a separate communication

item.

Communication of related parties in paragraph 38 (d) with other auditor should be referred to the definition of related parties in the applicable financial reporting framework because such definition is variable in the financial reporting framework.

Our proposed revision is as follows:

“The group auditor’s communication ~~about the work to be performed~~ in accordance with paragraphs 22-24 shall include the following:

(a) The work to be performed by the other auditor”

...

(d) A list of related parties.... These communications shall take place by using the definitions of related parties in the applicable financial reporting framework.”

Paragraph 39

Paragraph 39 should be transferred from requirements to application material because each item in paragraph 39 is detail of interpretative guidance.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

Paragraph 41

We propose the following revisions to paragraph 41 so that the scope of other auditors’ memoranda or reports is clearer.

“Based on the group auditor’s evaluation of the other auditors’ memoranda or reports of work performed in accordance with paragraphs 22-24, the group auditor shall determine whether it is necessary to discuss significant matters arising from another auditor’s memorandum or report of work performed with the other auditor, component management or group management; and whether it is necessary to review other relevant parts of another auditor’s audit documentation.”

Paragraph 42

We propose the following revisions to paragraph 42 based on paragraph 26 (c) and (d).

“If the group auditor concludes that the work of another auditor is insufficient for the group auditor’s purposes, the group auditor shall determine additional procedures to be performed, and

whether such additional procedures are to be performed ~~by~~ with the other auditor or by the group auditor.”

Paragraph 43

We propose the following revision to paragraph 43 in order to be consistent with objective in paragraph 6 and acceptance and continuance in paragraph 9.

“The group auditor shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed on the consolidation process and the work performed by the group auditor and the other auditors on the financial information of the components, to reduce the audit risk for the group financial statements to an acceptably low level ~~on which to base the group audit opinion.~~”

Communication with Group Management and Those Charged with Governance of the Group

Paragraph 46 (a)

Because controls over the preparation and presentation of the group financial statements include the controls which are not relevant to financial reporting objectives, we propose the following revision to paragraph 46 (a).

“Material weakness in the design or operation of group-wide controls, including controls relevant to financial reporting objectives over the preparation and presentation of the group financial statements”

Paragraph 47

Because the group auditor may not be aware of fraud which other auditor has identified at components, we propose the following revision to paragraph 47.

“If fraud has been identified ~~in components~~ by the group auditor or has been brought to the attention of the group auditor by the other auditors, or information indicates that a fraud may exist, the group auditor shall communicate this as soon as practical to group management....”

Paragraph 49 (a) (b)

We propose the following revision to paragraph 49 in order to be consistent with ISA 260 (see Draft ISA 260.30, IAASB Agenda 1-B in July 2006).

“(a) An overview of the planned work to be performed on the financial information of the components”

“(b) An overview of the group auditor’s planned involvement in the work to be performed by the other auditors on the financial information of significant components”

Application material

Acceptance and Continuance as Group Auditor

Paragraph A10

A section related to the public sector should be provided as a separate paragraph.

Paragraph A11

As the applicable financial reporting framework is required to be identified per ISA 210.10, the applicable financial framework is required be identified in the audit of the group financial statements. Accordingly, for applicable financial framework, the use of “may” is not appropriate. We propose the following for factor related to applicable financial framework.

“As required in ISA 210, in a group audit, the applicable financial reporting framework is identified by the terms of the engagement.”

Obtaining an Understanding of the Other Auditors

Paragraph A14 (second item)

We propose that “common policies and procedures” should be changed to “acceptable policies and procedures” because whether or not the other auditor’s policies and procedures is acceptable is a factor which has effect on involvement of the group auditor in the work performed by the other auditors. The degree to which the group auditor and the other auditors perform, or are subject to, common policies and procedures is not a factor which has effect on involvement of the group auditor in the work performed by the other auditors.

Obtaining an Understanding of the Group, Its Components, and Their Environments, and Assessing the Risks of Material Misstatement of the Group Financial Statements

Paragraph A18

We propose that paragraph 18 should be deleted because this paragraph is duplicated with paragraph 17.

Paragraph A26

We propose that the first item begins with “information obtained...” should be deleted because the item is duplicated with paragraph 16.

~~“Information obtained from the understanding of the group, its components, and their environments, and of the consolidation process, including audit evidence obtained in evaluating the design and implementation of group-wide controls and controls relevant to the consolidation.”~~

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

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Executive Board Member - Auditing Standards

The Japanese Institute of Certified Public Accountants