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Executive Director, Professional Standards  
International Auditing and Assurance Standards Board  
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JICPA Comments on the Proposed International Standard on Auditing, ISA 550 (Revised and Redrafted), *Related Parties*

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 550 (Revised and Redrafted), *Related Parties* (“Proposed ISA”). Based on our review, we have the following comments:

**Requests for Specific Comments**

1. Definition of a Related Party

(Comment)

We prefer the inclusion of the description of a related party in “Introduction” or “Application and Other Explanatory Material” rather than establishing the definition of a related party in the Proposed ISA. The auditor’s understanding obtained by performing risk assessment procedures is not always sufficient to identify risks of material misstatement of the financial statements when the definition of a related party is limited, as in the Proposed ISA. Conversely, when the definition of a related party is too broad or detailed, the audit would not be practicable.

The description of a related party should be made as the characteristics commonly found in the definition of a related party in major financial reporting frameworks, so that the auditor is able to obtain an understanding sufficient to identify risks of material misstatement of the financial

statements, even if the framework establishes no related party definition. Also, when the financial reporting framework establishes the requirements of a related party that satisfies the description thereof, the Proposed ISA should acknowledge that the auditor may be able to use such requirements in the financial reporting framework.

## 2. Implicit Arm's Length Assertions

(Comments)

Although management makes assertions explicitly and implicitly (Paragraph A 103 of ISA 315 (Redrafted)), management is responsible for substantiating an assertion that a related party transaction was conducted on terms equivalent or similar to those of an arm's length transaction (Paragraph A 33 of the Proposed ISA) and it becomes risks that require special audit consideration (Paragraph 21 of the Proposed ISA). Therefore, it is not appropriate to include in the scope of the audit only when the financial reporting framework requires disclosure of the related party transaction which is conducted on terms equivalent or similar to those of an arm's length transaction, or to exclude from the scope of the audit when the financial reporting framework does not require disclosure. Rather, the audit procedures, to an extent that is practicable, should be substantially the same regardless of whether the financial reporting frameworks require disclosure.

## 3. Special Considerations in the Audit of Small Entities and Public Sector Entities

We agree that Special Considerations in the Audit of Small Entities and Public Sector Entities have been dealt with appropriately in the Proposed ISA.

### **Other Comments**

Paragraph 10 (b) (i)

As the objective should be outcome-based, we propose the following revision:

“(i) ~~To obtain an~~ Through understanding of related party relationships and transactions, ~~sufficient to be able~~ to conclude whether the financial statements, insofar as they are affected by those relationships and transactions...”

Paragraph 11 (b)

As the term “dominant party” is used in a number of places, “dominant party” should be defined rather than “dominant influence”:

“Dominant party – A single individual or small group of individuals with dominant influence over the entity by allowing them to impose their will on the significant decisions affecting the

entity's business. Such an individual or group of individuals may form part of management or those charged with governance, may have no official role within the entity”

#### Paragraph 21

Determining significant risks requires the auditor's professional judgment. Therefore, certain circumstances should not be presumed to be significant risks. We believe that the auditor's judgment is necessary:

“In identifying and assessing the risks of material misstatement as required by ISA 315 (Redrafted), the auditor shall determine whether ~~at least~~ the following ~~as~~ circumstances give giving rise to significant risks:

#### Paragraph 26

Forming an opinion on the financial statements is the judgment about the financial statements as a whole, which is not limited to the related party relationships and transactions. In addition, Paragraph 26 (b) is applicable irrespective of whether the applicable financial reporting framework establishes the related party requirements. Therefore, we propose the following revision:

~~“In forming the opinion on the financial statements,~~ the auditor shall evaluate, based on the audit evidence obtained,

(a)...

(b) Irrespective of whether the applicable financial reporting framework establishes related party requirements, whether the related party relationships and transactions could cause the financial statements to...”

#### Paragraphs A 20 and A 25

The phrase “party with dominant influence over the entity” should be changed to “dominant party”.

#### Paragraph A 27

The term “disclosure” should be included in the third bullet:

“Verifying the terms and conditions of the newly identified related party transactions, and evaluating whether the transactions have been accounted for and disclosed in accordance with the applicable financial reporting framework.”

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

Atsushi KATO

Executive Board Member - Auditing Standards

The Japanese Institute of Certified Public Accountants