



**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

February 15, 2007

Executive Director, Professional Standards  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, New York 10017 USA

**JICPA Comments on Proposed International Standards on Auditing, ISA 320 (Revised),  
*Materiality in Planning and Performing an Audit*, and ISA 450, *Evaluation of Misstatements  
Identified during the Audit***

The Japanese Institute of Certified Public Accountants (“we”, “our”, “us” and “JICPA”) are pleased to provide you with our comments on the above Proposed International Standards on Auditing, ISA 320 (Revised), *Materiality in Planning and Performing an Audit* (“Proposed ISA 320”) and ISA 450, *Evaluation of Misstatements Identified during the Audit* (“Proposed ISA 450”). Based on our review, we have the following comments:

**Response to comments on Exposure Document**

Although the IAASB is seeking comments **only** on changes resulting from applying the clarity drafting conventions and their effect on the content of the ISAs, it is recommended that the IAASB consider other comments as appropriate, depending on their significance.

**Requests for Specific Comments**

1. Is the objective to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?
---

(Comments)

Proposed ISA 320

The objectives of ISAs should feature prominently the outcomes expected of the auditor. However, we have the impression that paragraph 8 of Proposed ISA 320 touches on the audit process. Accordingly, we suggest deleting the reconsideration of materiality level or levels in the objective:

“The objective of the auditor is to determine, ~~and reconsider as the audit progresses,~~ an appropriate materiality level or levels to enable the auditor to plan and perform the audit.”

#### Proposed ISA450

As paragraph 5 of the current draft ISA 200 (Agenda Item 4, December 2006) describes the overall objective of the independent auditor, based on the financial statement, we believe that the auditor evaluates the effects of identified misstatements based on the financial statements, rather than the audit. We propose the following:

“The objective of the auditor is to evaluate:

(a) the effect of identified misstatements on the ~~audit~~ financial statements...”

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 the use of professional judgment by auditors?

(Comment)

Please see our other individual comments below.

#### **Other Individual Comments**

##### Proposed ISA320

Paragraph 1

In many cases, paragraph 1 of the revised ISAs explains the responsibility of the auditor. We propose the following revision:

“This International Standard on Auditing (ISA) deals with the auditor’s responsibility relevant to the determination of materiality and its application in planning and performing an audit of financial statements....”

Paragraph 2

The phrase “including omissions” should be deleted because it is obvious from the definition of misstatement (Proposed ISA 450.4 (d)).

Paragraph 4 (b)

The word “presented” should be included for clarification:

“Understand that financial statements are prepared, presented and audited to levels of materiality”

Paragraph 5

The clause after the comma seems inconsistent with the objective of Proposed ISA 450 (Proposed ISA 450. 3). We propose the following based on paragraph 1 of Proposed ISA 450:

“...and in evaluating the effect of ~~identified~~ misstatements identified during the audit on the financial statements and the opinion in the auditor’s report.”

Proposed ISA 450

Paragraph 1

In order to explicitly deal with the auditor’s responsibility, we propose the following:

“This International Standard on Auditing (ISA) deals with the auditor’s responsibility relevant to the evaluation of misstatements identified during the audit of financial statements...”

Paragraph 4 (a)

The definition of error should be moved from ISA 450 to ISA 315 because it could be misunderstood that ISA 450 deals only with *error* as opposed to ISA 240 *fraud*.

Paragraph 4 (b)

The definition of misstatement should not include circumstances where it is necessary for the financial statements to depart from a specific requirement in the framework, because materiality is determined based on the applicable financial reporting framework (Paragraphs 2 and 3 of Proposed ISA 320). Therefore, we propose the deletion of the final sentence in paragraph 4 (b) (\*):

(\*) “When the auditor expresses an opinion on whether the financial statements give a true and fair view or are presented fairly, in all material respects, misstatements also include those

adjustments of amounts, classifications, presentation or disclosures that, in the auditor's judgment, are necessary for the financial statements to give a true and fair view or present fairly, in all material respects.”

#### Paragraph 8

“Further audit procedure” should be changed to the other phrase because this procedure is not a further audit procedure as a technical term which is used as procedures responsive to the assessed risks of material misstatement. For example:

“...the auditor shall examine ~~perform further audit procedures~~ to reevaluate the amount of misstatements remaining, if any.”

#### Paragraph 10

The reference to paragraph 17 should be changed to paragraph 16.

#### Paragraph A4

The definitions of sampling risk and non-sampling risk are included in paragraph 7 of the extant ISA 530. To avoid duplication, we propose that the sentences in brackets be deleted and that reference be made to ISA 530.

#### Paragraph A15

Although the last bullet refers to other information, it is not appropriate to include in qualitative aspects of misstatements matters that could affect the other information because materiality is determined based on the financial statements (Proposed ISA 320. 2), in which other information is not included. We propose that the last bullet in paragraph A15 be moved to ISA 720.

#### Paragraph A22

The second sentence (“During the audit, the auditor is alert for possible bias in management’s judgment.”) should be revised for clarification, because it is written in the present tense.

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