



**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

March 30, 2007

JICPA Comments on the Proposed International Standard on Auditing, ISA 610 (Redrafted),  
*The Auditor's Consideration of the Internal Audit Function*

The Japanese Institute of Certified Public Accountants (“we”, “our”, “us” and “JICPA”) is pleased to provide you with its comments on the Proposed International Standard on Auditing, ISA 610 (Redrafted), *The Auditor's Consideration of the Internal Audit Function* (“Proposed ISA”). Based on our review, we have the following comments:

**Requests for Specific Comments**

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

(Comment)

Paragraph 6 should be stated item by item for clarification. We propose the following revision:

“The objectives of the external auditor are to:

- (a) obtain an understanding of the internal audit function; and
- (b) determine whether the activities of the internal audit function are relevant to planning and performing the audit; and, if relevant, to determine the effect on the procedures performed by the external auditor.”

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?

(Comments)

Please see our “Other Comments” below.

## **Other Comments**

### 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 external auditor’s responsibility relevant to considerations when ....

### Paragraph 7

As stated in the last sentence in paragraph A5 of the Proposed ISA, the external auditor’s understanding of the scope of the internal audit function in paragraph 7 is not limited to the internal audit function’s responsibilities. We propose the following revision:

“The understanding obtained by the auditor shall include an understanding of the organizational status of the internal audit function and the scope of the internal audit function’s ~~responsibilities.~~”

### Paragraph 9

For clarification, the descriptions on (a) materiality and (b) risk of the material misstatement at the assertion level should be revised as follows:

“(a) The materiality for the particular classes of transactions, the account balances, or the disclosures of the related financial statements amounts,

(b) The risk of material misstatement at the assertion level for the particular classes of transactions, account balances, and disclosures of the assertions related to those financial statement amounts; and”

### Paragraph 10

The relationship between paragraphs 10 and 11 is difficult to understand, as the evaluation of the internal audit function is part of the audit procedures. We propose the following revision:

“When the external auditor uses the specific work of the internal audit function, the external auditor shall perform audit procedures ~~to evaluate~~ on the adequacy of that work.

#### Paragraph 11

For consistency with paragraph 10 and for clarification, we propose the following revision:

~~“When evaluating specific work performed by the internal audit function, the external auditor shall consider~~ The audit procedures required by paragraph 10 shall take into account the auditor’s consideration of the adequacy of the scope of the work and whether the evaluation of the internal audit function remains appropriate, and shall include the following evaluations of whether:

(a) The work is...”

#### Paragraph A1

We agree that the “Application and Other Explanatory Material” provides explanation of the internal audit function, which would be difficult to be defined in the international standard. Given that the description of internal control in the audit risk model (Paragraph 21 of the Appendix 2 of the extant ISA 315) does not directly link the internal audit function to the responsibility of reporting to the entity’s management and to those charged with governance (as proposed in paragraph A1), we propose that the relevant part of paragraph A5 be moved to paragraph A1:

~~“An internal audit function may be responsible for providing analyses, evaluations, assurances, recommendations, and other information to the entity’s management and those charged with governance. Ideally, the internal audit function reports to the highest level of management or to those charged with governance, and is free of any other operating responsibility. In addition, the internal audit function needs to be free to communicate fully with the external auditor.~~

#### Paragraph A5

In the second bullet, “the board of directors” should be replaced by “senior management” because “the board of directors” is included in “those charged with governance”:

~~“Whether the internal audit function has direct access and reports regularly to the board of directors,~~ senior management, those charged with governance, or the owner manager.”

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