



**The Japanese Institute of  
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September 13, 2007

Executive Director, Professional Standards  
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JICPA Comments on the Proposed International Standard on Auditing,  
ISA 200 (Revised and Redrafted), *Overall Objective of the Independent Auditor, and the  
Conduct of an Audit in Accordance with International Standards on Auditing*

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 200 (Revised and Redrafted), *Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing* (“Proposed ISA”). Based on our review, we have the following comments:

**Specific Comments**

*Obligation Attaching to Objectives*

(Comment)

Paragraph 15 of the amended preface states, “The auditor aims to achieve these objectives...”. The amended preface was approved recently (December 2006) by the IAASB following due process; therefore, the Proposed ISA should use the same wording of the amended preface.

The wording in the requirement of paragraph 24 of the Proposed ISA is different from that in paragraph 15 of the amended preface: it should be the same as in the amended preface. We are concerned that the wording in the Proposed ISA could cause the amended preface to be interpreted differently.

According to paragraph 25 of the Proposed ISA, failure to achieve an objective in the relevant ISA represents a significant matter requiring documentation. This sentence should be deleted as it presumes the achievement of objectives in relevant ISAs, and accordingly is not consistent

with the amended preface that states, "...aim to achieve objectives" (paragraph 15 of the amended preface).

#### *Inherent Limitations of an Audit*

The "Introduction" should include explanation about the inherent limitations of an audit. We believe that in order to avoid unrealistic expectation of an audit, an understanding of the inherent limitations of an audit is critical. Therefore, this explanation should be included as essential guidance in the "Introduction". Therefore, we suggest adding the following sentence in the "Introduction" of the Proposed ISA:

"There are inherent limitations of an audit arising from:

- The fundamental nature and characteristics of financial reporting and business processes;
- The nature of audit evidence and procedures; and
- The need for the audit to be conducted within a reasonable period of time and at a reasonable cost."

#### *Sufficiency and Appropriateness of Audit Evidence*

As the sufficiency and the appropriateness of audit evidence are interrelated, the auditor evaluates whether sufficient appropriate audit evidence has been obtained by considering sufficiency and appropriateness together, rather than independently. Additionally, in order to achieve the overall objective of the auditor, it is necessary to obtain sufficient appropriate audit evidence on which to base the audit opinion. For these reasons, we believe that the requirement to obtain sufficient appropriate audit evidence (paragraph 29 of the Proposed ISA) is appropriate in ISA 200 that addresses the general principle.

#### *Professional Judgment*

The Proposed ISA recognizes that professional judgment may differ between experienced auditors (paragraph A 25 of the Proposed ISA), professional judgment is one of the factors that could affect reasonable assurance in an audit. This point should be explained in "Application and Other Explanatory Material".

### **Other Comments**

#### *Paragraph 10*

The explanation about "reasonable assurance" and explanation which is different from the definition of audit risk (paragraph 16 of the Proposed ISA) should be deleted:

~~"Reasonable assurance, which is obtained by the ISAs, is a high, but not absolute, level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to~~

reduce ~~the risk that there is an unintended material misstatement of the financial statements (i.e.; audit risk)~~ to an acceptably low level.”

#### *Paragraph 11*

The phrase “maintain an attitude of professional skepticism” should be consistent with paragraph A 26 of the Proposed ISA. In addition, the three bullets in paragraph 11 should be consistent with the objectives in the “core” ISAs (ISAs 315, 330 and 700). Further, it should be recognized that requirements other than the three bullets may exist:

“...They require that the auditor exercise professional judgment and maintain an attitude of professional skepticism throughout the planning and performance of the audit; and, among other things;

- Identify and assess risks of material misstatement, whether due to error or fraud.
- Obtain sufficient appropriate audit evidence about ~~whether the risks have given to material misstatements in order to reduce audit risk to an acceptably low level~~ the assessed risks of material misstatement
- Form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained...”

#### *Paragraph 16 (a)*

Disclosures that are required beyond the specific requirements of the framework should be limited to extremely rare circumstances. In the case of a fair presentation framework, application of the financial reporting framework will ordinarily result in adequate disclosures:

“(i) Acknowledges explicitly or implicitly that, in extremely rare circumstances, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond the specific requirements of the framework; or”

#### *Paragraph 21*

The second paragraph, which imposes obligations on the auditor by the nature of the ISAs, appears to be requirements; therefore, it should be redrafted to clarify that it is the explanation in “Requirement”, for example:

“Because of the ~~The~~ nature of the ISAs, ~~requires the auditor’s to exercise~~ professional judgment is integral to the application of ~~in applying~~ them.”

#### *Paragraph A 10*

The term “audit risk”, which is already defined in paragraph 16, should be deleted:

“~~Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. This risk is a function of the risks of material~~

misstatement and detection risk.”

*Paragraphs A 26 and A 42*

The first sentence in paragraph A 26 (“Professional Skepticism is an attitude that involves the critical assessment, which a questioning mind, of the validity of audit evidence obtained.”) should be moved to “Definition”.

Paragraph A 42 should be moved to paragraphs A 26 and A 27 of the Proposed ISA. The explanation about professional skepticism should be given in one place.

*Paragraph A 28*

The first three sentences, which duplicate paragraphs A9 and A12 of the Proposed ISA, should be deleted.

*Paragraph A 38*

The last sentence (Note 1) should be consistent with Assurance Framework (paragraph 46 of Assurance Framework: Note 2):

Note 1: “However, the matter of time or cost involved is not in itself a valid basis for the auditor to be satisfied with audit evidence that is less than persuasive.”

Note 2: “However, the matter of difficulty or expense involved is not in itself a valid basis for omitting an evidence-gathering procedure for which there is no alternative.”

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

Makoto SHINOHARA

Executive Board Member - Auditing Standards

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