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Mr. James Gunn

Technical Director

International Auditing and Assurance Standards Board

International Federation of Accountants

529 5th Avenue, 6th Floor

New York, NY 10017 USA

Dear Sir:

Re: JICPA Response to the Invitation to Comment, *Improving the Auditor's Report*

The Japanese Institute of Certified Public Accountants (“we”, “our” and “JICPA”) is grateful for the opportunity to comment on the IAASB’s Invitation to Comment, *Improving the Auditor’s Report* (ITC).

ITC states that the call for changes to auditor’s reporting is common in many quarters of the world. When the IAASB issued the Consultation Paper in May 2011, no major debate on the subject developed in Japan. However, in light of last year’s corporate scandals, the discussion started in May 2012 to revisit the Japanese auditing standards to enhance auditors’ professional skepticism, as well as auditors’ response to fraud. One of the issues covered in the deliberation is enhancing auditor’s report by including additional information.

We understand that the IAASB placed the auditor’s reporting project as a top priority, and we strongly support this direction. Auditor’s Report is the only major tool for the auditor to communicate with the financial statement users. In order to deal with the issue of information gap as well as expectation gap, and to enhance relevance and value of the audit, we believe that improvement to auditor’s reporting is essential. At the same time, due to globalization of the entities’ activities, consistency between the auditors’ reports is becoming more critical. Since the discussion for the improvement of the

auditor's report takes place throughout the world, we expect that the IAASB will play the leading role in this global initiative.

We hope that the change of the auditor's report will, through broadening the range of the auditor's communication with the financial statement users, lead to the enhancement of the role of the auditor. At the same time, we believe that the improvement of the auditor's report should be built within the current division of responsibility between the entity and its auditor; the auditor should not be the original information provider of the entity. The approach beyond the current division of responsibility would lead to an unnecessary disruption to the whole financial reporting process, and result in increasing the expectation gap regarding the nature of the financial statement audit. In addition, if the auditor provides information about the entity that the entity is not required to disclose in accordance with the applicable financial reporting framework, open communication between an auditor, management and those charged with governance would be impaired; and there is a possibility that it would undermine audit quality.

In addition, we believe that a more holistic consideration to seek improvement in the financial reporting system, as a whole, is also important. This holistic consideration should be sought concurrently with this initiative to improve the auditor's report. The auditor's report is only one aspect in the financial reporting system, and what information the auditor can communicate in the auditor's report should be based on the information that is provided by management as well as those charged with governance of the entity. Essentially, in order to provide the financial statement users with more pertinent information for decision making, we cannot address the issue by simply improving the auditor's report. Therefore, concurrent with the consideration of the improvement of the auditor's report, enhancement of other aspects of the financial reporting system, (such as improvement and enhancement of the information from the entity as well as the role of those charged with governance), should also be considered.

Based on the background, we provide below our comments on questions in ITC.

Overall Consideration

1. Overall, do you believe the IAASB's suggested improvements sufficiently enhance the relevance and informational value of the auditor's report, in view of possible impediments (including costs)? Why or why not?

We agree that the principles stated in paragraph 9 in ITC are appropriate as a guide to develop improvements to enhance the relevance and information value of the auditor's report. However, especially regarding Auditor Commentary, we cannot draw conclusion at this stage only from the possible direction and the illustrative examples that are included in ITC as to whether or not they would sufficiently enhance the relevance and information value of the auditor's report.

The proposals in ITC, especially regarding Auditor Commentary, include the revisions which are very innovative in the financial statement audit system. Therefore, in future standard setting process, we strongly encourage the IAASB to continue to the deliberate discussion with various stakeholders.

We provide below our comments in support of our position, and in response to the respective improvements.

2. Are there other alternatives to improve the auditor's report, or auditor reporting more broadly, that should be further considered by the IAASB, either alone or in coordination with others? Please explain your answer.

As stated above, we agree that it is necessary to improve the auditor's report now. At the same time, we believe that a more holistic consideration to seek to improve the whole financial reporting system, including improvement and enhancement of the information provided from the entity as well as the role of those charged with governance, is also important. This holistic consideration should take place concurrently with the initiative to improve the auditor's report. Since the auditor's report is only one aspect in the financial reporting system, essentially, we cannot address the issue by simply improving the auditor's report, in order to provide the financial statement users with more pertinent information for their decision making through the auditor's report.

In fact, the demand from the financial statement users encompass one which cannot be dealt with only through the improvement of the auditor's report; for example, the demand to provide information from the auditor in a situation where the auditor determined that no material uncertainty exists, but certain events or conditions nevertheless have been identified that may cast significant doubt on the entity's ability to continue as a going concern (Please see our comment to question 9 below).

However, inclusion of such information in the auditor's report would result in the auditor being the original provider of information about the entity. As stated above, the audit is only one aspect of the financial statement, and what information the auditor can communicate in the auditor's report should be based on the information that is provided

from management as well as those charged with governance of the entity. The foundation of the audit is based on the fact that the entity provides information on which the auditor expresses the opinion. Therefore, we believe that changing this fundamental concept would result in the breakdown of the value of the financial statement audit system as a whole.

We recognize this could not be dealt with by the IAASB alone. However, in proceeding with this initiative to improve the auditor's report, we encourage the IAASB to, at a minimum, corroborate with relevant organizations, such as accounting standard setters as well as regulators, and monitor the movements in the world, taking into account simultaneously the necessity of the more holistic consideration.

Auditor Commentary

3. Do you believe the concept of Auditor Commentary is an appropriate response to the call for auditors to provide more information to users through the auditor's report? Why or why not? (See paragraphs 35–64.)

We understand that the new concept of Auditor Commentary is the expansion of the current concept of Emphasis of Matter and Other Matter paragraphs in order to allow flexibility to provide information in the auditor's report other than auditor's opinion. From this perspective, we believe that the concept of Auditor Commentary is one of the options to respond to the call for auditors to provide more information to users through the auditor's report. However, in future standard-setting proposals for the IAASB, we believe the following should be made clear:

- *New concept has certain characteristics that are contained in the current concept of Emphasis of Matter and Other Matter paragraphs and should be retained, which includes:*
 - The nature of the information
 - ✧ The information being included consists either or both of;
 - information presented or disclosed in the financial statements
 - information other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to user's understanding of the audit, the auditor's responsibilities or the auditor's report.
 - ✧ The auditor should not be the original information provider of the entity through providing Auditor Commentary. We understand that the current ISA 706 does not explicitly state this, since it is self-evident. However, the

new concept allows flexibility in terms of the matters as well as the nature of the information being included. As a result, depending on the direction in the future standard setting proposals, there is a risk of misunderstanding that the new concept is beyond the current division of responsibility. Therefore, we believe it will be necessary in future standard setting proposals for the IAASB to clearly state its view that the auditor should not be the original information provider of the entity through providing Auditor Commentary.

- ✧ Auditor Commentary should not include the auditor's subjective views about the entity or the quality of its financial reporting. As stated above, the auditor should not be the original information provider of the entity. In addition, by providing the auditor's subjective views about the entity or the quality of its financial reporting, the users may misunderstand that such information contradicts with the auditor's opinion, or is compete with the disclosure from the entity. Therefore, we believe it will be necessary in future standard setting proposals for the IAASB to clearly state its view that the auditor should not provide its subjective views about the entity or the quality of its financial reporting.
- The distinction from the modified opinions and the disclosures by management
 - ✧ We believe that it will be necessary in future standard-setting proposals for the IAASB to clearly state its view that Auditor Commentary should not be used as a substitute for the auditor expressing a modified opinion as well as the disclosures that the management is required to make. In this context, we agree with the statement in paragraph 50 of ITC.
- *The change from the extant concept to the new concept (frequency of its use)*

We believe the change from the extant concept to the new concept should be made clear in the future standard setting proposals. One of the fundamental differences between them is the frequency of their use: while the current concept is generally rare to be used, Auditor Commentary will be included in the auditor's report in every case where it is applicable to the engagement. We believe it is important that not only auditors but also other stakeholders, including the entity and the financial statements users, understand well this fundamental change. If the entity would be reluctant that Auditor's Commentary be included in their auditor's report, or the financial statement users overreact or otherwise incorrectly react to it, this concept would fail to be operational in practice. We believe that the appropriate

understanding of the meaning of this new concept by all relevant stakeholders would be the premise of the introduction of this new concept.

4. Do you agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor, with guidance in the standards to inform the auditor's judgment? Why or why not? If not, what do you believe should be done to further facilitate the auditor's decision-making process in selecting the matters to include in Auditor Commentary? (See paragraphs 43–50.)

We provide our comments regarding the matters to be addressed in Auditor Commentary below:

- *The necessity of the sufficient guidance*

We understand that requiring the auditor to include certain matters automatically in Auditor Commentary without allowing the auditor's judgment is not consistent with the purpose of the concept of Auditor Commentary. Therefore, we agree that the auditor needs to judge the matters to be addressed in Auditor Commentary depending on the particular circumstances. At the same time, we believe it is not appropriate for it to be fully left to the judgment of the auditor. Requiring the auditor to include an Auditor Commentary in the auditor's report would be a very innovative change in the financial statement audit system. In addition, as stated in our comment on question 3, it is important that not only auditors but also other stakeholders have common understanding regarding this new concept. In order to avoid confusion in the market, and to make sure that the new concept would effectively operate in practice, it is necessary that there would be sufficient guidance for the auditor to exercise judgment in selecting the matters, as well as for other stakeholders to understand this new concept. Especially, we believe that inclusion of examples that explain the auditor's decision making process in various situations, as well as illustrative examples of Auditor Commentary, would be beneficial to inform the auditor decision making process as well as stakeholders' common understanding.

- *The necessity of developing the environment that guides the auditor to include valuable information for users in Auditor Commentary*

If it is unclear to the auditor as to the matters to be addressed in Auditor Commentary, and the auditor would assume additional responsibility depending on the contents of Auditor Commentary which he/she provides in his/her report, it is possible that the auditor would tend to include more items than necessary in

Auditor Commentary, or to decline to include, depending on the particular jurisdiction's litigation environment. Therefore, in order to develop the environment that guides the auditor to include valuable information for the users in Auditor Commentary, we believe it is necessary to clarify the implication on the litigation liability the auditor would assume through providing Auditor Commentary. We understand that it is difficult for the IAASB to deal with the liability issue, since it is subject to respective jurisdiction's law or regulation. However, we believe that the discussion at the international level is necessary so that there is basic understanding regarding the possible legal implication to the profession related to Auditor Commentary.

- *The necessity of improving other aspects in the financial reporting system (i.e. disclosure rules) simultaneously*

Items in paragraph 45 of ITC are, basically, the matters that the auditor communicates with those charged with governance. We agree that the matters the auditor communicates with those charged with governance are the basis to determine the matters to be included in Auditor Commentary. However, the degree of disclosure by the entity of this matters to the public vary depending on respective jurisdiction's disclosure rules; which includes the applicable financial reporting framework, as well as other laws or regulations regarding disclosure. This means what information the auditor can include in Auditor Commentary would vary depending on the disclosure rule in respective jurisdiction. Therefore, as stated in our comment to question 2, we believe it is essential that consideration of the improvement of the disclosure rules, simultaneously with this initiative, is essential so that valuable information being provided through Auditor Commentary internationally.

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| <p>5. Do the illustrative examples of Auditor Commentary have the informational or decision-making value users seek? Why or why not? If not, what aspects are not valuable, or what is missing? Specifically, what are your views about including a description of audit procedures and related results in Auditor Commentary? (See paragraphs 58–61.)</p> |
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We provide our comment for illustrative examples as follows:

(1) Outstanding Litigation

This is an example corresponding to the current Emphasis of Matter paragraph. Depending on engagement circumstances, we believe that in some cases, it is

beneficial for users to understand the most important matters in the audited financial statements if a specific note to the financial statements is highlighted in the auditor's report.

(2) Goodwill

This example refers to disclosures in other information as well as the financial statements. We believe that reference to disclosure in other information should be limited in certain situations, because of the following reasons:

- Other information is outside the scope of an audit. By referring to information that is beyond the scope of an audit, users may misunderstand that such information is subject to an audit, or the auditor provides some level of assurance on it. Especially, we believe it is not appropriate to refer to information that is highly subjective or unauditible.
- On the other hand, other information contains various information, which includes:
 - general market information (i.e. information that is not entity-specific);
 - information that the auditor has special responsibility or role on it.

For example, in certain jurisdictions, the auditor is required to perform specific work related to other information. In such situations, the responsibility and the role of the auditor is clear.

Referring to such information in Auditor Commentary does not lead to impediments described in the first bullet above (i.e. risk of misunderstanding of the users). Also, there may be situations where it would be more beneficial for financial statement users if related information is highlighted in one Auditor Commentary.

Therefore, we believe referring to information in other information is appropriate only if it is unlikely that the users will misunderstand that such information is audited. This condition should be made clear in future standard setting proposals.

(3) Valuation of Financial Instruments

There may be some information value for the financial statements users if combining a reference to financial statement disclosure with a description of certain audit procedures, to provide transparency of the audit work. However, we disagree to include the results of the audit procedures in Auditor Commentary for the following reasons:

- *Describing specific audit procedures with corresponding result does not provide information value to the users.* The auditor's responsibility is to

express an opinion on the financial statements as a whole, and individual audit procedures are performed in order to form this overall opinion. An audit of financial statements is a cumulative and iterative process. Even if one would select specific audit procedure and provide such information with the result to the users, such piecemeal information would only lead to the users' misunderstanding, and that does not provide the information value to the users. To avoid misunderstanding, it would be necessary to provide all relevant information through Auditor Commentary, including the background in which the specific audit procedures were performed and results, as well as a linkage to other audit work and auditor's opinion. However, this is not practicable.

- *There is a risk that may lead to misunderstanding that the auditor provides piecemeal opinion on specific matter.* By describing certain audit procedures with their results regarding a specific matter, the users may misunderstand that the auditor provides some level of assurance on it by performing such procedures, and this would lead to expansion of the expectation gap. We believe this misunderstanding cannot be totally avoided even if putting a disclaimer that it is not the case. This is because limited information which has some interrelationship (i.e. a specific matter, a specific audit procedure and its results) is provided without providing the whole relevant context surrounding it.

(4) Audit Strategy Relating to the Recording of Revenue, Accounts Receivable, and Cash Receipts

This example discloses entity-specific information (implementation of a new system) that the entity does not disclose through the financial statements or other information. We have doubts that such information (i.e. implementation of a new system) has informative value to the users, even if it is the matter that the auditor paid most attention to during the audit. Also, as stated above, we believe it is not appropriate that the auditor is the original information provider of the entity. Also, the entity may not want to be known such information by its competitors. Therefore, it is not appropriate to include such information except for limited circumstances when the entity discloses it in other information and the auditor has specific responsibility on such information (please see our comment on the example “(2) Goodwill”)

(5) Involvement of Other Auditors

Please see our comment to question 13 below.

(6) Other Comment (paragraph 61 of ITC)

Paragraph 61 of ITC states "...the use of five examples in the illustrative auditor's report is indicative of the IAASB's view that a range of two to ten matters in Auditor Commentary would generally thought to be appropriate for a PIE...". We could not clearly understand the background of this view. For example, for the relatively small listed entity, there may be situation where one matter, rather than two, is sufficient to be highlighted as "likely to be most important to users' understanding". Also, even for large listed entities, in general, inclusion of 10 matters in Auditor Commentary appears too extensive. We believe that the IAASB should clarify this view in future standard setting proposals.

6. What are the implications for the financial reporting process of including Auditor Commentary in the auditor's report, including implications for the roles of management and those charged with governance (TCWG), the timing of financial statements, and costs? (See paragraphs 38 and 62–64.)

We believe that the inclusion of Auditor Commentary in the auditor's report would significantly affect the timing of financial statements, since it would change the fundamental nature of the process of preparation of the auditor's report. As stated in paragraph 62 of ITC, in order to provide Auditor Commentary, the audit firm needs to develop additional quality control process surrounding the development and review of Auditor Commentary. Also, prior to issuing the auditor's report, the auditor needs to discuss the form and content of Auditor Commentary with management and those charged with governance in every audit engagement. This would make the process of preparation of the auditor's report iterative, which would not be assumed in the current one. Of course, this would impact the cost as well. Therefore, we believe the impact of the timing of financial statements needs to be carefully considered. If this new concept is implemented without making sure that there is sufficient time for the preparation of the auditor's report, the time that the auditor can use for doing other audit works would be decreased, and, as a result, we concern this would adversely affect the audit quality.

We believe it is not appropriate if the inclusion of Auditor Commentary would change the roles of management and those charged with governance, the original providers of the information about the entity. As stated above, we believe the concept of Auditor Commentary should be developed within the current division of responsibilities.

7. Do you agree that providing Auditor Commentary for certain audits (e.g., audits of public interest entities (PIEs)), and leaving its inclusion to the discretion of the auditor for other audits is appropriate? Why or why not? If not, what other criteria might be used for determining the audits for which Auditor Commentary should be provided? (See paragraphs 51–56.)

We agree that providing Auditor Commentary for certain audits, and leaving its inclusion to the discretion of the auditor for other audits is appropriate. Also, we agree that Auditor Commentary should be required, at a minimum, for audits of listed entities.

However, we believe that the decision of the expansion of the requirements beyond the listed entities should be left to jurisdictions' judgments. It is not appropriate for the IAASB to define certain scope that applies internationally, since situations surrounding the entities vary between jurisdictions. Also, current definition of the PIE is developed in the context of the auditors' independence. Therefore, there may be situation where it is not appropriate to use the definition of PIE for Auditor Commentary. For example, in some jurisdictions, relatively small-sized entities, which are not appropriate to require Auditor Commentary, may be included in the definition of PIE.

In addition, we believe that consideration is necessary not only for the types of the entity, but also the purpose that the financial statements are prepared for. In some jurisdictions, in addition to the general purpose financial statements, which are included in the annual report, the listed entity is required to prepare separate financial statements for regulators or specific users, and the audit is required for such financial statements as well. Since the financial reporting system may vary between jurisdictions, again, it should be left to the jurisdictions' judgments whether to require Auditor Commentary for such financial statements.

Therefore, we believe the IAASB should, as a minimum, require inclusion of Auditor Commentary for listed entities, while expansion to other entities, as well as types of the financial statements that are required to include Auditor Commentary, should be left to each jurisdiction's decision.

Also, in providing Auditor Commentary for certain audits and leaving its inclusion to the discretion of the auditor for other audits, we believe that consideration would be necessary regarding the current requirements for the auditor to include Emphasis of Matter and Other Matter paragraphs in certain circumstances. For the entities whose auditors are required to include Auditor Commentary, Emphasis of Matter and Other

Matter paragraphs would be subsumed in Auditor Commentary. However, for other entities, the mechanism that the auditor would use for current Emphasis of Matter and Other Matter paragraphs would be necessary.

Going Concern/Other Information

8. What are your views on the value and impediments of the suggested auditor statements related to going concern, which address the appropriateness of management’s use of the going concern assumption and whether material uncertainties have been identified? Do you believe these statements provide useful information and are appropriate? Why or why not? (See paragraphs 24–34.)

We do not believe the suggested auditor statements related to going concern provide useful information nor are appropriate, since there is no value that exceeds the impediments. As stated in paragraph 26 of ITC, the effect of the IAASB’s proposal is just making explicit in auditors’ reports the auditor work effort required by ISA 570. Therefore, we believe suggested proposal does not have high value.

However, this proposal has considerable impediments. We are concerned that it would lead to misunderstanding that the auditor expresses piecemeal opinion regarding going concern issue that is separate from the opinion on the financial statements; and it would dilute the value of the opinion, for the following reasons:

- In the illustration of a possible improved auditor’s report, “Going Concern” section is located between “Basis for Opinion” section and “Auditor Commentary” section, and the section is prominent both in terms of the location as well as its length. The same applies for the information in “Respective Responsibilities of Management, Those Charged with Governance, and the Auditor”.
- Usually, in the notes to the financial statements, there is no specific disclosure regarding going concern except for cases when material uncertainty is identified. Therefore, the proposal may give the impression that the auditor provides original information about the entity that goes beyond the opinion on the financial statements.
- Although “Auditor Commentary” section explicitly states that the auditor’s opinion is not modified in respect of the matter highlighted in Auditor Commentary, “Going Concern” section does not have such a qualifier. Also, the wording in the “Going Concern” section - “Because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company’s ability to continue as a going concern” - appears to suggest that the auditor gives some level, but not 100% (i.e. guarantee), of assurance on the going concern issue. As a result, this would magnify

the problem that the auditor appears to provide a piecemeal opinion on the going concern issue, that is separate from the auditor's opinion.

If the IAASB develops the new concept of Auditor Commentary, we believe that the statement regarding the going concern should be included in Auditor Commentary section: if the auditor decides that it is necessary, the auditor is able to provide additional information to users in addition to the auditor's opinion, through Auditor Commentary.

Rather than including the proposed statement every year, even in the absence of going concern problem, it would provide information value to the user; if the auditor includes the message in Auditor Commentary only if he/she judges it is necessary to convey it to users. This would avoid an unintended expansion of the expectation gap.

9. What are your views on the value and impediments of including additional information in the auditor's report about the auditor's judgments and processes to support the auditor's statement that no material uncertainties have been identified? (See paragraphs 30–31.)

We believe it has considerable impediments that result in significantly undermining the value to users. Therefore, we do not agree to require including the above mentioned additional information. An entity is not required to include a statement in the financial statements regarding going concern if there is no material uncertainty. Therefore, providing such information means that the auditor assumes the role to provide the users with the first signal related to the going concern issue.

We are concerned that this would cause unwillingness on the part of the entity to provide information that is relevant to the auditor and, as a result, would negatively affect the effectiveness of the financial reporting process, including audit. This would not result in value to users.

As stated in paragraph 24 of ITC, the recent global financial crisis has resulted in a greater focus on the assessment of going concern and related disclosures. In order to respond to the demand from the users, we believe that a fundamental solution cannot be achieved without improvement of the disclosures regarding going concern from the entity. The role of the audit should be the expression of an independent auditor's opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. (Please see our comment on question 2)

Also, in some jurisdiction, an entity is required to disclose specific information relevant to going concern in other information (e.g. MD&A), even if there is no material uncertainties. We understand that the project to revise ISA 720, which the IAASB is currently undertaking, includes consideration of the enhancement of the auditor's responsibility regarding other information. Given the current situation where there is no disclosure regarding the going concern, except for when there is material uncertainty, we believe the implication on the auditor's report in such circumstances should be considered in the ISA 720 project.

10. What are your views on the value and impediments of the suggested auditor statement in relation to other information? (See paragraphs 65–71.)

As mentioned above, the IAASB is currently undertaking a project to revise ISA 720, and we understand that the project includes the consideration regarding enhancement of the auditor's responsibilities regarding other information. Therefore, we believe the proposed statements would need to be reconsidered after the completion of the ISA 720 project.

Clarifications and Transparency

11. Do you believe the enhanced descriptions of the responsibilities of management, TCWG, and the auditor in the illustrative auditor's report are helpful to users' understanding of the nature and scope of an audit? Why or why not? Do you have suggestions for other improvements to the description of the auditor's responsibilities? (See paragraphs 81–86.)

We believe the enhanced descriptions of the responsibilities of management, TCWG, and the auditor in the illustrative auditor's report are helpful to users' understanding of the nature and scope of an audit. Suggested enhancement would clarify the respective responsibilities that would have positive effect on narrowing the expectation gap.

12. What are your views on the value and impediments of disclosing the name of the engagement partner? (See paragraphs 72–73.)

In Japan, it is a requirement to disclose the name of the engagement partner in the auditor's report. We have not identified specific impediments.

13. What are your views on the value and impediments of the suggested disclosure regarding the involvement of other auditors? Do you believe that such a disclosure

should be included in all relevant circumstances, or left to the auditor’s judgment as part of Auditor Commentary? (See paragraphs 77–80.)

We do not agree to include the disclosure regarding the involvement of other auditors in the auditor’s report. The proposal seems to be in contradiction to the “sole responsibility” approach in ISA 600. This would lead to confusion in practice, even if new paragraph that describes the group auditor’s responsibilities is included in the Auditor’s Responsibility section. In addition, the example disclosure in the illustration of a possible improved auditor’s report includes the amount of audit work (e.g. audit hours) performed by other auditors, whether affiliated or not. Although requesting to and receiving from the other auditor relevant information, and accumulates as well as calculates them to prepare the disclosure would take considerable time, we do not believe this disclosure provides information value to users.

14. What are your views on explicitly allowing the standardized material describing the auditor’s responsibilities to be relocated to a website of the appropriate authority, or to an appendix to the auditor’s report? (See paragraphs 83–84.)

We believe the appropriateness of the approaches is dependent on whether the standardized material describing the auditor’s responsibilities is read by the users even if it is relocated to a website of the appropriate authority or to an appendix to the auditor’s report. This would vary depending on the circumstances in respective jurisdictions. Therefore, we do not have objection to explicitly allow the approaches in revised auditor reporting standards, if whether to use them is left to the respective jurisdiction’s judgment.

Form and Structure

15. What are your views on whether the IAASB’s suggested structure of the illustrative report, including placement of the auditor’s opinion and the Auditor Commentary section towards the beginning of the report, gives appropriate emphasis to matters of most importance to users? (See paragraphs 17–20.)

We believe the IAASB’s suggested structure of the illustrative report gives appropriate emphasis to matters of most importance to users. By inclusion of Auditor Commentary as well as enhancement of the descriptions of the responsibilities of management, TCWG, and the auditor, the auditor’s report would become long, compared to the current one, and its length would vary depending on the entities. Therefore, We believe that the IAASB’s proposal to give greater prominence to the auditor’s opinion as well as Auditor Commentary is appropriate.

16. What are your views regarding the need for global consistency in auditors' reports when ISAs, or national auditing standards that incorporate or are otherwise based on ISAs, are used? (See paragraphs 21–23 and 87–90.)

Given globalization, we believe global consistency in auditor's report is important. Also, if there is consistency, the users can easily notice when there is specific message that the auditor wishes to convey in the auditor's report. At the same time, the content of the auditor's report is subject to the law or regulations in respective jurisdictions, and the auditor may have other reporting responsibility that is required by law or regulation. Therefore, we agree with the proposed building block approach, since it aims to balance these elements.

17. What are your views as to whether the IAASB should mandate the ordering of items in a manner similar to that shown in the illustrative report, unless law or regulation require otherwise? Would this provide sufficient flexibility to accommodate national reporting requirements or practices? (See paragraph 17 and Appendix 4.)

As stated above, global consistency between the auditor's reports is important. Therefore, we believe that the IAASB should mandate the ordering of items in a manner similar to that shown in the illustrative report, unless law or regulation require otherwise.

18. In your view, are the IAASB's suggested improvements appropriate for entities of all sizes and in both the public and private sectors? What considerations specific to audits of small- and medium-sized entities (SMEs) and public sector entities should the IAASB further take into account in approaching its standard-setting proposals? (See paragraphs 91–95.)

Except for Auditor Commentary, we believe the IAASB's suggested improvements are appropriate for entities of all sizes, and in both the public and private sectors. Regarding Auditor Commentary, we believe that the respective jurisdictions should have the ability to decide on the expansion of the scope of its application, in addition to the listed entities; as well as the types of the financial statements that would subject to Auditor Commentary.

Sincerely yours,

Sayaka Sumida
Executive Board Member - Auditing Standards
The Japanese Institute of Certified Public Accountants