



The Securities Analysts Association of Japan

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16 May 2016

Prof. Arnold Schilder
Chairman
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017
USA

Re: Comment on The IAASB's Invitation to Comment
"Overview Enhancing Audit Quality in the Public Interest"

Dear Prof. Schilder:

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on The IAASB's Invitation to Comment "Overview Enhancing Audit Quality in the Public Interest" (hereinafter referred to as the ITC) put out by the International Auditing and Assurance Standards Board (hereinafter referred to as the IAASB). The SAAJ is a not-for-profit organization providing investment education and examination programs for securities analysts. Its certified members number 26,000. The CAC is a standing committee of the SAAJ composed of 15 members, most of whom are users including equity and credit analysts, and portfolio managers, while a few others are academicians and public accountants. The CAC writes comment letters to accounting standard setters, including the IASB and Accounting Standards Board of Japan (ASBJ), and exchanges opinions with organizations including the ASBJ and Financial Services Agency.

The CAC appreciates that the IAASB provides financial statement users with general explanations and questions for them in the ITC, in addition to detailed and technical explanations and questions on auditing standards for auditors.

We, financial statement users in Japan, are increasingly concerned with three topics discussed in the ITC, i.e. "professional skepticism", "quality control", and "group audit", due to a series of accounting frauds in recent years. Some financial statements users doubt "if auditors had sufficiently played their role," while understanding that management and accountants of their clients had the primary responsibility for such

misconduct. That’s why we believe it is timely for the IAASB to issue this ITC.

The CAC’s views on some specific questions are explained below.

G1. Table 1 describes what we believe are the most relevant public interest issues that should be addressed in the context of our projects on professional skepticism, quality control, and group audits. In that context:
(a) Are these public interest issues relevant to our work on these topics?

We think the issues described in table 1 are relevant to the IAASB’s work in respect to three topics. Particularly, given structural conflicts of interest that auditors receive fees from their clients, “fostering an appropriately independent and challenging skeptical mindset of the auditor” is crucially important. Each auditing firm should demonstrate leadership and take measures toward fostering culture to focus on quality control, application of professional skepticism, and introduction of fee arrangements linked with quality improvement. In that sense, “encouraging proactive quality management at the firm” would be very important.

It is so hard for financial statement users to know how auditors could maintain audit quality. As a result, auditing itself appears to have become a black box to most of us by now. We believe that the auditors, first of all, should improve “transparency of audit quality” by thorough documentation of significant auditor judgments on such cases as accounting estimates, revenue recognition and so on.

QC1. We support a broader revision of ISQC 1 to include the use of a quality management approach (QMA) as described in paragraphs 51–66.
(a) Would use of a QMA help to improve audit quality? If so why, and if not, why? What challenges might there be in restructuring ISQC 1 to facilitate this approach?

The ITC doesn’t mention audit fees, but we find it important to consider fee arrangements that reflect audit quality.

QC2. We are also thinking about revising our quality control standards to respond to specific issues about audit quality (see paragraphs 67–83).
(a) Would the actions described in paragraphs 68–83 improve audit quality at the firm and engagement level? If not, why?

We believe auditing firms need to disclose their daily efforts to improve audit quality and application of professional skepticism in their transparency reports referred in the paragraphs 72-74, so that financial statements users could easily understand how they continuously tackle such challenges.

GA1. We plan to revise ISA 600 (and other standards as appropriate) to respond to issues with group audits.

- (a) Should we increase the emphasis in ISA 600 on the need to apply all relevant ISAs in an audit of group financial statements? Will doing so help to achieve the flexibility that is needed to allow for ISA 600 to be more broadly applied and in a wide range of circumstances (see paragraphs 84–97)? If not, please explain why. What else could we do to address the issues set out in this consultation?

We believe the IAASB should consider to require auditors to include profiles of other auditors of major subsidiaries (for example, the name of the auditors and key financial figures including sales, total assets and so on) in the auditor's report or other disclosure documents. We expect that such additional disclosure should help financial statements users to obtain greater insights into audit quality of group audits, together with the suggestion in our answer to QC2 regarding enhancement of disclosures in transparency reports,

Sincerely yours,



Keiko Kitamura

Chair

Corporate Accounting Committee