



22 November 2013

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

Dear Prof. Schilder

**Re: Comment on Exposure Draft “Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)”**

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on the Exposure Draft (ED) “*Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)*” published by the International Auditing and Assurance Standards Board (IAASB). The SAAJ is a non-profit organization providing investment education and examination programs for securities analysts. Its certified members number 25, 000. The CAC is a standing committee of the SAAJ comprised 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 global accounting standard setters, including the International Accounting Standards Board (IASB) and the Accounting Standards Board of Japan (ASBJ); and, from time to time, exchanges views with organizations including the IASB, the ASBJ, and Financial Services Agency of Japan.

**General Comments**

The CAC highly appreciates the proposal in the ED, as it understands that the proposal in the ED is to flesh out the ideas embodied in the IAASB’s Invitation to the Comment “*Improving the Auditor’s Report*” in June 2012, whereby it would significantly improve the usefulness of auditors’ reports under the current financial reporting system.

The CAC recognizes that the proposal in the ED is not necessarily designed to provide financial statement users with information that would help them better understand financial statements, and that the proposal would not require an auditor to

communicate the original source of information of an entity and its financial statements. Nevertheless, having regard to that the proposal would require an auditor to communicate those matters that were of most significant in the audit of financial statements of the current period (that are, “key audit matters”), the CAC believes that the proposal would contribute to providing information that may assist financial statement users in understanding the entity and areas of significant management judgment in preparing the audited financial statements, and providing additional basis with financial statement users to further engage with management and those charged with governance.

Compared with the current auditor’s report which merely states binary opinions of auditors (i.e., pass or fail opinions), the CAC has the view that the proposal in the ED would contribute to providing useful information for financial statement users in making the investment decisions as it provides opportunities for them to better understand the basis of the auditor’s opinion. In addition, the CAC believes that the proposal in the ED would contribute to the improved audit and quality financial reporting as it requires an auditor to provide incremental transparency about auditing process.

Furthermore, the CAC expects that the proposal in the ED would help restore and enhance the confidence of financial statement users in the auditor’s report and audited financial statements; thereby, contributing to the development of robust and resilient capital markets infrastructure. The CAC supposes that there would be no small opposition against the proposal in the ED, because the implementation of the proposal would accompany drastic change of the current auditor’s report. Nevertheless, from financial statement users’ perspective, the CAC strongly supports the IAASB’s persistent efforts to move forward the proposal.

Please see the following as the CAC’s responses to selected questions in the ED.

**1. Do users of the audited financial statements believe that the introduction of a new section in the auditor’s report describing the matters the auditor determined to be of most significance in the audit will enhance the usefulness of the auditor’s report? If not, why?**

As stated in the section of “General Comments,” the CAC believes that the introduction of a new section in the auditor’s report describing the matters the auditor determined to be of most significance in the audit will significantly enhance the usefulness of the auditor’s report for financial statement users.

**2. Do respondents believe that the proposed requirements and related application material in proposed ISA 701 provide an appropriate framework to guide the auditor's judgment in determining the key audit matters? If not why? Do respondents believe the application of proposed ISA 701 will result in reasonably consistent auditor judgments about what matters are determined to be the key audit matters? If not, why?**

The CAC is of the view that matters to be communicated as “key audit matters” should differ depending on each individual audit engagement, since they should be the matters that an auditor believes to be most significant in the audit of financial statements of the current period. In addition, the CAC has the view that key audit matters should reflect the subjective views that auditors obtain during the course of auditing. Therefore, the CAC does not believe that predetermining selected items as the key audit matters in a single uniform way would assist an auditor to communicate the views reflecting respective audit engagements. For this reason, the CAC believes that the requirements in the proposed ISA 701 generally provides appropriate judgement framework for an auditor to determine key audit matters. As a financial statement users’ group, the CAC understands that an auditors is already bound to make various judgements in each audit engagement, and that the proposed ISA 701 merely requires the auditor to provide information about the judgments that were made during the course of the audit.

**3. Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide sufficient direction to enable the auditor to appropriately consider what should be included in the descriptions of individual audit matters to be communicated in the auditor's report? If not, why?**

For each key audit matter, the ED proposes to require an auditor describing a reference to the related disclosures in the financial statements (if any) and an explanation of why the auditor considered the matter to be of most significance in the audit. The ED also proposes to require an auditor describing the effect on the audit (for example, procedures performed and their outcomes), when the auditor considers it necessary as part of explaining the reason.

As stated in the section of “General Comments,” the CAC expects that the key audit matters would provide information that may assist users in understanding the entity and areas of significant management judgment in the audited financial statements, and provides users a basis to further engage with management and those charged with governance. The CAC believes that transparency about the reasons *why the auditor considered the matter to be of most significance in the audit* is the most relevant to that

effect. Accordingly, the CAC generally agrees with the proposal.

The CAC thinks that the key audit matters may effectively include matters that relate to accounting estimates, revenue recognition, and a level of uncertainties. However, depending on accounting standards in each jurisdiction, an auditor may find it difficult to determine how these matters should be communicated, if disclosure requirements relating to such matters are not sufficiently prescriptive in the auditor's jurisdiction. The CAC does not think that the application material proposed in the ED sufficiently addresses such situations, thus believes that an improvement is warranted in this respect.

If you have any questions or need further clarifications, please do not hesitate to contact Sei-Ichi Kaneko, Executive Vice President, SAAJ ([s-kaneko@saa.or.jp](mailto:s-kaneko@saa.or.jp)).

Sincerely Yours,



Keiko Kitamura

Chair

Corporate Accounting Committee