

Examples of Questions from Those Charged with Governance to Accounting Auditor  
- For Active Communication with the Accounting Auditor -

The Certified Public Accountants and Auditing Oversight Board ("CPAAOB") has completed the Case Report from Audit Firm Inspection Results for Fiscal 2015.

In this Case Report, many deficiencies were pointed out, including deficiencies in audit risk assessment based on the understanding of the client company and its business environment, measures against audit risks, and auditing of accounting estimates.

Moreover, in 2015, the Company Act was revised and the Corporate Governance Code was established to strengthen the corporate governance. The function of those charged with governance in a corporation was strengthened by these rules. Those charged with governance in a corporation are authorized to decide on the content of proposals of appointment/removal of accounting auditors and are expected to establish the criteria for selecting and assessing an accounting auditor.

To fulfill these responsibilities, it is important for those charged with governance to maintain communication with the accounting auditor. The Auditing Standards Committee Statement No. 260 "Communication with Those Charged with Governance" published in May 2015 also requires that communication between accounting auditors and those charged with governance should be further promoted.

Under these circumstances, the CPAAOB created the attached "Examples of Questions from Those Charged with Governance to the Accounting Auditor" as a reference material that can be used when those charged with governance in a corporation communicate with the accounting auditor. These questions were developed taking into account the deficiencies identified in the Case Report from Audit Firm Inspection Results.

The CPAAOB expects those charged with governance in a corporation to keep active communication with its accounting auditor by using these Examples of Questions.

(Note) Please note that these examples of questions were created for the purpose of promoting communication between those charged with governance and the accounting auditor, NOT for establishing criteria for selecting/assessing an accounting auditor as required under the Corporate Governance Code.

Examples of Questions from Those Charged with Governance to the Accounting Auditor

<b>Examples of Questions Regarding Quality Control in the Audit Firm</b>	
1	What actions do you take to improve the quality of audits in your firm, and how often? What methods do you use to assess and improve the effectiveness of those activities?
2	(Regarding deficiencies detected in the QC review of the JICPA or the CPAAOB's inspection) What do you think is the root cause of the deficiencies? Do you conduct analysis of the root cause of deficiencies?
3	(An audit firm in which partners concurrently operate their own private practice) How do partners who concurrently operate their own private practice secure time for maintaining and improving the quality of engagements they are in charge of in your firm? How does the firm check this condition?
4	Out of the improvement measures you have taken for audit-related deficiencies pointed out by the JICPA or CPAAOB or that were discovered in your internal inspections, which measures were useful for the improvement of the audit for our company?
5	In order to confirm that the audit procedures performed by engagement teams were sufficient, what procedures are taken by you as an audit firm and by the engagement partners in charge of the teams?
6	What engagement quality control review systems do you use in your firm? Regarding the audit engagement you performed for our company for the current year, what items did the engagement team discuss with the engagement quality control reviewer, or what items were pointed out as problems by the reviewer?

<b>Examples of Questions Regarding the Audit Plan and Audit Engagement for the Company</b>	
1	What criteria do you use to appoint members of the engagement team that is in charge of the audit of our company?
2	How do you identify the business environment and the management environment of our company and our industry and changes in these environments? If changes occur in these environments, how do you discover them and what actions do you take regarding those changes?
3	What risks do you think our corporate group faces, considering the business environment and the management environment of our company and our industry? How have these environments changed since the previous year?

<b>Examples of Questions Regarding the Audit Plan and Audit Engagement for the Company</b>	
4	<p>What audit procedures do you plan to take regarding such risks identified in our corporate group? Is there a change from the audit plan implemented in the previous year?</p> <p>(If you plan to use the same audit plan for the changed risks,) why will you use the same audit plan as in the previous year?</p>
5	How do you confirm whether you have properly identified significant risks that need special examinations?
6	Are the materials related to the financial report we provided to you prepared accurately? How do you verify the accuracy?
7	What audit procedures do you take when you encounter discrepancies in confirmation responses?
8	Are there any transactions with any parties related to our corporate group (i.e., transactions with officers, major shareholders or their close relatives, or companies owned by them), and what transactions are they? What audit procedures do you take regarding these transactions, and with what policies?
9	What accounting estimates are included in the financial statements of our corporate group (such as impairment loss of fixed assets, recoverability of deferred tax assets, and allowance for doubtful accounts)? What audit procedures do you take regarding these accounting estimates?
10	When auditing accounting estimates, I understand you inspect our business plan and other related documents. How do you examine the reasonableness of future forecasts indicated in these documents?
11	What do you focus on when you audit the consolidated subsidiaries of our company, and what audit method do you use? How do you assess audits performed by independent auditors of our subsidiaries, and on what basis? When you receive engagement reports in languages other than Japanese, what actions do you take?
12	What kinds of experts do you use in the audit engagement for our company (such as IT experts, pension actuaries, and real estate appraisers)? How do you assess whether the services of these experts you use in the auditing are appropriate?
13	Which areas do you think are susceptible to fraud in our company? In what situations do you think fraud would occur in our company? And what kinds of fraud would occur? What audit procedures do you take regarding these fraud risks?
14	How do you ascertain that the extent of the audit is sufficient for internal control over financial reporting? What criteria do you use to judge the adequacy of the assessment procedures for the internal control performed by our company? And what audit procedures do you perform to make the judgment?