To Directors, Company Auditors etc., Investors and Other Stakeholders

The relationship between directors/company auditors of audited companies and accounting auditors has strengthened streamlined through the recent revision of the Companies Act and related regulations such as the Corporate Governance Code. Meanwhile, incidents such as fraudulent accounting by listed companies and overseas group companies continue to be seen.

Management is responsible for preparation of financial statements and the design and operation of internal controls. Furthermore, from the perspective of investor protection and securing reliability of the capital market, directors and company auditors are strongly expected to appropriately evaluate and select accounting auditors, who provide assurance as to fairness of financial statements, as well as to fulfill their responsibilities in order to ensure proper audits, such as by allowing adequate auditing time to ensure high quality audits and by fully collaborating with the accounting auditors.
It is also important for market participants, including shareholders of audited companies, that the directors and company auditors of audited companies appropriately evaluate and select accounting auditors, and that the companies' financial information is properly disclosed on a continuous basis by securing proper auditing.

In particular, effective from the fiscal year ended March 31, 2021, "key audit matters" (hereinafter referred to as "KAM") are required to disclose in order to improve transparency of audits conducted by accounting auditors and increase information value of audit reports. More effective audits are expected to further enhance collaboration and communication between accounting auditors and company auditors, etc. as well as discussions with management, leading to more effective audits. In addition, the Audit Firm Governance Code, which was revised in March 2023, stipulates that audited companies, shareholders, and other capital market participants are expected to actively exchange views with accounting auditors on measures to improve the quality of accounting audits, and utilize the useful information obtained from such exchanges to improve organizational management.

In view of such matters, this Case Report describes examples of deficiencies identified in the CPAAOB's inspections, which include the most recent cases of accounting fraud and matters pertaining to collaboration between accounting auditors and company auditors, etc., in the most easily comprehensible manner from the perspective of providing directors and company auditors, etc., of listed and other companies as well as investors with reference information on audits. This Case Report also describes observed effective cases of improvement efforts by audit firms. We thus hope that this Case Report would be helpful as a reference for the appropriate evaluation of accounting auditors.