

Certified Public Accountants and Auditing Oversight Board



The CPAAOB is tasked with the development of accounting professionals by organizing CPA examinations. It is also committed to the improvement of audit quality and ensuring audit reliability, through carrying out examination and inspection on auditors. Those missions are aimed at contributing to fair business activities by corporations and to a fair & transparent Japanese capital market.



The Certified Public Accountants and Auditing Oversight Board (CPAFOB) was established in April 2004 as an independent authorized institution under the Financial Services Agency (FSA). It has since striven to build investor trust in the capital market by improving the audit quality conducted by certified public accountants and ensuring its reliability, with a mission to raise the fairness and transparency of the capital market.

The current, fifth incarnation of the CPAFOB, which is in place from April 2016 to March 2019, faces a situation where the reliability of audit is again in question following a recent series of accounting fraud. Under such circumstances, the CPAFOB aims to strengthen our collaboration with related bodies such as the FSA and the Japanese Institute of Certified Public Accountants. We will also strive to enhance the effectiveness of our monitoring function over auditing firms by tailoring our programs to the different characteristics of the firms.

In particular, we recognize the need to further improve the effectiveness of inspection on large firms that audit major listed businesses, which could have significant impacts on the market, giving due consideration to risks associated with them. In carrying out the inspection on large-scale firms, the CPAFOB is willing to take a series of necessary actions, such as timely and flexible inspections, strengthened follow-up procedure for inspections and improvement in inspection methods to uncover root causes in organizational and managerial aspects. We are working on such measures as early as possible, starting where we can.

In addition, we note that the work of auditors is expanding to a global level as businesses aggressively expand internationally. This makes it increasingly important for us to cooperate and communicate with overseas audit regulators. The CPAFOB has already been actively working on such international cooperation and communication, while Japan's role and responsibility in this sphere is growing still further, as symbolized by the International Forum of Independent Audit Regulators' decision to open a permanent Secretariat in Tokyo.

The CPAFOB will continue to work to improve global audit quality and increase trust in the capital market by utilizing the most of its given power as well as working closely with related organizations in Japan and overseas, aiming to contribute to the healthy development of our economy.

Toshiro Hiromoto, Chairperson

Professor Emeritus, Hitotsubashi University
(Doctor of Commerce and Management)
April 2010: Appointed commissioner of the CPAFOB
April 2016: Appointed chairperson of the CPAFOB



The history of the CPAFOB dates back to 1948, when the Certified Public Accountants Act was established. The CPAFOB, which operates the CPA examination, has since striven to conduct the examination in a fair and smooth manner.

It is important to continue to produce individuals with high ethical standards and of high quality to become accounting and auditing professionals, in order to maintain and improve the level of accounting and auditing in society at large and maintain trust in the capital market. Furthermore, as the economic system becomes increasingly sophisticated and complex, the role of CPAs, who are professionals in accounting and auditing, is assuming increasing importance in different areas, particularly reflecting the globalization of the capital market and businesses that are actively seeking to expand overseas. On the other hand, the number of applicants for the CPA examination and of applicants who have passed this examination has been on a downward trend in recent years. Fortunately, the number of applicants for the multiple-choice part of the CPA examination for 2016 has finally rebounded.

To convert this nascent recovery into a steadier trend, we at the CPAFOB plan to continue to give speeches to explain the duty of CPAs and the importance of accounting and auditing in the capital market to potential CPA candidates, including, in particular, young people who are yet to start studying for the CPA examinations, and women, whose more active role is increasingly desired in society.

The CPAFOB will strive to work closely with related organizations and meet growing expectations of its role as it enters the 13th year of its existence.

Takayuki Matsui, Full-Time Commissioner

Former Professor at the Graduate School of Professional Accountancy,
Aoyama Gakuin University
April 2016: Appointed commissioner of the CPAFOB



Overview of the CPAAOB

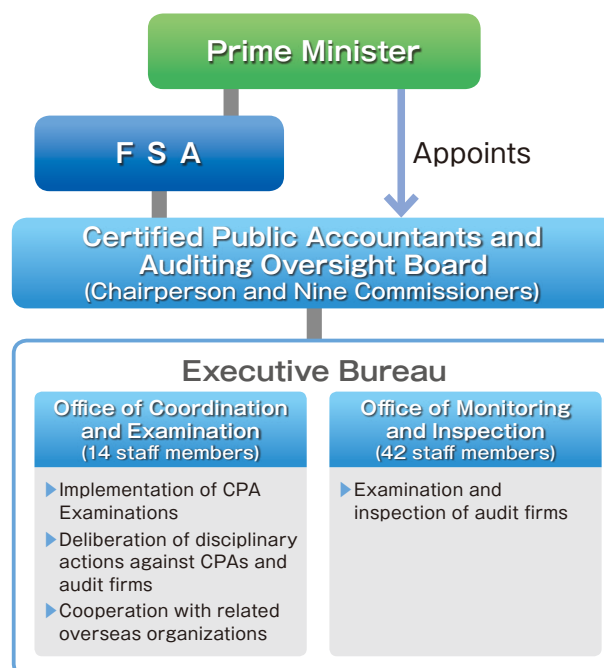
Organization and Responsibilities of the CPAAOB

The CPAAOB is a council comprising a chairperson and nine commissioners set up in the FSA under the Certified Public Accountants Act. The chairperson and commissioners are appointed by the prime minister following the consent from both Houses, and they are allowed to exercise their authority independently. The term of office for both the chairperson and the commissioners is three years. The CPAAOB is currently in its fifth term (April 2016 to March 2019), led by chairperson Toshiro Hiromoto.

The key responsibilities of the CPAAOB are as follows:

- Implementation of CPA Examinations
- Examination and inspection on audit firms
- Deliberation of disciplinary actions against CPAs and audit firms

The CPAAOB has an Executive Bureau that performs clerical work. The Executive Bureau is comprised of the Office of Coordination and Examination and the Office of Monitoring and Inspection, under the Secretary-General of the Executive Bureau.



Note: Numbers of staff are for FY2016.

Members of the Fifth Board (as of April 1, 2016)

Chairperson	Toshiro Hiromoto	Professor Emeritus, Hitotsubashi University
Commissioner (full-time)	Takayuki Matsui	Former Professor, Graduate School of Professional Accountancy, Aoyama Gakuin University
Commissioners (part-time)	Akiko Kimura	Of Counsel, Anderson Mori & Tomotsune
	Yoshiko Sato	Executive Managing Director, Japan Investor Relations Association
	Yoshihiro Tokuga	Vice-President and Professor, Kyoto University
	Yasuyuki Fuchita	Executive Fellow, Nomura Institute of Capital Markets Research
	Keiko Mizuguchi	Chief Analyst & General Manager of Rating, Planning Department, Japan Credit Rating Agency, Ltd.
	Kazunori Yagi	Advisor, Yokogawa Electric Corporation
	Tatsumi Yamada	Partner, KPMG AZSA LLC
	Keita Yoshida	Partner, Deloitte Touche Tohmatsu LLC

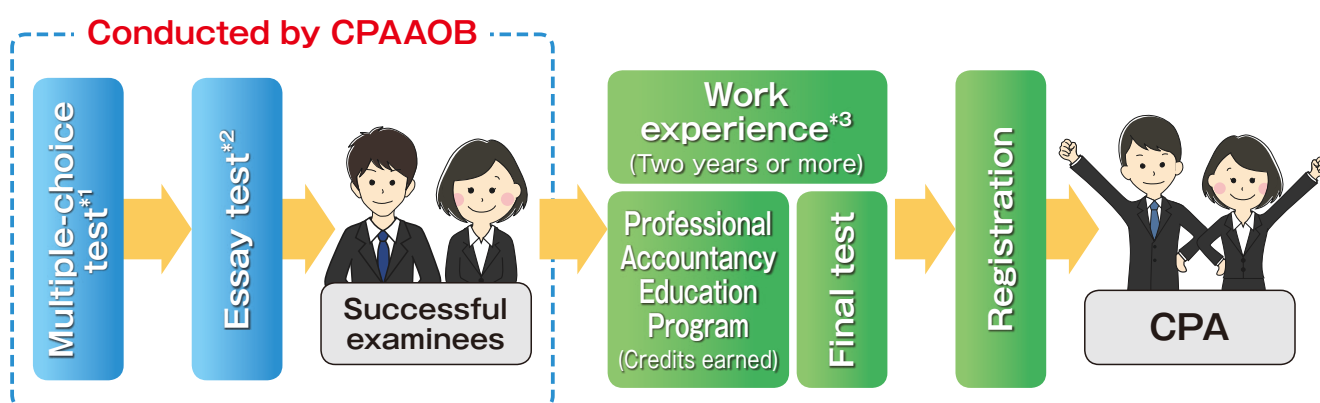


Implementation of CPA Examinations

The CPAAOB prepares and grades examination questions, determines successful examinees, revokes passing decisions, and prohibits, as necessary, applicants from taking the tests for the state CPA examinations (clerical work for the examinations, such as proctoring, are commissioned to local finance bureaus). Through these operations, the CPAAOB helps operate the examinations in a fair and smooth manner.

Overview of the CPA Examination System

Anyone, regardless of age or academic background, can take the CPA Examination. As shown in the diagram below, the annual examination comprises a multiple-choice test held twice (December and May) and an essay test held in August. After the announcement of the results in November, successful examinees need to take a Professional Accountancy Education Program and work experience for two years or more before registering as a CPA.



*1 Passage of the multiple-choice test is valid for the next two years.

*2 Even if an applicant fails the essay test, he/she is considered to have passed sections that are given scores above specified levels, meaning that he/she does not have to take such sections for the next two years when taking this test.

*3 Work experience requirement can be fulfilled either before or after the success in the CPA Examination.

Recent Statistics of CPA Examination

Year	applicants (A)	essay test examinees (B)	successful examinees (C)	Ratio of successful examinees	
				(C)/(A) %	(C)/(B) %
2013 Examination	13,224	3,277	1,178	8.9	35.9
2014 Examination	10,870	2,994	1,102	10.1	36.8
2015 Examination	10,180	3,086	1,051	10.3	34.1

Online Application for CPA Examination

Online Application for CPA Examination started in 2017 Examination.

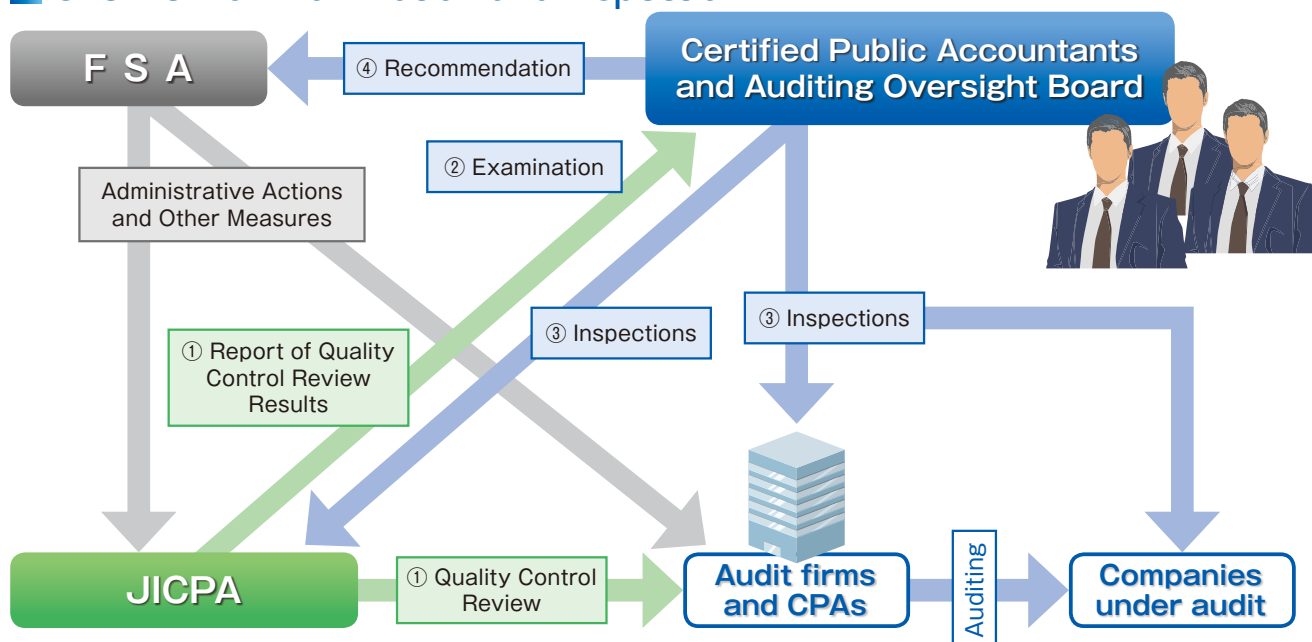
Applicants do not need to submit attachments when applying online. The examination fee is need to be paid through ATM machines or Internet banking service (the Pay-easy system).

Note: For more details about the CPA Examination, see the CPAAOB website (<http://www.fsa.go.jp/cpaaob/kouninkaikeishishiken/index.html>)

Examination and inspection on audit firms

The CPAAOB reviews and examines reports on Quality Control Reviews by the Japanese Institute of Certified Public Accountants (JICPA), and if necessary, conducts on-site inspections on the JICPA, audit firms, CPAs, and so forth. If it is found that Quality Control Reviews have not been conducted properly, that quality control of audits by audit firms and CPAs is inadequate, or that their audit engagements have not complied with laws, regulations and standards, the CPAAOB will recommend that the Commissioner of the FSA takes administrative actions or other measures to ensure the proper operation of the JICPA and audit firms.

Overview of Examination and Inspection



1 Quality Control Reviews by JICPA and Result Reports

Quality Control Reviews are reviews by JICPA on the status of audit firms' quality control of their audits, including post-review recommendations for improvements issued to audit firms. JICPA reports the results of the reviews to the CPAAOB.

2 Examination

Using the report, the CPAAOB checks to see if JICPA's quality control reviews, as well as the audit firms' auditing work, are conducted properly.

If it deems it necessary, the CPAAOB asks JICPA or audit firms to submit reports or documents.

3 Inspections

Based on the results of the examination, if the CPAAOB deems it necessary to take measures to ensure the appropriate operation of work at JICPA or considers it necessary and appropriate to protect the public interest or investors, the CPAAOB inspects JICPA, audit firms or other locations related to the audit firms' auditing work (e.g., companies under audit).

4 Recommendation

If it finds it necessary after examinations or inspections, the CPAAOB makes recommendations to the FSA Commissioner for administrative actions and other measures that are deemed necessary in order to ensure the proper operation of auditing work by audit firms or the JICPA's work.

Inspections and Recommendations in the Past Five Years

	FY2011	FY2012	FY2013	FY2014	FY2015
Number of inspections	9	11	13	15	9
Number of recommendations	2	2	1	5	4

■ Key Points of the Basic Policy for Monitoring Audit Firms (for fifth term)

<Efforts for More Effective Auditing>

In accordance with the monitoring policy for the fifth term (April 2016–March 2019), the following viewpoint and goal form the basis of monitoring.*

Note: Monitoring here includes on-site monitoring, which is equivalent to inspection, and off-site monitoring, which includes activities other than inspection, such as the collection of reports and inquiries.

●Viewpoint

The CPAAOB's monitoring shall always attach importance to the benefit to the public and maintain the viewpoint of the public, make maximum use of the power CPAAOB is given, be conducted effectively and efficiently by taking into consideration the reality of individual audit firms, and actively seek to ensure and improve audit quality. In addition, the communication of important information obtained through monitoring, such as issues that are common across industries, to related domestic and overseas organizations shall be further enhanced.

●Goal

Instead of directly focusing on the appropriateness of individual opinions expressed in auditing, the CPAAOB's monitoring shall aim to ensure the appropriate operation of auditing work by audit firms. In particular, effective monitoring that, for example, encourages audit firms to spontaneously take action, shall be pursued, based on the assumption that audit firms are the agents that must try to ensure and improve audit quality.

In addition, monitoring shall attach importance to asking whether audits by audit firms are in effect conducted in ways that can ensure and improve audit quality, rather than assessing whether an audit firm's work complies with auditing standards in form only. For example, monitoring should ask whether an audit firm's work is conducted with the professional skepticism necessary for uncovering accounting frauds.

■ Key points of Basic Plan for Monitoring Audit Firms in Fiscal 2016

1. Basic Plan Regarding Off-site Monitoring

(1) Examination of Quality Control Reviews by JICPA

- Comprehensive examination shall be conducted of JICPA's policy and approaches as a self-regulatory organization, including the situation in which the Quality Control Review was conducted, as well as the effectiveness of the Quality Control Review.
- The appropriate division of roles between the CPAAOB and JICPA shall be debated based on the status of efforts toward improving the effectiveness of Quality Control Review.

(2) Collection of Reports

- The CPAAOB shall seek qualitative and quantitative information on large-scale audit firms that is necessary to verify the control environment, such as corporate governance, and the operational control environment, on an ongoing basis, and strive to achieve effective and efficient inspections, conduct comparative analysis, and find out about issues that transcend industries.
- For small- and medium-sized audit firms, the CPAAOB shall focus on verifying the status of their quality control systems and issues common across industries. In particular, the CPAAOB shall verify aspects such as management policy, profit/financial structure and organization/personnel by collecting information in an effective manner, such as through interviews, and encourage the firms to adopt appropriate systems of audit quality control.
- The CPAAOB shall collect reports from audit firms on which it has conducted inspections some time after the inspection results are notified to them, in order to check the progress of improvement on issues the board has pointed out after the inspections.

2. Basic Plan for Inspections

(1) Inspection of Large-scale Audit Firms

- In view of the fact that large-scale audit firms are huge organizations comprising multiple divisions and offices, the CPAAOB shall conduct inspections with additional focus on the management control system, including corporate governance, the system of operational control, and the status of intake of quality control at the bottom end of the organization.
- In addition to regular inspections conducted once every two years, follow-up inspections shall be conducted in the following year to verify the status of improvement.
- If a audited company has the potential to exert significant impact on the market and is found to have a serious accounting problem, and there is an urgent need to investigate its internal control system, the CPAAOB shall conduct inspections in a flexible manner.

(2) Inspection of Second-tier large-scale Audit Firms Positioned as "Next-to-Large" Audit Firms

As such audit firms are expected to acquire the ability to take on audits of large listed businesses by establishing a valid governance system to achieve effective management operation and improve the quality of their audits, their inspections shall be conducted at regular intervals with a focus on the business management system and the operational management system, including the cohesion of the organization.

(3) Inspection of Small- and Medium-sized Audit Firms

The CPAAOB shall conduct inspections with a focus on verification of audit quality, including quality control systems/operational control systems of audit firms as seen through the views and capacities of their leaders and employees, and compliance with the audit standards in their individual audit operations.

■ Reports of Inspection Results

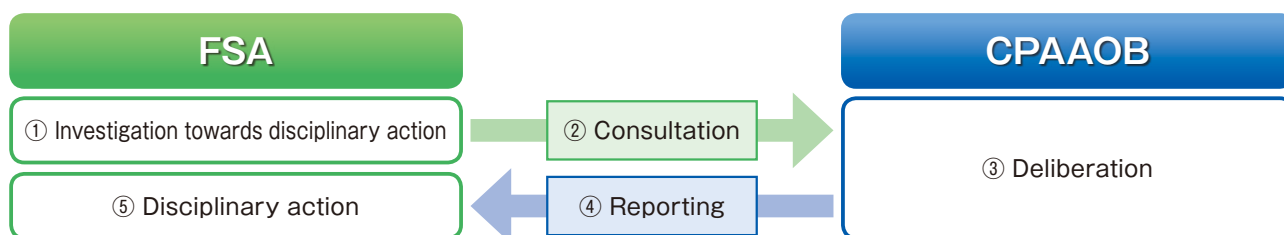
Each program year, the CPAAOB summarizes quality control issues of audits that have been found through its inspections, and publishes them in a Case Report from Audit Firm Inspections with a view to encouraging audit firms to make spontaneous efforts to maintain and improve their audit quality, present the level of standards expected by the CPAAOB, and provide information to directors and auditors of listed companies and market insiders such as general investors.

The CPAAOB has also released Recent Trends in Audit Firms (Monitoring Report in Fiscal 2016) as an accompaniment to the Case Report, which is intended to aid understanding of the status of audit firms.

To read the Case Report from Audit Firm Inspections Results, please access the CPAAOB website: (<http://www.fsa.go.jp/cpaaob/shinsakensa/kouhyou/index.html>)

Deliberation of Disciplinary Actions against CPAs and Audit Firms

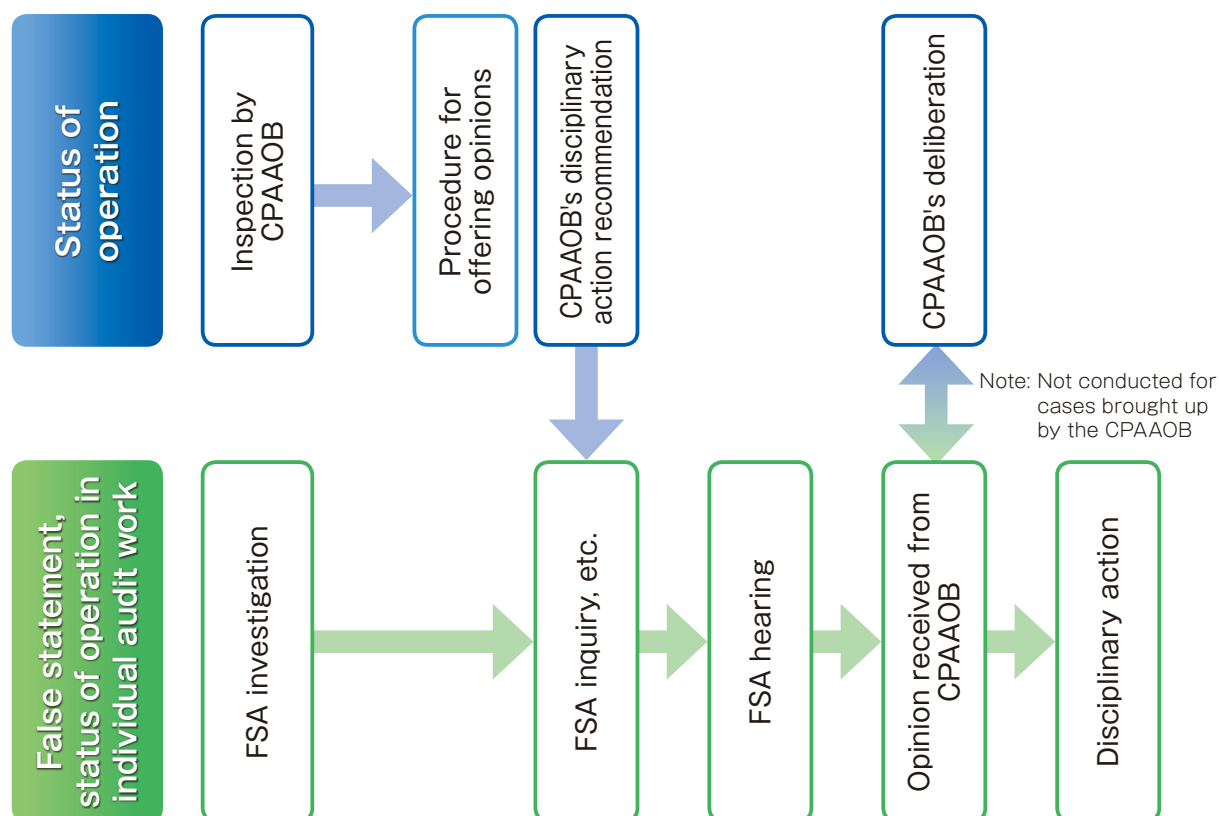
When taking disciplinary action to CPAs/audit firms, the standard procedure for the FSA Commissioner is to hold hearings and then seek the CPAAOB's opinion, except when such action is recommended by the CPAAOB (Article 32(5) of the Certified Public Accountants Act). Specifically, the CPAAOB deliberates issues concerning discipline, such as the facts of the relevant conduct, applicable laws and ordinances, content of the hearings, and amount (severity of discipline), which were presented by the FSA Commissioner. Then the CPAAOB expresses its opinion on whether the FSA Commissioner's decision is reasonable.



■ Procedure of Disciplinary Actions Against CPAs and Audit Firms

When a CPA/audit firm is considered to have made a detecting false statement in individual auditing work or breached law, the FSA investigates the case and makes an inquiry. If the FSA judges it necessary, hearings are held and opinions are given from the CPAAOB, and then disciplinary action is taken.

If the CPAAOB makes a recommendation on an administrative action or other measure to the FSA Commissioner against the CPA/audit firm as a result of its examination or inspection, the FSA conducts its examination and hearing based on the recommendation, and then a disciplinary action is taken.



Cooperation with foreign audit oversight authorities

As the work of accounting and auditing becomes increasingly internationalized in line with the internationalization of business and investment activities, the CPAAOB has striven to enhance information exchange and cooperation with the audit oversight authorities of other jurisdictions by actively participating in the International Forum of Independent Audit Regulators (IFIAR). The CPAAOB is also working to ensure and improve the global audit quality by exchanging opinions with audit oversight authorities of other jurisdictions on a bilateral basis.

■ Participation in IFIAR (Multilateral Cooperation)

Following a series of accounting scandals around the world, such as the Enron scandal in the United States, the importance of audit oversight has increased, and audit oversight institutions independent of the audit profession have been established in various jurisdictions in efforts to ensure and enhance audit quality.

Amid such circumstances, IFIAR was established in September 2006 to promote cooperation and coordination between the audit oversight authorities of different jurisdictions. As of March 2016, IFIAR participants totaled 51 jurisdictions. In Japan, the CPAAOB and the FSA are the members.

The CPAAOB strives to build and enhance international cooperation to ensure and improve audit quality by cooperating with the audit oversight authorities of other jurisdictions through active participation in IFIAR's activities and individually exchanging opinions with the audit oversight authorities of other jurisdictions.

■ Overview of IFIAR

IFIAR has six working groups (WG), with the Japanese members participating in all of them and actively joining in their activities. As key members of IFIAR, the Japanese members are working to build and enhance cooperation and coordination with the authorities of other jurisdictions to ensure and improve global audit quality. In the Enforcement Working Group, a Japanese representative has served as the chair since it was set up in July 2013.



■ IFIAR to Set Up a permanent Secretariat in Tokyo in April 2017.

At the plenary meeting of IFIAR in London held between April 19 and 21, 2016, IFIAR members approved establishing IFIAR's permanent Secretariat in Tokyo in April 2017. This will be the first time for Japan to host a headquartered permanent Secretariat of an international organization comprising financial oversight authorities. The decision will contribute to increasing Japan's international presence as a hub of a multilateral cooperative network of oversight authorities, as well as promoting Tokyo's position as a global financial center.

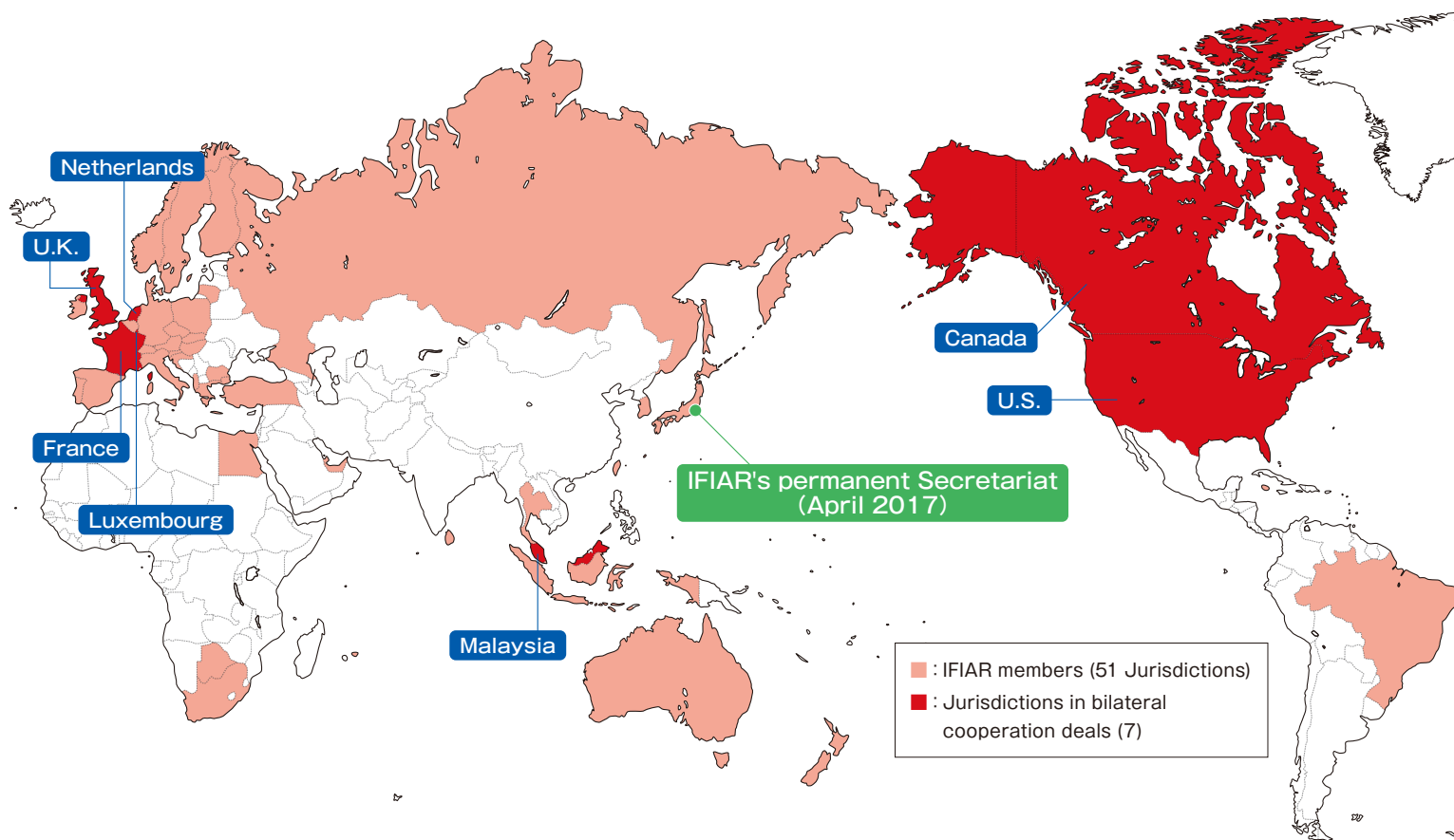
The CPAAOB and the FSA will actively contribute to the activities of IFIAR as its key members, and work to provide necessary support for the establishment of the permanent Secretariat and its smooth operation.

Bilateral cooperation

As corporate activities become increasingly globalized, ensuring the quality of cross-border audit procedures, such as the use of audit results by overseas audit firms in auditing consolidated financial statements, has become ever more important. It is also essential to enhance cooperation with relevant overseas authorities so that an audit oversight system on a global level can be established.

Thus, not only does it participate in IFIAR, but the CPAAOB is also working to build and enhance bilateral cooperation through efforts including information exchanges with the audit oversight authorities of other jurisdictions, devising a framework for information exchanges related to audit oversight, and using such information in its examination and inspection, with the aim of sharing information on issues related to audits and inspections and audit firms that have cross-border operations.

Status of Cooperation with foreign audit oversight authorities



(pink) IFIAR members (51 Jurisdictions)

Europe (30)		Asia (10)		Africa (4)	
Ireland	Albania	Indonesia		Egypt	
U.K.	Italy	South Korea		Botswana	
Austria	Netherlands	Singapore		South Africa	
Greece	Croatia	Sri Lanka		Mauritius	
Gibraltar	Switzerland	Thailand			
Sweden	Slovakia	Chinese Taipei			
Slovenia	Spain	Japan			
Czech Republic	Denmark	Malaysia			
Germany	Norway	Australia			
Hungary	Finland	New Zealand			
France	Bulgaria				
Belgium	Poland				
Portugal	Lithuania				
Liechtenstein	Luxembourg				
Jersey	Russia				

(red) Jurisdictions in bilateral cooperation deals (7)

U.K.
Netherlands
France
Luxembourg
Malaysia
U.S.
Canada

(as of March.2016)

Information gathering from the general public

The CPAAOB appreciates any information on CPAs, audit firms or the CPA Examination that assists us in carrying out our mission. Please contact us by email, fax or regular mail using the contact information shown below. The CPAAOB makes use of any useful information in its work.

CPAAOB Information Reception Desk

Email: cpaaob@fsa.go.jp

Fax: 03-5251-7241 (available 24 hours)

Mail: 3-2-1, Kasumigaseki, Chiyoda-ku, Tokyo, 100-8905, Japan (Common government offices No. 7)
Information Reception Desk, Office of Coordination and Examination, Certified Public Accountants and Auditing Oversight Board Executive Bureau

The CPAAOB also has a separate desk dedicated to receiving information from whistleblowers based on the Whistleblower Protection Act, and answers inquiries to whistleblowing reports over the phone. Anyone who wishes to provide information on criminal acts specified under the Certified Public Accountants Act is invited to communicate with the desk via email or mail. In addition, anyone who wishes to inquire about whistleblowing is invited to communicate with the desk via email, mail or phone.

PAAOB Whistleblowing/Inquiry Desk

(For offering information)

CPAAOB Whistleblowing/Inquiry Desk
(Whistleblowing)

Email: cpaaob.kouekitsuho@fsa.go.jp

Mail: Office of Coordination and Examination,
Certified Public Accountants and Auditing
Oversight Board Executive Bureau
3-2-1, Kasumigaseki, Chiyoda-ku, Tokyo,
100-8905, Japan (Common government
offices No. 7)

(For inquiry about the desk)

CPAAOB Whistleblowing/Inquiry Desk (Inquiry on
Whistleblowing)

Email: cpaaob.kouekisoudan@fsa.go.jp

Mail: Office of Coordination and Examination,
Certified Public Accountants and Auditing
Oversight Board Executive Bureau
3-2-1, Kasumigaseki, Chiyoda-ku, Tokyo, 100-8905,
Japan (Common government offices No. 7)
Tel.: 03-3506-6000 (Open 9:30-18:15 on weekdays)

The FSA has established a Contact for Financial Policies Monitor in which external experts receive opinions and suggestions as neutral third parties and convey such opinions and suggestions to the FSA for reflection in its financial policies. (<http://www.fsa.go.jp/monitor/>)

Efforts to Transmit Useful Information

The CPAAOB publishes Annual Report, which summarizes its activities, every year on its website.

In addition, the CPAAOB holds seminars at universities nationwide and distributes brochures on the CPA Examination to encourage a diverse range of people to take the examination, publishes Case Reports from Audit Firm Inspection Results that feature quality control issues for audits with the aim of encouraging audit firms' voluntary efforts to ensure and improve their audit quality, and has published Recent Trends in Audit Firms(Monitoring Report in Fiscal 2016) to promote understanding of the statuses of audit firms and conduct presentations.

For more information related to the content of this brochure, access the CPAAOB website:

Certified Public Accountants and Auditing Oversight Board

Search

The CPAAOB logo

The CPAAOB logo expresses the image of the CPAAOB, breathing fresh wind into the capital market, represented by a blue circle, and raising its transparency, as expressed by the gradually fading blue of the circle toward its right side.





Certified Public Accountants and Auditing Oversight Board

3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo (Common government offices No. 7)

Phone: 03 - 3506 - 6000 (main number)

URL <http://www.fsa.go.jp/cpaao>

※ This brochure was published in March 2017.