Introduction

The Certified Public Accountants and Auditing Oversight Board (CPAAOB) was established in April 2004 as an independent authorized institution along with the establishment of audit oversight institutions in the United States and Europe, in response to growing worldwide distrust of the accounting profession after a series of accounting fraud in the United States and elsewhere. Since its establishment, the CPAAOB has worked hard to improve investors’ confidence in capital markets by raising the quality and reliability of audits by CPAs, and thus improving fairness and transparency in Japan's capital markets. The CPAAOB has three key roles.

The first is to operate the CPA examination. The CPAAOB dramatically revised the examination system, including by simplifying the examination scheme, reviewing the examination subjects, and expanding the exemption of part of the examination. The main purpose of these revisions is to encourage a diverse range of people to take the examination while maintaining its quality, and the new examination has been operational since 2006. Though I am concerned over the recent decline in the number of applicants, I hope that many young people will try to take the examination and make good use of the CPA qualification.

The second role is to collect reports from and conduct inspections of the Japanese Institute of Certified Public Accountants (JICPA) as well as certified public accountants and audit firms (including foreign audit firms). The CPAAOB monitors the reviews by the JICPA, since quality control reviews by the JICPA, which had been handled as a voluntary regulation, were made a legal requirement in order to improve and strengthen the supervision and surveillance of audit firms, etc. following the revision of a law in June 2003.

The third role is to build cooperative relationships with foreign audit oversight authorities. With corporations expanding globally, it has become important for the CPAAOB to work together with foreign audit oversight authorities in order to ensure the reliability of financial statements released by corporations. Accordingly, the International Forum of Independent Audit Regulators (IFIAR) was set up, and it now has 46 countries and regions as members. Japan has been actively participating in the work of the IFIAR.

The CPAAOB will pursue its objectives in cooperation with other organizations to meet the expectations regarding the board, which will soon celebrate its 10th anniversary.

Dr. Kunio Chiyoda, Chairperson
Former professor of Graduate School of Accountancy, Waseda University
Appointed Chairperson of the CPAAOB in April 2013

In response to accelerating economic globalization and deregulation, the CPAAOB is addressing changing needs. The history of the CPAAOB dates back to 1948, when the Certified Public Accountants (CPA) Act was enacted. The CPAAOB was made responsible for conducting the CPA Examination and certifying many eligible candidates for the profession. As globalization has progressed and the world has become more global and complex, the CPAAOB introduced the current examination system to meet the expectation that CPAs should serve not only as auditing experts but also as accounting experts in various sectors of the economic world. Although the capabilities of CPAs are not well recognized so far, the CPAAOB is extensively publicizing the important roles that CPAs play in the economic world.

The need for external, higher-quality auditing has increased globally due to a succession of accounting fraud and financial crises. The IFIAR has therefore been promoting greater information sharing and cooperation among auditing oversight authorities, and closer dialog with external auditors, investors, and various international organizations. The CPAAOB, as a major member of the IFIAR, will utilize its authority to improve the reliability of Financial/capital market jointly with other organizations in Japan and overseas in order to contribute to the sound development of the Japanese economy.

Dr. Toshiro Hiromoto, Full-Time Commissioner
Former Professor of Graduate School of Commerce and Management
Hitotsubashi University
Appointed Full-Time Commissioner of the CPAAOB in April 2010
Overview of the CPAAOB

The CPAAOB was established in April 2004 as an independent authorized institution along with the establishment of the audit oversight institutions in the United States and Europe against the background of the worldwide heightening of accounting distrust triggered by a series of accounting fraud cases.

The CPAAOB is an independent authority (council) established within the Financial Services Agency (FSA), consisting of one chairperson and up to nine commissioners (who have an understanding of and insight on matters concerning CPAs, and are appointed by the Prime Minister, by obtaining the consent of both Diet houses).

Responsibilities of the CPAAOB

1. Examination of the "quality control review" by JICPA and inspections
2. Implementation of CPA Examinations
3. Deliberation of disciplinary actions against CPAs and audit firms

The mission of the CPAAOB is to improve fairness and transparency in Japan's capital markets by enhancing the quality of audits by the CPAs and securing their reliability through these responsibilities.

The CPAAOB has an Executive Bureau to handle its administrative duties. 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.

There is a total of 56 staff members, of which 14 are members of the Office of Coordination and Examination and 42 (including 33 inspectors) are members of the Office of Monitoring and Inspection (as of fiscal 2013).
Raising the effectiveness of audits

The CPAAOB published its "Basic Policy on Examinations and Inspections," which provides the framework for examinations and inspections, as well as the perspectives and goals for the examinations and inspections.

Under the Basic Policy for the fourth term (April 2013 to March 2016), examinations and inspections shall be carried out with the following perspectives and goals.

Perspectives

After a series of cases of corporate accounting fraud, there are growing expectations for audits by audit firms and CPAs, so standards to deal with fraud risks are being set. To meet these expectations, the CPAAOB should always act in the public interest and use its authority to safeguard and enhance the quality of audits.

In addition, the CPAAOB will release useful information obtained through examinations and inspections, such as cross-industry problems, at forums for exchanging opinions with other organizations, including the JICPA, the FSA, and industry groups. Furthermore, the board will forge closer partnerships with international institutions and foreign audit oversight authorities, including the IFIAR, to provide more information in Japan and overseas.

Goals

Examinations and inspections implemented by the CPAAOB do not directly consider whether individual audit opinions are proper. Instead, the main goal is to promote more effective quality control reviews by the JICPA for the public interest, and to ensure that audit firms, CPAs, and foreign audit firms act properly. Therefore, the CPAAOB will improve inspection methods and the like by actively sharing information through cooperation with other organizations, holding dialogs with the JICPA, and working with foreign audit oversight authorities.
# Outline of the Basic Plans for Examinations and Inspections in 2013

## 1. Basic Plan for Examinations

1. **Verification of JICPA’s Quality Control Reviews**
   The CPAAOB will comprehensively examine the appropriateness of the JICPA’s Quality Control Review System, since improving the effectiveness of these reviews will help strengthen quality control on audits by audit firms and CPAs, and encourage stronger leadership by the JICPA.

2. **Detailed Verification**
   Based on the results of the JICPA’s quality control reviews, the CPAAOB will conduct detailed verifications of the development status of quality control systems at audit firms and CPAs where many quality control issues have been identified, and of problems in the operation of quality control systems at mainly small and medium-sized audit firms and CPAs, based on the characteristics of each audit firm and CPA.

## 2. Basic Plan for Inspections

1. **Inspection of Large Audit Firms**
   In view of the important role of large audit firms in the capital markets, recent developments in the audit and supervision environments both in Japan and abroad, and other factors, based on the examination results of the JICPA’s quality control reviews, the CPAAOB will inspect, as a rule, audit firms that have 100 or more publicly listed companies as clients or with 1,000 or more certified auditors. In these inspections, the CPAAOB will actively promote both well-organized verification of essential problems in business management and verification of whether quality control on audits has been established even at the lowest level of organizations.

2. **Inspection of Small and Medium-sized Audit Firms and CPAs**
   Regarding small and medium-sized audit firms and CPAs, the CPAAOB will closely check such items as the acceptance and continuance of audit engagements, management of quality control systems, and progress of countermeasures for deficiencies identified in the quality control reviews, and will conduct inspections as needed, based on the examination results of the JICPA’s quality control reviews. In the inspections, the CPAAOB will actively promote verification that takes into consideration issues such as responsibilities for business management and quality control that occur due to the structure of small and medium-sized audit firms and CPAs.

## 3. Follow-up after Examinations and Inspections

Some time after audit firms and CPAs have been notified of inspection results, the CPAAOB will check the status of quality control as needed and conduct seamless examinations and inspections, including using inspection results for examinations to raise the effectiveness and efficiency of inspections. The CPAAOB will also use the results of examinations and inspections to promote the maintenance and improvement of audit quality, through initiatives such as detailed horizontal analysis to identify cross-industry problems by considering the inspection results across industries. It will also actively exchange opinions and share information with organizations such as the JICPA and related FSA departments.

### Summary of Inspection Results

From its establishment in April 2004 to fiscal 2012, the CPAAOB inspected 79 audit firms and CPAs based on the examination results of quality control reviews, and recommended the FSA Commissioner to impose administrative penalties and other measures in 19 cases. To improve the quality of audits, the CPAAOB has informed other organizations of quality control problems in audits and published a list of the main issues in the inspection results to help audit firms and CPAs voluntarily make improvements and as a reference for the capital markets.

(Note) For details of the Basic Policy, Basic Plan, and recommendations, please visit the CPAAOB website ([http://www.fsa.go.jp/cpaaob/english/index.html](http://www.fsa.go.jp/cpaaob/english/index.html)).
When the FSA Commissioner takes disciplinary actions against CPAs or audit firms, the law provides that the Commissioner shall consult the CPAAOB and hear its opinions after holding hearings. 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.

### Recent Status of the CPA Examinations

<table>
<thead>
<tr>
<th>Year</th>
<th>Total applicants (A)</th>
<th>Essay test examinees (B)</th>
<th>Successful examinees (C)</th>
<th>Ratio of successful examinees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(C)/(A)</td>
</tr>
<tr>
<td>2010 Examination</td>
<td>25,648</td>
<td>5,512</td>
<td>2,041</td>
<td>8.0 %</td>
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<tr>
<td>2011 Examination</td>
<td>23,151</td>
<td>4,632</td>
<td>1,511</td>
<td>6.5 %</td>
</tr>
<tr>
<td>2012 Examination</td>
<td>17,894</td>
<td>3,542</td>
<td>1,347</td>
<td>7.5 %</td>
</tr>
</tbody>
</table>

(Note) For details, please see the CPAAOB website or the brochure of the CPA examinations.

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Ⅲ. Cooperation with foreign audit oversight authorities

Sparked by 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 countries, to ensure and enhance audit quality.

In these circumstances, the first International Forum of Independent Audit Regulators (IFIAR), with 22 countries participating, was held in Tokyo in March 2007, and hosted by the CPAAOB. Recently, the thirteenth Forum was held in Noordwijk(Netherlands) in April 2013, and as of the end of April 2013, its membership had expanded to 46 countries and regions.

The CPAAOB belongs to all working groups of the IFIAR. As a major member, it seeks to build closer cooperative relationships with auditing oversight authorities in other countries in order to enhance the quality of audits worldwide.

<Overview of the IFIAR>

◆Purpose

i To share knowledge of the audit market environment and practical experience of independent audit regulatory activity with a focus on the inspections of auditors and audit firms;

ii To promote collaboration and consistency in regulatory activity; and

iii To provide a platform for dialogue with other organizations that have an interest in audit quality.

◆Organization

International Forum of Independent Audit Regulators (IFIAR) (Plenary Meeting)

Chair/Vice-chair

Advisory Council

Working Groups (WG)

GPPC WG (WG on the Six Largest Audit Networks)

Standards Coordination WG

Inspection Workshop WG

International Cooperation WG

Investor Dialogue WG
Certified Public Accountants and Auditing Oversight Board

◆ Public Relations

The CPAAOB, since its inception in 2004, has been describing its activities in the form of Public Report, which it publicizes on its website, etc. The CPAAOB holds seminars at universities and other institutions nationwide to promote awareness of the importance of audit and CPAs, and makes information available on the CPA Examination to encourage a diverse range of people to take the examination. In addition, to promote audit firms' voluntary efforts to ensure and improve audit quality, the CPAAOB publishes Case Report, which is a compilation of quality control issues identified through inspections.

Certified Public Accountants and Auditing Oversight Board

<table>
<thead>
<tr>
<th>Address</th>
<th>3-2-1, Kasumigaseki, Chiyoda-ku, Tokyo, 100-8905, Japan (Common government offices No.7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phone</td>
<td>03-3506-6000 (+81) 3-3506-6000</td>
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<tr>
<td>Fax</td>
<td>03-5251-7241 (+81) 3-5251-7241</td>
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<tr>
<td>E-mail</td>
<td><a href="mailto:cpaaob@fsa.go.jp">cpaaob@fsa.go.jp</a></td>
</tr>
</tbody>
</table>

Contact

The CPAAOB appreciates any information on CPAs, audit firms or on the CPA Examination that assists us in carrying out our mission. Please contact us by email, fax or regular mail as above.

※This brochure was published in June 2013