



# Auditors Oversight Bodies and Auditing and Accounting Standards Setters in Japan

May 2005

Financial Services Agency, Japan

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# I. Auditors Oversight Bodies in Japan

## 1. Two Auditor oversight bodies

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### **Financial Services Agency (FSA)**

- Government agency established in the Cabinet Office
- Taking disciplinary and administrative actions
- Requiring reporting and conducting inspections

### **Certified Public Accountants and Auditing Oversight Board (CPA AOB)**

- Independent board established in the FSA in April 2004 and its members appointed by the Prime Minister with the consents of both Houses of the Diet
- Oversight of JICPA's quality control review
- Examining and recommending disciplinary and administrative actions against CPAs and audit firms to the FSA
- Requiring reporting and conducting inspection
- Administering CPA examinations



# I. Auditors Oversight Bodies in Japan

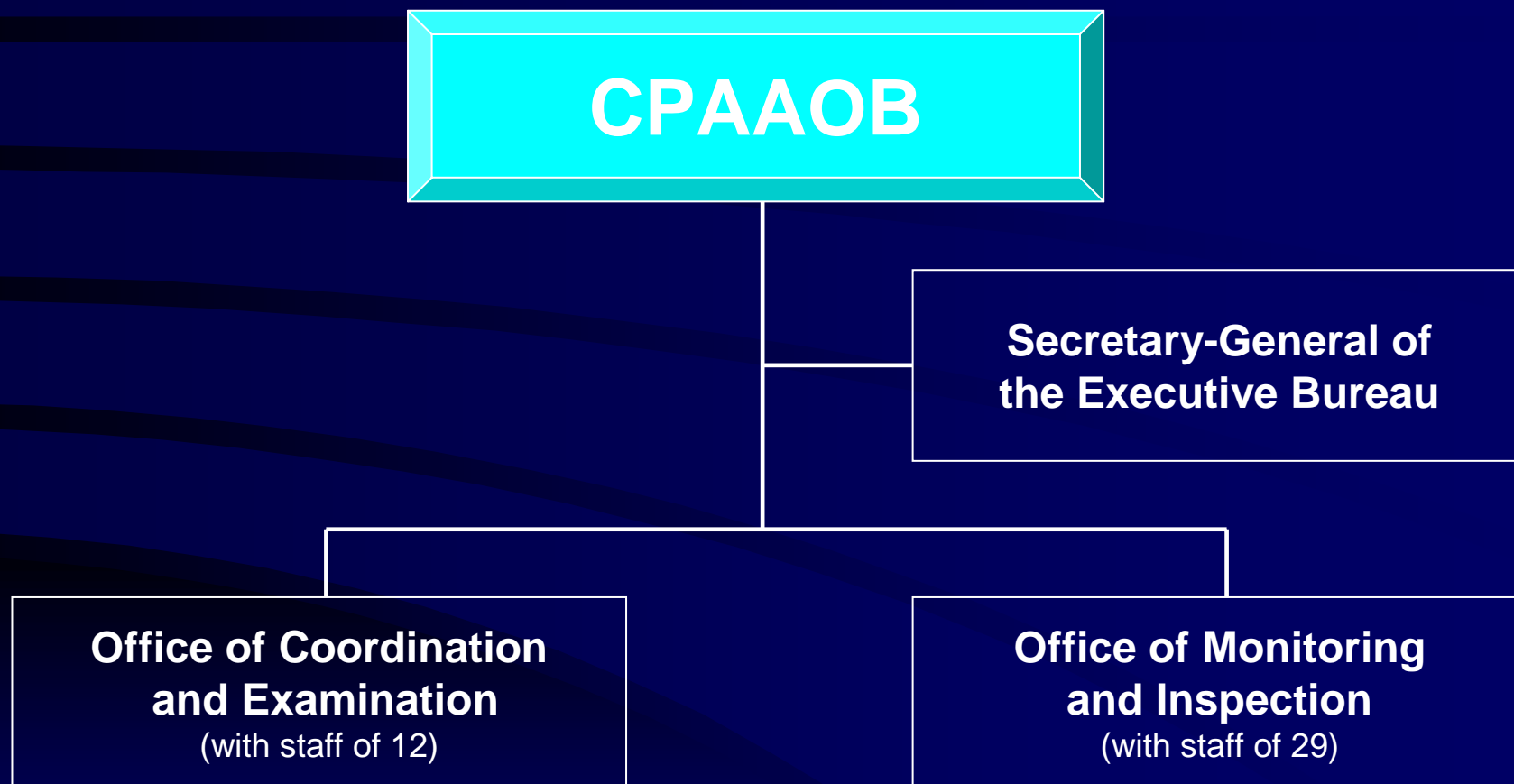
## 2. Members of the CPAAOB (as of April 2005)

<b>Chairman</b> (full-time)	<b>Akira Kaneko</b>	Former President, Board of Audit of Japan (Constitutional Organization independent of the Cabinet)
<b>Commissioner</b> (full-time)	<b>Yoshikazu Wakita</b>	Former President Meiji Gakuin University
<b>Commissioner</b> (part-time)	<b>Mami Indo</b>	Senior Corporate Analyst Daiwa Securities SMBC
<b>Commissioner</b> (part-time)	<b>Tsuguoki (Aki) Fujinuma</b>	Chairperson and President Japanese Institute of Certified Public Accountants
<b>Commissioner</b> (part-time)	<b>Atsuo Takahashi</b>	Deputy President Japan Securities Dealers Association
<b>Commissioner</b> (part-time)	<b>Yuko Tashima</b>	Lawyer
<b>Commissioner</b> (part-time)	<b>Eiko Tsujiyama</b>	Professor Waseda University
<b>Commissioner</b> (part-time)	<b>Yoshio Nakamura</b>	Senior Managing Director Nippon Keidanren
<b>Commissioner</b> (part-time)	<b>Kazuo Hiramatsu</b>	President Kwansei Gakuin University
<b>Commissioner</b> (part-time)	<b>Takeshi Yoshii</b>	Executive Advisor Nippon Steel Corporation

# I. Auditors Oversight Bodies in Japan

## 3. Executive Bureau of the CPAAOB (as of April 2005)

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# I. Auditors Oversight Bodies in Japan

## 4. Comprehensive Revision of CPA Law (1)

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- The Subcommittee on Regulations of CPAs of the Financial System Council issued in December 2002 the report calling for the comprehensive reform of the CPA and audit firm system in Japan, considering international developments including the IOSCO principles and the U.S. Sarbanes-Oxley Act of 2002, in order to ensure fairness, independence and reliability of auditing by audit firms and CPAs.
- The CPA Law was comprehensively revised in May 2003 and became in principle effective in April 2004.

### <Main points>

1. Introducing explicit provision on CPA's missions and professional responsibilities
2. Enhancing auditor oversight
3. Enhancing auditor independence
4. Reviewing CPAs examinations to increase the number and enhancing quality of CPAs

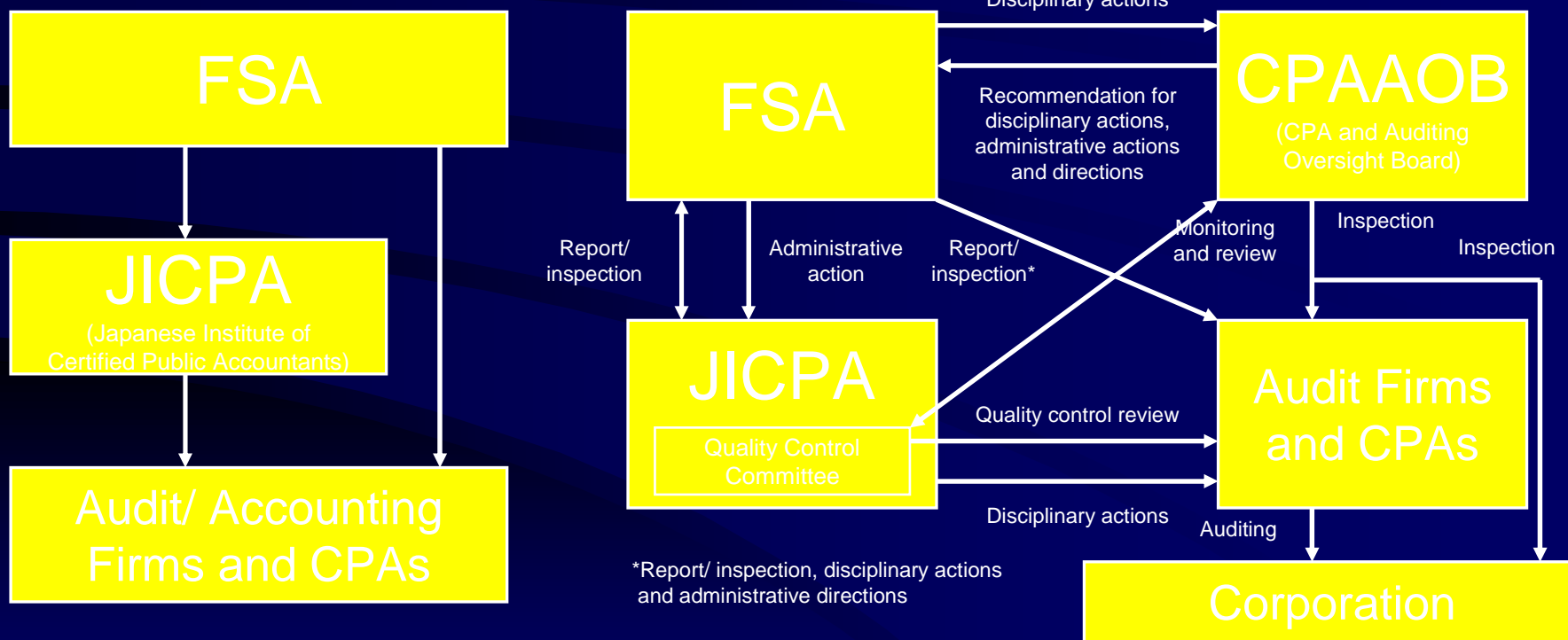


# I. Auditors Oversight Bodies in Japan

## 5. Comprehensive Revision of CPA Law (2)

### ● Enhancing auditor oversight

Previous oversight structure ⇒ Enhanced oversight structure (from April 2004)



# I. Auditors Oversight Bodies in Japan

## 6. Comprehensive Revision of CPA Law (3)

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### ● Enhancing auditor independence

- Prohibition of providing certain non-audit services to large corporations
  - bookkeeping or other services related to financial documents or accounting records
  - financial or accounting information systems design and management
  - attestation or appraisal services such as contribution-in-kind reports
  - actuarial service
  - internal audit outsourcing services
  - broker or dealer, investment adviser, or investment banking services
  - any other services which are likely to be involved in business judgment or correspond to auditing own works
- Disclosure of interests in a corporation
- Requirement of rotation of engagement partners and review partners (initially 7 years for allowable consecutive period and 2 years for time-out period)
- Restriction of assuming office as a director or officer during current and next fiscal years
- Prohibition of providing auditing services during current and next fiscal years in unavoidable that an engagement partners assume office as a director or officer





# I. Auditors Oversight Bodies in Japan

## 7. Latest Developments in auditor oversight activities

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### FSA

- Disciplinary action against Ernst & Young ShinNihon (December 2004)  
(after the review of the case by the CPAAOB)
- Disciplinary action against ChuoAoyama Pricewaterhouse Coopers (January 2005)  
(after the review of the case by the CPAAOB)
- Guidelines on Disciplinary Actions against CPAs and audit firms (March 2005)

### CPAAOB

- Oversight Policy and Plan (June 2004)  
(Monitoring and Review Policy and Plan, and Inspection Policy)
- For Further Improvement of Function of Quality Control Review- Study and Evaluation of the Quality Control Review of JICPA (February 2005)



## II. Auditing Standards Setters in Japan

### 1. Japanese GAAS (Generally Accepted Auditing Standards)

#### Auditing Standards of Business Accounting Council (BAC)

- BAC is a third-party council established in the FSA.
- BAC issued the opinion on the comprehensive revision of the Auditing Standards in Japan in January 2002 (effective March 2003).
- BAC currently has the Auditing Committee within the Council, where Auditing Standards are revised continuously.

#### Statements of JICPA Auditing Standards Committee (ASC)

- ASC issues Statements for implementing BAC's Auditing Standards which have binding authorities over JICPA's members.



Japanese GAAS is composed of BAC's Auditing Standards and ASC's Statements.

Continuing improvement of Japanese GAAS for international convergence of auditing standards.



# II. Auditing Standards Setters in Japan

## 2. Members of the BAC

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### (1) Appointment by the Commissioner of the FSA

### (2) Criteria of Selection

⇒ Sufficient knowledge and experiences

### (3) Current members and their backgrounds

- Chairman (1) ⇒ university professor
- Other members (18) ⇒ university professor  
issuer  
analyst  
accountant  
securities company  
stock exchange

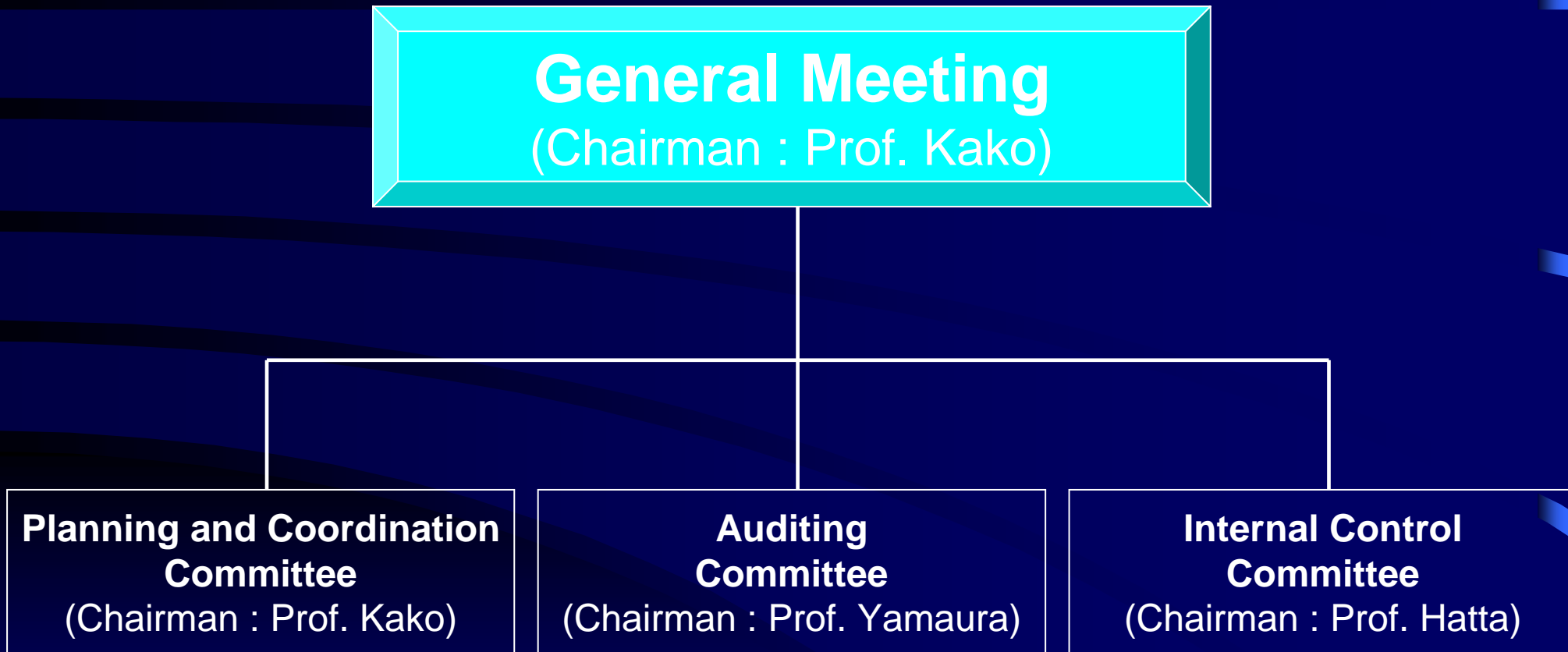
(Note) There are also members for specific matters (20) and technical members (10).



# II. Auditing Standards Setters in Japan

## 3. Current Structure of the BAC (as of April 2005)

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# III. Accounting Standards Setter in Japan

## 1. Accounting Standards Board of Japan (ASBJ)

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- **Accounting Standards Board of Japan (ASBJ)**

⇒ Independent private-sector accounting standards setting board established in the Financial Accounting Standards Foundation (FASF) in July 2001

# III. Accounting Standards Setter in Japan

## 2. Members of the ASBJ (as of April 2005)

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- Chairman (1) : Prof. Saito
- Vice Chairman (1) : Mr. Nishikawa (accountant)
- Members (11) : university professor  
accountant  
issuer  
financial institution  
analyst  
stock exchange

# III. Accounting Standards Setter in Japan

## 3. Convergence of Accounting Standards

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### **(1) Medium-Term Operating Policy of ASBJ (July 2004)**

ASBJ agrees with the objective of international convergence to achieve high-quality accounting standards.

### **(2) Convergence project between ASBJ and IASB**

ASBJ and IASB agreed in January 2005 to launch a joint project to reduce differences between Japanese GAAP and IFRS with the final goal of convergence of their standards, and held an initial meeting in March 2005.

### **(3) Program for Further Financial Reform of the FSA (December 2004)**

Active actions toward international convergence of accounting standards



# III. Accounting Standards Setter in Japan

## 4. Recent Developments of Japanese GAAP

Major Accounting Standards Reviews	Status	Implemented for financial statements for fiscal years beginning on or after
Consolidated Financial Statements	Revised June 1997	April 1, 1999
Consolidated Cash Flow Statements	Issued March 1998	April 1, 1999
Research and Development Costs	Issued March 1998	April 1, 1999
Interim Consolidated Financial Statements	Issued March 1998	April 1, 1999
Retirement Benefits	Issued June 1998 Revised March 2005	April 1, 2000 April 1, 2005
Deferred Taxes	Issued October 1998	April 1, 1999
Fair Value Accounting for Financial Instruments	Issued January 1999	April 1, 2000
Foreign Currency Transactions and Financial Statements	Revised October 1999	April 1, 2000
Impairment of Fixed Assets	Issued August 2002	April 1, 2003 (voluntary basis) April 1, 2005
Earnings per Share	Issued September 2002	April 1, 2002
Business Combinations	Issued October 2003	April 1, 2006
Stock options	ED issued December 2004	N.A. (April 1, 2006 under the ED)