Annual Report
(excerpted version)

August 2009
Certified Public Accountants and Auditing Oversight Board
About the contents of this Annual Report

This Annual Report reports on the activities of the Certified Public Accountants and Auditing Oversight Board (CPAAOB) during the business year 2008 (from July 1, 2008 to June 30, 2009) and to better meet the needs of readers includes information from the time before the CPAAOB was established, as well as after July 1, 2009.

Starting with the next annual report, the reporting period will be the fiscal year (from April 1 to March 31 of the next year).

Throughout the annual report, the following terms are used depending on the size of audit firms.

Large audit firms: Audit firms who provide audit and attestation services for 100 or more listed companies, etc. in the firms’ most recent fiscal year (Article 24 of the Ordinance for Enforcement of the Certified Public Accountants Act).

Small and medium-sized audit firms: Audit firms and CPA firms other than the above.
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Introduction

Since its establishment in April 2004, the Certified Public Accountants and Auditing Oversight Board (CPAAOB) has been striving to help improve investors’ confidence in the capital market, guided by its mission of promoting fairness and transparency in the Japanese capital market by improving the quality of, and ensuring the reliability of, CPA auditing.

This Annual Report, among the variety of initiatives undertaken by the CPAAOB, focuses on activities conducted in the business year 2008, in the areas of Examinations and Inspections, Implementation of CPA Examinations, Deliberation of Disciplinary Actions against CPAs and Audit Firms, and Cooperation with Relevant Organizations in Other Countries, which are described in each chapter.

The examinations and inspections were conducted based on the Basic Plan on Examination and Inspection, Business Year 2008. The CPAAOB noted the results of inspections, collected reports, and made recommendations concerning administrative actions or any other measures for one audit firm to the Commissioner of the Financial Services Agency (FSA). In addition, the CPAAOB revised the List of Examples of Issues on Audit Quality Control Identified through Inspections, which contains examples selected and compiled from the issues identified in past inspections. This is one of the CPAAOB’s efforts to help audit firms improve their quality control.

Under the revised CPA Act, which took effect in April 2008, the CPAAOB is authorized to require foreign audit firms, etc. to submit information, and/or to conduct inspections of foreign audit firms. Efforts are being made to prepare for the implementation of inspections and to coordinate cooperation with foreign authorities, including the solicitation of public comments on the framework for inspection/supervision of foreign audit firms, etc.

Concerning the implementation of CPA Examinations, in order to increase the opportunities to take the examination for more and a wider variety of people, the CPAAOB improved the modalities of examinations starting with the 2008 essay tests and the 2009 multiple choice tests, and is also promoting public relations activities concerning the examinations. For example, the CPAAOB conducted lectures at universities and other educational organizations targeting a wide range of people, including workers and students.

With regard to cooperation with relevant organizations in other countries, at the fourth meeting of International Forum of Independent Audit Regulators (IFIAR) held in September 2008, the CPAAOB was appointed to be a member of the Advisory Council, which is involved in the management of the IFIAR. The CPAAOB has been actively taking part in international cooperation initiatives.

Going forward, in cooperation with regulatory organizations in other countries, the CPAAOB will continue to fulfill its mission to ensure fairness, independence, and reliability of auditing to meet the expectations of investors and other stakeholders, which, in turn, will contribute to the growth of public interest.

Chairperson of the CPAAOB Akira Kaneko
Summary

1. Examinations and Inspections
The Certified Public Accountants and Auditing Oversight Board (CPAAOB) reviewed and examined reports of quality control reviews by the Japanese Institute of Certified Public Accountants (JICPA) during the fiscal years 2007 and 2008. It conducted inspections of six audit firms; and based on the inspection results, the CPAAOB made recommendations concerning one audit firm to the Commissioner of the Financial Services Agency (FSA) on administrative actions or any other measures.
In addition, under the revised CPA Act, which took effect in April 2008, the CPAAOB is authorized to require foreign audit firms, etc. to submit information, and/or to conduct inspections of foreign audit firms. Accordingly, the CPAAOB is preparing to implement a new inspection system.

2. Implementation of CPA Examinations
The CPAAOB conducted the 2008 essay tests and the 2009 multiple choice tests.
In addition, based on the “Report on Improving the Modalities of CPA Examination,” published in October 2007 by the CPA examination study group, the CPAAOB introduced improvement measures in the 2008 CPA examination, including shortening dates of multiple choice tests; changing dates of essay tests on a weekend; and widening the subjects for examination using the provided booklets on laws and standards from two to five subjects.
Moreover, the CPAAOB is promoting public relations activities concerning the examinations. For example, it conducted lectures at universities and other educational organizations targeting a wide range of people, including workers and students.

3. Deliberation of Disciplinary Actions against CPAs and Audit Firms
The CPAAOB deliberated on the following three cases and expressed its opinions concerning the decisions of the Commissioner of the FSA.
117th CPAAOB Meeting (July 9, 2008) Four CPAs
123rd CPAAOB Meeting (October 22, 2008) Natsume Audit Corporation and two CPAs
138th CPAAOB Meeting (June 16, 2009) one CPA

4. Cooperation with Relevant Organizations in Other Countries
The International Forum of Independent Audit Regulators (IFIAR) was established in March 2007 for the purpose of information exchange, etc. among audit regulators in various countries. The fourth meeting was held in Cape Town, South Africa in September 2008, and the fifth meeting held in Basel, Switzerland in April 2009. The CPAAOB was represented by its Chairperson Akira Kaneko, Commissioner Yoshikazu Wakita and other members.
In addition, the third Inspection Workshop, a workshop for inspectors of the IFIAR member organizations to which the CPAAOB sent its inspectors and other staff, was held in February 2009.
Chapter 1: Certified Public Accountants and Auditing Oversight Board

1. Organization

The Certified Public Accountants and Auditing Oversight Board (CPAAOB) was established in April 2004 based on the amended Certified Public Accountants Act (CPA Act) of May 2003. It is an administrative agency that operates a collegiate system, and consists of one chairperson and a maximum of nine commissioners. A chairperson and commissioners are selected from those who possess understanding and knowledge about matters related to the CPA profession, and appointed by the Prime Minister with the consent of both Houses of the Diet. They exercise their statutory authority independently from the Financial Services Agency (FSA). The tenure of chairperson and commissioners is three years (the term of office for the current chairperson and commissioners is from April 2007 to March 2010).

The CPAAOB has an executive bureau to handle its administrative duties. The Executive Bureau consists of two divisions. The “Office of Coordination and Examination” is responsible for deliberation of disciplinary actions against CPAs and audit firms; and implementation of CPA Examinations. The “Office of Monitoring and Inspection” conducts examinations and inspections. The CPAAOB had 40 staff members when it was established. With the addition of new members, the total number of staff members has increased to 55, of which 14 are members of the Office of Coordination and Examination and 41 are members of the Office of Monitoring and Inspection (as of fiscal 2009).

Reference: Changes in the number of staff members

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of Coordination and Examination</td>
<td>11</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>14</td>
</tr>
<tr>
<td>Office of Monitoring and Inspection (of which inspectors)</td>
<td>29 (22)</td>
<td>29 (22)</td>
<td>31 (24)</td>
<td>35 (28)</td>
<td>39 (31)</td>
<td>41 (33)</td>
</tr>
</tbody>
</table>
2. Outline of Responsibilities

The CPAAOB has three major responsibilities: examinations and inspections, implementation of CPA Examinations, and deliberation of disciplinary actions against CPAs and audit firms. By fulfilling these responsibilities, the CPAAOB aims to secure the credibility and improve the quality of auditing in Japan, which in turn ensures the fairness and reliability of the Japanese capital market.

In the business year 2008 (from July 2008 through June 2009), the CPAAOB held 23 meetings.

(1) Examination and Inspections

(a) Examinations of the “Quality Control Review” and Inspections of Audit firms, etc.

Based on the provisions of the CPA Act, the CPAAOB reviews and examines reports of quality control reviews by the Japanese Institute of Certified Public Accountants (JICPA) and, if deemed necessary, conducts on-site inspections of the JICPA, audit firms, etc..

Reference: Quality Control Review

The JICPA conducts reviews of quality control practices of CPA sole practitioners/audit firms, provides recommendations for improvement to audit firms as deemed necessary, and receives reports on progress against improvement plans. Although the JICPA's quality control review had been conducted as a self-regulatory mechanism of the audit profession since April 1999, it was formally incorporated into the CPA Act in the 2003 revision. Specifically, the JICPA, once every three years in principle (or every other year, when the JIPCA regards it as necessary) conducts ex-post reviews to evaluate compliance with the
CPA Act and other laws and regulations; auditing standards; the JICPA's rules and regulations; and audit firms’ internal rules, etc.

i) Examination
The CPAAOB reviews and examines reports of quality control reviews by the JICPA to determine whether the quality control review system is being appropriately operated by the JICPA; and whether audits are being appropriately performed by audit firms.
If the CPAAOB considers it to be necessary for examinations, it demands submission of reports or other documentation from the JICPA/audit firms based on the CPA Act.

ii) Inspection
Based on the examination results, if the CPAAOB finds it necessary for securing appropriate administrative operations of the JICPA; and necessary and appropriate in light of public interest or the investor protection, it conducts inspections of the JICPA, audit firms and other related parties (such as audited companies) based on the CPA Act.
After the inspection, the CPAAOB provides the inspected party notice of inspection results.

iii) Recommendation to the Commissioner of the FSA
Based on the examination/inspection results, if that is considered necessary, the CPAAOB makes recommendations to the Commissioner of the FSA to take administrative actions and/or other measures that are necessary to secure appropriate implementation of audits by audit firms as well as appropriate administrative operations of the JICPA, based on the CPA Act.
Quality Control Review and Oversight of the CPAAOB

(b) Inspections of Foreign Audit Firms, etc.

Under the revised CPA Act, which took effect on April 1, 2008, the CPAAOB requires those foreign audit firms, etc. that provide audit and attestation services for foreign issuers who submit financial statements, etc. to the Japanese authorities to submit reports, and conducts inspections of foreign audit firms, when deemed necessary and appropriate in light of the public interest or investor protection.

Reference: Legal basis
The legal basis for the JICPA’s review of quality control practices, and the CPAAOB’s examinations and inspections is as follows.

1. The JICPA’s implementation and report of the review of the status of the operation of auditing services
   (i) Implementation of the review of the status of the operation of auditing services CPA Act Article 46-9-2 Paragraph 1
   (ii) Report of the review results to the CPAAOB CPA Act Article 46-9-2 Paragraph 2

2. Requirement to submit reports
   (ii) to the JICPA CPA Act Article 46-12 Paragraph 1
   (ii) to audit firms CPA Act Article 49-3 Paragraph 1
   (ii) to foreign audit firms, etc. CPA Act Article 49-3-2 Paragraph 1
3. Inspection
   (ii) to the JICPA CPA Act Article 46-12 Paragraph 1
   (ii) to audit firms CPA Act Article 49-3 Paragraph 2
   (iii) to audited companies, etc. CPA Act Article 49-3 Paragraph 2
   (iv) to foreign audit firms, etc. CPA Act Article 49-3-2 Paragraph 2
4. Recommendations to the Commissioner of the FSA CPA Act Article 41-2

The above mentioned authorities stipulated under the CPA Act are delegated to the CPAAOB by the Commissioner of the FSA according to the provisions of the Article 49-4 Paragraph 2, 3 of the same Act. However, the authorities over the JICPA and audit firms, etc. are limited to those exercised in relation to the reports of quality control reviews by the JICPA and the status of the operation of services (if not receiving a quality control review).

(2) Implementation of CPA Examinations

Based on the CPA Act, the CPAAOB implements CPA Examinations every year for the purpose of determining whether a person has the necessary knowledge and applied skills to become a CPA.

The CPAAOB makes pass or fail decisions and prepares examination questions, while the administration of examinations, including supervision, is provided by local finance bureaus, etc.

(3) Deliberation of Disciplinary Actions against CPAs and Audit Firms

When the Commissioner of the FSA consults with the CPAAOB on the disciplinary actions against CPAs and audit firms, the CPAAOB conducts deliberation. To be specific, it examines the validity, severity, etc. of said sanctions pursuant to the applicable laws and regulations; and expresses its opinions to the Commissioner of the FSA.

Note 1: Disciplinary action will be imposed in the case where a CPA or an audit firm has made a false or unjust attestation; violated the CPA Act or other regulations; or executed services in a manner that is found to be grossly inappropriate in his/her/its auditing services.

Note 2: The Commissioner of the FSA carries out the investigation concerning the case involving disciplinary actions, etc. (e.g., conduct a hearing, or collect opinions or reports from the persons concerned in the case; order the persons concerned to submit books, documents or any other objects). When a disciplinary action is imposed based on the recommendation by the CPAAOB or in cases of the order for payment of a surcharge against audit firms, deliberation at the CPAAOB is not required.
(4) Cooperation with Relevant Organizations in Other Countries

With the globalization of corporate and investment activities, accounting and auditing are becoming increasingly internationalized. In this environment, independent audit regulators in each country are working together to secure and improve the quality of international auditing.

To that end, the International Forum of Independent Audit Regulators (IFIAR) was established to share knowledge of the audit market environment and practical experience of independent audit regulatory activity. The first meeting was held in Tokyo, Japan in March 2007; and in the business year 2008, the fourth in Cape Town, South Africa in September 2008; and the fifth in Basel, Switzerland in April 2009. Future meetings are planned to be held every six months.

In addition, the CPAAOB is making efforts to construct and reinforce a mutually cooperative relationship with regulators in other countries in order to improve the quality of international auditing. For example, it has held separate meetings with the individual independent audit regulators from different countries.
Chapter 2: Examinations and Inspections

1. Examinations of the “Quality Control Review” and Inspections of Audit Firms, etc.

(1) Examination

(a) Basic Policy on Examination

Based on the “Basic Policy on Examination, etc.—for further improvement of audit quality” (hereinafter referred to as “Basic Policy on Examination, etc.”) established in June 2007, the CPAAOB will continue to examine reports of quality control reviews by the JICPA, ensuring that previously identified issues are constantly addressed until they are fully resolved. It will also make it a basic principle to conduct examinations with special attention to the new developments.

(b) Implementation Status of Quality Control Reviews Conducted by the JICPA

i) Status of Submission of Reports to the CPAAOB

The status of the submission of reports to the CPAAOB on quality control reviews conducted in fiscal 2008 ended March 31, 2009 by the JICPA is as follows (based on the number of audit firms reviewed in the reports).

<table>
<thead>
<tr>
<th>Date of report submission (month and year)</th>
<th>2008</th>
<th>2009</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of audit firms in the reports</td>
<td>3</td>
<td>6</td>
<td>21</td>
</tr>
</tbody>
</table>

Reference: Main content of the quality control review report (monthly report)
- Quality control review report
- Recommendation for improvement report
- Response to recommendation for improvement report
- Quality control review documents (a set of documents collected and prepared to create quality control review reports and recommendation reports)

ii) Quality Control Reviews Conducted by the JICPA

The JICPA is required to conduct quality control reviews for audit firms that provide audit services to large companies, etc. at least once every three years, in principle. In fiscal 2008, it conducted quality control reviews for 120 audit firms...
(65 audit firms, 55 sole practitioners).

The following table shows the breakdown of quality control review reports and recommendation for improvement reports that have been issued based on the results of the quality control reviews conducted in fiscal 2008.

### Quality control review reports (fiscal 2008) (Number of audit firms)

<table>
<thead>
<tr>
<th></th>
<th>Unqualified opinion</th>
<th>Qualified opinion</th>
<th>Negative opinion</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit firm</td>
<td>50</td>
<td>15</td>
<td>-</td>
<td>65</td>
</tr>
<tr>
<td>Sole practitioner</td>
<td>33</td>
<td>22</td>
<td>-</td>
<td>55</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>37</td>
<td>-</td>
<td>120</td>
</tr>
</tbody>
</table>

Note 1: A qualified opinion is issued when a certain concern for either of the following circumstances exists:

Circumstance 1: Deficiencies have been identified in the quality control system employed by the audit firm, which has inhibited realization of the purposes of audit quality control specified in the quality control standards; and therefore, significant violations of professional standards, laws and regulations incurred in the audit services provided by the audit firm.

Circumstance 2: Situations have been observed where auditors and other staff at the audit firm do not properly operate under the quality control system employed by the audit firm or where they do not follow the specific audit quality control procedures required in the quality control standards; and therefore, significant violations of professional standards, laws and regulations incurred in the audit services provided by the audit firm.

Note 2: Issuance of a negative opinion is considered when a major concern for at least one of the circumstances required for the “qualified opinion” mentioned above exists; and when, as a result of quality control reviews of individual audits, very significant violations of professional standards, laws and regulations are identified in the audit services provided by the audit firm.

### Recommendation for improvement reports (fiscal 2008) (Number of audit firms)

<table>
<thead>
<tr>
<th></th>
<th>Deficiencies to be improved:</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Audit firm</td>
<td>—</td>
<td>65</td>
</tr>
<tr>
<td>Sole practitioner</td>
<td>—</td>
<td>55</td>
</tr>
<tr>
<td>Total</td>
<td>—</td>
<td>120</td>
</tr>
</tbody>
</table>

In addition, in fiscal 2008, the JIPCA conducted follow-up reviews for 82 audit
firms (51 audit firms [including CPA’s joint audit firms] and 31 CPAs). The following table shows the breakdown of follow-up review reports that have been issued to audit firms in fiscal 2008.

<table>
<thead>
<tr>
<th>Audit firm</th>
<th>Improvement measures completed</th>
<th>Improvement measures insufficient</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>41</td>
<td>10</td>
<td>51</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sole practitioner</th>
<th>Improvement measures completed</th>
<th>Improvement measures insufficient</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20</td>
<td>11</td>
<td>31</td>
</tr>
</tbody>
</table>

| Total             | 61                              | 21                               | 82    |

Reference: Follow-up reviews
The JICPA conducts follow-up reviews as part of quality control reviews to determine the status of improvement measures. To be specific, the JICPA determines whether improvement measures are completed or insufficient by checking the status of measures actually undertaken by audit firms based on the content of improvement measures stated in the response to recommendation of improvement report submitted at the time of the previous quality control review. Improvement measures checked in the follow-up reviews include status of improvement of the quality control system; status of dissemination of information, including the education and training of auditors; and the status of corrective measures regarding the monitoring of the quality control system, etc.

(c) Implementation Status of Examinations at the CPAAOB

i) Perspective of Examination
Quality control reviews conducted by the JICPA during fiscal 2007 and 2008 were subject to the business year 2008 examinations. The following table shows the breakdown of those quality control review reports that were issued to audit firms in fiscal 2007 (for the breakdowns of the recommendation of improvement reports, see pages 11 of the CPAAOB’s annual report(excerpted version) for business year 2007).

<table>
<thead>
<tr>
<th>Audit firm</th>
<th>Unqualified opinion</th>
<th>Qualified opinion</th>
<th>Negative opinion</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>40</td>
<td>15</td>
<td>27.3%</td>
<td>55</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sole practitioner</th>
<th>Unqualified opinion</th>
<th>Qualified opinion</th>
<th>Negative opinion</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>58</td>
<td>15</td>
<td>19.7%</td>
<td>76</td>
</tr>
</tbody>
</table>

| Total             | 98                  | 30               | 22.9%           | 131   |
The CPAAOB analyzes quality control review reports by the JICPA, and requires JICPA or audit firms to submit information as needed. After verifying their contents, it conducts examinations. Perspective of examination is as shown below.

- Is the JICPA properly conducting quality control reviews?
- Does the audit firm properly establish and maintain with a quality control system to rationally ensure audit quality?
- Are engagements performed in accordance with the quality control system established by the audit firm?

ii) Information Requirements

In the examination process, the CPAAOB inquire with the JICPA as necessary, and furthermore, requires audit firms to submit information if needed. Reflecting the fact that, under the revised CPA Act that took effect in April 2008, it became mandatory to develop measures for monitoring the quality control system from the perspective of strengthening quality control, the CPAAOB’s “Basic Plan on Examinations, Business Year 2008” specifies “monitoring of quality control system” for audit firms and “establishment of quality control system” for sole practitioners as areas of focus in examinations. In November 2008, the CPAAOB collected reports from audit firms; the following table shows the status of report submission.

<table>
<thead>
<tr>
<th>Status of Information Submission</th>
<th>(As of June 30, 2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of audit firms</td>
</tr>
<tr>
<td></td>
<td>subject to QC review</td>
</tr>
<tr>
<td>Information submission from audit firm</td>
<td>131</td>
</tr>
<tr>
<td>Audit firm</td>
<td>52</td>
</tr>
<tr>
<td>Sole practitioner</td>
<td>79</td>
</tr>
</tbody>
</table>

Note 1: Audit firms at which quality control reviews were conducted in fiscal 2007.
Note 2: Includes CPA’s joint audit firms.
Note 3: Information was submitted from those audit firms whose quality control systems are significantly insufficient, whose attitudes toward the improvement of quality control are questionable, and whose operational procedures have many deficiencies.
Note 4: Of the audit firms from which information were submitted, for example, those audit firms at which further improvement is anticipated in the periodical verification of the quality control system.

iii) Deliberation
Based on the examination results of quality control reviews and the inspection results of audit firms, the CPAAOB makes decisions on the following matters:

- Undertake inspections of audit firms
- Make recommendations to the Commissioner of the FSA on administrative actions or any other measures.

The following table shows the status of deliberations concerning those 131 audit firms which were subject to quality control reviews in fiscal 2007; and 120 audit firms in fiscal 2008.

<table>
<thead>
<tr>
<th>Status of deliberations</th>
<th>Fiscal 2007 quality control review</th>
<th>Fiscal 2008 quality control review</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of audit firms subject to deliberations</td>
<td>131</td>
<td>120</td>
</tr>
<tr>
<td>i. Currently under verification at the Executive Bureau; and scheduled to be sent to the CPAAOB for deliberation.</td>
<td>0</td>
<td>120</td>
</tr>
<tr>
<td>ii. Undertook inspections of audit firms.</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>iii Based on the result of ii, made recommendations to the Commissioner of the FSA on administrative actions or any other measures.</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

(2) Inspection

(a) Basic Policy on Inspection

Inspections are conducted when it is deemed necessary and appropriate to check the status, including whether the JICPA’s quality control reviews are sufficient; and whether audit firms’ operation control systems are functioning effectively, based on the results of reviews on: appropriateness of operations of JICPA's quality control review systems; and appropriateness of establishment and maintenance of audit firms’ quality control systems as well as performance of audit engagements.

(b) Implementation Status of Inspections

Based on the Basic Plan on Examination and Inspection, Business Year 2008, the CPAAOB conducted inspections for six audit firms in the business year 2008.

(3) Recommendations to the Commissioner of the FSA

After reviewing the results of inspections conducted in the business year 2008, it was found that the operations of the following audit firm were significantly
inappropriate. Therefore, the CPAAOB made recommendations to the Commissioner of the FSA on administrative actions or any other measures based on the provision of Article 41-2 of the CPA Act. In addition, based on the recommendations from the CPAAOB, the Commissioner of the FSA issued orders under the provisions of Article 34-21 Paragraph 2 to the relevant audit firm.

<table>
<thead>
<tr>
<th>Audit firm</th>
<th>Date of recommendation</th>
<th>Date of business improvement order, etc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wing Partners org</td>
<td>February 17, 2009</td>
<td>March 13, 2009 *</td>
</tr>
</tbody>
</table>

Note: Suspension of business operations involving new contract conclusion for one year (March 23, 2009 through March 22, 2010) and business improvement order were issued.

(4) Revision of List of Examples of Issues on Audit Quality Control Identified through Inspections

Since its establishment in April 2004, the CPAAOB has been disclosing to related parties those results of examinations and inspections that are considered to be beneficial for securing and improving the quality of audits.

In this regard, the CPAAOB published *List of Examples of Issues on Audit Quality Control Identified through Inspections*. The publication, which was released in February 2008, and contains helpful examples selected and compiled from the issues identified in past inspections (a total of 30 inspections conducted in the period since the establishment of the CPAAOB to February 2008), was prepared to help audit firms in their voluntary efforts to maintain and improve their quality control.

In the revised edition, released in June 2009, certain examples of issues were added or deleted to reflect the issues identified in recent inspections conducted until the end of fiscal 2008 and the revisions of accounting standards, etc.

Going forward, the CPAAOB intends to promote understanding regarding these examples by holding briefing sessions and through other measures, and plans to revise the content of the list of examples every fiscal year, and add and delete examples as deemed necessary.

2. Inspections of Foreign Audit Firms, etc.

Under the revised CPA Act, which took effect in April 2008, those foreign audit firms, etc. that provide audit and attestation services for foreign issuers who submit securities reports, etc. to the Japanese authorities, are required to submit notification documents to the FSA; and the CPAAOB and the FSA require foreign audit firms to submit information, and conduct inspections of foreign audit firms, when deemed necessary and appropriate in light of the public interest or investor protection.

Regarding the implementation of inspections of foreign audit firms, etc., the
CPAAOB decided to conduct studies on how inspections should be implemented, as set forth in the Basic Policy on Examination, etc. mentioned in 3.(1) and the Basic Plan on Examination and Inspection, Fiscal Year 2009 mentioned in 3.(2). Accordingly, the FSA and the CPAAOB jointly developed the “A Draft Framework for Inspections/Supervisions of Foreign Audit Firms, etc.,” on which public comments were solicited from June 12 through July 13, 2009. The CPAAOB will hold further discussions based on the collected comments, and plan to develop and publicize a Framework for inspections/supervisions of foreign audit firms, etc., as well as developing specific implementation procedures and points to consider.

3. Revision of Basic Policy on Examination, etc.

(1) Revision of “Basic Policy on Examination, etc.—for further improvement of audit quality”

The CPAAOB undertook a revision of the Basic Policy on Examination, etc. concerning how to deal with foreign audit firms, etc. in consideration of the status of submission of notification documents by foreign audit firms. The revised Basic Policy was announced on March 31, 2009.

(2) Development of “the Basic Plan on Examination and Inspection, Fiscal Year 2009”

Based on the Basic Policy on Examination, etc. mentioned above, the CPAAOB developed “the Basic Plan on Examination and Inspection, Fiscal Year 2009” and announced it on March 31, 2009.

The Basic Plan on Examination places particular focuses on the verification of development status of quality control systems at sole practitioners and of the monitoring of the quality control system at audit firms; as well as on the verification of the status of operation of the JICPA’s registration system for listed company audit firms, etc.

Under the Basic Plan on Inspection, inspections of large audit firms, etc., and small and medium-sized audit firms will be conducted as deemed necessary. In addition, inspections of foreign audit firms will be conducted on an as-needed basis.
Chapter 3: Implementation of CPA Examinations

1. CPA Examination System, etc.

(1) Outline of the System

The CPA Examinations are conducted for the purpose of judgment whether a person has the necessary knowledge and applied skills to become a CPA and shall be conducted in writing based on multiple-choice tests and essay tests.

Note: The examination is offered in the following locations: Hokkaido, Miyagi, Tokyo, Ishikawa, Aichi, Osaka, Hiroshima, Kagawa, Fukuoka, Kumamoto, and Okinawa Prefectures.

(a) Examination Subjects

i) Multiple-choice tests: Four compulsory subjects
   financial accounting, management accounting, auditing, business law

ii) Essay tests: Four compulsory subjects
   accounting, auditing, business law, tax law
   One elective subject (one from the following four)
   business administration, economics, The Civil Code, statistics

(b) Partial Exemption from the Test Subjects

i) Multiple-choice Tests
   A person who has passed the multiple-choice tests can, upon application, be exempted from any multiple-choice tests for two years.
   In addition, a person who holds or has held the post of professor or associate professor of a subject in the category of commercial science or jurisprudence for three or more years at a university, etc.; a person who has passed the bar examination; a person who has business experience; or a person who has completed the entire course of the graduate school of accountancy education program can, upon application, be exempted from the multiple-choice tests on all or some of the subjects.

ii) Essay Tests
   A person who has, in the essay tests, gained scores that are found to be reasonable by the CPAAOB in some of the examination subjects can, upon application, be exempted from any essay tests on pertaining subject(s) for two years (see (c) iii)
In addition, a person who holds or has held the post of professor or associate professor of a subject in the category of commercial science or jurisprudence for three or more years at a university, etc.; or a person who has passed the bar examination can, upon application, be exempted from essay tests on the respective subject(s).

(c) Passing Standard, etc.

i) Multiple-choice Tests

The passing standard is 70% or a percentage decided as reasonable by the CPAAOB of the total score (however, a person who scores 40% or less of the total possible score in any subject may be rejected).

ii) Essay Tests

The passing standard is 52% or a percentage decided as reasonable by the CPAAOB of the total score (however, a person who scores 40% or less of the total possible score in any subject may be rejected).

Essay tests are graded by multiple examiners and differences between examiners and between examination subjects are adjusted by standard deviations.

iii) Standard for Partial Exemption from the Essay Test Subjects

Those who, in a certain examination subject(s), attain a score equal to or greater than the percentage decided as reasonable by the CPAAOB using as a standard the average score of those who passed the same essay tests, are qualified for the partial exemption (upon application, they can be exempted from essay tests on pertaining subject(s) for two years from the date of the announcement of the results).

Reference: Revision of CPA examination system in response to the revised CPA Act 2003

In response to the enactment of the Law Concerning Partial Revision of the CPA Act in May 2003, the CPAAOB undertook a major revision of the CPA examination system. Specifically, aiming to produce CPAs with various backgrounds while maintaining the quality of the CPA examination system, the reviews were conducted in the areas of simplifying the examination system, reviewing examination subjects, expanding partial exemption from the test subjects, and bringing a new perspective on business experiences. The new system was introduced in 2006. Certain transitional measures are provided for assistant CPAs under the previous examination system.
(2) Improvements in the Modalities
Based on the results of deliberations by the CPA examination study group, the CPAAOB published the “Report on Improvements in the Modalities of the CPA Examination” on October 25, 2007.

The measures to improve the CPA examination have been implemented starting with the 2008 examinations in accordance with the contents of the report.

Major Improvement Measures

○ Multiple-choice Tests
  <Implemented in the 2008 examinations>
  • Ask basic questions covering a wide range, and simplify question sentences and answer options.
  • Change from two day’s tests for two weekends to one-weekend-day tests.
  <To be Implemented in the 2010 examinations>
  • Conduct multiple-choice tests twice a year.

○ Essay Tests
  <Implemented in the 2008 examinations>
  • Limit the scope of questions compared with that of multiple-choice tests, and pose questions to test whether examinees have abilities to think, apply, and write a dissertation, etc.
  • Distribute booklets on laws and standards for accounting, auditing, and tax law tests, in addition to business law and the Civil Code tests as done under the previous examination system.
  • Change from three-weekday tests to two-weekend-days tests and one-weekday tests, for example, Friday through Sunday.

Reference: Schedule of the 2010 CPA Examination, in which the twice-a-year multiple-choice system will be introduced, is as shown below.

2010 CPA Examination Schedule (Planned)

<table>
<thead>
<tr>
<th></th>
<th>Appointment of examiners</th>
<th>Application period:</th>
<th>Examination date</th>
<th>Announcement of successful examinees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>First date</td>
<td>Last date</td>
<td></td>
</tr>
<tr>
<td>Essay</td>
<td>Dec. 9, 2009</td>
<td>—</td>
<td></td>
<td>August 20-22, 2010</td>
</tr>
</tbody>
</table>
(3) Public Relations Activities

In order to encourage many people from a wide variety of backgrounds to challenge the CPA Examinations, the CPAAOB is promoting public relations activities concerning the examinations. Specifically, at universities and other educational organizations throughout the country, the chairperson and full-time commissioners, etc. gave lectures on topics such as activities of the CPAAOB, improvement of the CPA examination system, and roles of CPAs. Moreover, in order to create greater interest in the CPA Examinations among women, lectures were delivered at women’s colleges and high schools. In business year 2008, lectures were delivered at 16 universities and other educational organizations.

In addition, the examination pamphlet, which was originally created in 2006, has been revised on an as-needed basis. The revisions in business year 2008 (March 2009) include the addition of the new examination schedule, which offers twice-a-year multiple-choice tests. The pamphlets are distributed to and available at universities throughout the country, the JICPA, and local finance bureaus, etc.

(4) Other

(a) Update of the CPA Examination Q&A

The CPA Examination Q&A, which is published on the CPAAOB’s website, has been updated as needed. In business year 2008, new information was added, including further explanation of the application procedure for exemption (October 2008), the examination schedule that offers twice-a-year multiple-choice tests, and special arrangements for disabled, pregnant, or other in-need examinees (February 2009).

(b) Improvement of the Computer System for the CPA Examination

The Computer System for the CPA Examination supports a series of the CPA examination processes from the management of applications to the announcement of successful examinees. In order to reflect the improvements in the modalities of the CPA examination, system development was carried out to change or add functions in the existing system. Specifically, the upgraded system can be adapted to the new twice-a-year multiple-choice test schedule, and incorporates the improved examination exemption database (started operation in February 2009).

(c) Market Test Regarding the Implementation of CPA Examination

The cabinet decision to revise the basic policy on public service reform was made on July 10, 2009. It was decided that private sector competitive bidding should be
implemented for part of the CPA examination operations, based on the Public Service Reform Act. Accordingly, examination operations—including processing of examination applications, securing of examination venues, and supervising examinations, which have previously been performed by the local finance bureaus—became subject to market test. The market test will be conducted by the Kanto Local Financial Bureau starting in fiscal 2011 (for the 2012 examinations).

(d) Response to the Influenza A (H1N1)
In implementing the 2009 multiple-choice tests in May 2009, the CPAAOB, in response to the outbreak of the influenza A (H1N1) in Japan, encouraged all examinees to wear masks, to observe cough etiquette, and to take other appropriate actions as directed on the CPAAOB website, based on the “Basic Response Policy” of the Specialist Advisory Committee of the Headquarters for Countermeasures against Influenza A (H1N1).

2. Implementation Status of CPA Examination

(1) 2008 CPA Examination
The schedule and implementation status of the 2008 CPA Examination are as shown below.

2008 CPA Examination Schedule

<table>
<thead>
<tr>
<th></th>
<th>Appointment of examiners</th>
<th>Application period:</th>
<th>Examination date</th>
<th>Announcement of successful examinees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>First date</td>
<td>Last date</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Nov. 18, 2008</td>
</tr>
</tbody>
</table>
### 2008 CPA Examination Results Summary

<table>
<thead>
<tr>
<th></th>
<th>Multiple-choice test examinees, etc.</th>
<th>Deemed successful multiple-choice test examinees including successful second-stage examinees under the previous examination system</th>
<th>2008 examination</th>
<th>Multiple-choice test examinees, etc.</th>
<th>Deemed successful multiple-choice test examinees including successful second-stage examinees under the previous examination system</th>
<th>(Reference) 2007 examination</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total applicants (a)</strong></td>
<td>19,736</td>
<td>1,432</td>
<td>21,168</td>
<td>18,220</td>
<td>2,706</td>
<td>20,926</td>
</tr>
<tr>
<td><strong>Multiple-choice test examinees, etc.</strong></td>
<td>19,736</td>
<td>—</td>
<td>19,736</td>
<td>18,220</td>
<td>—</td>
<td>18,220</td>
</tr>
<tr>
<td><strong>Multiple-choice test examinees (b)</strong></td>
<td>16,217</td>
<td>—</td>
<td>16,217</td>
<td>14,608</td>
<td>—</td>
<td>14,608</td>
</tr>
<tr>
<td></td>
<td>(19,635)</td>
<td>(19,635)</td>
<td>(18,140)</td>
<td>(18,140)</td>
<td>—</td>
<td>(18,140)</td>
</tr>
<tr>
<td><strong>Successful multiple-choice test examinees, etc.</strong></td>
<td>7,034</td>
<td>—</td>
<td>7,034</td>
<td>6,321</td>
<td>—</td>
<td>6,321</td>
</tr>
<tr>
<td><strong>Successful multiple-choice test examinees (c)</strong></td>
<td>3,515</td>
<td>—</td>
<td>3,515</td>
<td>2,709</td>
<td>—</td>
<td>2,709</td>
</tr>
<tr>
<td></td>
<td>(6,933)</td>
<td>(6,933)</td>
<td>(6,241)</td>
<td>(6,241)</td>
<td>—</td>
<td>(6,241)</td>
</tr>
<tr>
<td><strong>Ratio of successful multiple-choice test examinees (c/b)</strong></td>
<td>21.7%</td>
<td>—</td>
<td>21.7%</td>
<td>18.5%</td>
<td>—</td>
<td>18.5%</td>
</tr>
<tr>
<td></td>
<td>(35.3%)</td>
<td>(35.3%)</td>
<td>(34.4%)</td>
<td>(34.4%)</td>
<td>—</td>
<td>(34.4%)</td>
</tr>
<tr>
<td><strong>Essay test examinees (d)</strong></td>
<td>7,034</td>
<td>1,429</td>
<td>8,463</td>
<td>6,320</td>
<td>2,706</td>
<td>9,026</td>
</tr>
<tr>
<td><strong>Successful examinees (e)</strong></td>
<td>3,024</td>
<td>601</td>
<td>3,625</td>
<td>2,695</td>
<td>1,346</td>
<td>4,041</td>
</tr>
<tr>
<td><strong>Ratio of successful essay test examinees (e/d)</strong></td>
<td>43.0%</td>
<td>42.1%</td>
<td>42.8%</td>
<td>42.6%</td>
<td>49.7%</td>
<td>44.8%</td>
</tr>
<tr>
<td><strong>Ratio of successful examinees (e/a)</strong></td>
<td>15.3%</td>
<td>42.0%</td>
<td>17.1%</td>
<td>14.8%</td>
<td>49.7%</td>
<td>19.3%</td>
</tr>
</tbody>
</table>

**Note 1:** “Multiple-choice test examinees, etc.” and “successful multiple-choice test examinees, etc.” include those who passed the multiple-choice tests of the previous two years and were exempted from multiple-choice tests, as well as those qualified examinees who were exempted from multiple-choice tests, such as professors and those who passed the bar examination.

**Note 2:** Figures in parentheses under “multiple-choice test examinees” represent the multiple-choice test examinees of this year’s examination and those who passed the multiple-choice tests of the previous two years and were exempted from multiple-choice tests.

**Note 3:** Figures in parentheses under “successful multiple-choice test examinees” represent the successful multiple-choice test examinees of this year’s examination and those who passed the multiple-choice tests of the previous two years and were exempted from multiple-choice tests.

(a) Applicants

The total number of applicants for the 2008 CPA examination was 21,168. The number of applicants excluding the number of “deemed successful multiple-choice test examinees including successful second-stage examinees under the previous examination system” (1,432) was 19,736, which was 1,516
(8.3%) more than that of the previous year (18,220).

(b) Multiple-choice test
The number of applicants who took multiple-choice tests was 16,217 (the total number of applicants [21,168] minus the number of “deemed successful multiple-choice test examinees including successful second-stage examinees under the previous examination system” [1,432]; those who passed the multiple-choice tests of the 2006 examination or the 2007 examination and were exempted from the 2008 multiple-choice tests [3,418]; and those qualified examinees who were exempted from multiple-choice tests, such as professors and those who passed the bar examination [101]). The number of successful multiple-choice test examinees was 3,515 (the ratio of successful examinees was 21.7%).
The total number of applicants who passed multiple-choice tests was 6,933 (those who passed 2008 multiple-choice tests [3,515]; and those who passed the multiple-choice tests of the 2006 examination or the 2007 examination and were exempted from the 2008 multiple-choice tests [3,418]), an increase of 692 (11.1%) compared with the previous year.
Reference: The passing standard for the 2008 multiple-choice tests was 65% of the total score (however, a person who scored 40% or less of the total possible score in any subject were rejected).

(c) Essay test
The number of essay test examinees was 8,463 (the total number of those who passed multiple-choice tests [6,933]; deemed successful multiple-choice test examinees including successful second-stage examinees under the previous examination system [1,432]; and those qualified examinees who were exempted from multiple-choice tests, such as professors and those who passed the bar examination [101]; minus the number of those who were exempted from all subjects [3; who became qualified for exemption from all subjects in the 2008 examination]), and the number of successful examinees was 3,625 (including those who were exempted from all subjects [3]) (the ratio of successful examinees was 42.8%). The number of successful examinees excluding the number of “deemed successful multiple-choice test examinees including successful second-stage examinees under the previous examination system” was 3,024, which was 329 (12.2%) more than the previous year.
The number of successful company-employee examinees was 97 (2.7% of the total). Although the share was small, it was 15 (18.3%) more than the previous year.

Reference 1: The passing standard for the 2008 essay tests was 51.0% of the total score (however, a person who scored 40% or less of the total possible score in any subject was rejected).

Reference 2: The CPAAOB decided that those who scored equal to or more than 55.0% in a certain examination subject(s) are qualified for the partial exemption.

Reference 3: By age, the percentage of successful examinees under the age of 30 was 73.7%; and the average age was 27.0. The oldest successful examinee was 59 years old, while the youngest was 19.

By profession, the number of assistant CPAs was 580 (16.0% of the total successful examinees), university students and specialized training college/miscellaneous school students 2,020 (55.7%), and unemployed persons 562 (15.5%). The number of successful female examinees was 636 (17.5%), which was 65 less than the previous year.

(2) 2009 CPA Examination

The schedule and implementation status of the 2009 CPA Examination are as shown below.

2009 CPA Examination Schedule

<table>
<thead>
<tr>
<th></th>
<th>Appointment of examiners</th>
<th>Application period:</th>
<th>Examination date</th>
<th>Announcement of successful examinees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>First date</td>
<td>Last date</td>
<td></td>
</tr>
<tr>
<td>Essay</td>
<td></td>
<td></td>
<td></td>
<td>August 21-23, 2009</td>
</tr>
</tbody>
</table>
## 2009 CPA Examination Results Summary

<table>
<thead>
<tr>
<th></th>
<th>2008 examination</th>
<th>2009 examination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total applicants</td>
<td>20,443</td>
<td>21,255</td>
</tr>
<tr>
<td>Multiple-choice test examinees</td>
<td>17,371</td>
<td>19,736</td>
</tr>
<tr>
<td>Successful multiple-choice test examinees (a)</td>
<td>5,361</td>
<td>7,034</td>
</tr>
<tr>
<td>Successful multiple-choice test examinees (b)</td>
<td>2,289</td>
<td>3,515</td>
</tr>
<tr>
<td>Essay test examinees (planned)</td>
<td>5,361</td>
<td>6,173</td>
</tr>
</tbody>
</table>

### (Reference)
- **Total applicants**: 21,168
- **Multiple-choice test examinees**: 19,736
- **Successful multiple-choice test examinees**: 7,034
- **Essay test examinees (planned)**: 8,463

#### Note 1:
- “Multiple-choice test examinees, etc.” and “successful multiple-choice test examinees, etc.” include those who passed the multiple-choice tests of the previous two years and were exempted from multiple-choice tests, as well as those qualified examinees who were exempted from multiple-choice tests, such as professors and those who passed the bar examination.

#### Note 2:
- Figures in parentheses under “multiple-choice test examinees” represent the multiple-choice test examinees of this year’s examination and those who passed the multiple-choice tests of the previous two years and were exempted from multiple-choice tests.

#### Note 3:
- Figures in parentheses under “successful multiple-choice test examinees” represent the successful multiple-choice test examinees of this year’s examination and those who passed the multiple-choice tests of the previous two years and were exempted from multiple-choice tests.

#### Note 4:
- Figures of “essay test examinees (planned)” were obtained by adding the number of “deemed successful multiple-choice test examinees including successful second-stage examinees under the previous examination system” to the number of “successful multiple-choice test examinees, etc.”

(a) Applicants
- The total number of applicants for the 2009 CPA examination was 21,255. The number of applicants excluding the number of “deemed successful multiple-choice test examinees including successful second-stage examinees under the previous examination system” (812) was 20,443, which was 707 (3.6%) more than the
previous year (19,736).

(b) Multiple-choice test

The number of applicants who took multiple-choice tests was 17,371 (the total number of applicants [21,255] minus the number of “deemed successful multiple-choice test examinees including successful second-stage examinees under the previous examination system” [812]; those who passed the multiple-choice tests of the 2007 examination or the 2008 examination and were exempted from the 2009 multiple-choice tests [2,956]; and those qualified examinees who were exempted from multiple-choice tests, such as professors and those who passed the bar examination [116]). The number of successful multiple-choice test examinees was 2,289 (the ratio of successful examinees was 13.2%).

The total number of applicants who passed multiple-choice tests was 5,245 (those who passed the 2009 multiple-choice tests [2,289]; and those who passed the multiple-choice tests of the 2007 examination or the 2008 examination and were exempted from the 2009 multiple-choice tests [2,956]), a decrease of 1,688 (24.3%) compared with the previous year.

The number of essay test examinees (planned) was 6,173 (the total of the number of applicants who passed multiple-choice tests [5,245]; the number of deemed successful multiple-choice test examinees including successful second-stage examinees under the previous examination system [812]; and those qualified examinees who were exempted from multiple-choice tests, such as professors and those who passed the bar examination [116]).

Reference: The passing standard for the 2009 multiple-choice tests was 70% of the total score (however, a person who scored 40% or less of the total possible score in any subject was rejected).
Chapter 4: Deliberation of Disciplinary Actions against CPAs and Audit Firms

In the business year 2008, the CPAAOB deliberated on three cases.

Conducted deliberations
- 117th CPAAOB Meeting (July 9, 2008) Four CPAs
- 123rd CPAAOB Meeting (October 22, 2008) Natsume Audit Corporation and two CPAs
- 138th CPAAOB Meeting (June 16, 2009) One CPA

Case 1

At the 117th Meeting held on July 9, 2008, the CPAAOB deliberated on the disciplinary actions against four CPAs who were partners of the former ChuoAoyama Pricewaterhouse Coopers engaged in the services pertaining to said audit report of the financial statements prepared by Sanyo Electric Co., Ltd. under the Securities and Exchange Act; and expressed its opinions concerning the judgments of the Commissioner of the FSA.

Based on the CPAAOB’s opinions, the Commissioner of the FSA took disciplinary actions against the CPAs on July 11, 2008.

The summaries of the disposition and the case are given below (taken from the FSA’s publication).

Summary of the Disciplinary Action

Today (July 11, 2008), the FSA issued a disciplinary action described below against CPAs who were partners of the former ChuoAoyama Pricewaterhouse Coopers engaged in the services pertaining to said audit report (hereinafter referred to as “engagement partner”) of the financial statements prepared by Sanyo Electric Co., Ltd. (hereinafter referred to as “Sanyo Electric”) under the Securities and Exchange Law.

○ CPA
(1) Party subject to the disposition and the content of the disposition

  Two CPAs
  Suspension of business for two years (July 18, 2008 through July 17, 2010)

  One CPA
  Suspension of business for six months (July 18, 2008 through January 17, 2009)

  One CPA
  Suspension of business for nine months (July 18, 2008 through April 17, 2009)

(2) Reason for the disposition

  With regards to audits performed on Sanyo Electric’s financial statements for the fiscal years ended March 31, 2001 through March 31, 2005, each one of the CPAs, in negligence of due care, attested financial statements containing material misstatements
as those containing no misstatements.

- Two CPAs (for the fiscal years ended March 31, 2001 through March 31, 2005)
- One CPA (for the fiscal years ended March 31, 2001 through March 31, 2003)
- One CPA (for the fiscal years ended March 31, 2004 through March 31, 2005)

Summary of the Case

Sanyo Electric submitted to the Kanto Local Finance Bureau annual securities reports with attached financial statements containing material misstatements. Its non-consolidated financial statements overstated the net assets by over 100 billion yen in each of the fiscal years from that ended March 31, 2001 through that ended in March 2005, in such ways as overstating the value of investments in subsidiaries and affiliates (hereinafter referred to as “investments in subsidiaries, etc.”) and by understating the amount of allowance for losses on investments in subsidiaries and affiliates.

(1) Two CPAs
(a) Impairment losses on investments in subsidiaries, etc. recognized by Sanyo Electric

At the time of closing books for the fiscal year ended March 31, 2001, Sanyo Electric developed the following accounting procedures: i) develop a business plan aiming to eliminate the accumulated losses by the end of the next five business years; ii) the plan is fixed and will not be revised during the five business years; iii) in each business year starting from the next fiscal period, the amounts equivalent to the difference between the target amount under the plan and the amount actually achieved are recognized as impairment losses. These procedures were followed until the interim period ended September 30, 2004.

Moreover, in and after the fiscal year ended March 31, 2003, at the subsidiaries whose actual business results were significantly below the levels under the business plan, the amounts equivalent to accumulated losses, which were unable to be offset against profits to be earned until the end of the fiscal year ended March 31, 2006, were recognized as impairment losses.

In addition, in the fiscal year ended March 31, 2005, a new five-business-year plan was developed. At some subsidiaries, the differences between the total amount of net assets and profits for the five-business-year period and the book value were recognized as impairment losses.

Due to these accounting procedures taken by Sanyo Electric, the investments in subsidiaries, etc., the net asset value of which significantly declined compared with the acquisition value and is not expected to recover to the acquisition value supported by strong evidence, were not written down to fair market value or net asset value.

The relevant two CPAs were aware of Sanyo Electric’s method used to determine impairment losses on investments in subsidiaries, etc. However, they misunderstood that the relevant accounting transactions fall within the scope of the accounting standard for financial instruments, and allowed the Sanyo Electric to record the transactions in accordance with the above mentioned rules until the fiscal year ended March 31, 2005.
(b) Scope of consideration regarding the recoverability of the value of investments in subsidiaries, etc.

From the fiscal year ended March 31, 2001 to the fiscal year ended March 31, 2004, the relevant two CPAs, in determining the recoverability of the value of investments in subsidiaries, etc., obtained information for consideration such as business plans only from the 11 to 16 subsidiaries which have significant accumulated losses, and used simple methods such as hearing for other subsidiaries, etc.

For this reason, the two CPAs failed to identify those subsidiaries that needed to recognize impairment losses among the subsidiaries, etc. other than those from which the business plan information was obtained, and to make judgments on the recoverability of the value of investments in subsidiaries, etc. based on sufficient evidence.

(2) Two CPAs

One CPA was engaged in the auditing of Sanyo Electric’s financial statements for the fiscal year ended March 31, 2001 to the fiscal year ended March 31, 2003; the other CPA was engaged in the auditing of Sanyo Electric’s financial statements for the fiscal year ended March 31, 2004 and the fiscal year ended March 31, 2005. Both CPAs were primarily engaged in the auditing of the consolidated financial statements.

The accounting method concerning the investments in subsidiaries, etc. adopted by Sanyo Electric was clearly stated in the audit examination materials, and the relevant two CPAs were aware of the content of the description. However, following the judgment made by the above-mentioned CPAs in (1), they approved Sanyo Electric’s accounting method.

In addition, since they did not conduct sufficient inspections of the working papers concerning the recoverability of the value of investments in subsidiaries, etc., the two CPAs failed to realize that the business plan information was collected from only a part of all subsidiaries, etc. of which the net assets are less than the carrying amount.

Note: The errors or omissions committed by the two CPAs in (2) are similar. However, since the amendment of the CPA Act, which included a revision of the periods of suspension of business, was enacted in 2003, and enforced in April 2004, the periods of suspension are different between the two CPAs.

Case 2

At the 123rd Meeting held on October 22, 2008, the CPAAOB deliberated on the disciplinary actions against Natsume Audit Corporation that attested financial statements prepared by Seta Corporation under the Securities and Exchange Law, and two CPAs who were partners engaged in the services pertaining to said audit report, and expressed its opinions concerning the judgments of the Commissioner of the FSA.

Based on the CPAAOB’s opinions, the Commissioner of the FSA took disciplinary actions against the audit corporation and CPAs on October 24, 2008.

The summaries of the disposition and the case are given below (taken from the FSA’s publication).
Summary of the Disciplinary Action

Today (October 24, 2008), the FSA, based on the results of investigations and deliberations, issued a disposition and a disciplinary action described below against Natsume Audit Corporation that attested financial statements prepared by Seta Corporation (hereinafter referred to as “Seta”) under the Securities and Exchange Law, and CPAs who were engagement partners pertaining to said audit report.

1. Audit firm
   (1) Party subject to the disposition and the content of the disposition
       Natsume Audit Corporation
       Suspension of part of business for one month (suspension of business involving new contract conclusion)
       (November 1 through November 30, 2008)
   (2) Reason for the disposition
       With regards to audits performed by Natsume Audit Corporation on Seta’s financial statements for the fiscal year ended March 31, 2007, the engagement partners of the audit corporation, in negligence of due care, attested financial statements containing material misstatements as those containing no misstatements.

2. CPA
   (1) Party subject to the disposition and the content of the disposition
       Two CPAs
       Suspension of business for three months (November 1, 2008 through January 31, 2009)
   (2) Reason for the disposition
       With regards to audits performed on Seta’s financial statements for the fiscal year ended March 31, 2007, the two CPAs, in negligence of due care, attested financial statements containing material misstatements as those containing no misstatements.

Summary of the Case

Seta prepared the financial statements for the fiscal year ended March 31, 2007 containing material misstatements in which net sales of 806 million yen were recorded, which should have been recorded in the fiscal year ended March 31, 2008. It was done in such ways as by acting in conspiracy with its client company to forge vouchers, such as shipment and receipt documents of products that were planned to be shipped in April 2007 or later.

The following problems were identified in the audit report of said financial statements conducted by the relevant engagement partners pursuant to the Securities and Exchange Law.

(a) One CPA failed to obtain or examine audit evidence to verify the accuracy and exhaustiveness of the information. Although he obtained vouchers related to the final shipment for audit of sales, he did not conduct a thorough examination of sales slips before and after the fiscal year end to determine the appropriateness of the recognition period. He also neglected to identify, in the vouchers related to the sales of the current fiscal year, those showing a possibility that shipments were made after the stated final
shipment dates.
In addition, although the names of customers to whom products were sold or the dates of receipt did not agree between the related sales vouchers, he did not verify reasons for the discrepancy or consider the reliability of the audit evidence information. Furthermore, concerning Sata’s customers from which the amount of accounts receivable were beyond the materiality levels specified in Sata’s audit plan, balance confirmation letters were not obtained; and the alternative procedures were not completed. In spite of these facts, the CPA issued an unqualified opinion, neglecting to obtain sufficient and appropriate audit evidence regarding accounts receivable.

(b) One CPA, who was responsible for the audit of accounts receivable, relied on another engagement partner to collect balance confirmation letters, and did not follow up. In addition, the CPA neglected to consider the reliability of audit evidence information. In relation to confirmation of inventories, although obtained vouchers related to the final shipment, he did not check the consistency between such vouchers and those related to other shipments, not realizing the possibility of discrepancies.

Case 3
At the 138th Meeting held on June 16, 2009, the CPAAOB deliberated on the disciplinary actions against a CPA, and expressed its opinions concerning the judgments of the Commissioner of the FSA.
Based on the CPAAOB’s opinions, the Commissioner of the FSA took disciplinary actions against the CPA on June 23, 2009.
The summary of the disposition is given below (taken from the FSA’s publication).
Summary of Disciplinary Action

The below-described acts committed by a CPA were found to be in violation of the CPA Act. Today (June 23, 2009), the FSA issued a disciplinary action in accordance with the provisions of Article 31 of the same law.

○ CPA
  (1) Content of the disposition
      Suspension of business for three months (June 26, 2009 through September 25, 2009)
  (2) Reason for the disposition
      The CPA committed insider trading in violation of the Financial Instruments and Exchange Act, when he obtained partial information about the fact that Canon Marketing Japan Inc. and four other companies decided to launch takeover bids for the shares of Argo 21 Corp. and four other companies. These acts are considered a violation of the provisions in Article 26 (Prohibition of Discreditable Acts) of the CPA Act.
Chapter 5: Cooperation with Relevant Organizations in Other Countries

1. International Forum of Independent Audit Regulators (IFIAR)

(1) Overview, etc.

(a) Historical Background and Current Status

The International Forum of Independent Audit Regulators (IFIAR) consists of the audit regulatory organizations from different jurisdictions around the world. Since March 2007, when the first meeting was held hosted by the CPAAOB in Tokyo, the forum has been meeting twice a year; so far, five plenary meetings have been held. As of the end of June 2009, the IFIAR has member organizations from 31 countries and regions.

(b) Purpose

The following are the purposes of the IFIAR:

i  To share knowledge of the audit market environment and practical experience of independent audit regulatory activity, focusing 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.

(c) Organization

The IFIAR has, under the Chair and the Vice-chair, five subordinate organizations: Working Group (WG) on the Six Largest Audit Networks, WG on Inspection Workshop, WG on International Cooperation, Task Force (TF) on Recent Market Events, and Standards Coordination Group. In addition, the Advisory Council has been established to support and give advice to the Chair and the Vice-chair (see the organization chart in “Topic” on page 32).

(2) Status of Activities

(a) Plenary Meeting

(i) Fourth Meeting

From September 22 through 24, 2008, the fourth meeting was held in Cape Town, hosted by Independent Regulatory Board for Auditors (IRBA) of South Africa.
The CPAAOB was represented by Chairperson Akira Kaneko and other members. The meeting was attended by representatives of audit regulators from 21 countries,*¹ as well as representatives of the European Commission (EC), who joined as observers. At the meeting, the audit regulatory organizations from three countries (Hungary, Slovakia, and Taiwan) were approved as new IFIAR members. In addition, discussions were held on the future role and organization of the IFIAR, and the CPAAOB was appointed to the Advisory Council (made up of six countries*²). Moreover, participants, joined by representatives of three*³ of the six largest global audit networks, exchanged views on global quality monitoring arrangements.

Note 1: Australia, Austria, Brazil, Canada, Denmark, Finland, France, Germany, Italy, Japan, South Korea, Mauritius, the Netherlands, Norway, Singapore, South Africa, Sri Lanka, Sweden, Switzerland, UK and USA
Note 2: USA, Germany, Japan, France, Norway and Singapore
Note 3: BDO, Deloitte Touche Tohmatsu and KPMG

(ii) Fifth Meeting
From April 27 through 29, 2009, the fifth meeting was held in Basel, hosted by Federal Audit Oversight Authority (FAOA) of Switzerland. The CPAAOB was represented by Chairperson Akira Kaneko, Commissioner Yoshikazu Wakita, and other members. The meeting was attended by representatives of audit regulators from 30 jurisdictions,*¹ as well as representatives of seven international organizations,*² who joined as observers. At the meeting, participants, joined by representatives of the six largest global audit networks, exchanged views on issues relating to the recent economic situation and responses to it, and on a series of other issues that have impacts on auditors.

Steven Maijoor, Managing Director, Netherlands Authority for the Financial Markets (AFM), was appointed as incoming Chair, and Paul Boyle, Chief Executive Officer, UK Financial Reporting Council (FRC), as incoming Vice-chair.

In addition, the participants reached an agreement in principle that members will start making financial contributions, which is necessary to support the core managerial and organizational activities of the IFIAR.

IFIAR will hold its next meeting in Singapore in September 2009, hosted by
Accounting and Corporate Regulatory Authority (ACRA) of Singapore.

Note 1: Abu Dhabi, Australia, Austria, Brazil, Canada, Denmark, Dubai, Egypt, Finland, France, Germany, Hungary, Ireland, Italy, Japan, South Korea, Lithuania, Mauritius, the Netherlands, Norway, Singapore, Slovakia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, UK and USA

Note 2: Financial Stability Board (FSB), International Organization of Securities Commissions (IOSCO), Basel Committee on Banking Supervision (BCBS), International Association of Insurance Supervisors (IAIS), Public Interest Oversight Board (PIOB), World Bank (WB) and European Commission (EC)

IFIAR past meetings
First meeting March 22-23, 2007 Tokyo, Japan
Second meeting September 24-25, 2007 Toronto, Canada
Third meeting April 9-11, 2008 Oslo, Norway
Fourth meeting September 22-24, 2008 Cape Town, South Africa
Fifth meeting April 27-29, 2009 Basel, Switzerland

(b) Inspection Workshop
Matters related to audit inspection are one of the main focuses of the IFIAR. The IFIAR Inspection Workshop meeting, consisting mainly of inspectors of the member organizations, has been held for the purpose of providing opportunities to share inspection skills and experience.

The third workshop was attended by participants from 25 jurisdictions*, who shared views on such issues as audit firm inspection activities, and selection and review of issuer audit engagements. From Japan, inspectors and other staff of the CPAAOB participated and shared their experience of inspections concerning off-site monitoring and communication related to issues identified in inspections.

Note: Australia, Brazil, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, South Korea, Luxembourg, Mauritius, the Netherlands, Norway, Singapore, Slovakia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, UK and USA.

IFIAR past inspection workshops
First workshop May 30-31, 2007 Amsterdam, the Netherlands
Second workshop January 29-30, 2008 Berlin, Germany
Third workshop February 11-13, 2009 Stockholm, Sweden

2. Other
In addition to participating in the IFIAR meetings, the CPAAOB is actively exchanging
views and information with audit regulators and other organizations of different countries on a bilateral and as-needed basis.
Particularly in response to the enforcement of the revised CPA Act in April 2008, the representatives of the CPAAOB and the FSA jointly held meetings with representatives of audit regulators of different countries to discuss issues concerning how the new system should be implemented, including the obligation of foreign auditing firms, etc. to provide notification to the FSA; and specific implementation procedures concerning the authorization of the CPAAOB to conduct inspections.
Based on those discussions, in February 2009, the CPAAOB and the FSA jointly issued comments on the amendment of the PCAOB Rule regarding the partial extension of the interval between foreign audit firm inspections, etc. proposed by the US PCAOB.

Note: Under the US Sarbanes-Oxley Act of 2002, the PCAOB is required to conduct inspections of US and foreign audit firms that provide audit services for 100 or fewer listed companies, in principle once every three years. The proposed rule amendments involve the amendment of the PCAOB Rule 4003, which allows the inspections of foreign audit firms required to be conducted by the end of 2009 to be postponed by a maximum of three years, and the stipulation of measures that can be taken by the PCAOB against foreign audit firms that refuse to follow the inspection requirement due to concerns about conflict with their countries’ domestic laws.
Concerning International Cooperation

As one of the main members of the International Forum of Independent Audit Regulators (IFIAR), which consists of the audit regulatory organizations from 31 countries and regions, the Certified Public Accountants and Auditing Oversight Board (CPAAOB) has been actively taking part in international cooperation initiatives. Since March 2007, when the first IFIAR meeting was held, hosted by the CPAAOB in Tokyo, the forum has been meeting twice a year; so far five plenary meetings have been held. The following describes the major activities of the CPAAOB (See pages 30 through 32 for more information).

✎ Involvement in the Establishment of IFIAR
The meeting of representatives of audit regulatory organizations, which was an informal meeting of audit regulatory organizations and the predecessor of the IFIAR, has been held for the first time in Washington in September 2004. The CPAAOB, along with regulatory organizations from other major countries, has been participating since the beginning, and contributed to the establishment and organizational development of the IFIAR.

✎ Participation in the IFIAR’s Advisory Council
The Advisory Council was established in September 2008 to support the Chair and the Vice-chair and give advice to them on major issues. The CPAAOB is a member of the Council, along with other audit regulatory organizations from countries such as the US and Germany (term of service is four years). * The Advisory Council consists of six countries. See the organization chart below.

✎ Participation in the IFIAR’s Inspection Workshop, etc.
One of the important activities of the IFIAR is the holding of Inspection Workshops, the purpose of which is to provide opportunities for inspectors and other staff of the member organizations to share inspection skills and experience. The workshop is held once every year; so far three workshops have been held. The CPAAOB’s inspectors and other staff have served at those workshops as presenters or panelists. Moreover, the CPAAOB is an active member of the Working Group on the Six Largest Audit Networks, as well as the Working Group on International Cooperation.

Under the revised CPA Act, which took effect in April 2008, the CPAAOB is authorized to conduct inspections of foreign audit firms, etc. Going forward, this and other factors will make it increasingly important for the CPAAOB to actively engage in international cooperation initiatives.

IFIAR organization chart (As of June 30, 2009)