

Basic Plan for Monitoring Audit Firms in Program Year 2019 (from July 2019 to June 2020)

To maintain audit quality and improve the effectiveness of audit, the Certified Public Accountants and Auditing Oversight Board (the “CPAFOB”) hereby establishes the Basic Plan for Monitoring Audit Firms in Program Year (“PY”) 2019 (from July 2019 to June 2020) (the “Basic Plan 2019”), reflecting the perspectives and objectives stated in the Basic Policy for Monitoring Audit Firms (the “Basic Policy”)¹ and environment surrounding audit firms.

1. Environment surrounding audit firms

Audit trends

Japan’s economy continues to recover moderately despite ongoing weakness in exports and production. The number of IPOs at stock exchanges totaled 90 in 2018, the same high level as in 2017. The total number of listed companies and the average audit fees paid by them are increasing, albeit slightly.

Audits of listed companies are performed by audit firms (refers to both individual certified public accountants and audit firms; the same hereinafter), of which large-sized audit firms² accounted for an overwhelming 90% (as of the end of 2018, based on market capitalization). The number of audit firm changes by listed companies has been increasing in recent years. Large-sized audit firms have been reviewing their client portfolios, and in conjunction with this there have been switches from large-sized to second-tier² or small and medium-sized audit firms².

¹ Basic Policy for Monitoring Audit Firms: It sets the standpoint, objectives, and basic policy for each term regarding monitoring implemented by the CPAFOB. The basic policy for the sixth term (April 2019 to March 2022) was formulated and announced on May 17, 2019.

(<https://www.fsa.go.jp/cpaoob/shinsakensa/kihonhoushin/20190517.html>)

² The CPAFOB classifies audit firms based on their size, and there are three categories as follows:

- Large-sized audit firms: Audit firms that have more than approximately 100 domestic listed audited companies and whose full-time staff performing actual audit duties total at least 1,000. In this basic plan, they specifically refer to the four firms of KPMG Azsa LLC, Deloitte Touche Tohmatsu LLC, Ernst & Young ShinNihon LLC, and PricewaterhouseCoopers Aarata LLC.
- Second-tier audit firms: Audit firms whose business scale is second only to large-sized audit firms. In this basic plan, they refer to five audit firms: Gyosei & Co., BDO Sanyu & Co., Grant Thornton Taiyo LLC, Crowe Toyo & Co., and PricewaterhouseCoopers Kyoto.
- Small and medium-sized audit firms: Audit firms other than large-sized and second-tier audit firms

Given ongoing high levels of M&A activity, companies expanding into overseas markets, and increasingly complex and specialized business transactions, large-sized audit firms have endeavored to meet the need for more in-depth and complex audit methods by retaining and training international human resources, introducing IT and other technologies, and hiring more assistants to engagement partners. Still, they need to perform audits based on a proper understanding of the impact on corporate earnings of the unstable economic environment stemming from recent increases in uncertainty surrounding overseas economies as well as the protracted low-interest-rate environment and changing population dynamics in Japan.

Response to accounting scandals

The number of listed companies that have provided timely disclosure of matters such as inappropriate accounting treatment has been increasing over the past few years. This is likely attributable to the increased awareness among listed companies of the importance of timely information disclosure as well as to issues pointed out by auditors, but cases where corporate internal controls were not functioning adequately and cases of insufficient management of group companies, including overseas group companies, continue to be observed.

It goes without saying that top management of companies is responsible for the preparation of financial statements and the development/implementation of an effective internal control system. Thus, it is increasingly important that audit firms perform audit procedures on internal control based on a thorough understanding of audited companies' business characteristics and the environment surrounding them, including their overseas businesses. Audit firms are required to inform audited companies of internal control deficiencies in a timely manner.

In the IPO market, while listing examinations have become stricter, given that the number of new listings remains high, as was mentioned earlier, and the fact that the internal controls of these companies are comparatively vulnerable, newly-listed companies still need to be audited with care.

Current state of quality control at audit firms

The CPAAOB has implemented 5-level overall ratings³, based on which it assigns an

³ The CPAAOB provides an inspected audit firm with an overall rating based on the "key points" section of the inspection results notifications. The "key points" section consists of an overview of deficiencies in the operations management environment, quality control environment and individual audit engagements.

overall rating to the inspected audit firm's business administration in the inspection result notification (excluding follow-up inspections), since PY 2016 (July 2016 – June 2017). In the results of inspections of large-sized audit firms and second-tier audit firms conducted since PY 2016, no audit firm has been given the highest rating "generally satisfactory." Most inspected audit firms were assigned the second highest rating "satisfactory with minor deficiencies," while some were assigned a rating of "unsatisfactory." Regarding small and medium-sized audit firms, meanwhile, because firms to be subject to inspections are selected based on risk, a comparatively high number of them were rated as "unsatisfactory" or lower.

Inspections conducted recently noted that large-sized audit firms tend to be shifting responsibility for audit quality control from head-office quality control departments to business units, which are closer to the audit frontline, and that this has proved somewhat effective. However, inadequate cooperation between the head-office quality control department and the business units is one of the issues.

Regarding second-tier audit firms, some of them have been moving to establish structures that allow for systematic responses, but there are issues such as inadequate administration and management as a result of a lack of quality control personnel and insufficient awareness among executives, including top management, of the importance of ensuring and improving audit quality control.

As for small and medium-sized audit firms, some of the larger ones have failed to establish operations management environments or quality control environments that are sufficient to cope with their business expansion. Furthermore, at some firms the environment for conducting proper audits of high-risk listed companies is inadequate.

Responses to the Audit Firm Governance Code

Based on the "Principles for Effective Management of Audit Firms" (the "Audit Firm Governance Code"), published by the Financial Services Agency (the "FSA") in March 2017, large-sized audit firms are taking steps to ensure that their governance is effective. For example, some of them are adopting suggestions and recommendations made by supervision and evaluation bodies comprising independent third parties. Second-tier audit firms etc., however, may have adopted the Audit Firm Governance Code and

Overall ratings are classified into 5 levels: "generally satisfactory", "satisfactory with minor deficiencies", "unsatisfactory", "unsatisfactory and in need of immediate remediation" and "extremely unsatisfactory." For detailed information, see the Monitoring Report published on the CPAAOB's website.

established supervision and evaluation bodies, but there are issues with ensuring their effectiveness. For example, the knowledge of independent third parties may not be being utilized sufficiently.

Security measures aligned with advancement of information technology (IT)

Audit firms, mainly large-sized audit firms, are accelerating their adoption of IT for audit engagements as a means of ensuring and improving audit quality, and it is hoped that these initiatives will not only make audit engagements more effective, but will also ease the burden on the audit frontline through increased efficiency, and that this will contribute to more in-depth audits in high-risk areas.

However, amid such developments and with data exchanges between audit firms and audited companies increasing, there have been cases overseas of audit firms falling victim to cyberattacks targeting the data they possess. Cybersecurity issues are key management risks for audit firms, and it is therefore essential that audit firms strengthen their cybersecurity as they increasingly adopt IT.

Trends with international independent audit regulators

In April 2017, the International Forum of Independent Audit Regulators (IFIAR)⁴ set up its permanent secretariat in Tokyo, Japan. The FSA and the CPAAOB provide the necessary support to facilitate the secretariat's operation from the perspective of strengthening the international status of Japan's capital markets. The IFIAR has endeavored to improve audit quality globally, through continuous dialogue with the six largest global audit networks⁵. The CPAAOB will continue to contribute to the IFIAR's activities, while also keeping an eye on developments at the foreign regulatory authorities etc. that deal with inappropriate practices by foreign audit firms that are affiliated with the Big 4 global networks⁵.

2. Concept of Basic Plan for Monitoring Audit Firms in PY 2019

Based on Section 1 "Environment surrounding audit firms" and the monitoring

⁴ International Forum of Independent Audit Regulators (IFIAR): An international organization established in 2006, consisting of independent audit regulators that inspect audit firms. The IFIAR aims to improve audit quality globally through collaboration among authorities. As of the end of June 2019, the number of IFIAR member countries/regions totaled 55, including Japan.

⁵ Refers to the six global networks of BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG, and PricewaterhouseCoopers, which are among the accounting-firm networks that operate worldwide. If BDO and Grant Thornton are excluded, they are referred to as the big four accounting firms.

perspectives, objectives, etc. stated in the Basic Policy, the CPAAOB will monitor⁶ audit firms based on the following five basic concepts from (1) to (5).

(1) Focus points of monitoring

In PY 2019, the CPAAOB will monitor audit firms while focusing on the following points.

Note that there is wide variation in the sizes of audit firms, with some having just a handful of staff while others have headcounts that run into the thousands. There are also differences in business management (governance) environments, business administration, and so on. Because of these factors, we take into account the size of the firm and the operations management environment.

(i) Tone at the top towards the improvement of audit quality

To improve audit quality on a continuous basis, it is important for top management themselves to exercise leadership in fostering a climate that emphasizes the quality of audit engagements, and we will therefore monitor whether this is reflected in the attitudes of executives, including top management, and in specific measures.

(ii) Establishment of business management (governance) environments

We will investigate whether business management (governance) environments and operations management environments are contributing to ensuring and improving audit quality.

In the case of large-sized and second-tier audit firms that have adopted the Audit Firm Governance Code, in particular, we will investigate whether governance environments established or reinforced based on the Code are proving effective in ensuring and improving audit quality. When doing this, our emphasis will be on whether supervision and evaluation bodies comprising independent third parties are functioning properly. And during these investigations we will endeavor to share information and cooperate with relevant FSA departments.

⁶ The CPAAOB's monitoring includes both on-site monitoring and off-site monitoring. On-site monitoring refers to inspections, while off-site monitoring means activities other than inspections, such as collection of reports regarding audit firms, interviews, and information gathering through the exchange of opinions and cooperation with audit firms and relevant parties.

(iii) Fact-finding in light of audit trends

i. Group audit of overseas subsidiaries

As the domestic market matures, many listed companies are seeking to develop businesses overseas to drive their future growth, and against this backdrop, accounting issues at overseas subsidiaries are continuing to occur. Given these circumstances, with regard to group audits of overseas subsidiaries, we will focus on monitoring audit teams' assessments of internal controls at overseas subsidiaries, their communication with component audit teams for overseas subsidiaries, the organizational responses of audit firms, and so on.

ii. Conclusion of new audit contracts

In recent years many cases have been seen that listed companies had changed their auditors, so in the case of audit firms that have concluded new audit contracts with large listed companies or other listed companies considered to be high risks, we will investigate whether risk assessments relating to these contracts have been properly performed and monitor the effect that the contracts will have on audit quality of the audit firm as a whole.

(iv) IT-based audit approaches and cybersecurity measures

Some of the global networks to which large-sized and second-tier audit firms belong are endeavoring to enhance investment efficiency and ease the burden on network members through, for example, centralized research and development concerning IT adoption. Furthermore, IT is being increasingly employed in audit engagements. For example, IT is being used to analyze journal entry data relating to accounting treatment by audited companies and to exchange information between audit firms and audited companies. In addition, some large-sized audit firms have begun utilizing artificial intelligence (AI) for audit procedures on an experimental basis.

These developments appear to be aimed at ensuring and improving audit quality, so we will continue to understand progress with them through monitoring of large-sized audit firms etc.

At the same time, we will understand what cybersecurity measures are being taken in conjunction with increased IT adoption, and also monitor whether

personnel who can cope with more in-depth and complex audit techniques are being secured and developed.

(2) Enhancing international cooperation in audit oversight

We will make use of the Multilateral Memorandum of Understanding (MMoU) and bilateral information exchange frameworks⁷ to obtain information required for monitoring, and provide information in response to requests from foreign audit regulatory authorities. We also participate actively in IFIAR discussions in order to understand matters such as trends at the global networks and audit regulatory techniques employed by foreign audit regulatory authorities. Furthermore, given that foreign audit regulatory authorities etc. have been responding to inappropriate practices by foreign audit firms that are affiliated with the Big 4 global networks, we will also be keeping an eye on the impact of these initiatives on Japan.

(3) Strengthening off-site monitoring

To conduct monitoring efficiently and effectively, the CPAAOB will continue periodic exchanges of views with executives, including top management, of large-sized and second-tier audit firms and further strengthen efforts for information sharing through cooperation with relevant parties, such as the FSA and related organizations. We will also enhance our capabilities to gather and analyze information regarding the environment surrounding audited companies, such as industry trends, and utilize the information and results of analyses in inspections, thereby achieving seamless on- and off-site monitoring.

(4) Enhancement of the monitoring environment

We will strengthen the CPAAOB's monitoring environment to collect/analyze information and perform inspections in manners suited to the environments at audit firms.

To accomplish this goal, we will actively appoint personnel who can analyze information from Japan and overseas, the internationalization of audit operations, and the environments at Japanese audit firms and take appropriate action in response, as well as personnel who can provide guidance for efficient and

⁷ As of June 30, 2019, we have exchanged letters (EoL) concerning information exchange frameworks with audit regulatory authorities from eight countries (the U.S., Canada, Malaysia, the Netherlands, Luxembourg, the U.K., France, and China).

effective monitoring. Furthermore, we will dispatch staff to foreign audit regulatory authorities and hold training sessions incorporating global trends and key audit issues as means of developing personnel.

3. Basic plan pertaining to off-site monitoring

In order to conduct off-site monitoring efficiently and effectively, the CPAAOB will make effective use of information such as quality control review reports from the Japanese Institute of Certified Public Accountants (JICPA) and analyses of past CPAAOB inspection results. Furthermore, given the CPAAOB's limited inspection resources, it is important for the CPAAOB to make effective use of the collection of reports so as to encourage audit quality to be ensured and improved at all audit firms in Japan. Therefore, in order to understand the circumstances at audit firms and risks relating to audit engagements both accurately and in a timely manner, we collect reports from and conduct interviews with audit firms, examine JICPA quality control reviews, and cooperate with the JICPA as follows so as to perform off-site monitoring that reflects the sizes and operations of audit firms.

(1) Collection of reports

- (i) In the case of large-sized audit firms and second-tier audit firms, we continuously demand, through the collection of reports, qualitative and quantitative information required for the investigation of the business management (governance) environments and operations management environments established with the aim of improving audit quality in accordance with the Audit Firm Governance Code, as well as for investigation of IT-based audit techniques, cybersecurity measures, etc. We also conduct fact-finding concerning the audit environments, review environments, etc. for listed financial institutions, the audit of which requires advanced specialist knowledge and an understanding of IT.

After being analyzed, the information obtained through the collection of reports is utilized to make inspections more effective and efficient, and is also put to use for the comparative analysis of large-sized audit firms and for identifying problems etc. that are common to all large-sized audit firms. Note that efficiency is ensured in the process of collecting reports through the use of information obtained during inspections and through dialog.

- (ii) In the case of small and medium-sized audit firms, we collect reports whenever it is appropriate to do so based on the results of JICPA quality control reviews, our aim being to encourage the audit firms to ensure proper audit quality management.

When doing so, we focus on investigating the audit firm's establishment of a system for quality control, as well as matters such as the policy of top management, the firm's profit/financial structure, and its organization and human resources. When collecting reports, we ensure the effectiveness of investigations by, for example, collecting them face to face as necessary.

Furthermore, if a potentially serious issue at an audit firm is identified as a result of the collection of reports, we will use the results as key reference information when, for example, performing inspections.

- (iii) If we have notified a small and medium-sized audit firm of a problem in its inspection results, we will, after a certain period of time has passed since the inspection results notification, find out what action the audit firm has taken in response, and urge the audit firm to make improvements by, for example, holding meetings with them.

In such cases, we will work with the relevant FSA departments and the JICPA to conduct investigations that reflect the nature and materiality of the deficiency.

- (iv) If, as a result of an inspection, the business administration of an audit firm is deemed to be poor and improvements need to be made particularly quickly, we will collect a report at the time of the notification of the inspection results, and encourage the firm to make improvements promptly.

If, following the collection of reports pursuant to (iii) or (iv) above, the status of improvement is considered inadequate, we will consider taking additional actions, such as further collection of reports and another inspection.

- (2) Examination of JICPA quality control reviews and cooperation with the JICPA
In the case of problems etc. concerning the effectiveness of quality control

reviews identified through monitoring of audit firms, the CPAAOB shares the problems with the JICPA and, through ongoing consultations between the CPAAOB and JICPA reviewers, urges action to be taken to enhance the effectiveness of quality control reviews.

A look at the recent situation with quality control reviews reveals that efforts are being made to determine and alter review plans flexibly based on factors such as the situation with quality control at audit firms, and that the selection of audit engagements to be subject to review is being made based on risk. Issues identified with audit engagements are also going beyond issues with documentation, with the number of issues relating to audit procedures based on the circumstances of deficiencies increasing. Furthermore, in light of the nature of issues with audit engagements, awareness of their connection with deficiencies in the quality control environment has increased.

As the above shows, the quality of the JICPA quality control review is improving. However, it remains questionable whether the JICPA adequately confirms, at the next review, that issues identified during the previous quality control review have been addressed. Furthermore, when providing guidance for improvements, the JICPA is endeavoring to encourage audit firms to make improvements voluntarily, but the effectiveness of this will need to be verified going forward.

The CPAAOB and the JICPA will be endeavoring to deepen their cooperation so as to contribute to ensuring and improving audit quality at all audit firms in Japan. Furthermore, regarding the appropriate division of roles between CPAAOB inspections and JICPA quality control reviews, the CPAAOB and the JICPA are engaged in discussions, mainly with regard to the nature of quality control reviews of large-sized audit firms and ways of improving and expanding the guidance and supervision that the JICPA provides to small and medium-sized audit firms. The JICPA has begun taking steps based on these discussions, but from the point of view of ensuring that CPAAOB inspections and JICPA quality control reviews deliver maximum benefits as a whole, we will be continuing to hold discussions this program year.

(3) Collection and analysis of information regarding audit firms

The CPAAOB is continuing to engage in periodic dialog with executives, including top management, of large-sized and second-tier audit firms in order to

understand the latest developments with the operations management environment at audit firms and problems facing audit firms and the audit sector. Executives, including top management, have a big influence on the organizational culture of their audit firms, so we will continue to engage in dialog with them and endeavor to make our discussions more in-depth. When engaging in dialog with audit firms, we encourage them to improve and expand the information concerning quality control that they disclose voluntarily and to be proactive in the release of information so as to ensure that market participants can obtain useful information.

Through exchanges of views, cooperation, etc., we will enhance information sharing with the IFIAR, foreign audit regulators and global audit networks, in addition to FSA departments, the JICPA and financial instruments exchanges. Furthermore, we will endeavor to upgrade our capabilities for collecting and analyzing data, information, etc. in accordance with the risks facing audit firms.

4 Basic Inspection Plan

Based on the Basic Policy, the CPAAOB will conduct more effective and efficient inspections based on the sizes of and environments at audit firms as well as the degree of risk pertaining to audited companies. We also strive to increase the effectiveness of inspections by, for example, improving inspection techniques. In addition, through integration with the off-site monitoring discussed earlier, we will endeavor to ensure and improve audit quality at audit firms.

Based on the above, for PY 2019, we will perform inspections of audit firms according to their sizes and characteristics as detailed below, focusing on: (i) whether the inspected audit firm's operations management environment and quality management environment are appropriate in light of its size, characteristics, etc., (ii) how the attitudes and actions of executives, including top management, concerning quality control affect the operations management environment of the audit firm, and (iii) whether audit practitioners demonstrate professional skepticism when performing audit procedures.

(1) Large-sized audit firms

Given that large-sized audit firms fulfill an important role in the capital markets

by, for example, auditing numerous large listed companies, we generally inspect them every year (with regular inspections and follow-up inspections being conducted alternately). When conducting follow-up inspections, we give consideration to the burden on the audit firm being inspected and endeavor to ensure that the inspection is performed efficiently.

Note that if a serious problem with the accounting of an audited company is discovered or suspected and could have a significant impact on capital markets, and it is therefore necessary to immediately confirm the quality control environment of the audit firm conducting audits of the audited company concerned, inspections are conducted on an ad hoc basis regardless of the above principle.

Large-sized audit firms are huge organizations, consisting of thousands of members and numerous divisions and regional offices. Thus, it is important for them to have a system in place to lead audit teams to implement better quality control and operations management. And because their executives, including top management, have a major influence over the organizational culture of the audit firm, their attitudes and behaviors are of particular importance.

Based on the above, we will focus on the following inspection points in inspections for PY 2019:

- We will investigate the attitudes and actions of executives, including top management, with respect to quality control as well as their impact on the operations management environment and quality management environment of the audit firm
- With regard to environments (particularly supervision and evaluation bodies) established or reinforced based on the Audit Firm Governance Code, we will verify their effectiveness from the standpoint of whether they are contributing to ensuring and improving audit quality at audit firms
- We will investigate the operations management environment of audit firms, in particular cooperation between the head-office quality control department and the business units, from the standpoint of whether quality control is being implemented on the audit frontline
- We will investigate the appropriateness of procedures for concluding new audit contracts (particularly ones with large listed companies or other listed companies considered to be high risk) and the impact that the audit execution

structures established in conjunction with the conclusion of new audit contracts with large listed companies have on the audit quality within the audit firm as a whole

- We will investigate the situation with regard to discussions with management etc. and communication with audit and supervisory board members
- We will investigate the situation with regard to the assessment of internal controls of companies, covering overseas businesses, and the situation with regard to group audits that encompass overseas subsidiaries
- We will investigate the situation with regard to the assessment of internal controls relating to financial statement audits as well as internal control audits, and investigate steps being taken to address fraud risk, including the implementation of Standard to Address Risks of Fraud in an Audit.
- We will investigate responses to monitoring activities led by global audit networks

(2) Second-tier audit firms

Regarding second-tier audit firms, they audit a considerable number of listed companies, so they fulfill a certain role in the capital markets. Compared to large-sized audit firms, however, their operations management environments and quality control environments are sometimes inadequate. For this reason, we pay attention to these environments, and conduct inspections periodically (generally once every three years). However, if a serious problem with the accounting of an audited company is discovered or suspected and could have a significant impact on capital markets, and it is therefore necessary to immediately confirm the quality control environment of the audit firm conducting audits of the audited company concerned, inspections are conducted on an ad hoc basis.

Based on the above, we will focus on the following inspection points in inspections for PY 2019:

- We will investigate the attitudes and actions of executives, including top management, with respect to quality control as well as their impact on the operations management environment and quality management environment of the audit firm
- With regard to environments (particularly supervision and evaluation bodies) established or reinforced based on the Audit Firm Governance Code, we will verify their effectiveness from the standpoint of whether they are contributing to ensuring and improving audit quality at audit firms

- With regard to audit firms that are expanding the range of business they conduct as a result of mergers etc., we will investigate the business management environment and operations management environment to examine, for example, organizational unity
- We will investigate audit resources by, for example, ascertaining whether personnel possess sufficient and appropriate experience, capabilities, etc. to cope with risks such as the internationalization of audited companies
- In the case of group audits, we will investigate, in particular, the situation with communication with auditors of components located overseas
- We will investigate the situation with discussions with executives etc. and communication with audit and supervisory board members
- We will investigate audit firms' response to standards for when auditors are replaced (when the successor is a different audit firm). We will also investigate the appropriateness of risk assessments etc. and environments for the conduct of audits in the case of the conclusion of new audit contracts with large listed companies or other listed companies considered to be high risk
- We will investigate the situation with regard to the assessment of internal controls relating to financial statement audits as well as internal control audits, and investigate steps being taken to address fraud risk, including the implementation of Standard to Address Risks of Fraud in an Audit.

(3) Small and medium-sized audit firms

In the case of small and medium-sized audit firms, we will confirm the quality control environments of audit firms and compliance with audit standards for audit engagements, and investigate attitude and involvement by top management, which affects these factors, as well as the operations management environment. When doing this, we will consider whether identified deficiencies are due to the business model of the audit firm and whether steps taken to address deficiencies are merely treating the symptoms. When selecting firms to be inspected, we will take into account such factors as JICPA quality control review results, the degree of risk pertaining to audited companies, etc., and consider whether the quality control environment of the audit firm needs to be confirmed immediately.

Based on the above, we will focus on the following inspection points in inspections for PY 2019:

- We will investigate the operations management environment, including the

attitudes and involvement of top management and partners as well as organizational unity

- We will investigate audit resources by, for example, ascertaining whether personnel possess sufficient and appropriate experience, capabilities, etc. to cope with risks pertaining to audited companies
- We will investigate, in particular, audit procedures and fraud risks assessments relating to revenue recognition and accounting estimates from the standpoint of whether professional skepticism is being demonstrated
- We will investigate the situation with regard to discussions with management etc., communication with audit and supervisory board members etc., guidance and supervision of audit practitioners, the use of specialists, and action to deal with industry-wide problems identified hitherto through monitoring
- We will investigate the appropriateness of risk assessments and environments for the conduct of audits in the case of the conclusion of new audit contracts with large listed companies or other listed companies considered to be high risk
- We will investigate compliance with Standard to Address Risks of Fraud in an Audit
- In the case of group audits, we will investigate, in particular, the situation with communication with auditors of components located overseas
- We will investigate what improvements have been made in response to issues etc. identified during JICPA quality control reviews
- We will investigate the situation with regard to the assessment of internal controls relating to financial statement audits as well as internal control audits

5. Provision of monitoring information

To ensure and improve audit quality, it is important not only to accurately convey the results of inspections to audit firms and audit and supervisory board members of audited companies, but also to compile the results of monitoring and provide information to the general public so as to raise the level of interest and awareness in audits. Given that viewpoint, we keep the following points in mind when compiling results and providing information:

- (i) Regarding notifications of inspection results, we ensure that details of issues identified are accurately conveyed to audit firms. We also endeavor to

improve descriptions of inspection results through dialog with audit firms, audit and supervisory board members, etc. so as to ensure that the level of quality control at the audit firm concerned as well as issues identified, including those relating to the operations management environment, are also accurately conveyed to audit and supervisory board members etc. of audited companies.

Furthermore, with the aim of contributing to improving the functionality of internal controls at audited companies, we encourage audit firms and audit and supervisory board members etc. to increase cooperation so as to enable audit and supervisory board members etc. to make effective use of inspection results.

(ii) With the aim of contributing to a deepening in understanding of audits among market participants etc., since 2016 the CPAAOB has published an annual Monitoring Report compiling the results etc. of monitoring in a visual format, featuring numerous tables and graphs. However, in light of user needs, which require that content can be easily understood by the general public, we will continue working to further improve and expand the information we provide. In addition, we translate the content of the Monitoring Report into English so as to provide information to overseas users.

(iii) To promote voluntary efforts by audit firms to ensure and improve audit quality, the CPAAOB published examples etc. of matters confirmed during inspections in the form of an annual Case Report from Audit Firm Inspection Results for the first time in 2008. Since 2009, the Report has been revised each year to include the latest cases and remove older ones, and going forward we will continue reviewing the content so that it can serve as a reference that audit firms can use when making improvements.

We also make use of the Case Report as material when conducting lectures and briefings at local branches of the JICPA nationwide, and in addition to these lectures etc., we also endeavor to proactively disseminate the Report to market participants etc. In addition, we translate the content of the Report into English so as to provide information to overseas users.