

July 18, 2025

Certified Public Accountants and Auditing Oversight Board

Basic Plan for Monitoring Audit Firms **in Program Year 2025 (from July 2025 to June 2026)**

To ensure audit quality and enhance the effectiveness of audits, the Certified Public Accountants and Auditing Oversight Board (the "CPA AOB") hereby establishes the Basic Plan for Monitoring Audit Firms in Program Year ("PY") 2025 (from July 2025 to June 2026) (the "Basic Plan 2025"), reflecting the perspectives and objectives stated in the Basic Policy for Monitoring Audit Firms (the "Basic Policy")¹ and the environment surrounding audit firms.

1. Environment Surrounding Audit Firms

(1) Audit Trends

a. Status of auditors of listed companies

- Large-sized audit firms² have continuously accounted for an overwhelming share, above 90%, of audits of listed companies in Japan in terms of market capitalization. Of the accounting auditors of 3,922 listed domestic companies as of the end of FY2024, 2,278 were large-sized audit firms, 627 were mid-tier audit firms, and 1,017 were small and medium-sized audit firms.
- The annual number of changes in audit firms of listed companies for the Program Year ended June 2025 was 196 (excluding those resulting from audit firm mergers), significantly increasing from 115 in the Program Year ended June 2024. Looking at changes by size, the trend from large-sized audit firms to mid-tier or small and medium-sized audit firms continues.
- As the range of audit firms of listed companies expands in this way, the

¹ It sets the standpoint, objectives, and basic policy for each term regarding monitoring to be implemented by the CPA AOB. The basic policy for the CPA AOB's eighth term (April 2025 to March 2028) was formulated and published on May 28, 2025.

(<https://www.fsa.go.jp/cpaaob/shinsakensa/kihonkeikaku/20250528/20250528.html>)

² The CPA AOB 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 Japan LLC.
- Mid-tier audit firms: Audit firms whose business scale is second only to large-sized audit firms. In this Basic Plan, they refer to four audit firms: Gyosei & Co., BDO Sanyu & Co., Grant Thornton Taiyo LLC, and Crowe Toyo & Co.
- Small and medium-sized audit firms: Audit firms other than large-sized and second-tier audit firms

Japanese Institute of Certified Public Accountants (JICPA) is implementing various support measures for small and medium-sized audit firms (including publication of tools and Q&A on revised Quality Control Standards, support for digitalization, direct guidance for training and support of audit firms, etc.) to strengthen their management foundations (quality control infrastructure, organizational and governance infrastructure, human resources infrastructure, IT infrastructure, financial infrastructure, and international response infrastructure) and to enhance their information disclosure.

- The JICPA participates in the Council of Audit Firms for Expanding Electronification of Balance Confirmation established by the Audit Confirmation Center GK, which was jointly funded and incorporated by large-sized audit firms, where discussions have been held for promoting the electrification of balance confirmation for the audit industry as a whole.
- In addition to the above, mid-tier audit firms, etc. took the initiative in establishing the Audit Firms Support Association in April 2024 with the aim of improving the audit quality of small and medium-sized audit firms. In this manner, the audit industry, including the JICPA, is taking all-out support measures.

b. Status of inappropriate accounting cases

- The annual number of listed companies that disclosed matters such as inappropriate accounting treatments in the timely disclosure of stock exchanges has continued to be above 50.
- Frequently employed tactics for inappropriate accounting include fictitious purchases and manipulation of cost, recording of excessive sales, recording of excessive inventory, etc.³ Inappropriate accounting is attributable to dysfunctional corporate governance and internal control, including insufficient control over domestic and overseas group companies.
- It goes without saying that the top management of companies is responsible for the preparation of financial statements and the development/implementation of effective internal control systems. On the other hand, it has become increasingly important for audit firms to conduct audits based on an in-depth understanding of audited companies' business characteristics and environments when assessing their internal control. In addition, it is necessary for audit firms to review the assessment of the risk of material misrepresentation in financial statements and the procedures for

³ Source) "Trend of Accounting Fraud Cases by Listed Companies (2024 version)" (JICPA, published on July 16, 2024)

responding to it in audits of financial statements, as well as the scope of assessment in audits of internal control.

c. Accounting and disclosure trends

- Enhancing disclosure and assurance of sustainability information
 - In June 2023, the International Sustainability Standards Board (ISSB) finalized the General Requirements for Disclosure of Sustainability-Related Financial Information (S1) and the Climate-Related Disclosure Standard (S2). In Japan as well, the Sustainability Standards Board of Japan (SSBJ) finalized and published the universal sustainability disclosure standards, "Application of Sustainability Disclosure Standards," and Sustainability Standards by Theme No. 1 and No. 2, "General Disclosure Standard" and "Climate-Related Disclosure Standard," which are equivalent to the ISSB's S1 and S2 Standards, in March 2025.
 - In November 2024, the International Auditing and Assurance Standards Board (IAASB) finalized and published the General Requirements for Sustainability Assurance Engagements (ISSA5000), which is a new international standard for the assurance of sustainability reporting.
 - In light of these domestic and international trends, the Financial System Council has newly established the Working Group on Sustainability Disclosure and Assurance and has had discussions among experts on the introduction of sustainability disclosure standards and assurance systems. In February 2025, the Expert Study Group on Assurance of Sustainability-Related Financial Information was newly established, and more detailed discussions are being carried out on such themes as registration requirements for persons in charge of sustainability assurance engagements, obligations and responsibilities, and inspection and supervision of persons who perform sustainability assurance engagements.
- Disclosure of annual securities reports before ordinary general shareholders' meetings
 - Disclosure of annual securities reports before ordinary general shareholders' meetings (disclosure before general shareholders' meetings) is possible even under the current legislation, but listed companies that conduct disclosure before general shareholders' meetings are limited in number, and among those listed companies, not many secure sufficient time for investors' decision-making after disclosure.
 - In light of such circumstances, in March 2025, Minister for Financial

Services Kato issued a document to all listed companies to the effect that it is preferable to submit annual securities reports at least three weeks before general shareholders' meetings, but taking into account practical burdens on companies, they are requested to consider submitting annual securities reports one to several days before their general shareholders' meetings as a first step forward.

In response to this request, over 50% of companies closing their fiscal year in March disclosed annual securities reports before their general shareholders' meetings. The relevant percentage increased significantly from 1.8% in the preceding fiscal year end.

- At the Networking Group on Environmental Preparation for Disclosure of Annual Securities Reports Before General Shareholders' Meetings, which was established in December 2024, deliberations were conducted on future initiatives for achieving general shareholders' meetings after the disclosure of annual securities reports. Those initiatives include support for listed companies' individual efforts, dissemination of information and awareness-raising using the website, and institutional measures.

(2) Initiatives to Ensure and Improve Audit Quality

- a. Registration screening for auditors of listed companies, etc.
 - Accompanying the enforcement of the Certified Public Accountants Act amended in May 2022 (the "amended CPA Act"), a legal registration system for auditors of listed companies, etc. was introduced in lieu of the registration system for audit firms of listed companies, which the JICPA had operated as a self-regulatory mechanism.
 - At the time of the introduction of the registration system, the JICPA established the Auditors of Listed Companies, etc. Registration Screening Board and developed a system under which those applying for the registration on the official roster of auditors of listed companies, etc. are screened and assessed by the Board based on their eligibility confirmed through quality control reviews, etc. In addition, the JICPA formulated the Guidelines for the Confirmation of Eligibility of Audit Firms that Conduct Audits of Listed Companies, etc. in June 2023 for confirming through quality control reviews whether a system for auditing listed companies has been developed and put in place. The Guidelines were revised in August 2024 and in June 2025.
 - As of the end of June 2025, 126 audit firms were registered on the official roster of auditors of listed companies, etc.

b. Application of revised Quality Control Standards, etc.

- The Quality Control Standards for Auditing were revised, including the introduction of a quality control system based on a risk-based approach. And, in response to such revision, Quality Control Standards Committee Report No. 1 on "Quality Control at Audit Firms" and Audit Standards Committee Report No. 220 on "Quality Control in Auditing" were revised, and Quality Control Standards Committee Report No. 2 on "Audit Engagement Reviews" was newly formulated.
- The aforementioned standards, etc. have been applied from audits of financial statements for business years that started on or after July 1, 2023, for large-sized audit firms under the Certified Public Accountants Act,⁴ and from audits of financial statements for business years that started on or after July 1, 2024, for other audit firms.
- In addition, the amended CPA Act imposes the obligation on registered auditors of listed companies, etc. to develop a system to publicize the results of inspection, etc. concerning the status of quality control of operations (Article 93 of the Regulations for Enforcement of the Certified Public Accountants Act), and this provision has been applied since the fiscal year of an audit firm or the fiscal year of a certified public accountant that started on or after the first day of the accounting period of the audited company, etc. that started on or after July 1, 2024 (July 1, 2023 for a large-sized audit firm).

c. Governance system of audit firms

- The amended CPA Act imposes on registered auditors of listed companies, etc. (i) the obligation to develop a system to publicize the results of inspection, etc. concerning the status of quality control of operations (Article 93 of the Regulations for Enforcement of the Certified Public Accountants Act), (ii) the obligation to develop a system to publicize the status of business management, etc. (Article 95 of the same Regulations), and (iii) the obligation to develop a system to implement operations in accordance with the principles designated by the Commissioner of the Financial Services Agency for organizational management and a system to publicize the status of application (Article 96 of the same Regulations). With regard to the principles designated by the Commissioner of the Financial Services Agency for organizational management under (iii) above, the Principles for Effective Management of

⁴ Audit firms that audit a total of 100 or more listed companies, etc., in the latest accounting year (Article 24 of the Regulations for Enforcement of the Certified Public Accountants Act).

Audit Firms (the "Governance Code for Audit Firms"), which was revised in March 2023, (hereinafter referred to as the "revised Governance Code") was published.

- The obligation to develop systems set forth in (ii) and (iii) above has been applied from the first day of the fiscal year of an audited company, etc. that started on or after July 1, 2024 (July 1, 2023, for a large-sized audit firm).

(3) Quality Control Challenges at Audit Firms

○ Outline of the overall inspection ratings

The CPAAOB has specified overall inspection ratings⁵ on a scale of five categories on inspected audit firms' business operations in inspection result notifications (excluding those for follow-up inspections) since PY2016 (July 2016-June 2017).

○ Distribution of overall inspection ratings

Distribution of overall inspection ratings for the most recent five Program Years (from PY2020 to PY2024) is as follows.

- There are no audit firms that have been given the highest rating.
- Large-sized audit firms were all given the second-highest rating.
- Mid-tier audit firms were given the third or fourth rating.
- All of the inspected small and medium-sized audit firms were given third-highest or lower ratings as they were selected for inspections based on their risks.

○ Challenges at large-sized audit firms

Large-sized audit firms face challenges, such as the verification of the status of penetration of remedial measures among frontline auditors and its effectiveness, although cooperation between the head office quality control departments and the business units is progressing.

○ Challenges at mid-tier audit firms

⁵ The "Key points" section of the inspection results notification contains an overview of deficiencies in operational management systems, quality control systems and individual audit engagements and gives one of the five overall inspection ratings based on the status of those areas. The five ratings are accompanied by the respective assessment comments as follows:

- (1) Highest rating: "Favorable (Overall Rating 1)"
- (2) Second-highest rating: "Generally favorable with some deficiencies requiring remediation (Overall Rating 2)"
- (3) Third-highest rating: "Unfavorable with significant deficiencies requiring remediation (Overall Rating 3)"
- (4) Fourth-highest rating: "Unfavorable with significant deficiencies with respect to operational management systems, etc., requiring immediate voluntary remediation (Overall Rating 4)"
- (5) Fifth-highest (lowest) rating: "Extremely unacceptable (Overall Rating 5)"

Some mid-tier audit firms are facing the following challenges.

- (i) Management has not exercised sufficient leadership to ensure an appropriate level of audit quality.
- (ii) Management has not been able to accurately ascertain the level of audit quality of the entire firm, for example, because they are not aware of the fact that there are some auditors who lack understanding of the level of procedures required by current auditing standards, etc.
- (iii) Management does not have sufficient awareness of compliance with professional ethics and internal rules, etc., and lacks consciousness of fostering a culture that emphasizes audit quality and building an effective and organized operational management system.
- (iv) Management and quality control departments fail to sufficiently verify the effectiveness of remedial measures.
- (v) It is not sufficiently verified whether human and temporal resources are sufficient for each of the audit engagements in light of the actual conditions of the audit frontline.

○ Challenges at small and medium-sized audit firms

Among small and medium-sized audit firms, the following challenges are recognized, and some audit firms are required to further develop a relevant system to conduct audits of listed companies.

- (i) Management has not exercised sufficient leadership to improve the audit quality of the entire firm.
- (ii) Management is not aware of the situation in which auditors lack understanding of the level of quality control and audit procedures required by current auditing standards.
- (iii) They do not understand the required levels of in-depth analyses of causes regarding inspection findings through quality control reviews, etc., for the purpose of preventing the recurrence of deficiencies of the same type.
- (iv) They lack a sense of ethics as professionals, and as a result, a culture has been created in which staff members make light of being honest and maintaining credibility, and the firm has fostered and left such culture as is (such as organizational falsification of audit working papers).
- (v) They lack the attitude to critically examine the audit quality of the firm as a whole (such as lacking the awareness to critically examine the quality of other staff members' individual audit work), and they lack the awareness to critically examine managers' views by demonstrating professional skepticism.

(vi) They lack the awareness to carefully assess whether sufficient and appropriate audit evidence for audit risk has been obtained.

○ Challenges in individual audit engagements

Irrespective of audit firms' sizes, deficiencies regarding audit procedures for accounting estimates and those to respond to fraud risks (including identification and assessment of fraud risks in revenue recognition and responses to fraud risks) have continuously been found in individual audit engagements. In addition, deficiencies have also been found in procedures relating to Key Audit Matters (KAM) and procedures related to notes to financial statements, etc.

(4) Trends of International Audit Regulators

From the perspective of enhancing the international status of Japanese capital markets, the CPAAOB and the FSA support the International Forum of Independent Audit Regulators (IFIAR),⁶ whose permanent secretariat is located in Tokyo.

The IFIAR has long endeavored to ensure and improve audit quality globally through continuous dialogue with the six largest global networks⁷ and the publication of the Survey of Inspection Findings 2024, which compiles findings in inspections by independent audit regulators, including the CPAAOB.

2. Concept of the Basic Plan for Monitoring Audit Firms in PY2025

(1) Focus Points in Monitoring

Based on "1. Environment Surrounding Audit Firms" above, the CPAAOB will conduct monitoring⁸ of audit firms with a focus on the following points in PY2025.

a. Operational management systems

⁶ The International Forum of Independent Audit Regulators (IFIAR) is an international institution established in 2006 comprising independent audit regulatory authorities that carry out inspections of audit firms. Its secretariat is located in Tokyo. Its aim is to improve audit quality globally through cooperation/collaboration between authorities. Its membership as of June 30, 2025, comprised audit regulatory authorities from 56 countries/regions, including Japan.

⁷ Out of all global networks of audit firms, Deloitte Touche Tohmatsu, Ernst & Young, KPMG, PricewaterhouseCoopers, BDO, and Grant Thornton account for the six largest global networks.

⁸ Monitoring encompasses both inspections and activities other than inspections. Activities other than inspections include gleaning information through the collection of reports from and the conduct of interviews with audit firms, through information exchanges and cooperation with relevant FSA departments, the JICPA, and industry groups etc. involved in audits, and through dialogue with audit firms.

- Audit firm management's commitment to improving audit quality

To improve audit quality on an ongoing basis, it is important for top management to exercise leadership and for management to accurately ascertain the level of audit quality across the entire firm to foster an organizational culture emphasizing audit quality and compliance with professional ethics and to develop organized and integrated operational management and quality control systems. Therefore, the CPAAOB will primarily evaluate whether management teams, including top management, recognize this point and reflect the recognition in specific measures.

- Effectiveness of operational management systems

In order for an audit firm to properly fulfill its role as a gatekeeper of the capital market and meet society's expectations for accounting audits, it is essential that each audit firm establish appropriate governance suited to its size and characteristics. Therefore, the CPAAOB will primarily evaluate whether operational management systems are developed and implemented under effective governance and well-functioning management to ensure and improve audit quality. In particular, regarding audit firms that audit listed companies, etc., the CPAAOB will primarily evaluate (i) whether they have an effective management function as an organization from the perspective of ensuring and sustainably improving their audit quality and (ii) whether they are securing a function to supervise and assess the effectiveness of the management function from a standpoint independent of the firms' management and a function to support the demonstration of the effectiveness through the supervision and assessment.

- Development of a system to implement operations in accordance with the revised Governance Code

Registered auditors of listed companies, etc. are obliged to develop a system to implement operations in accordance with the revised Governance Code and a system to publicize the status of application (Article 96 of the Regulations for Enforcement of the Certified Public Accountants Act). The relevant provisions have been applied from the first day of the fiscal year of an audited company, etc. that started on or after July 1, 2024 (July 1, 2023 for a large-sized audit firm).

Given the above, the CPAAOB will primarily evaluate how registered auditors of listed companies, etc. have developed systems in accordance with the revised Governance Code.

b. Quality control systems

○ Effectiveness of quality control systems

The CPAAOB will primarily evaluate not only whether audits by audit firms comply with audit standards in form, but also whether such audits demonstrate professional skepticism to find accounting fraud, and other points regarding whether quality control systems developed by audit firms are effective for ensuring and improving audit quality.

○ Inspection of status of development and operation of quality control systems in compliance with the revised Quality Control Standards, etc.

The revised Quality Control Standards, etc. have been applied from audits of financial statements for business years that started on or after July 1, 2023, for large-sized audit firms, and from audits of financial statements for business years that started on or after July 1, 2024, for other audit firms. Given this, the CPAAOB will primarily evaluate the status of development and operation of quality control systems based on a risk-based approach required by the revised Quality Control Standards, etc.

○ Securement, fostering (including education and training), and distribution of audit resources

To ensure and improve audit quality, it is vital for audit firms to secure, foster and adequately distribute sufficient audit resources commensurate with the number of companies that they audit, as well as in consideration of audit risks. Given this, the CPAAOB will primarily evaluate the status of the securement, fostering and distribution of audit resources at audit firms, including the development of the work environment, initiatives to reduce the turnover rate and policies for audit fees.

○ Background to new client acceptance and cancellation of audit contracts

Based on the situation where a considerable number of changes of audit firm for listed companies taking place, the CPAAOB will primarily evaluate the background of audit firms' new client acceptance and cancellation with listed companies (including details about the new client acceptance with large listed companies or listed companies suspected of having high audit risks), the adequacy of risk assessment for the new client acceptance and processes for determining audit fees, the development of audit performance systems and the implementation of takeover procedures.

- Compliance with the revised Code of Ethics

The revised Code of Ethics started to be applied to auditing for the fiscal years beginning on or after April 1, 2023, except for some provisions. The CPAAOB will, therefore, primarily evaluate the status of compliance with the revised Code of Ethics (provisions regarding the dependence on audit fees, non-assurance services, and the rules on how to secure the objectivity of engagement quality reviewers).

- Management of audit working papers

Auditors are required to compile audit working papers and complete clerical work for final compilation of audit files within an appropriate period after preparing audit reports, and to give due consideration to the status of final compilation of audit files and management and reservation of audit working papers. However, the CPAAOB's inspections revealed cases where inappropriate additions or corrections were made to audit working papers. Accordingly, the CPAAOB will primarily evaluate the status of management of audit working papers (including the prevention of inappropriate corrections to audit working papers).

- c. Individual audit engagements

- Implementation of audits in response to fraud risks

Considering the status of the occurrence of inappropriate accounting treatments, the CPAAOB will primarily evaluate how audits in response to fraud risks are implemented (whether auditors take special care and critical approaches to fully demonstrate their professional skepticism in order to identify fraud risk factors, including incentives and pressure to commit fraud, and events and conditions that provide opportunities to commit fraud, and also in order to assess the risks of material misstatement, and whether auditors appropriately develop and implement audit procedures in response to identified and assessed fraud risks).

- Implementation of audits regarding revenue recognition

Considering the status of deficiencies being found in audits regarding revenue recognition, the CPAAOB will primarily evaluate how audits on revenue recognition are implemented (based on the presumption that revenue recognition poses fraud risks, whether auditors develop and implement audit procedures responding appropriately to identified and assessed fraud risks).

after appropriately judging the type of revenue, transactions or assertions linked to the generation of fraud risks and other points).

- Implementation of audits regarding accounting estimates

Considering the status of deficiencies being found in audits regarding accounting estimates, the CPAAOB will primarily evaluate whether audit firms consider the extent of uncertainty about estimates, appropriately identify and assess risks of material misstatement regarding accounting estimates, take note of the rationality of managers' assumptions and implement audit procedures that respond appropriately to the risks.

- Procedures for making decisions on KAM and descriptions and implementation of audit responses

Considering the status of deficiencies being found in procedures concerning KAM, the CPAAOB will primarily evaluate procedures for making decisions on KAM (whether audit firms proactively communicate with managers and audit committee members of audited companies when making decisions, and whether audit firms prepare audit reports with the same content as those for the previous term (including reports prepared by the predecessors) without conducting special deliberations), descriptions of audit responses (whether procedures conforming to factors described in reasons for decisions on KAM or audit approaches are specifically described), and the implementation status regarding audit responses (whether procedures described as audit responses are properly implemented).

- Implementation of auditing of notes to financial statements, etc.

With regard to financial statements (including notes), in light of the purpose of the disclosure system, which is to contribute to investment decisions of users of financial statements, it is strongly required to ensure the accuracy and sufficiency of the information provided. However, there have been cases of deficiencies in inspections, such as misstatements in notes to financial statements being overlooked in the audit process. For this situation, the CPAAOB will primarily evaluate whether appropriate studies are conducted on the accuracy of notes to financial statements, etc., based on an accurate understanding of relevant accounting standards and disclosure laws and regulations.

- Implementation of procedures regarding "other information in documents"

Considering the recent moves to enhance the disclosure of non-financial information and to clarify the content of disclosure, the CPAAOB will primarily evaluate the implementation of procedures regarding "other information in documents" ("through reading of other information in documents," "consideration and assessment of other information in documents," etc.).

d. Others

○ Effectiveness of quality control reviews

Accompanying the introduction of a registration system for auditors of listed companies, etc., the importance of quality control reviews is increasing as a means to check the qualification of registered auditors of listed companies, etc. Given this fact, the CPAAOB will primarily evaluate the effectiveness of quality control reviews.

○ Practical efforts and responses to challenges in connection with the abolition of the quarterly securities report system

In relation to the impact on auditing due to the abolition of the quarterly securities report system, the CPAAOB will check the review of the financial statements for the first and third quarters (review is optional, or mandatory in certain cases), as well as any practical impacts and concerns associated with the review.

○ Status of initiatives for assurance of non-financial information (including sustainability information)

Given that non-financial information assurance needs and hopes with respect to CPAs' engagement with such assurance are growing, the CPAAOB will check the status of initiatives for non-financial information assurance at audit firms.

○ Provision of auditing services to companies preparing for IPOs

From the perspective of whether efforts are promoted to pave the way for IPO-seeking companies to undergo appropriate audits according to their growth stages, the CPAAOB will continue checking the status of audit firms' provision of auditing services to companies preparing for IPOs.

○ Introduction of audit tools leveraging digital technologies (including the implementation of cybersecurity measures)

Considering that progress in the digitalization of audits is expected to enhance the effectiveness of audit procedures for detecting fraud and realize the effective and efficient distribution of audit resources, the CPAAOB will continue to ascertain audit firms' development and introduction of audit tools leveraging digital technologies. The CPAAOB will also check whether audit firms have taken adequate cybersecurity measures according to the advancement of cyberattacks.

(2) Monitoring Methods

- Since FY2020, the CPAAOB has utilized online approaches, such as borrowing laptops from audit firms to browse audit working papers and holding interviews using a web-based video conferencing system, in addition to traditional face-to-face inspections.
- The CPAAOB will continue to conduct inspections using both of the above methods and conduct deliberations for the further improvement of monitoring by such means as collecting opinions on monitoring methods.

3. Basic Plan for Monitoring (for Activities Other than Inspections)

(1) Verification of JICPA's Quality Control Review Reports and Cooperation with the JICPA

- Accompanying the introduction of a registration system for auditors of listed companies, etc., the JICPA has introduced a review of the registration screening, in addition to conventional regular reviews and special reviews, and as part of the high level of discipline, it has taken measures such as formulating and revising the Guidelines for Checking the Qualification of Audit Firms Auditing Listed Companies, etc., with a view to conducting quality control reviews from a new perspective.
- As a future policy for quality control reviews, the JICPA has decided to also check the status of audit firms' development and implementation of voluntary and effective monitoring activities and development of an information disclosure system under laws and regulations based on the application of the revised Quality Control Standards in order to confirm that they ensure audit quality appropriate for registered auditors of listed companies, etc.
- The CPAAOB will hold in-depth discussions with the JICPA to strengthen its system for implementing quality control reviews and will also confirm the implementation status of reviews. Regarding the results of the verification of the

effectiveness of quality control reviews, which is cited as one of the focus points in monitoring, the CPAAOB will share relevant information on a timely basis to encourage the JICPA to further enhance the effectiveness of its reviews. Additionally, the CPAAOB will share the results of reviews for individual cases with the JICPA and continue providing training for reviewers, as the fulfilment of the respective roles of the CPAAOB's inspections and the JICPA's quality control reviews and mutual cooperation based thereon, and will also continue discussing the JICPA's enhancement of instruction and supervision of small and medium-sized audit firms.

(2) Collection of Reports

a. Basic concept

- From the perspective of encouraging audit firms in Japan to ensure and further improve their overall audit quality and also encouraging them to build appropriate operational management systems and quality control systems, the CPAAOB ascertains the current situations of audit firms and risks inherent to individual audit engagements accurately on a timely basis, and collects reports effectively on the status of audit firms' development and operation of their operational management systems and quality control systems (including the implementation status of remedial measures). On that occasion, the CPAAOB fully utilizes information obtained through inspections and dialogue with audit firms, etc. or otherwise endeavors to collect information in an efficient manner, in consideration of burdens on audit firms, etc.
- To efficiently inspect large-sized and mid-tier audit firms, the CPAAOB will regularly collect and analyze quantitative and qualitative information concerning their operational management systems, etc.
- From small and medium-sized audit firms, the CPAAOB will collect and analyze information in a timely manner according to their size and characteristics, considering the results of the JICPA's quality control reviews and audit risks regarding audited listed companies. When encouraging small and medium-sized audit firms to spontaneously ensure and improve their audit quality, the CPAAOB will hold interviews on their reports, as necessary, to secure effects similar to those through inspections.
- The CPAAOB will collect reports from small and medium-sized audit firms to ascertain their responses to issues identified in inspection results after a lapse of a certain period time from the notification of inspection results, and encourage them to spontaneously improve their practices.
- From audit firms that are rated unfavorable with respect to operational

management and are required to improve their operational management systems immediately, the CPAAOB will collect reports when notifying them of inspection results and encourage them to quickly make improvements.

b. Focus points in collection of reports

Based on "1. Environment Surrounding Audit Firms," the CPAAOB will focus on the following in collecting reports.

- (i) Audit firm management's commitment to improving audit quality
- (ii) Effectiveness of operational management systems (for audit firms adopting the revised Governance Code, systems developed based thereon) (including top managers' policies, revenue and financial structure, and a function to supervise and assess the effectiveness of the management function from a standpoint independent of the audit firms' management)
- (iii) Effectiveness of quality control systems
- (iv) Development and operation of quality control systems in compliance with the revised Quality Control Standards, etc.
- (v) Compliance with the revised Code of Ethics
- (vi) Securement, fostering and distribution of audit resources (including the recruitment of expert staff, development of the work environment, and initiatives to reduce the turnover rate)
- (vii) Background to new client acceptance and cancellation of audit contracts
- (viii) Introduction of audit tools leveraging digital technologies (including the implementation of cybersecurity measures)
- (ix) Practical efforts and responses to challenges in connection with the abolition of the quarterly securities report system
- (x) Status of initiatives for assurance of non-financial information (including sustainability information)
- (xi) Provision of auditing services to companies preparing for IPOs
- (xii) Practical efforts and responses to challenges in audits of audited companies that disclose annual securities reports before ordinary general shareholders' meetings

(3) Collection and Analysis of Information Regarding Audit Firms

a. Dialogue with audit firms

- The CPAAOB will continue periodic dialogue with senior and other managers of large-sized and mid-tier audit firms in order to collect information about the latest operational management systems at the firms, ascertain the problems

that audit firms and the audit industry are facing and share problem awareness with them.

- The CPAAOB will also continuously hold dialogue with managers at relatively larger firms among the small and medium-sized audit firms that audit listed companies.

b. Cooperation with relevant organizations at home and abroad

The CPAAOB will continue the exchange of opinions and cooperation with relevant FSA divisions, the JICPA, financial instruments exchanges and the Japan Audit & Supervisory Board Members Association, as well as the IFIAR, foreign audit regulators and global audit firm networks. The CPAAOB will proactively utilize information gained through the exchange of opinions and cooperation for monitoring and endeavor to collect and analyze various documents and information according to risks at audit firms. In addition, the CPAAOB will continue to assign personnel who can analyze domestic and foreign information, the internationalization of accounting practices, and Japanese audit firm systems and take appropriate actions, and those who can provide guidance for efficient and effective monitoring. The CPAAOB will also promote the fostering of personnel through their proactive participation in international meetings, etc.

4. Basic Inspection Plan

(1) Inspection Frequency, etc.

a. Inspection frequency

- The CPAAOB inspects large-sized audit firms once every two years, in principle, and conducts follow-up inspections the next program year (verification of the implementation status of remedial measures for findings identified in inspections in the preceding program year). Follow-up inspections are basically conducted by way of collecting reports, but the CPAAOB may carry out inspections based on the results of the inspections in the preceding program year.
- For mid-tier audit firms, the CPAAOB conducts inspections once every two years, in principle.
- For small and medium-sized audit firms, the CPAAOB conducts inspections as necessary in view of the results of the JICPA's quality control reviews as well as audit firms' operational management systems, etc., and the degree of

risks underlying audited listed companies.

Considering the importance of their roles as auditors of listed companies, the CPAAOB continues performing monitoring with a focus on inspections for small and medium-sized audit firms.

- In addition to the above, if there is a need to confirm the quality control system at an audit firm immediately, such as where a serious accounting problem is found with an audited company, the CPAAOB conducts inspections on an ad hoc basis.

b. Inspection methods

Based on the status of the introduction of electronic audit documentation at audit firms, etc., the CPAAOB will conduct inspections using both face-to-face methods and online methods (inspections through browsing audit working papers and holding interviews with partners and employees via web meeting, etc.).

(2) Focus Points Regarding Operational Management Systems

Based on "1. (3) Quality Control Challenges at Audit Firms," the CPAAOB will conduct inspections this program year by focusing on the following, in particular.

- (i) Effectiveness of operational management systems
- (ii) Audit firm management's commitment to ensuring and improving audit quality
- (iii) Implementation of functions by the management, including the top management, and the quality control department to check the audit frontline (business units)
- (iv) Ex-post inspection of audit procedure deficiencies for cases where inappropriate accounting treatments are found at audited companies, and root causes of such deficiencies, as well as implementation of remedial measures

(3) Focus Points Regarding Quality Control Systems

Based on "1. (3) Quality Control Challenges at Audit Firms," the CPAAOB will conduct inspections this program year by focusing on the following, in particular. The CPAAOB will endeavor to ensure the effectiveness and efficiency of inspections in accordance with audit firms' size and operational management systems and the degree of risks underlying audited companies, etc.

- (i) Effectiveness of quality control systems
- (ii) Development and operation of quality control systems in compliance with the revised Quality Control Standards, etc.

- (iii) Diffusion and adoption of quality control measures (including remedial measures for findings through quality control reviews and the CPAAOB's inspections) at the audit frontline
- (iv) Securement, fostering and distribution of audit resources (including the status of implementation of monitoring of audit resources)
- (v) Compliance with the revised Code of Ethics
- (vi) Background to new client acceptance and cancellation of audit contracts (including the adequacy of risk assessment for concluding new contracts, the development of audit performance systems and the implementation of takeover procedures)
- (vii) Initiatives to develop an organizational culture emphasizing compliance with laws and professional ethics
- (viii) Cooperation between the quality control departments and the audit frontline (business units, etc.)
- (ix) Monitoring of individual audit engagements by the quality control departments
- (x) Management of audit working papers (including the prevention of inappropriate corrections and additional preparation, etc. of working papers)
- (xi) Development and operation of organized quality control systems covering local offices

(4) Focus Points Regarding Individual Audit Engagements

Based on "1. (3) Quality Control Challenges at Audit Firms," the CPAAOB will conduct inspections this program year by focusing on the following, in particular.

- (i) Implementation of audits regarding fraud risks
- (ii) Implementation of audits regarding revenue recognition
- (iii) Implementation of audits regarding accounting estimates
- (iv) Implementation of group audits
- (v) Procedures for making decisions on KAM and descriptions and implementation of audit responses
- (vi) Implementation of audits of notes to financial statements, etc.
- (vii) Implementation of discussions with managers and communications with audit committee members

(5) Inspection of Foreign Audit Firms, etc.

When selecting foreign audit firms, etc.⁹ to be inspected, consideration should be given to the results of reports collected in PY2024 and the audit risks, etc. of foreign companies audited by the relevant foreign audit firms, etc. The CPAAOB will conduct inspections of foreign audit firms, etc. appropriately based on the "Framework for Inspection/Supervision of Foreign Audit Firms, etc.,"¹⁰ and the "Basic Policy for Report Collection and Inspection of Foreign Audit Firms, etc. by the CPAAOB."¹¹

5. Provision of Monitoring Information

To ensure and improve audit quality, it is important to adequately convey the results of inspections to audit firms and the audit committee members of audited companies and disseminate information on the monitoring results broadly to the public so as to spur interest in and awareness of audits. From that viewpoint, the CPAAOB gives consideration to the following points on the occasion of monitoring information provision.

a. Conveyance of inspection results to audit committee members

The CPAAOB continues to endeavor to enhance descriptions of inspection results so as to accurately convey inspection findings to audit firms and to accurately convey inspection findings, including audit firms' quality control levels and operational management systems, to audit committee members at audited companies. The CPAAOB also confirms whether audit firms appropriately convey the results of inspections to audit committee members at audited companies.

b. Monitoring Report

To contribute to furthering market participants' understanding of audits, the CPAAOB has published the Monitoring Report,¹² which compiles monitoring results and insights, annually since 2016. The CPAAOB will make further efforts for the enhancement of its content and dissemination of information, with the needs of readers in mind. The CPAAOB will also endeavor to disseminate information to

9 Foreign audit firms that have notified the Commissioner of the Financial Services Agency that they engage in services that are found to be equivalent to audit and attestation services regarding financial documents submitted by foreign companies under the provisions of the Financial Instruments and Exchange Act in foreign countries (Article 34-35 of the Certified Public Accountants Act)

10 A document that provides for the policy for inspection and supervision of foreign audit firms, etc., including concrete implementation procedures and points to note, etc. (published in September 2009)

11 A document that provides for concrete implementation procedures and points to note, etc. in relation to the collection of reports from and inspection of foreign audit firms, etc. (finally revised in June 2024)

12 .In the 2025 Monitoring Report, more detailed information is provided regarding "1. (1) Audit trends" and "1. (2) Initiatives to ensure and improve audit quality" in this Basic Plan. Please refer to them. (<https://www.fsa.go.jp/cpaao/shinsakensa/kouhyou/20250718/20250718.html>)

foreign readers by translating the Monitoring Report into English.

c. Case Report from Audit Firm Inspection Results

In order to encourage audit firms to ensure and improve audit quality, the CPAAOB has published the Case Report from Audit Firm Inspection Results,¹³ which compiles specific cases identified through inspections, annually since 2008. The CPAAOB will continue to enhance the report by updating cases and positively utilizing figures and tables to facilitate readers' understanding so as to make the report a useful reference for audit firms' improvement initiatives. The CPAAOB will also continue to hold lectures and briefings on the Case Report at each branch of the JICPA nationwide, and proactively disseminate the report to market participants, while translating it into English to also provide relevant information to foreign readers.

¹³ In the Case Report from Audit Firm Inspection Results (PY2025), more detailed information is provided regarding "1. (3) Quality control challenges at audit firms" in this Basic Plan. Please refer to them. (<https://www.fsa.go.jp/cpaaob/shinsakensa/kouhyou/20250707/20250707.html>)