



2025 Monitoring Report

Certified Public Accountants and Auditing Oversight Board
July 2025

Introduction

The Certified Public Accountants and Auditing Oversight Board (CPAAOB) operates the certified public accountants (CPAs) examinations and conducts inspections etc. (monitoring) of audit firms from the viewpoint of safeguarding the public interest and protecting investors in order to improve the quality and ensure the reliability of audits performed by CPAs.

This report is aimed not only at audit and accounting specialists, but also market participants as well as ordinary readers such as students and working people. We have published it for the purpose of promoting understanding across our society of the importance of audits by providing easy-to-understand and relevant information that is centered on the circumstances and results of the CPAAOB's monitoring activities but also encompasses the current state and changes in the environment surrounding the audit sector.

Since the CPAAOB launched publishing this type of report under the title "Monitoring Report" in July 2016, we have updated the data on audit firms and audited companies, and also made revisions, such as adding the latest information obtained through the CPAAOB's monitoring activities.

The CPAAOB releases the "2025 Monitoring Report" compiled incorporating achievements and so forth of monitoring in the program year 2025 (from July 2024 through June 2025).

(Composition of the Monitoring Report and major revisions for the 2025 version)

I. Overview of the Audit Sector

This part presents the overview of CPAs, audit firms, and audited companies. We have added the status of audit firms' responses to the Revised Standards on Quality Control of Audits.

II. Monitoring by the CPAAOB

This part presents a whole picture of CPAAOB's monitoring including inspection. In addition to updating information related to monitoring, we have elaborated the Basic Plan for Monitoring Audit Firms and so forth in the program year 2025.

III. Operation of Audit Firms

This part presents the structure of audit firms and their operation, including the status of digitalization of audit and group audit. This part also presents the status of changes of accounting auditors and variations of audit fee.

IV. Responses to Changes in the Global Environment Surrounding Audits

This part presents the changes of regulations and institutions caused by recent movement of audit environment. We have described the changes related to small and medium-sized audit firms whose responsibility as auditors of domestic listed companies became more significant recently. We have also described the movement of the disclosure and assurance of sustainability information.

To improve the audit quality, CPAAOB considers it important to spur interest and raise awareness of accounting auditing among not only market participants, such as auditors or investors but also people on a broader basis. We welcome your comments and requests to further improve the content of our monitoring report.

Contact us:
Monitoring and Inspection Division,
Executive Bureau of the CPAAOB
iiu.cpaaob@fsa.go.jp

Contents

Introduction	1
(Abbreviations)	5
(Terms)	5
I. Overview of the Audit Sector	8
A. CPAs	9
1. Introduction of the CPA system	9
2. CPAs	9
3. Percentage of Female CPAs	12
4. Age Structure of Persons who Passed the CPA exam	13
B. Audit Firms	15
1. Organizational Structure of Audit Firms	15
2. Development of Quality Control Structures and Responses by Audit Firms	18
3. Number of Audit firms	21
4. Mergers of Audit Firms	22
5. Financial Condition (Operating Revenue, Proportion of Audit and Attestation Services and Non-audit and Attestation Services)	22
C. Audited Companies	26
1. Types of Audit and Attestation Services	26
2. FIEA and Companies Act Audits	27
3. Audits of Financial Institutions	30
4. Companies Adopting IFRS	31
5. Audits of Initial Public Offerings	32
II. Monitoring by the CPAAOB	35
A. Overview of System and Situation with Implementation	36
1. Legal Position of the CPAAOB	36
2. Overview of Examinations, Collection of Reports, and Inspections by the CPAAOB	36
3. Report of JICPA Quality Control Review	37
4. Examination	38
5. Collection of Reports	40
6. Inspections	44
7. Notification of Inspection Results	50
8. Recommendation	53
B. Foreign Audit firms	54
1. System for Foreign Audit Firms	54
2. Foreign Audit Firms	54
3. Audited Companies	55
C. The CPAAOB monitoring Perspectives, Objectives etc.	56

1. Basic Policy for Monitoring Audit Firms	56
2. Basic Plan for Monitoring Audit Firms for Program Year 2024	57
3. Strengthening Monitoring.....	59
4. Cooperation with Related Organizations	60
5. Communication of Monitoring Information.....	61
III. Operation of Audit Firms	62
A. Operations Management System	63
1. Organizational Structure of Audit Firms.....	63
2. Efforts in Response to Audit Firm Governance Code.....	65
3. Human Resources of Audit Firms	73
4. Organizational Structure for Providing Audit Services.....	78
5. Organizational Structure for Supporting Audit Services	80
6. Usage of Technology in Audit and Cybersecurity Efforts.....	83
7. Responses to Overseas Expansion of Companies	89
8. Treatment of Key Audit Matters	95
9. Domestic Audit Firm Groups.....	98
B. Engagement Quality Reviews	101
C. Monitoring of System of Quality Management.....	103
1. Periodic Inspections	103
2. Utilization of Global Reviews	104
3. Monitoring Before Expression of Audit Opinions	105
D. Education, Training and Evaluation of Audit Personnel.....	106
1. Human Resource Development.....	106
2. Education and Training of Engagement Teams.....	106
3. Evaluation of Engagement Team Members.....	108
E. Acceptance of New Audit Engagements and Changes of Accounting Auditors	110
1. Reasons for Change of Accounting Auditors Given in Timely Disclosures by Audited Companies	112
2. Reasons for Change of Accounting Auditors during Fiscal Term	113
3. Reasons for Changes of Accounting Auditors as Identified Through Monitoring Activities.....	113
F. Audit Fees	116
1. Rules on Audit Fees	116
2. Methods for Calculating Audit Fees	116
3. Audit Fees Before and After Changes in Accounting Auditors	117
4. Dependence of Fees (Safeguards).....	118
IV. Responses to Changes in the Global Environment Surrounding Audits	121
A. Trends Surrounding Small and Medium-Sized Audit Firms	122
1. Changes in the Environment Surrounding Audits by Small and Medium-Sized Audit Firms	122

2. Response by the JICPA to Small and Medium-Sized Audit Firms	123
3. Response by the CPAAOB	127
B. Recent Trends with Auditing	129
1. Trends in International Auditing Standards and Ethical Standards	129
2. Revision of the Code of Ethics by JICPA.....	130
3. Other Trends in Financial Reporting Systems.....	131
C. Trends in Sustainability Disclosure and Assurance.....	136
1. Trends in Sustainability Disclosure	137
2. Trends in Assurance on Sustainability Disclosures	138
(Reference materials).....	144

Column

Initiatives to improve the attractiveness of audit services	11
Efforts to gender diversity	13
Initiatives to review the operation of the CPA examination	14
Share of large-sized audit firms	30
IPO support services	34
Disclosure of Audit Quality Indicators (AQIs)	72
Effective audit using AI	86
IT tool adoption and its impact on average working hours at large-sized and mid-tier audit firms	87
CPA and Anti-Money Laundering and Countering the Financing Terrorism (AML/CFT)	89
International Forum of Independent Audit Regulators (IFIAR)	95
Enhancing audit quality and improving profitability and operational efficiency	120
Introduction of new lease accounting standards	136
The impact of political developments in various countries on corporate accounting and audit industry	142

(Abbreviations)

The formal names of the abbreviations used in this Report shall be defined as follows:

CPA AOB	Certified Public Accountants and Auditing Oversight Board
JICPA	Japanese Institute of Certified Public Accountants
Stock exchange	Financial instruments exchange
CPA Act	Certified Public Accountants Act
FIEA	Financial Instruments and Exchange Act
QCSCS	Quality Control Standards Commission Statements No.1
ASCS	Auditing Standards Committee Statements

(Terms)

Terms used in this Report shall be defined as follows:

Monitoring	Monitoring consists of inspections and non-inspection monitoring. Non-inspection monitoring involves gathering information through the collection of reports related to audit firms, interviews, and exchange of opinions and cooperation with audit firms and others.
Fiscal year (FY)	The year starting in April and ending in March of the following year, unless otherwise stated
Program year (PY)	The year starting in July and ending in June of the following year
Audit firm	Audit firms, partnerships (persons providing audit and attestation services jointly with other CPAs), and solo practitioners
Large-sized audit firm	An audit firm that has more than approximately 100 domestic listed audited companies and whose full-time staff performing actual audit duties total at least 1,000. In this report, they specifically refer to KPMG Azsa LLC, Deloitte Touche Tohmatsu LLC, Ernst & Young ShinNihon LLC, and PricewaterhouseCoopers Japan LLC.
Mid-tier audit firm	An audit firm whose business scale is second only to large-sized audit firms. In this report, this will refer to four audit firms: Gyosei & Co., BDO Sanyu & Co., Grant Thornton Taiyo LLC, and Crowe Toyo & Co.
Small and medium-sized audit firm	An audit firm other than large-sized and mid-tier audit firms
Foreign audit firm	An audit firm that is based on a foreign country but provides audit and attestation services for financial documents etc. that are disclosed domestically within Japan
Large audit firm	An audit firm that provided audit and attestation services to more than 100 listed companies. etc. in the most recent fiscal year. In this report, we refer to six audit firms including Large-sized audit firm, BDO Sanyu & Co. and Grant Thornton Taiyo LLC.

Accounting auditor	A CPA or audit firm
Domestic listed company	Listed companies other than foreign companies. Note that listed companies refers to companies that are listed on a financial instruments exchanges.
Listed financial institution	Among domestic listed companies, refers to banks, securities and commodity futures companies and insurance companies in the industry categories.
Audited company	Companies that undergo audits
Audit engagement	Audit and attestation services carried out by an audit firm for an individual audited company
Business report	A document submitted by an audit firm to the FSA each program year that contains the audit firm's financial statements and an overview of its operations
Audit Firm Governance Code	" Principles for Organizational Operation of Audit firms" published by the FSA on March 31, 2017, and amended on March 24, 2023
Big Four global accounting firms	The global networks of the four largest accounting firms: Deloitte Touche Tohmatsu, Ernst & Young, KPMG, and PricewaterhouseCoopers
Big Six global accounting firms	The global networks of the Big Four accounting firms, BDO and Grant Thornton
Member firm	An accounting firm directly belonging to the same global accounting firms
IFRS	International Financial Reporting Standards; accounting standards established by the International Accounting Standards Board (IASB) that have been adopted by many countries/regions
KAM	Key Audit Matters -- The FIEA requires audit firms to describe KAMs in their audit reports.

(Sources)

The materials that do not indicate their sources are based on documents within the CPAAOB or on information that is widely published in general.

(Timing and timeframe of data collection)

To reflect the most up-to-date information, the timing and timeframe of data collection are not uniform; the timing and timeframe of data collection are listed in the notes inside or underneath each figure. Component ratios have been rounded down to the nearest whole number, and may not add up evenly to 100.

I. Overview of the Audit Sector

I. Overview of the Audit Sector

A. CPAs

1. Introduction of the CPA system

The origin of the Japanese CPA system is the Accountants Act, which was enacted in 1927. With the economic and social reconstruction and democratization proceeding after the end of World War II, the Accountants Act was abolished, and the CPA system was introduced in 1948 for the purpose of ensuring the reliability of financial statements by determining the qualifications of audit and accounting experts whose primary duty is audit and attestation. Specifically, the Securities and Exchange Act was promulgated in 1947, requiring companies that issue or solicit investment in shares, corporate bonds or other securities to submit reports. The issuer of listed securities is required to obtain audit attestation from certified public accountants (CPAs) by the full overhaul of the 1948 Securities and Exchange Act (currently the Financial Instruments and Exchange Act (FIEA)) as well as the promulgation/enforcement of the Certified Public Accountants Act (CPA Act).

Accordingly, the Certified Public Accountants Management Committee was established to conduct CPA examinations, etc. (becoming the CPA Examination and Investigation Board in 1952 after a transfer of jurisdiction and expanded/restructured into the current Certified Public Accountants and Auditing Oversight Board in 2004). The Corporate Accounting Principles were released in 1949, and the Audit Standards in 1950.

The present CPA Act clearly sets out the mission and professional responsibilities of CPAs as given below. CPAs must always be self-aware of this mission and these professional responsibilities in performing their duties regardless of audit attestation services or non-audit services.

“The mission of certified public accountants, as professionals on auditing and accounting, shall be to ensure matters such as the fair business activities of companies, etc., and the protection of investors and creditors by ensuring the reliability of financial documents and any other information concerning finance from an independent standpoint, thereby contributing to the sound development of the national economy” (Article 1).

“A certified public accountant shall always maintain his/her dignity, endeavor to acquire knowledge and skills, and provide services with fairness and integrity from an independent standpoint” (Article 1-2).

2. CPAs

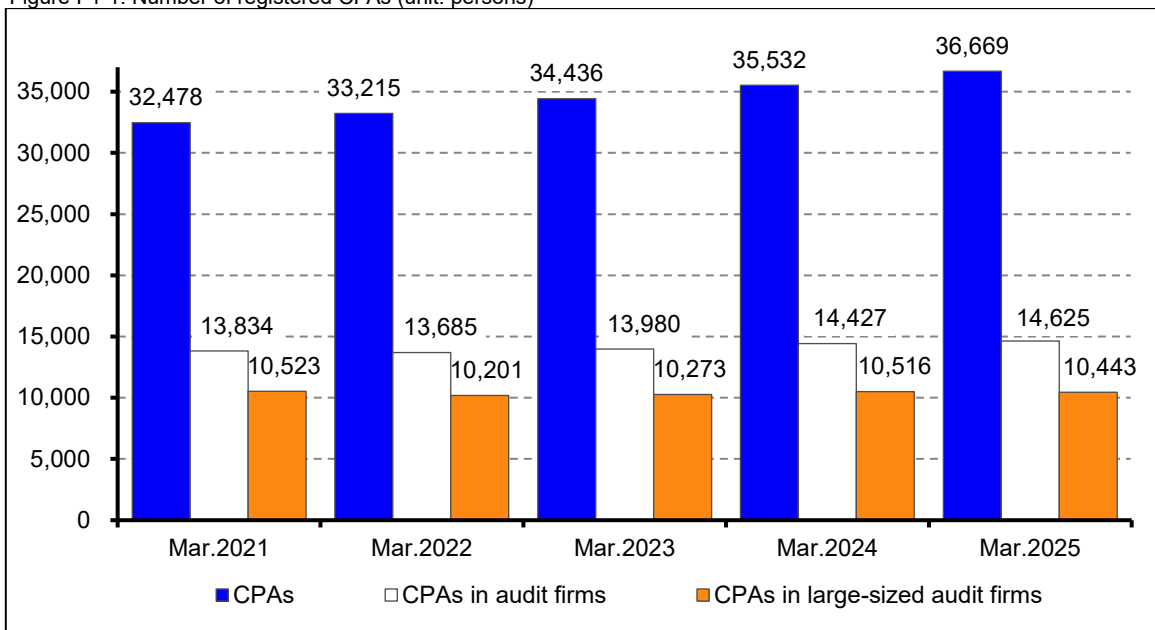
To become a certified public accountant, a person must pass the certified public accountant examination, satisfy certain requirements (business assistance, professional accountancy education program, etc.), and be registered on the roster maintained by the Japanese Institute of Certified Public Accountants (JICPA) (Articles 3, 17, and 18 of the CPA Act).

The number of registered CPAs has been gradually increasing over the past few years. However, but the number of CPAs working at audit firms has not increased as much as the number of registered CPAs. The ratio of the number of CPAs working at audit firms to the total number of registered CPAs

has been declining year by year, and continued to decline from 42.6% at the end of March 2021 to 39.9% at the end of March 2025. Of the registered CPAs belonging to audit firms, around 70% at large-sized audit firms (Figure I-1-1).

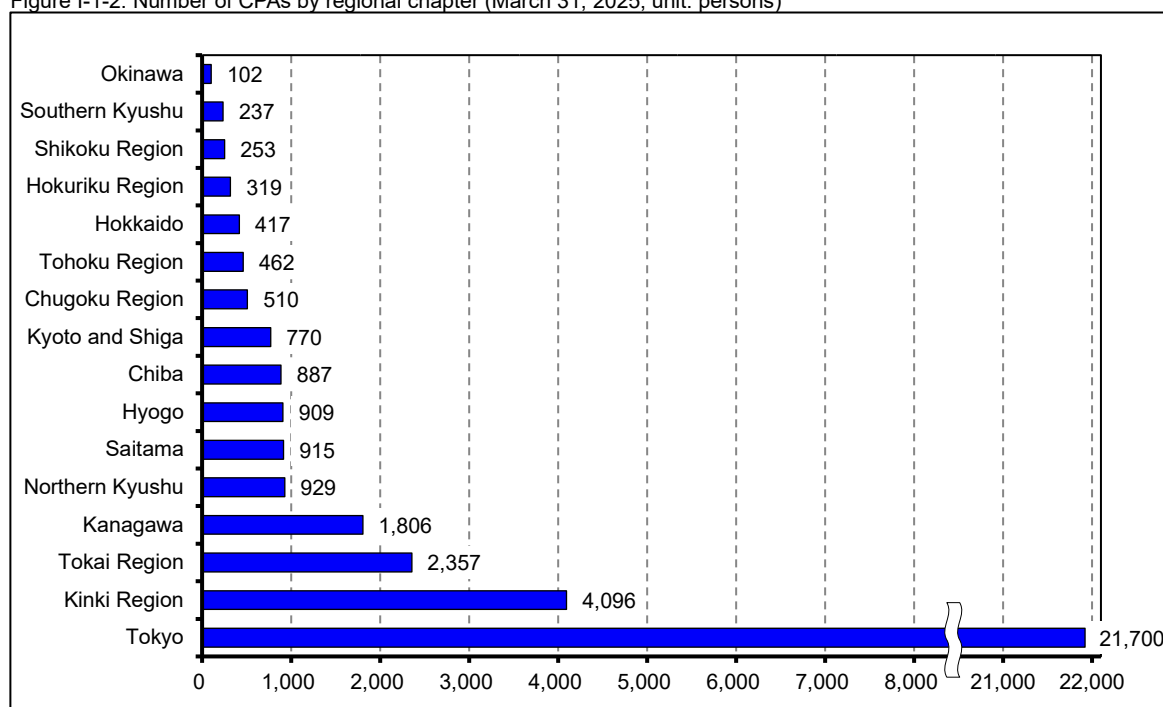
CPAs must be members of the JICPA (Article 46-2 of the CPA Act) and must belong to a regional chapter, i.e., one of the JICPA branches established across Japan (16 regional chapters as of March 31, 2025). Around 70% of CPAs are based in the Tokyo metropolitan area (Tokyo, Kanagawa, Saitama, Chiba) (Figure I-1-2).

Figure I-1-1. Number of registered CPAs (unit: persons)



(Source) Prepared by the CPAAOB based on data from the JICPA

Figure I-1-2: Number of CPAs by regional chapter (March 31, 2025; unit: persons)



(Source) Prepared by the CPAAOB based on data (e.g. survey of numbers of members) from the JICPA

■ Initiatives to improve the attractiveness of audit service ■

The number of registered CPAs increased from 24,964 at the end of March 2013 to 36,669 at the end of March 2025 (46.9% increase). On the other hand, the number of personnel working at audit firms has not increased as much as the number of registered personnel, from 12,799 at the end of March 2013 to 14,625 at the end of March 2025 (14.3% increase). With the growing needs for audits in terms of both quality and quantity, there are concerns about a shortage of personnel in charge of audits. Improving the attractiveness of audit services and securing audit professionals are not issues unique to Japan and many countries are taking action.

International Federation of Accountants (IFAC) states that the factors that caused personnel difficulties for small and medium-sized audit firms are now affecting the audit industry as a whole; specifically, (I) declining the number of applicants, (ii) increasing the opportunities for employment in other fields, and (iii) concerns about achieving work-life balance and flexible working styles. In Japan as well, the increase in mechanical and monotonous work, long working hours, and inability to realize the results of one's own work are reported as reasons why accountants do not find audit attractive.

By classifying the above factors into (I) decline in motivation and incentive to engage in audit services or to belong to audit firms, (ii) increase in workload due to the refinement of audit standards and manuals, and (iii) increase in opportunities for employment in other fields, we would like to introduce the efforts of audit firms to increase the attractiveness of engaging in audit services and to secure personnel engaging audit services.

(I) Initiatives to address declining motivation and incentive to engage in audit services or to belong to audit firms

- Flexible timing of promotion, including earlier promotion for capable staff and promotions that take into account the preference for work-life balance;
- Diversifying career paths (creating the promotion paths allow for the acquisition of expertise in addition to the promotion path from staff to partners);
- Compile a variety of work styles and share them across the firm;
- Providing work opportunities for non-audit work, such as tax and advisory services, as well as expanding opportunities for short-term secondments to external organizations and interdepartmental transfers;
- Enhancing communication within small groups and mentoring programs, etc.

(II) Efforts to address workloads associated with the refinement of audit standards and manuals

- Leveling of work through centralized management of assignments handled by each partner/staff
- Greater flexibility in working locations and hours through remote work and flexible working hours
- Improving efficiency by introducing IT system and transferring operations to a service delivery center (an organization established to perform non-judgemental tasks such as sending and collecting balance confirmation letters), mainly undertaken by large-sized audit firms

(III) Initiatives to respond to the increase in employment opportunities in other fields

In recent years, the fields in which CPAs play an active role have expanded, and there are a growing number of careers in which CPAs can make a tangible contributions to organizations and society, such as CFOs and accounting managers of business companies, consulting firms, and NPOs. Under these circumstances, the message that "audit is a social infrastructure that ensures the fairness of capital markets," which has been a source of attraction for audit services, is said to have become relatively less convincing. Audit firms are also promoting initiatives such as those mentioned in (I) above with the aim of providing CPAs with an opportunity to experience their own growth. On the other hand, if CPAs play an active role on the side of the preparers of financial statements, there is an expectation that the appropriateness of the financial statements prepared will increase, so that the firms show a certain degree of understanding towards young CPAs who wish to advance their careers outside of the firm. Large-sized audit firms and some mid-tier audit firms have introduced an initiative called "alumni" to encourage CPAs who are active in such business companies to return to audit engagements by maintaining and strengthening relationships with their retirees. This initiative provides opportunities for exchanging information between retirees and between retirees and incumbents, as well as for rehiring retirees or introduce part-time audit engagement opportunities, thereby

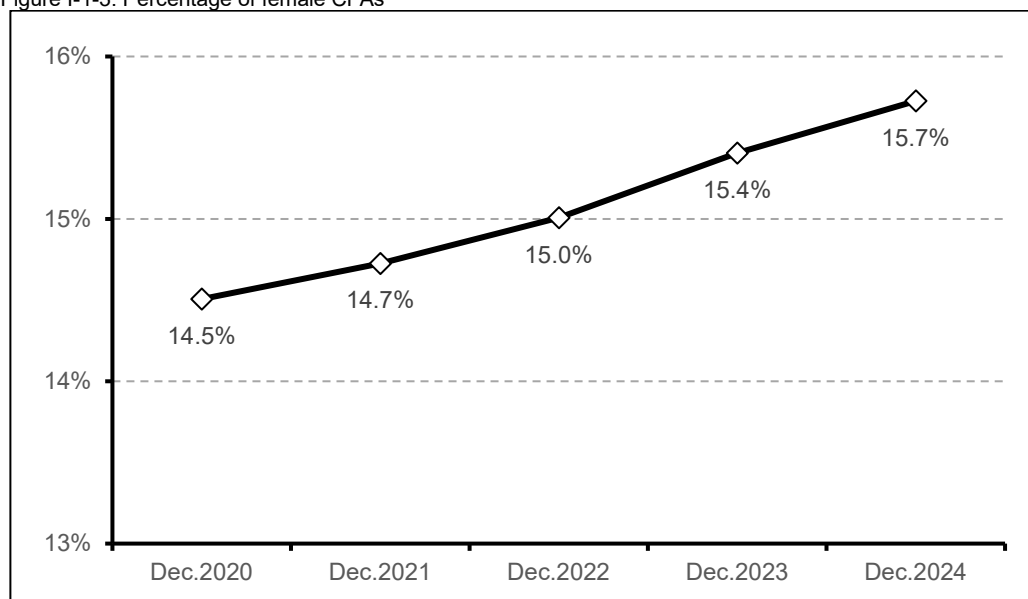
encouraging them to return to auditing work. With regard to retirees from other firms, each audit firm recruits mid-career professionals regardless of their original firm, and expects them to be immediately engaged in audit engagements. Furthermore, audit firms' compensation tends to be less favorable than that of business companies and consulting firms. It is not easy for audit firms to increase audit fees, which are the source of their salaries. However, at large-sized audit firms, there have been cases of salary increases for senior staff, who tend to have higher turnover rates than other levels.

Some large-sized audit firms are planning to expand the scope of audit and assurance beyond financial information to include third-party evaluation of information security, AI assurance, and evaluation of governance effectiveness. As a measure to develop diverse human resources for the future, large-sized audit firms are providing training and establishing internal qualification systems for specialist knowledge in the fields of sustainability and digital fields such as generated AI and data analysis. We expect that these initiatives, which provide employees with a wide range of growth opportunities, will also lead to increased attractiveness of audit profession.

3. Percentage of Female CPAs

The percentage of women among the total number of registered CPAs is gradually increasing (Figure I-1-3), and at the end of 2024 the figure reached 15.7%, which is the same as the level for female tax accountants¹. On the other hand, it is still lower than the percentages of female attorneys and female CPAs in the UK².

Figure I-1-3: Percentage of female CPAs



(Source) Prepared by the CPAAOB based on data from the JICPA

¹ According to "2024 Survey on Women's Participation in Policy and Decision-making Processes" by the Cabinet Office's Gender Equality Bureau, the percentage of female tax accountants was 15.8% at the end of March, 2024, and the percentage of female attorneys was 20.2% at the November 1st, 2024.

² According to the UK Financial Reporting Council's "Key Facts and Trends in the Accountancy Profession 2023," there are several CPA institutes in the UK, and the average female membership for them is 38%.

■ Efforts to gender diversity ■

The Japanese Institute of Certified Public Accountants (JICPA) intends to increase the share of successful female examinees to 30% by 2030 and the share of female members and semi-members to 30% by 2048. And it is promoting arrangements to further empower female CPAs, such as the use of maiden names, support for employment and return to work, exemption or relief from continuing professional development (CPD) and membership fees during absence from work for childbirth, childrearing and other reasons. There are some large-sized audit firms that are setting KPIs such as the share of female executives, nurturing female executives and providing support for female CPAs at each life stage, holding training sessions and seminars to develop an organizational culture to accept diverse working styles, and offering support for creating networks.

Large-sized audit firms are also promoting initiatives such as setting KPIs for the ratio of women in management positions, etc., supporting women's career development, supporting various life stages such as childcare and nursing care, encouraging male employees to take childcare leave, and supporting the establishment of networks among female employees. According to the Audit Quality Reports of large-sized audit firms, the average proportion of female partners is around 9%, while the average proportion of female managers (senior managers, managers, etc.) is around 21%.

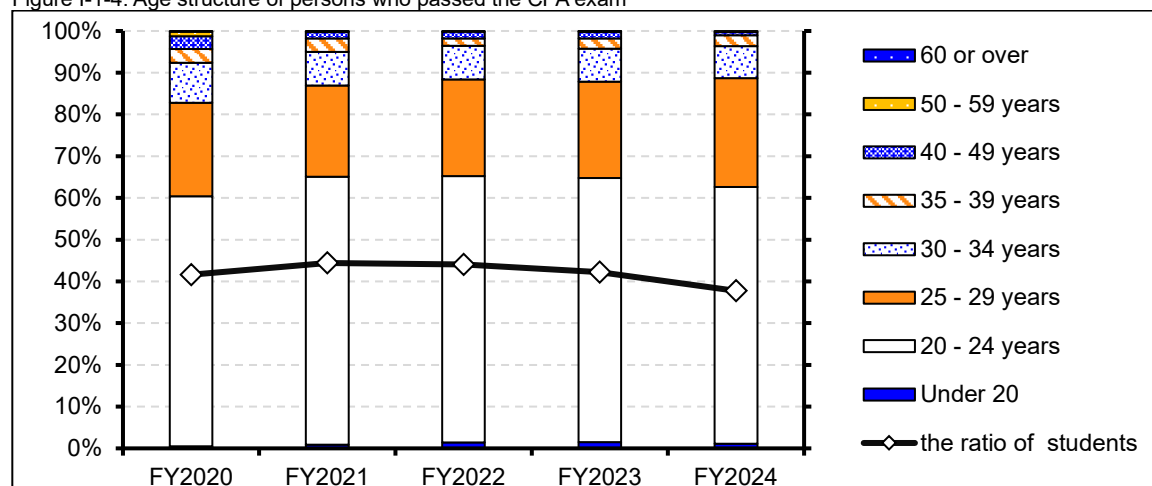
The JFSA, together with the JICPA, has published a pamphlet titled "Activity Fields for CPAs and Exam Passers," which disseminates messages from female CPAs about the attractiveness and motivation of CPAs and their career plans, with an eye to increasing the number of women taking the CPA exam.

The ratio of successful examinees by gender for the 2024 CPA Examination was 6.17% for female examinees (7.90% for male examinees), which was lower than the 2023 Examination. However, the ratio of successful female examinees was 22.4%, a slight increase from the previous year, and the number of successful female examinees also increased from the previous year. In recent years, the number of females submitting applications for the examination and passing the examination has been showing an upward trend.

4. Age Structure of Persons who Passed the CPA exam

Breaking down the age structure of persons who passed the CPA examinations, we see that the largest age group is 20-24 years. People in this group accounted for 61.5% of those who passed it in 2024. The ratio of students (excluding persons enrolled in courses at vocational schools etc.) is the highest by occupation. Among them, despite on the decline, the proportion of university (including junior colleges) students were 37.7% in the 2024 examinations (Figure I-1-4). The number of university student applicants continues to increase (6,559 in the 2022 Examination, 6,740 in the 2023 Examination, and 6,901 in the 2024 Examination).

Figure I-1-4: Age structure of persons who passed the CPA exam



(Source) Prepared by the CPAAOB based on data from the CPAAOB survey of persons who passed the CPA exam

■ Initiatives to review the operation of the CPA examination ■

The CPA exam is the initial step in the process of selecting and developing CPAs. Approximately 20 years have passed since the CPA exam took its current form in 2006, and the number of CPA exam takers has increased to over 20,000 per year. The number of registered CPAs has more than doubled from approximately 16,000 as of the end of March 2006 to approximately 36,000 as of the end of March 2025. Thus, the number of accounting professionals in society as a whole has been steadily increasing.

Under these circumstances, in the CPA examination, the pass rate of the short-answer examination has declined as the number of examinees has increased, while the pass rate of the essay examination has been relatively high. Therefore, there are issues in terms of the positioning and roles of the short-answer examination and the essay examination, and there are concerns about ensuring the qualities and abilities of the passers.

Specifically, since the pass rate of the short answer exam is too low and questions with high points per question have a large impact on the pass / fail, it is considered that there are many people who cannot pass the short answer exam even if they have a systematic understanding of the necessary knowledge. In addition, since the pass rate of the essay exam is relatively high and the amount of description is reduced in some subjects, it is considered that there are people who can pass the exam even if they have not been sufficiently trained in the necessary thinking skills and applied skills. Furthermore, the circumstances surrounding CPAs are changing, and it is considered necessary to respond to the situation where the required knowledge and skills are expanding, such as the relationship with English and IT, and the consideration of the disclosure and assurance system of sustainability information.

In light of this situation, the CPAAOB formulated and published "Rebalancing the CPA Exam- Review of the Exam Administration Framework and Question Content for a More Accurate Assessment of Examinees' Abilities" ("Rebalancing the Exam") in June 2025 in order to more accurately assess the abilities of examinees.

(Follow the link below)

<https://www.fsa.go.jp/cpaaob/kouninkaikeshi-shiken/20250612.html>

The following measures will be taken to balance the studies.

(1) Adjustment of the pass rate between the short answer and essay tests [Implemented from 2027 Exam]

Increase the number of applicants for the essay test (the number of persons who pass the short-answer test) in order to ensure more appropriate competition in the essay test (raising the criteria for passing the essay test).

(ii) Adjustment of the allocation of points per question for the short-answer examination [Implemented from the 2026 Exam]

- In the short-answer exam subjects with calculation questions (Financial Accounting and Management Accounting), the number of questions has decreased due to time constraints, so the number of questions will be increased to narrow the gap in the allocation of points per question (and the time will be adjusted accordingly).

(iii) Responses to issues related to the production of examination questions and proficiency assessment

- In the essay test, questions that require a certain amount of description will be given. [Corresponding from the 2026 Exam]

- We will also consider appropriate point conversion methods for elective subjects and the creation of tests (English, disclosure and assurance of sustainability information, IT, etc.) in accordance with the expansion of the knowledge and skills required of CPAs.

B. Audit Firms

Audit firms numbered 2,419 at the end of March 2024, but they vary by service and business format. Audit and attestation services cover both statutory audits and non-statutory audits. Statutory audits are CPA audits required by the law. When CPA audits were first introduced, the only statutory audits were FIEA audits, but thereafter CPA audits under the Companies Act were introduced, and then educational corporation audits under the Act on Subsidies for Private Schools. There are now a multitude of statutory audits, including audits of labor unions, credit unions, credit associations, agricultural cooperatives, social welfare corporations and medical corporations, etc. Further explanation of audit and attestation services is provided on [C. Audited Companies, 1. Types of Audit and Attestation Services](#).

There are three types of entities providing audit and attestation services: audit firms, partnerships, and solo practitioners. Audit firms are established pursuant to the CPA Act for the purpose of organizationally performing audit and attestation services. When the audit firm system was forged in 1966, the tasks involved in audit and attestation services had increased in volume and complexity as corporations subsequently grew larger in scale and management became more multifaceted. Additionally, numerous incidents of fraudulent accounting were occurring at the time, bringing into question the raison d'être of CPAs. The system of audit firms was therefore introduced to improve audit quality for promoting the conduct of organizational audits.

The CPAAOB classifies audit firms by scale into large-sized audit firms, mid-tier audit firms, and small and medium-sized audit firms (Figure I-2-1). CPAAOB mainly monitors those audit firms conducting FIEA audits of domestic listed companies³.

Figure I-2-1: Classifications of audit firms (as of March 31, 2024)

(unrounded)	Audit Firm	Number of Firms
	Large-sized audit firms	4
	Mid-tier audit firms	4
	Small and medium-sized audit firms	2,411
	Small and medium-sized audit firms	(279)
	Partnerships (Note 1)	(49)
	Solo practitioners (Note 1, 2)	(2,083)

(Note 1) The number of audit offices in fiscal 2023 (book closing date from April 1, 2023, till March 31, 2024) listed in copies of audit summaries or audit implementation reports submitted to the JIPCA.

(Note 2) In order for solo practitioners to conduct an audit for a listed company it is required by the CPA Act and each exchange's securities listing regulations to conduct the audit jointly with other CPAs, etc.

(Source) Prepared by the CPAAOB based on data from the JICPA

1. Organizational Structure of Audit Firms

Audit firms are established through investment by persons including five or more CPAs, and their defining characteristics are that the persons who invested (partners) are directly engaged in

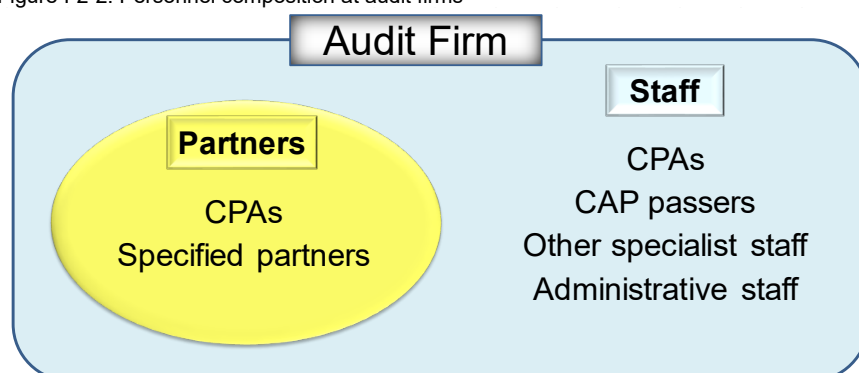
³ Registration as a registered auditor of listed companies etc. is required to audit listed companies. For information on the registration system for listed company auditors, see "[IV. Responses to Changes in the Global Environment Surrounding Audits, 1. Trends Surrounding Small and Medium-sized Audit Firms](#)".

management and that they ensure organizational discipline via mutual monitoring. Some audit firms comprise only partners, but those of a certain scale ordinarily employ CPAs (CPAs who have not invested in order to become partners of the audit firm), CPA examination passers (persons who have passed the CPA exam but have not been registered as CPAs after undergoing practical training and providing assistance with audit work), and other experts as staff.

In the past, partners of audit firms were limited to CPAs, but in today's more sophisticated economy and society, partners are required to have a wide range of knowledge and experience including management, law, IT, pension mathematics to ensure appropriate operational management of the audit firm and to provide effective organizational audit services. Accordingly, as a result of legal revisions in 2007, a "specified partner system" allowed non-CPAs to be partners at an audit firm. However, CPAs must comprise at least 75% of the audit firm's partners if specified partners join the firm. In FY2024 large-sized audit firms had 165 specified partners among a total of 1,886 partners.

The personnel composition of an audit firm is outlined below (Figure I-2-2), and explained in more details in "[III. Operation of Audit Firms, A. Operations Management System, 3. Human Resources of Audit Firms](#)".

Figure I-2-2: Personnel composition at audit firms



(Source) Prepared by the CPAAOB with reference to page 55 of "New CPA/Audit firm Audit System - Ensuring Fair Financial/Capital Markets" (Dai-ichi Hoki Co., Ltd., 2009), Yuichi Ikeda and Hidenori Mitsui, ed.

	Large-sized audit firm	Mid-tier audit firm	Small and medium-sized audit firm
Partners	Approx.240 up to approx. 570	Approx. 40 up to 100	Up to approx. 50(Note2)
Full-time staff	Approx. 3,300 up to approx. 7,700	Approx. 210 up to 950	Up to approx. 110(Note2)

(Note1) See "Figure III-1-3: Characteristics of each type of audit firm" (page 65) for Characteristics of organizational structure based on audit firm size.

(Note2) The fiscal years of small and medium-sized audit firms cover a wide range of months, and the figures for FY2024 have not yet been compiled. For this reason, small and medium-sized audit firms are included up to FY2023. Excluding an audit firm whose number of partners and full-time staff members is much higher than others.

(Source) Prepared by the CPAAOB based on operational reports submitted by audit firms.

In response to the increasing complexity and internationalization of corporate activities at domestic listed companies, especially major ones, audit firms grow bigger. The large-sized audit firms responsible for the majority of audits of major listed companies have workforces exceeding several thousand people; even mid-tier audit firms now have more than 200 people.

As audit firms grow in scale, they necessitate introducing job classification system defined by abilities, experience, etc. for effective management of organization. (Figure I-2-3). It is standard practice for personnel to move up the ranks from staff and senior staff to manager, senior manager and, if selected, to partner. In recent years, some large-sized audit firms hire a larger number of audit assistants (staff without qualifications relating to financial statement audits, such as a qualification of CPA) to reduce the workload of CPAs and enable them to concentrate on duties requiring professional judgment.

The expanding size of audit firms and the increasing complexity of their organizational administration has made the difficulty of ensuring audit quality even more apparent. In response to this situation, Principles for Effective Management of Audit Firms (the Audit Firm Governance Code) formulated in March 2017 was revised in March 2023. As a result of this revision, audit firms registered on the list of listed company auditors are now required to establish a framework for conducting operations in accordance with the Audit Firm Governance Code and a framework for disclosing substantial information. As for the situation of amendments of Audit Firm Governance Code, refer to [III. Operation of Audit Firms A. Operations Management System 2. Efforts in Response to Audit Firm Governance Code](#).

Figure I-2-3: Professional hierarchy, required skills, and primary trainings in a large-sized audit firm

	Staff	Senior Staff	Manager	Senior Manager	Partner
Roles	Perform of audit practice under the guidance and supervision of superiors; in the case of seniors, supervising engagement teams performing audits of small and medium-sized enterprises, depending on their experience		Oversight of audit teams		Overall supervision of all audit engagements and involvement in management of the audit firm
Skills required	Specialist knowledge on audit practices, accounting and audits		Management skills in staff mentoring and coordination with audited companies, as well as problem solving skills		High level of skill as a audit supervisor
Primary training	Trainings related to annual accounting audits, fraud prevention, global audit, IT, sustainability etc.				
	Audit procedure training, etc.		Management training, specialty-specific training, etc.		

(Note) For details, see “[III. Operation of Audit Firms. A. Operations Management System. 4. Organizational Structure for Providing Audit Services](#)” and “[5. Organizational Structure for Supporting Audit Services](#)”.

(Source) Prepared by the CPAAOB

2. Development of Quality Management Structures and Responses by Audit Firms

To ensure audit quality, it is important that audit firms develop and operate appropriate quality control structures to serve as a foundation for having their partners perform audit services properly.

"Standards on Quality Control for Audits" were formulated for audit and attestation services in 2005, and revised in November 2021 in association with the "Quality Control Standards for Audits," the International Standard on Quality Management (ISQM) 1 (ISQM1: Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements), which is an international quality management standard, and other standards were newly established or revised. Audit firms need to comply with professional ethics in their services other than audit and attestation services as well.

The Revised Standards on Quality Control for Audits (hereinafter referred to as the "Revised Standards") require individual audit firms to introduce the system of quality management based on a risk-based approach, under which they should

- a. set their own quality objectives,
- b. distinguish quality risks that hinder the achievement of such quality goals and assess them one by one,
- c. determine policies or procedures for dealing with those assessed quality risks and implement them, and
- d. make improvements based on the root cause analysis of defects, if any.

Additionally, the Revised Standards state that the system of quality management should include the following as component elements:

- a. Process to assess risks of the audit firm;
- b. Governance and leadership;
- c. Professional ethics and independence;
- d. Conclusion and renewal of audit engagements;
- e. Implementation of services;
- f. Resources for operational management of the audit firm;
- g. Information and communication;
- h. Monitoring of the system of quality management and improvement process; and
- i. Succession among audit firms.

Furthermore, the Revised Standards newly require the top officer in charge of an audit firm's system of quality management to evaluate the system at least once a year by setting a base date and draw a conclusion as to whether the system provides reasonable assurance to the audit firm that the purpose thereof is surely achieved.

The Revised Standards are effective for audits of financial statements for a business year or an accounting period starting on or after July 1, 2023 (for audit firms other than large audit firms under the CPA Act, for a business year or an accounting period starting on or after July 1, 2024).

According to interviews with large-sized audit firms, they are moving ahead of the ISQM1, which went into effect in December 2022, in cooperation with the global networks. They are receiving risk assessment tools from the global networks and are adding evaluation items based on the Revised Standards' own requirements while taking into account the quality goals and quality risks set by global networks.

Regarding the operation of the system of quality management, at many large-sized audit firms, the persons responsible for each division have process owners identify quality risks and policies and procedures for dealing with risks, and assess risks under the steering committee, which comprehensively manages responses to quality risks. Some firms have person in charge of monitoring compliance with the Revised Standards from independent standpoint.

The number of quality goals, quality risks, and policies and procedures to address these risks varies from firm to firm ranging from 15 to 144 in quality goals, 117 to 320 in quality risks, and 536 to 1,296 in policies and procedures to address the risks.

The timelines for the evaluation of the system of quality management also vary between firms, and the reporting time of evaluation results spread over the period from February 2024 to November 2024. Regarding the overall evaluation results, at all firms, the chief responsible officer for the system of quality management concludes that the system of quality management provides reasonable assurance that the objectives of the system are being achieved.

Through the operation and monitoring of the system of quality management, all large-sized audit firms are aware of the challenge of making system of quality management known to engagement teams, as this encourages engagement teams that actually operate some processes of the system of quality management to take autonomous actions.

Some large-sized audit firms also face challenges in further enhancing the collection and analysis of risk information in order to improve the accuracy of identifying high-risk audit engagements and control processes as well as monitoring viewpoints.

According to reports collected during PY2024, mid-tier audit firms are taking action based on risk assessment tools provided by their global networks. Three of mid-tier audit firms have been applying the Revised Standards since July 1, 2023 and the rest of mid-tier audit firm has also started to apply since July 1, 2024. Regarding the risk assessment process, similar to large-sized audit firms, they are developing the quality goals, quality risks and the policies and procedures based on the items shown in the global network's tool as well as adding evaluation items based on the Revised Standards' own requirements. Regarding the overall evaluation results, at three firms which have applied the Revised Standards since July 1, 2023, the chief responsible officer for the system of quality management concludes that the system of quality management provides reasonable assurance that the objectives of the system are being achieved.

In addition, as part of the efforts to penetrate and establish the system of quality management in the

workplace, meetings and training sessions such as partner meetings are held. Some mid-tier audit firms have stated a quality management committee held once every three months, with at least one member from each regional office participating.

Mid-tier audit firms are aware of the following issues relating to the operation and monitoring of system of quality management: (1) it is difficult to assess the degree of implementation of response measures if sufficient time is not allowed until the evaluation base date for response measures developed during the term; (2) a certain amount of effort is required for coordination among departments in responding to matters requiring improvement that cut across multiple departments; and (3) through the operation and monitoring of system of quality management, it is necessary for engagement teams to operate implemented measures while continuously running the PDCA cycle.

Small and medium-sized audit firms have also begun applying the Revised Standards. According to the results of the collection of reports from 52 small and medium-sized audit firms in PY2024⁴, approximately 25% of the audit firms surveyed required the most time to set quality objectives as part of their risk assessment process when applying the Revised Standards; approximately 20% required the most time to establish rules concerning governance and leadership; and approximately 15% required the most time to review all quality management rules.

The Revised Standards also require audit firms to perform root cause analysis of deficiencies identified in their system of quality management and implement improvement activities to address the deficiencies.

Small and medium-sized audit firms have been analyzing the root causes of improvement recommendations pointed out in the JICPA Quality Control Reviews even before the implementation of the Revised Standards began (See details in [3. Report of JICPA Quality Control Review](#)). According to reports collected in PY2024, many small and medium-sized audit firms cited the following as root causes:

- There was a lack of understanding of the level required by the current auditing and quality management standards and the high level of discipline required in the registration of listed company auditors.
- The establishment and operation of a quality management environment was inadequate due to a lack of an attitude and organizational culture that emphasizes quality management, as well as the priority given to the performance of individual audit engagements.
- There was a lack of education and training within the firm, as well as a lack of information sharing across the firm on matters pointed out by the JICPA, etc. and fraud cases involving companies other than the audited company.

On the other hand, there were some cases where the root cause was attributed to personal qualities

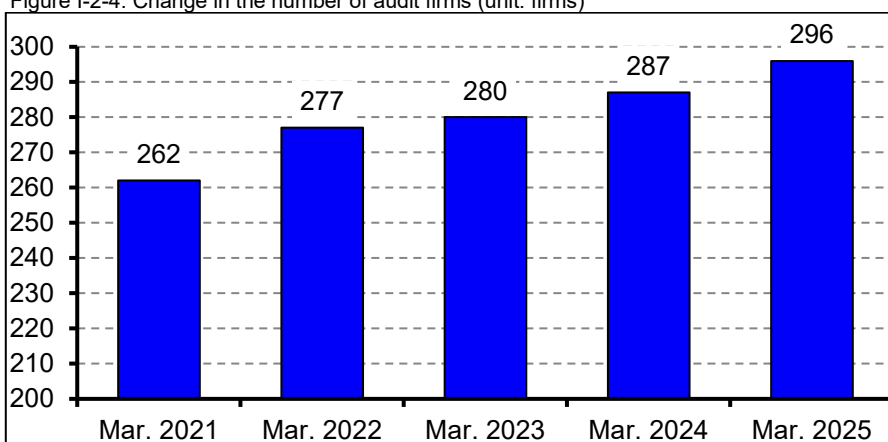
⁴ It should be noted that the collection of reports was answered based on information as of June 30, 2024, which may be different from the current situation.

such as errors in awareness and judgment by the engagement team and engagement partners, etc., as well as some cases where superficial reasons such as insufficient review of audit documentation were pointed out in the collection of reports. Thus, there were challenges in conducting sufficient and appropriate root cause analysis.

3. Number of Audit firms

The number of audit firms has been on an upward trend in recent years. As of March 31, 2025, there were 296 firms, and 5 firms disappeared as a result of dissolution and 14 were established in the period April 2024 - March 2025, ending up with a net increase by 9 firms (Figure I-2-4) year on year. See "[4. Mergers of Audit Firms](#)" for details on mergers from FY2021 onwards.

Figure I-2-4: Change in the number of audit firms (unit: firms)



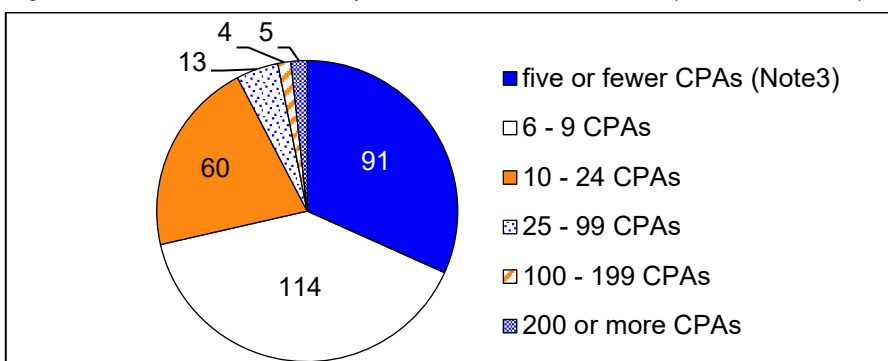
(Note1) The number of audit firms as of the end of March and 2021 2022 are adjusted based on the data obtained after publishing the previous Monitoring Report.

(Note2) The number of limited liability audit firms⁵ as of the end of March 2025 was 36.

(Source) Prepared by the CPAAOB based on data (e.g. survey of numbers of members) from the JICPA and reports of individual audit firms. The list of limited liability audit firms is published on the FSA website.

Classification by the number of full-time CPAs belonging to each audit firm reveals that firms with fewer than 25 CPAs make up over 90% of the total (Figure I-2-5).

Figure I-2-5: Number of audit firms by scale in terms of full-time CPAs (FY2024; unit: firms)



(Note 1) The number of full-time CPAs is the total of partners who are CPAs and full-time staff who are CPAs.

(Note 2) Data on 287 audit firms (excluding dissolved and disappearing firms during the period) was collected from operational reports submitted by these firms in FY2024. The timing of the submission of the business reports of each audit firm differs depending on the financial year, and for the sake of compiling the data for this report, information for 2022 is used for small and medium-sized audit firms (the same applies to the subsequent figures).

(Note 3) An audit firm where the number of partners who are CPAs drops to four or fewer should be dissolved, but six months is granted

⁵ An audit firm in which individual partners assume unlimited joint and several liability only with respect to audit attestation (specified attestation) in which the partners are involved as designated limited liability partners, and other operations are the responsibility of the partners within the scope of their contributions

as suspended term as stipulated in the CPA Act.
(Source) Prepared by the CPAAOB based on operational reports submitted by audit firms.

4. Mergers of Audit Firms

There have been 8 mergers of audit firms since FY2020 (Figure I-2-6). The main reasons for mergers were to reinforce management infrastructure and to expand business.

Figure I-2-6: Audit firms involved in mergers from FY2020 (March 31, 2025)

FY	Surviving firm	Disappearing firm
2020	Ark LLC	Kinki Daiichi Audit Corporation
	Nishi-Nihon Audit Corporation (Kowa Audit Corporation)	Hibiya Audit Corporation
2021	Yasaka Kaikeshi Audit Corporation	Keihin Audit Corporation
2022	Kyoritsu Audit Corporation	Shinmei Audit Corporation
	Moore Shisei Audit Corporation (Moore Mirai Audit Corporation)	Kisaragi Audit Corporation
	SKIP Audit Corporation	Godai Audit Corporation
2023	Souken Nichiei Audit Corporation (Fujimi Audit Corporation)	Seinan Audit Corporation, Nagoya Audit Corporation
	PricewaterhouseCoopers Aarata LLC (PricewaterhouseCoopers Japan LLC)	PricewaterhouseCoopers Kyoto Audit Corporation
2024	(No mergers)	

(Note) Names in parentheses show the new name after merger as of March 31, 2025.
(Source) Prepared by the CPAAOB from materials made publicly available by audit firms

Reports collected from mid-tier audit firms in PY2024 showed that many of them considered mergers as an option for their future business strategies. The collection of reports from small and medium-sized audit firms (involving 52 firms) in the same program year found that around 48% of small and medium-sized audit firms said they would consider a merger if they could find a good partner.

5. Financial Condition (Operating Revenue, Proportion of Audit and Attestation Services and Non-audit and Attestation Services)

Audit firms offer not only audit and attestation services but – non-audit services such as assurance services other than audit and attestation services and financial advisory services (support for initial public offerings, introduction of IFRS, organizational realignment and so forth).

Operating revenues over the five years until FY2024 (FY2023 in the case of small and medium-sized audit firms) showed an uptrend all at large-sized, mid-tier and small and medium-sized audit firms (excluding the impact of the merger between PwC Aarata and PwC Kyoto).

Revenues from audit and attestation services roughly accounted for 70% of operating revenues at large-sized audit firms, while the ratio was about 95% and 90% respectively at mid-tier and small and medium-sized audit firms (Figure I-2-7). For audit firm groups' operating revenues, see "[III. Operation of Audit Firms, A. Operations Management System, 9. Domestic Audit Firm Groups](#)".

Characteristics of audit firms, classified by size, are as follows:

a. Large-sized audit firms

The ratio of audit service and attestation revenues, which has been around 75% for large-sized

audit firms as a whole. Seeing the ratio of each large-sized audit firm, the ratio has ranged between 60% and 85% at three of the four firms, but at the remaining firm it has hovered at around 50%.

Large-sized audit firms operate certain extent of non-audit services based on their organizational policy that “performing non-audit services provides their personnel with opportunities to acquire a wide variety of business experiences to grow”, “a broad range of experiences and knowledge through non-audit services serves to enhance audit quality”, and “non-audit service is effective for attracting talent”.

b. Mid-tier audit firms

Audit and attestation service revenues have been rising at all firms, and the ratio of them in operating revenues has mostly maintained a level over 90%.

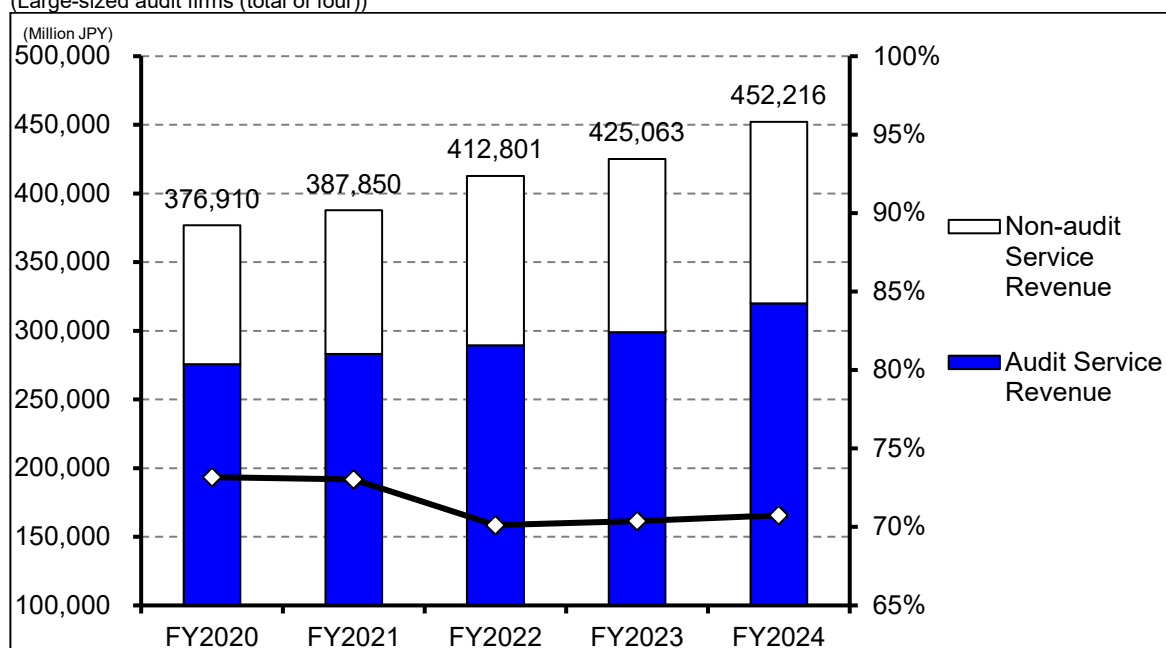
As mid-tier audit firms' business is centered on audit and attestation services, they provide non-audit services that are considered useful when conducted together with audit and attestation services or only within a limited range based on their individual circumstances, including available staff members.

c. Small and medium-sized audit firms

The ratio of audit and attestation service revenues has been around 90%.

The operating revenues of small and medium-sized audit firms are moderate on the whole, but some of the largest firms in this category are expanding their business through newly concluding audit engagements with companies for which mainly large-sized audit firms cancelled audit engagements. In particular, since 2021, the number of companies audited by small and medium-sized audit firms has increased due to changes in auditors, resulting in a significant increase in revenue from audit and attestation services. For changes in accounting auditors, see "[III. Operation of Audit Firms, E. Acceptance of New Audit Engagements and Changes of Accounting Auditors](#)".

Figure I-2-7: Operating revenues, breakdowns of operating revenues, and proportions of audit and attestation service revenues to total operating revenues
(Large-sized audit firms (total of four))

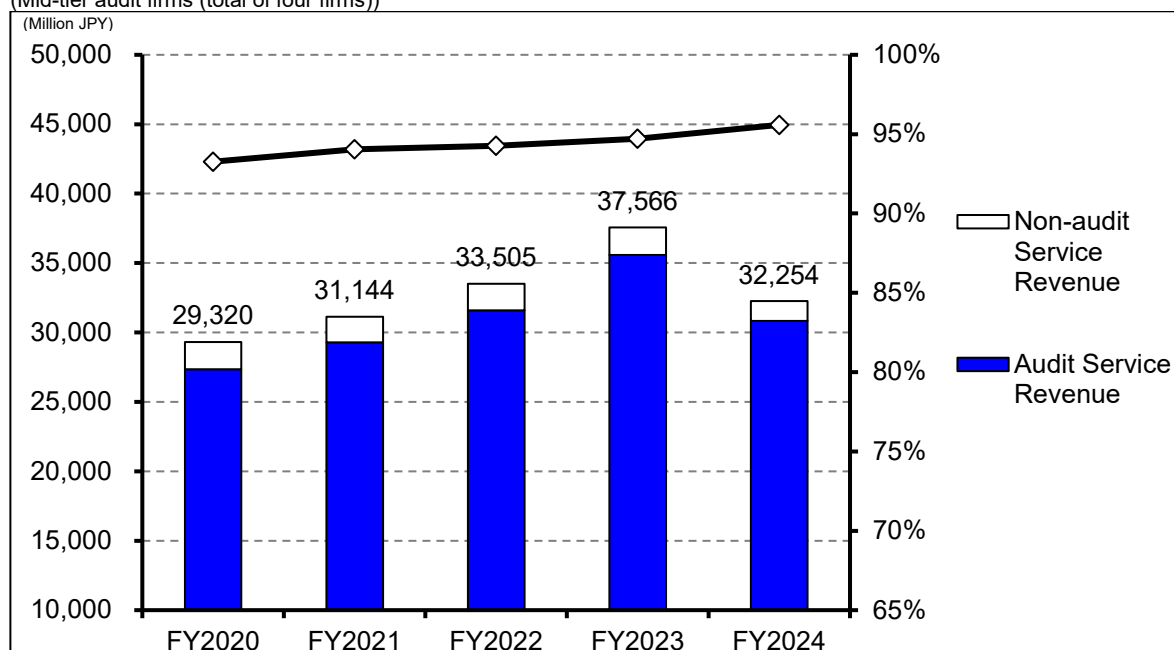


(Note 1) The business reports for FY2020 through 2023 are prepared for the financial year before the establishment of PwC Japan and does not take into account the effects of the merger of PwC Arata and PwC Kyoto.

(Note 2) Revenues and the components thereof increased in FY2024 due to the effects of the establishment of PwC Japan LLC (merger of PwC Aarata and PwC Kyoto).

(Source) Prepared by the CPAAOB based on operational reports submitted by audit firms.

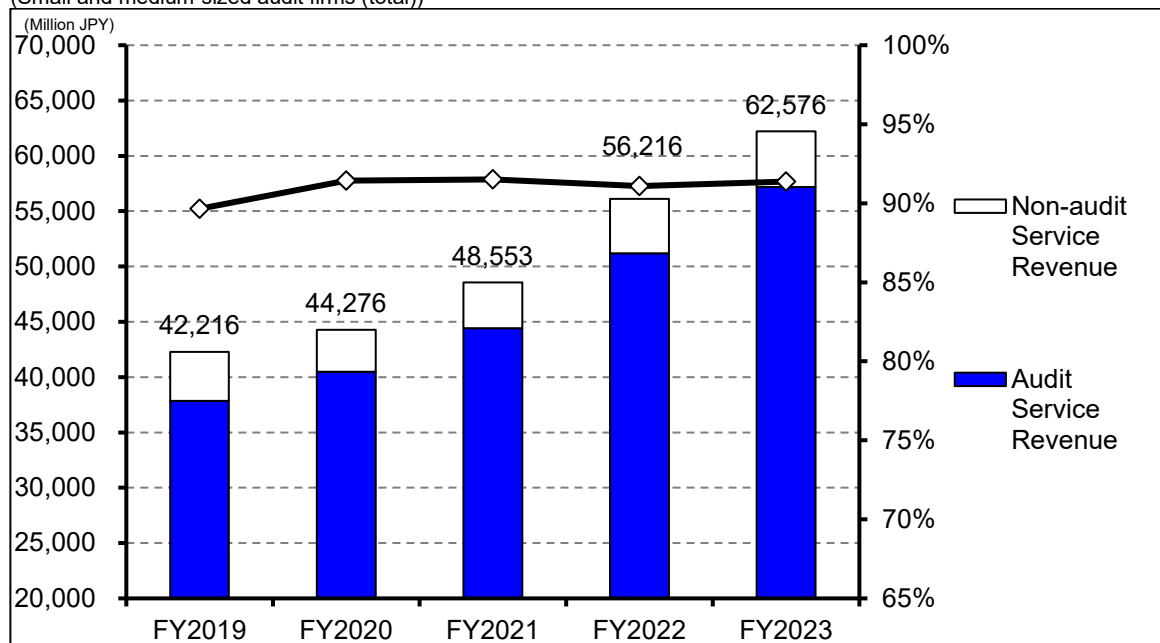
(Mid-tier audit firms (total of four firms))



(Note) While figures for FY2020 through 2023 include PwC Kyoto, revenues and the components thereof decreased in FY2024 due to the effects of the exclusion of PwC Kyoto as a result of its merger with PwC Aarata.

(Source) Prepared by the CPAAOB based on operational reports submitted by audit firms.

(Small and medium-sized audit firms (total))



(Note) As fiscal year-end varies widely among small and medium-sized audit firms, their results in FY2024 have yet to be tallied. This report therefore covers their results through FY2023 (from April 2023 through March 2024). The number of small and medium-sized audit firms differs each fiscal year. For FY2023, the results of 271 firms were tallied.

(Source) Prepared by the CPAAOB based on operational reports submitted by audit firms.

C. Audited Companies

1. Types of Audit and Attestation Services

As previously noted in “[B. Audit Firms](#)”, audit and attestation services include statutory audits, which are based on such laws as the FIEA, the Companies Act, the Act on Subsidies for Private Schools, and the Labor Union Act and non-statutory audits whose objectives and content are decided by the parties involved. The types of audit and attestation services provided by audit firms are shown below (Figure I-3-1).

Figure I-3-1: Types of audit and attestation services by audit firm

Type	Statutory audits						Non-statutory audits	Total
	FIEA / Companies Act	FIEA	Companies Act	Act on Subsidies for Private Schools	Labor Union Act	Other		
Number of companies	4,093	291	5,543	1,540	433	4,498	5,729	22,127
Percentage	18.5	1.3	25.0	7.0	2.0	20.3	25.9	100.0

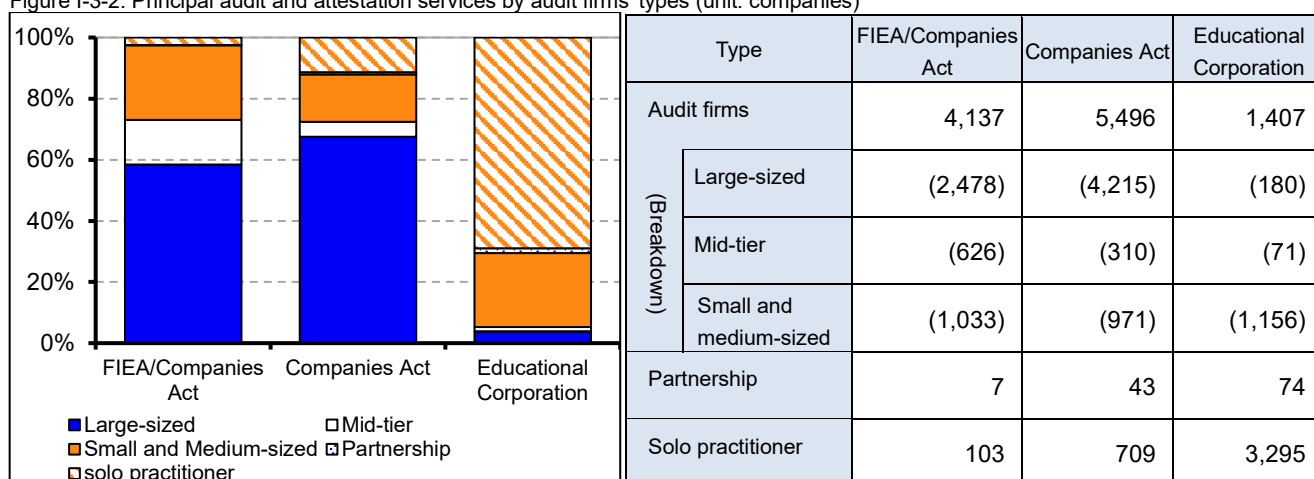
(Note 1) The number of audited companies has been aggregated from operational reports submitted by audit firms in FY2023

(Note 2) “FIEA/Companies Act” denotes operations where audit and attestation under both the FIEA and Companies Act are required, while “FIEA” and “Companies Act” denote operations where audit and attestation under the respective act only is required.

(Source) Prepared by the CPAAOB based on operational reports submitted by audit firms.

Audit firms, partnerships and solo practitioners are the entities that provide audit and attestation services. Looking at the entities providing audit and attestation services, about 60-70% of FIEA/Companies Act audits and Companies Act audits are conducted by large-sized audit firms, while about 70% of educational corporation audits are conducted by solo practitioners (Figure I-3-2).

Figure I-3-2: Principal audit and attestation services by audit firms' types (unit: companies)



(Note 1) Data was aggregated from audits conducted from the term ended April 2023 to the term ended March 2024. The figures do not match with the figures in Figure I-3-1 because the collection period is different.

(Note 2) The figures in the column “FIEA/Companies Act” include services requiring audit and attestation only under the FIEA, in addition to services requiring audit and attestation under the FIEA and the Companies Act.

(Source) Prepared by the CPAAOB based on data from the JICPA

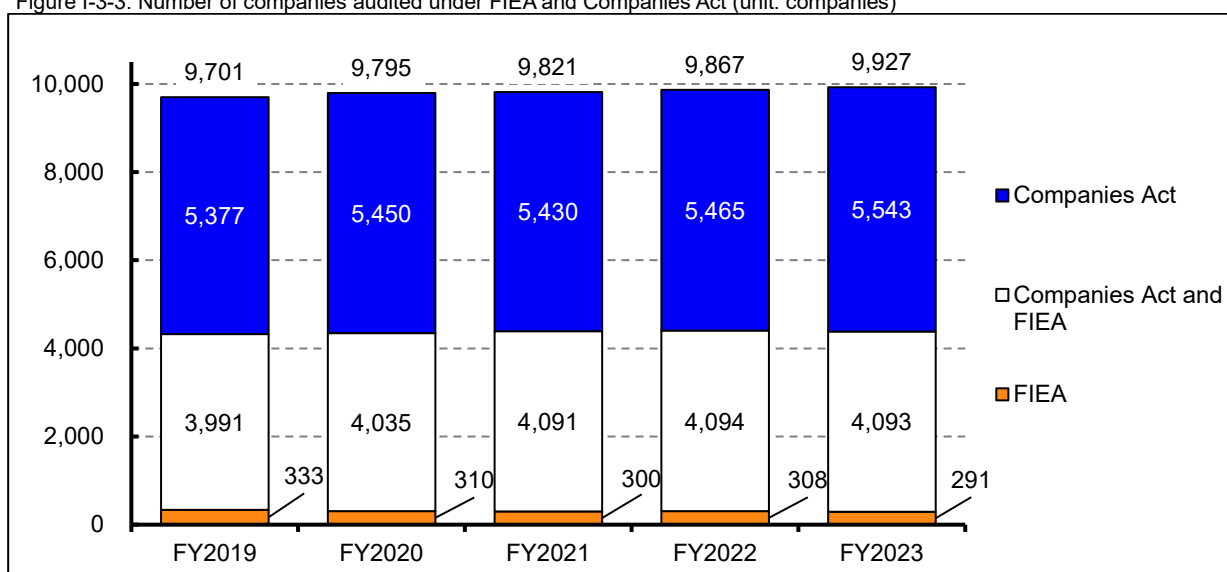
2. FIEA and Companies Act Audits

The results of analysis of audited companies etc. and listed companies that are subject to statutory audits under the FIEA and the Companies Act are as follows:

- a. Number of companies audited under the FIEA and the Companies Act and share by scale of audit firm

There has been no significant change in the number of companies audited under the FIEA or the Companies Act (Figure I-3-3). With regard to share by scale of audit firm, large-sized audit firms' share has been going down, mid-tier and small and medium-sized audit firms' share have been going up annually (Figure I-3-4).

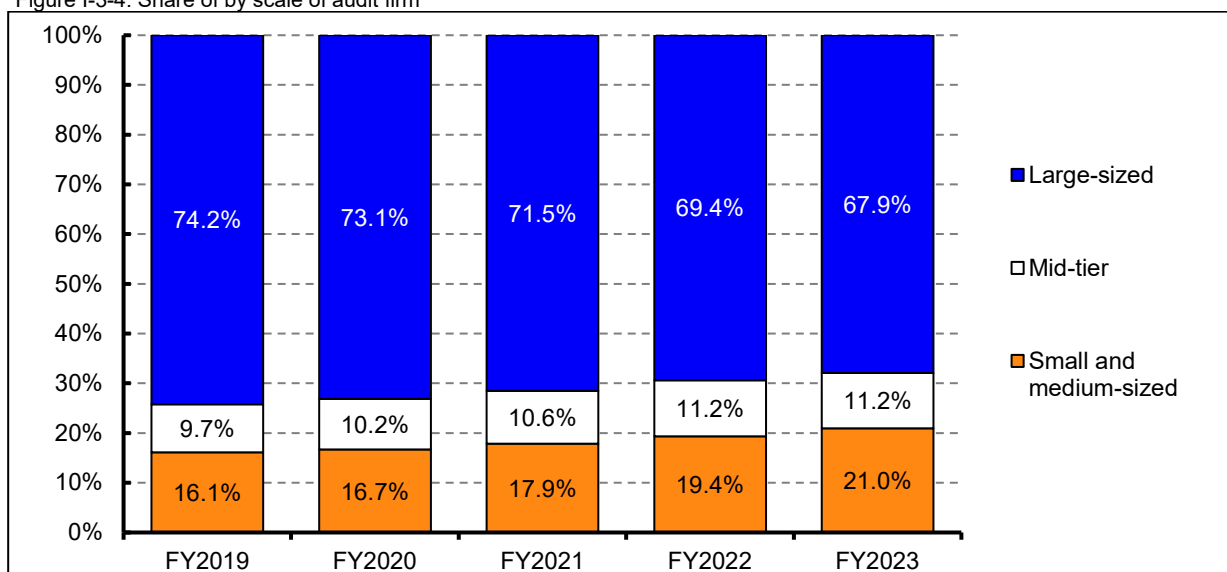
Figure I-3-3: Number of companies audited under FIEA and Companies Act (unit: companies)



(Note) The number of audited companies is compiled based on operational reports submitted by audit firms.

(Source) Prepared by the CPAAOB based on operational reports submitted by audit firms.

Figure I-3-4: Share of by scale of audit firm



(Note) The number of audited companies is compiled based on operational reports submitted by audit firms.

(Source) Prepared by the CPAAOB based on operational reports submitted by audit firms.

b. Share of listed domestic companies by scale of audit firms

The auditors of 3,930 domestic listed companies at the end of FY2023 are as follows.

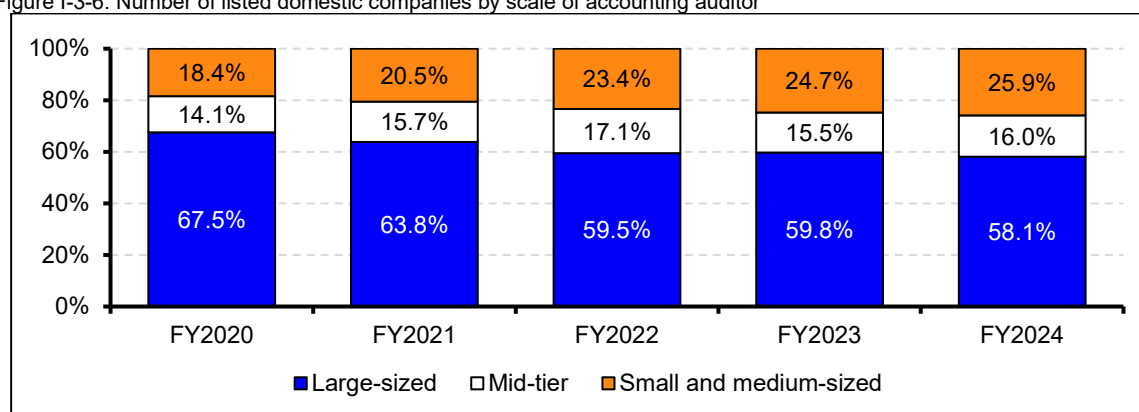
Figure I-3-5: Number and market capitalization of listed domestic companies by scale of auditor (as of the end of March 2025)

	Domestic listed companies	
	Number of companies	Market capitalization (billion yen)
large-sized audit firms	2,278	904,812.3
Mid-tier audit firms	627	23,640.3
Small and medium-sized audit firms	1,017	27,569.2
Total	3,922	956,021.9

(Source) Prepared by the CPAAOB based on data from Quick and exchanges

Although large-sized audit firms have been gradually reducing their share on the basis of the number of companies, they still audit approximately 60% of listed domestic companies and approximately 90% on the basis of market capitalization, a trend that has continued from the past. This is likely due to the fact that listed domestic companies with large market capitalizations tend to have large, complex, and international operations, and their audits require a large number of audit personnel and diverse expert capabilities, making it difficult for audit firms other than large-sized audit firms to handle such audits (Figures I-3-6 and I-3-7).

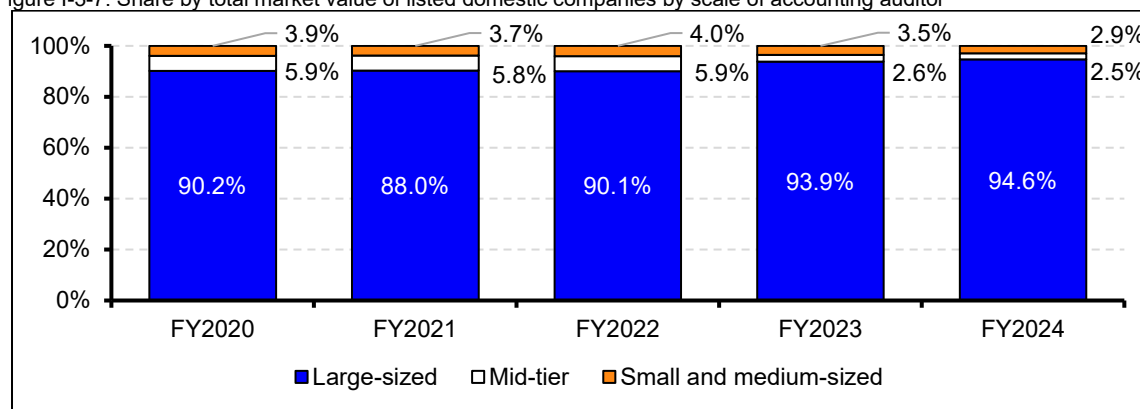
Figure I-3-6: Number of listed domestic companies by scale of accounting auditor



(Note) The number of listed domestic companies audited by mid-tier audit firms up to FY2022 is the total of five audit firms: Gyosei & Co., BDO Sanyu & Co., Grant Thornton Taiyo LLC, Crowe Toyo & Co, and PwC Kyoto. The numbers of listed domestic companies audited by mid-tier audit firms after FY2023 are the total of four audit corporations: Gyosei & Co., BDO Sanyu & Co., Grant Thornton Taiyo LLC, and Crowe Toyo & Co., due to the merger of PwC Arata and PwC Kyoto in December 2023.

(Source) Prepared by the CPAAOB based on data from Quick and exchanges

Figure I-3-7: Share by total market value of listed domestic companies by scale of accounting auditor



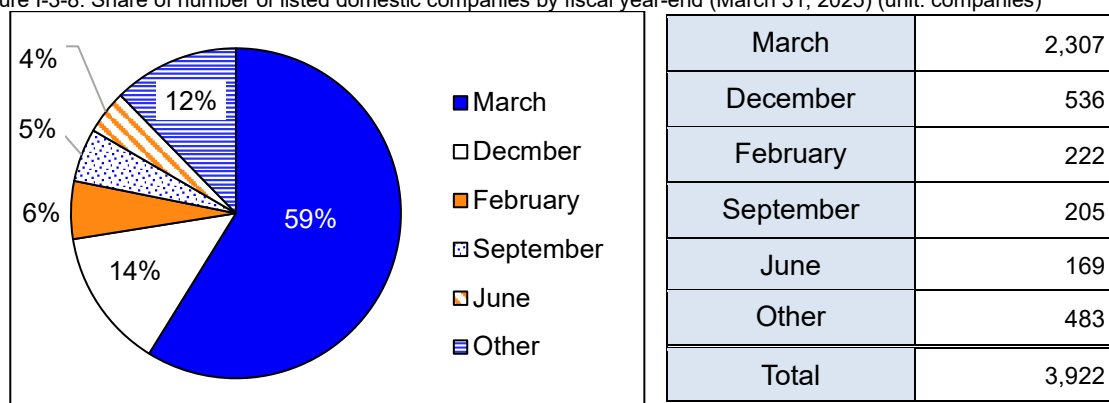
(Note) The number of listed domestic companies audited by mid-tier audit firms up to FY2022 is the total of five audit firms: Gyosei & Co., BDO Sanyu & Co., Grant Thornton Taiyo LLC, Crowe Toyo & Co, and PwC Kyoto. The numbers of listed domestic companies audited by mid-tier audit firms after FY2023 are the total of four audit corporations: Gyosei & Co., BDO Sanyu & Co., Grant Thornton Taiyo LLC, and Crowe Toyo & Co., due to the merger of PwC Arata and PwC Kyoto in December 2023.

(Source) Prepared by the CPAAOB based on data from Quick and exchanges

c. Number of listed domestic companies and total market value by fiscal year-end

59% of listed domestic companies close their books at the end of March, and that they account for 80% of the total market capitalization. This fact explains why audit operations are heavily concentrated in specific periods (Figures I-3-8 and I-3-9).

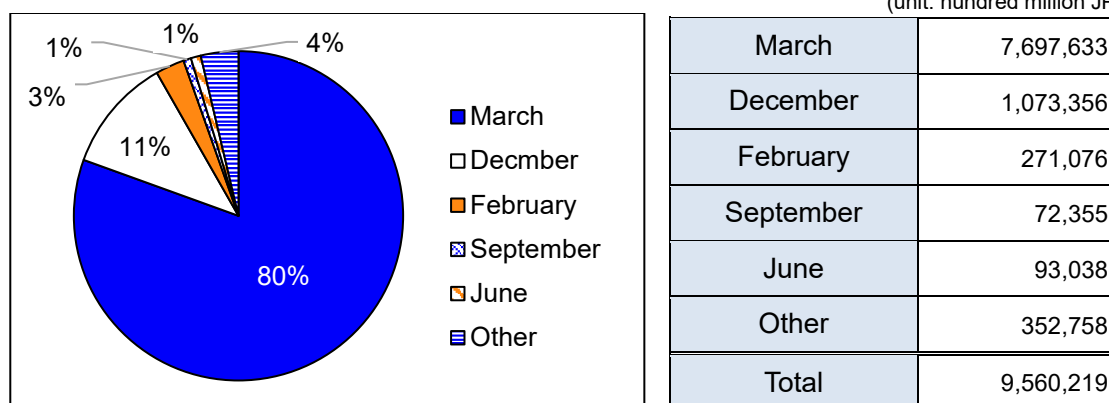
Figure I-3-8: Share of number of listed domestic companies by fiscal year-end (March 31, 2025) (unit: companies)



(Source) Prepared by the CPAAOB based on data from QUICK and exchanges

Figure I-3-9: Share of market value of listed domestic companies by fiscal year-end (March 31, 2025)

(unit: hundred million JPY)



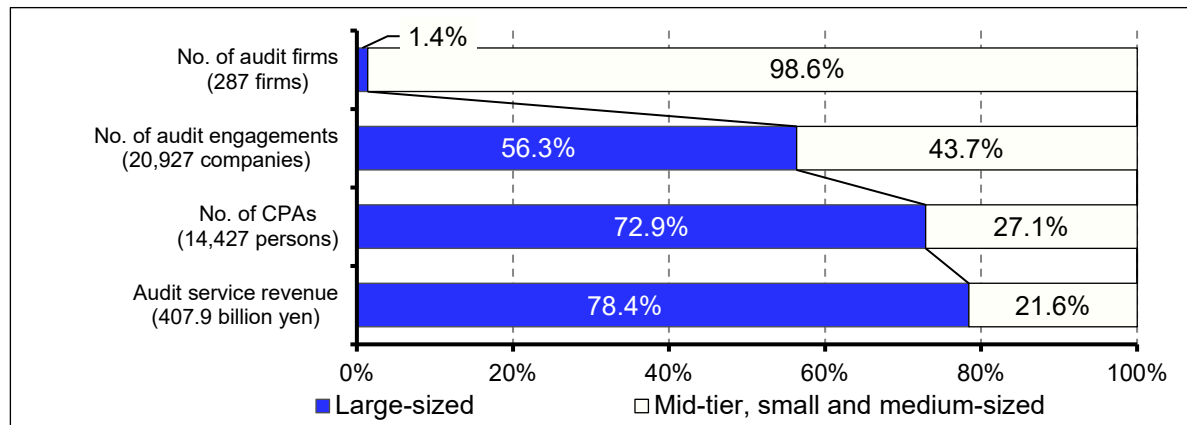
(Source) Prepared by the CPAAOB based on data from QUICK and exchanges

■ Share of large-sized audit firms ■

Among the 287 audit firms as of the end of FY2023, large-sized audit firms accounted for a large portion of the number of audit and attestation engagements, the number of CPAs and audit and attestation service revenues.

The share of large-sized audit firms in the number of audit and attestation engagements, audit service revenues and other categories has been on the decline in recent years as a result of operations management related to the continuation of their audit service contracts. See [“III. Operation of Audit Firms, E. Acceptance of New Audit Engagements and Changes of Accounting Auditors”](#).

< Share by category of audit firm (FY2023) >



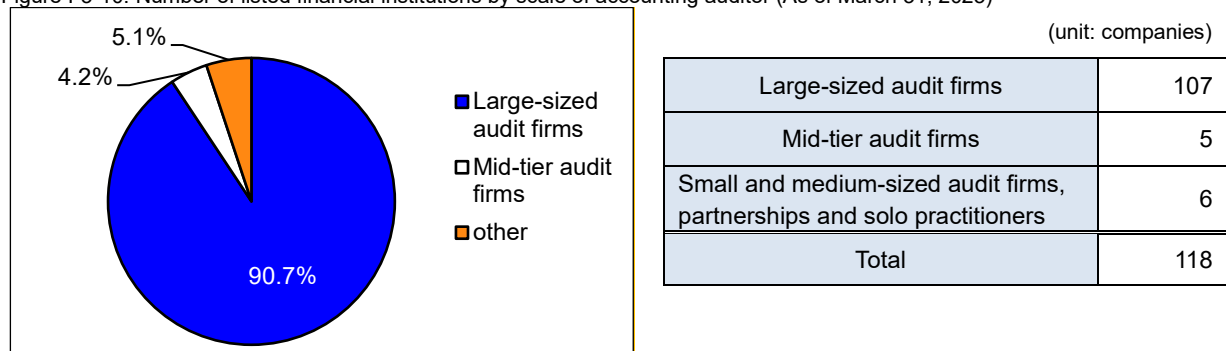
(Note) Compiled based on FY2023 JICPA member data and operational reports submitted by audit firms

3. Audits of Financial Institutions

90% of listed financial institutions (118 companies) were audited by large-sized audit firms, and in terms of market capitalization, large-sized audit firms handled 99%. So compared with all domestic listed companies, large-sized audit firms' share presented a further increase (Figures I-3-10 and I-3-11). For information about domestic listed firms as a whole, see [“2. FIEA and Companies Act Audits”](#).

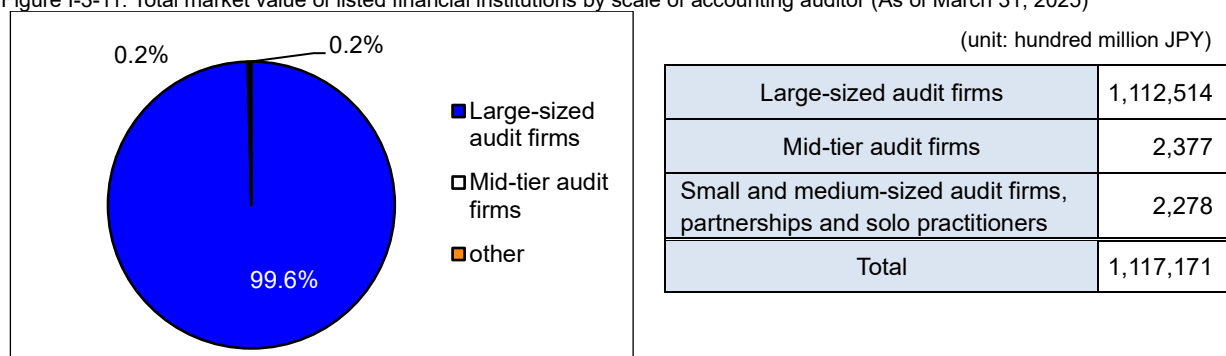
To cope with accounting and audit practices that are designed to the listed financial institutions, large-sized audit firms are establishing departments specializing in financial services in their audit operations divisions, and some mid-tier audit firms have established support systems that specialize in handling inquiries about the accounting procedures of financial institutions.

Figure I-3-10: Number of listed financial institutions by scale of accounting auditor (As of March 31, 2025)



(Source) Prepared by the CPAAOB based on data from QUICK and exchanges

Figure I-3-11: Total market value of listed financial institutions by scale of accounting auditor (As of March 31, 2025)



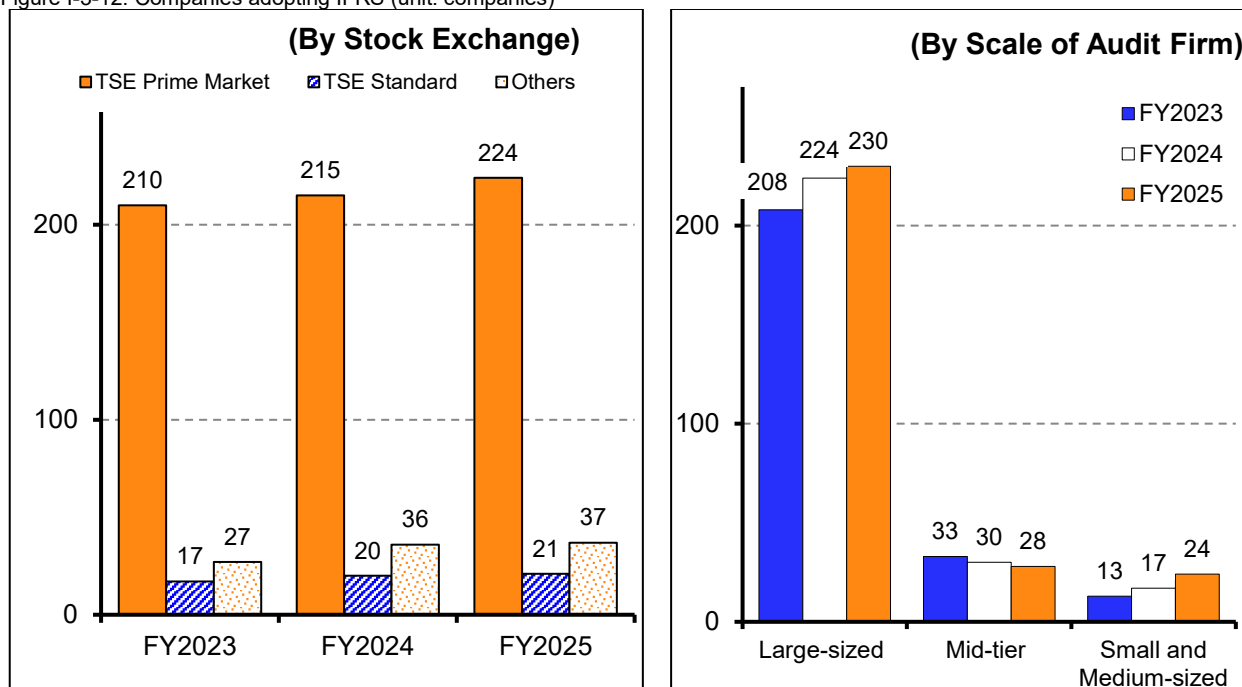
(Source) Prepared by the CPAAOB based on data from QUICK and exchanges

4. Companies Adopting IFRS

The following figures show the listing markets for companies that have adopted IFRS and the scale of the accounting auditors for these companies as of the end of March 2025 (Figures I-3-12).

The majority of companies that have adopted IFRS are listed on the Prime Section of the Tokyo Stock Exchange, and many of them operate internationally. Audit contracts are concentrated in large-sized audit firms which collaborate with large global networks. A similar situation is seen with companies that have decided to adopt IFRS (companies in which the business execution body has decided to adopt IFRS and has disclosed this decision to the public) (Figure I-3-13).

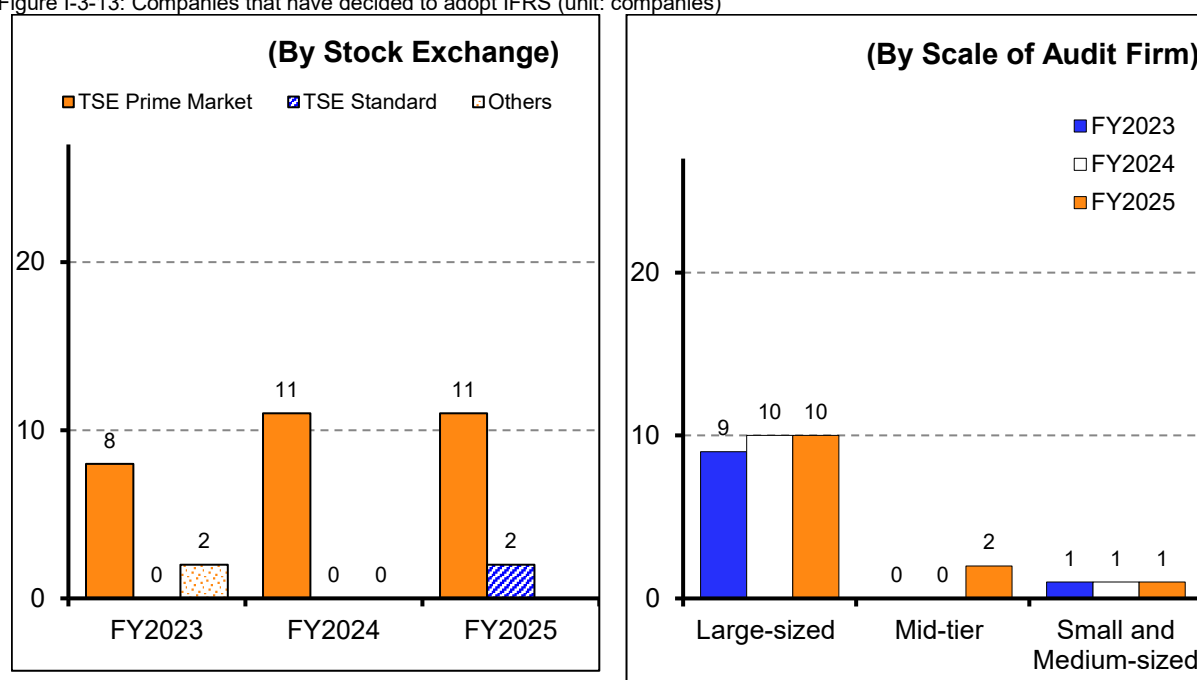
Figure I-3-12: Companies adopting IFRS (unit: companies)



(Note) PwC Arata and PwC Kyoto merged on December 1, 2023 to form PwC Japan, and the former PwC Kyoto is classified as a large-sized audit firm for the fiscal year ended March 31, 2026 in the status of Scale of Audit Firm.

(Source) Prepared by the CPAAOB based on data from exchanges

Figure I-3-13: Companies that have decided to adopt IFRS (unit: companies)



(Note) PwC Arata and PwC Kyoto merged on December 1, 2023 to form PwC Japan, and the former PwC Kyoto is classified as a large-sized audit firm for the fiscal year ended March 31, 2006 in the status of Scale of Audit Firm.

(Source) Prepared by the CPAAOB based on data from exchanges

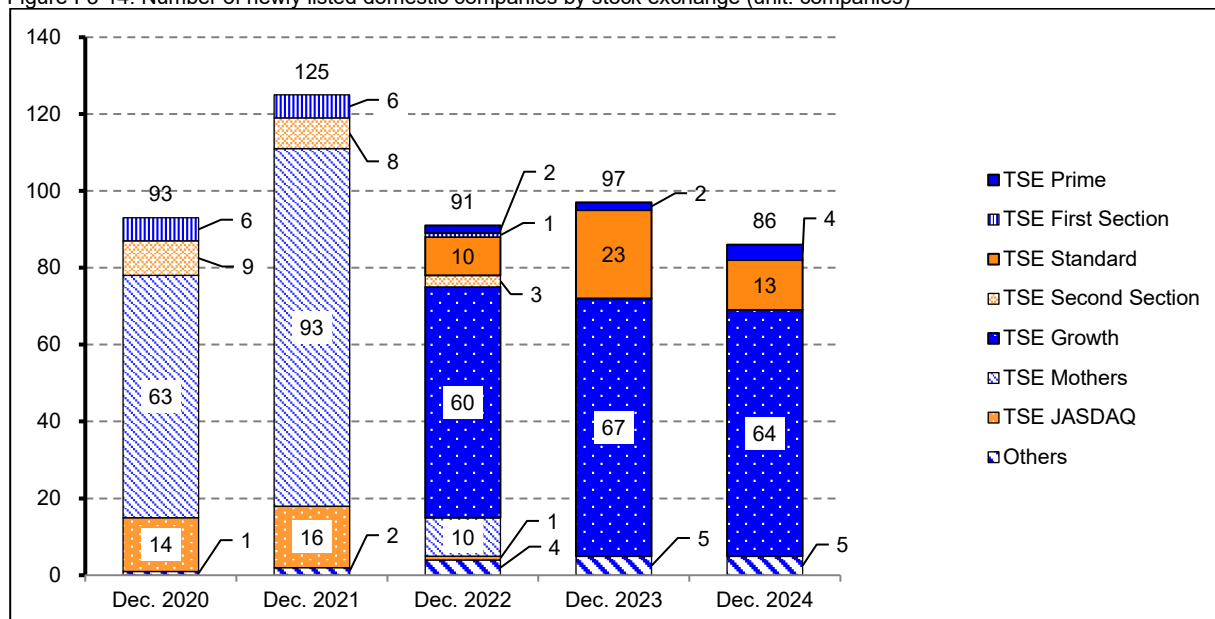
5. Audits of Initial Public Offerings

The number of IPOs (excluding listings on the Tokyo Pro Market) for the period from January 2024 to December 2024 (hereinafter referred to as the "year through December 2024") came to 86, which has decreased from the previous year. Listings on the Tokyo Stock Exchange Standard and Growth market were particularly large in number (Figure I-3-14).

Seeing shares by size of audit firms, large-sized audit firms maintain a large share (Figure I-3-15). However, the shares held by each of the large-sized audit firms have changed, which likely reflects changes in the business operation policies and IPO related operations embedded in each firm. For information about the organizational structures, etc. of audit firms regarding the acceptance of IPO audit engagements, see [“III. Operation of Audit Firms, A. Operations Management System, 4. Organizational Structure for Providing Audit Services”](#).

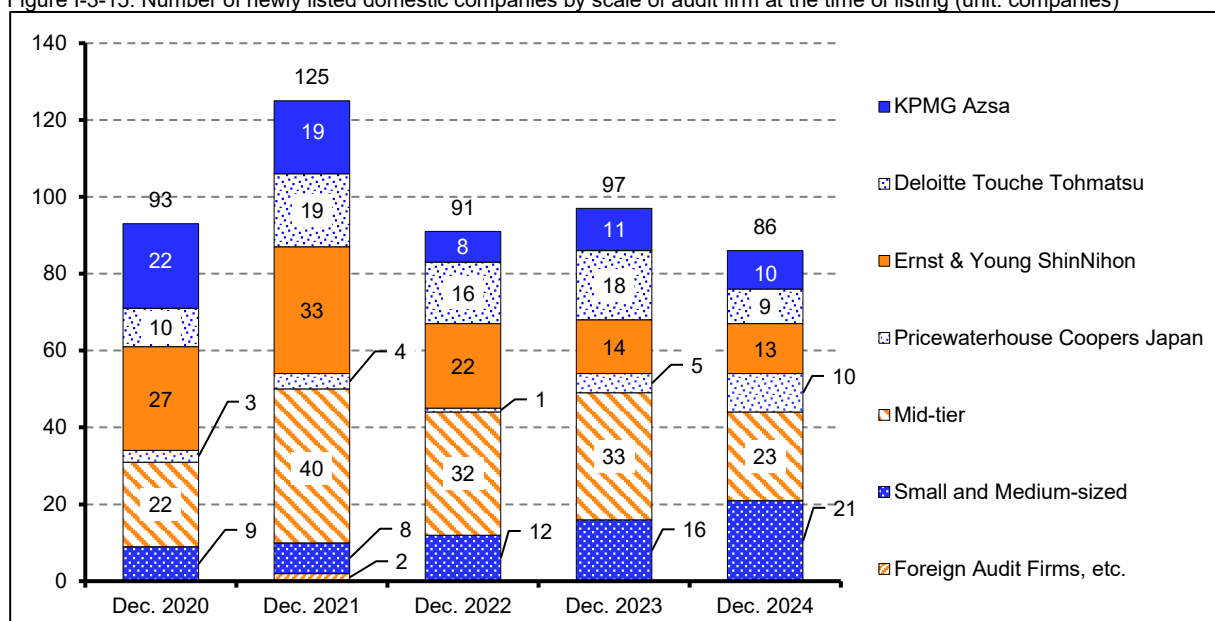
As of December 31, 2024, the share of large-sized audit firms was 49%, which is almost the same as the previous year. On the other hand, while the share of mid-tier audit firms declined from 34% to 27%, the share of small and medium-sized audit firms increased from 16% to 24%.

Figure I-3-14: Number of newly listed domestic companies by stock exchange (unit: companies)



(Source) Prepared by the CPAAOB based on data from exchanges

Figure I-3-15: Number of newly listed domestic companies by scale of audit firm at the time of listing (unit: companies)



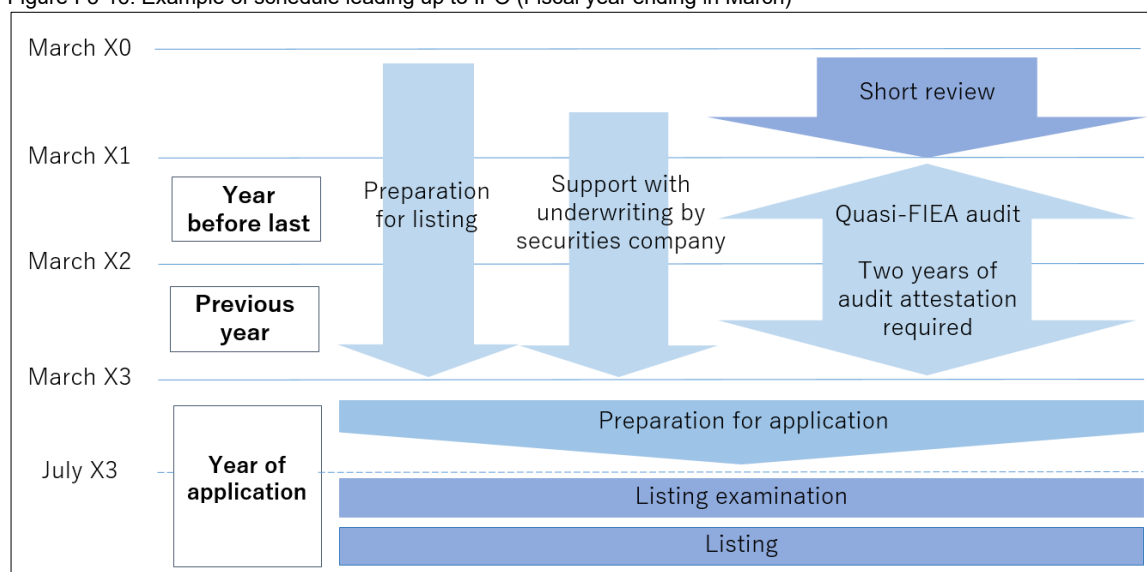
(Note) As of December 1, 2023, PricewaterhouseCoopers Aarata and PwC Kyoto were merged to form PwC Japan. As a result, the company that PwC Kyoto before the merger was involved in the IPO is classified as a mid-tier firm.

(Source) Prepared by the CPAAOB based on data from exchanges

Most audit firms regard the acceptance of IPO audit engagements as a part of their mission of audit firms since assisting with IPOs contributes not only to companies' growth but also to socioeconomic development.

However, IPO audits often entail a relatively high audit risk, such as vulnerable internal control structure of the audited company, and there are cases where improper accounting had already been practiced by the time of IPO. Accordingly, Many audit firms have a policy of more carefully considering engagement risks than usual when accepting IPO audit engagements.

Figure I-3-16: Example of schedule leading up to IPO (Fiscal year ending in March)



(Source) Prepared by the CPAAOB

■ IPO support services ■

Article 192-2, paragraph of the FIEA stipulate that for listing, a company needs to have its financial statements audited for the two years prior to the year in which it will be listed (application year). (This type of audit is described as "quasi-FIEA audit"). Furthermore, before concluding a quasi-FIEA audit contract, a short review is conducted so as to identify and resolve issues ahead of listing. This is the typical workflow when preparing for listing. Companies often ask CPAs and audit firms for support with conducting the short review and resolving issues, and CPAs and audit firms accept these engagements as non-audit work. The IPO-related support services that CPAs and audit firms provide as non-audit work include the following:

- Short reviews
- Support with establishing management structures
- Support with establishing internal control structures
- Support with speeding up bookclosing procedures
- Support with preparing listing application documentation

According to the collection of reports from small and medium-sized audit firms (all of which are small and medium-sized audit firms, covering 52 firms), the percentage of responses that audit firms "provide audit services" or "provide non-audit services" to IPO preparation companies was 65% of all responses in PY2023, but increased to 72% in PY2024. As indicated by the aforementioned shares by size of audit firm at the time of listing, opportunities for small and medium-sized audit firms to provide services to IPO preparation companies are on the rise. In addition, some small and medium-sized audit firms have continued to achieve significant growth due to their management policies focusing on providing services to IPO preparation companies.

The CPAAOB will continue to examine whether there are any problems with the provision of audit services to IPO preparation companies, etc. through inspections and the collection of reports from small and medium-sized audit firms.

II. Monitoring by the CPAAOB

II. Monitoring by the CPAAOB

A. Overview of System and Situation with Implementation

1. Legal Position of the CPAAOB

The CPAAOB is an administrative body¹³⁶ serving as a council that was established in April 2004 in accordance with Article 35-1 of the CPA Act and Article 6-2 of the Act for Establishment of the Financial Services Agency. It comprises a chairperson and a maximum of nine members (who serve three-year terms). Although the members are part time, one full-time member can be appointed.

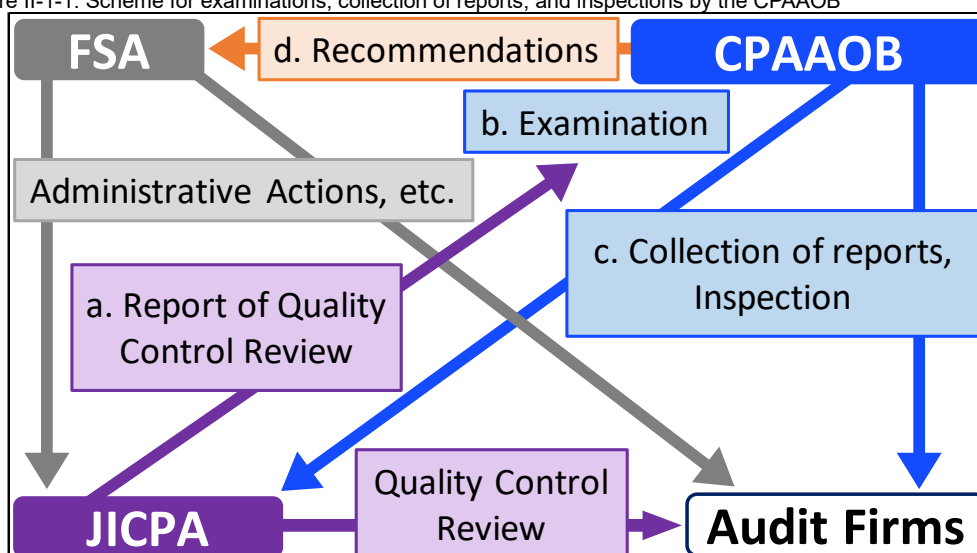
The CPAAOB receives and examines reports concerning Quality Control Reviews by the JICPA, collects reports from and conducts inspections of the JICPA and audit firms etc. Based on the results of inspections etc., the CPAAOB recommends administrative actions or other measures to the FSA Commissioner when necessary.

2. Overview of Examinations, Collection of Reports, and Inspections by the CPAAOB

Figure II-1-1 shows the relationship between examinations, collection of reports, and inspections by the CPAAOB on the one hand, and the JICPA Quality Control Reviews, the FSA's administrative actions, etc. on the other.

Based on the JICPA Quality Control Review reports (a), the CPAAOB assesses whether the JICPA has carried out the Quality Control Reviews properly and whether the audit firms have properly performed its audit services (b), and collects reports from the JICPA, audit firms, etc. and conducts inspections when deemed necessary (c). If it finds it to be necessary as results of inspections, the CPAAOB recommends administrative actions or other measures to the FSA Commissioner (d).

Figure II-1-1: Scheme for examinations, collection of reports, and inspections by the CPAAOB



⁶ Appointed by the Prime Minister with the consent of both houses of the Diet from persons with an understanding of and insight concerning matters relating to CPAs

3. Report of JICPA Quality Control Review

The JICPA is an organization of CPAs in Japan established in accordance with Article 43 of the CPA Act. To maintain the integrity of its member CPAs and audit firms and improve/promote audit and attestation services, the JICPA provides guidance to, liaises with, supervises its members. The JICPA also registers CPAs and specified partners, and operates the registration system for listed company auditors (i.e., reviews whether or not to permit registration and cancellation of registration, registration on the list of listed company auditors, etc.).

The Quality Control Reviews are conducted by the JICPA to maintain/improve suitable qualitative standards for audit services and to ensure public trust in audits. More specifically, the JICPA reviews the administration of audit engagements conducted by audit firms, reports results to the audit firms and, when necessary, recommends improvements and monitors the status of improvements⁷.

Quality Control Reviews were introduced by the JICPA in FY1999 as self-regulations, and in 2003 a revision to the CPA Act made it mandatory for the JICPA to conduct reviews of the administration of audit and attestation services by audit firms and report its findings of these reviews to the CPAAOB.

The JICPA regularly submits to the CPAAOB monthly and annual reports and updates the status of Quality Control Review as needed. The specific information reported is as follows:

- a. Plan of Quality Control Review
- b. Details on any deficiencies observed during the Quality Control Review and the audit firms' perspectives
- c. "Quality Control Review Reports" and "Recommendation for Improvement Reports" provided by the JICPA to audit firms based on review findings
- d. Specific measures based on review findings of the Quality Control Review (warnings, severe warnings, recommendation to withdraw from audit engagements)
- e. "Remediation plan on Quality Control Review" prepared by the audit firm and submitted to the JICPA

Quality Control Reviews evaluate the audit firms' systems of quality management by means of the extent to which the systems have made progress as well as how effective the systems have been in place. Specifically, they confirm whether their systems of quality management (all policies and procedures for quality management pertaining to audit, including quality management procedures relevant to audit engagements) have been suitably and sufficiently developed in compliance with quality management standards⁸, and whether the system of quality management is operating effectively.

Domestic Quality Control Standards and Quality Control Standards Statements were revised in response to the revision of international quality management standards, and the JICPA is now responsible for confirming the design and operation of audit quality systems, including risk assessment

⁷ For details concerning quality control reviews, see the JICPA website and the annual report from the Quality Control Committee.

⁸ The provisions of the CPA Act and other laws and regulations, auditing criteria, correspondence criteria for addressing fraud risks in auditing, quality management criteria related to auditing, the JICPA's rules and regulations, which are related to audit quality management.

systems implemented by audit firms, such as setting audit quality objectives, recognition, evaluation, and handling of quality risks.

In addition, Quality Control Reviews comprise regular reviews, which are conducted on the overall quality management of an audit firm, special reviews on quality management related to the audit firm's specific sector or audit service, and "Review for the examination of registration" conducted for applicants for the auditors of listed companies under the Registration System of Auditors of Listed Companies (Introduced as a legal registration system due to the revision of the CPA Act in May 2022 (effective from April 2023)).

With the introduction of the Registration System for Auditors of Listed Companies, the JICPA is responsible for "confirmation of the eligibility" of auditors of listed companies and the applicants during the Quality Control Review. In the process of conducting Quality Control Reviews, the JICPA checks whether auditors of listed companies fulfill their obligations for system development set forth in the Ordinance for Enforcement of the CPA Act. With regard to the system for publishing the evaluation results of the status of quality management of services, if such publication has not been conducted, or if the published matters are significantly different from the actual situation, the JICPA will consider revoking or rejecting the registration. And if an extremely significant deficiency or a significant deficiency is found as a result of a Quality Control Review, and a recommendation to decline is made, the auditor is subject to examination for revocation of registration.

In addition, to improve its Quality Control Review system, the JICPA plans to increase reviewers over three years from FY2023, and to enhance reviewers' qualities and knowledge, which are necessary for examining audit firms' operation management system including information disclosure system, through educational program for reviewers. It will also take effort to recruit and cultivate sufficient reviewers through formulating reviewers' career plan.

In FY2024, there was a total of 43 reviewers (as of June 1, 2024) who conducted regular reviews of 56 audit firms and "the review for the examination of registration" for 21 audit firms.

4. Examination

a. Overview

The CPAAOB receives Quality Control Review reports from the JICPA, and then reviews the reports to examine the appropriateness of these Quality Control Reviews and audit services performed by the audit firms. More specifically, the CPAAOB confirms the context of Quality Control Reviews and the instruction to audit firms on necessary remediation measures, and analyses the findings of Quality Control Reviews as well as the details of remediation plans submitted to the JICPA. In addition to considering the need for inspection and collecting reports in light of the outcomes of the analysis, the CPAAOB engages in exchanges of opinions with the JICPA concerning matters such as the effectiveness of Quality Control Reviews. Still, the CPAAOB also utilizes information from the relevant FSA departments, relevant organizations, etc. on the occasion of the examination.

b. State of implementation of examinations and results

In PY 2024, the CPAAOB examined the results of the Quality Control Reviews that the JICPA conducted in FY 2024 and that were submitted to the CPAAOB by the end of May. The summary of the review results is as follows:

i. FY2024 Quality Control Reviews

Regarding the regular reviews, no significant deficiencies were confirmed at 45 audit firms, while significant deficiencies were observed at six audit firms, and extremely significant deficiencies were observed at one audit firms. (Figure II-1-2).

Figure II-1-2: FY2023 Quality Control Reviews (unit: audit firms)

Classification	Reviewed parties	Conclusions			Recommendations for improvement	
		Conclusion finding no significant deficiencies	Conclusion finding significant deficiencies	Conclusion finding extremely significant deficiencies	Yes	No
Audit firms	41	37	4	0	39	2
Partnerships	1	1	0	0	1	0
Solo practitioners	10	7	2	1	11	0
Total	52	45	6	1	50	2

(Note1) Conclusion finding significant deficiencies is declared when there is significant concern about serious compliance violations of standards as well as laws and regulations applicable to an audit firm as a professional expert in the development and management of its quality control system.

(Note2) Conclusion finding extremely significant deficiencies is declared when there is significant concern about extremely serious compliance violations of standards as well as laws and regulations applicable to an audit firm as a professional expert in the development and management of its quality control system.

(Note3) Even if declaration finding no significant deficiencies is declared to an audit office, a recommendation for improvement is issued where an issue worthy of a recommendation for improvement is observed.

(Source) Prepared by the CPAAOB based on data from the JICPA.

In FY 2024, Quality Control Reviews (reviews for the examination of registration) were conducted 18 audit firms with no significant deficiencies and 2 audit firms with very significant deficiencies.

ii. Examination of FY2024 Quality Control Reviews

The following examinations and analysis were conducted on Quality Control Review reports from the JICPA to verify the appropriateness of its reviews.

- Confirmation of policies for Quality Control Reviews in FY2024 and efforts toward improvements, as well as verification of the status of implementation of audit engagements subject to review
- Identification of significant deficiencies or extremely significant deficiencies identified as a result of Quality Control Reviews of audit firms and analysis of items and contents of specific deficiencies identified during Quality Control Reviews

- Analysis of specific deficiencies identified in Quality Control Review reports and instruction for improvements to examine whether the JICPA has effectively prompted audit firms for fulfillment

As a result of the above-mentioned examinations, the following were identified in Quality Control Reviews in FY2024.

- When drafting the Quality Control Review plan, the number of site visit days and reviewers were increased in order to conduct the confirmation of eligibility in accordance with the introduction of the registration system for auditors of listed companies. In addition, even after the Quality Control Review started, the Quality Control Review plan was flexibly changed in response to changes in circumstances.
- In regular reviews, the "Guidelines for Confirmation of Eligibility of Audit Firms Conducting Audits of Listed Companies, etc." has progressed, and the average number of issues and findings identified per audit firm conducting audits of listed companies has decreased significantly, compared to FY2023. In addition, the average number of findings per audit engagement at small and medium-sized audit firms has also decreased. Both figures have come to around the same level as FY 2022.

With the introduction of a statutory registration system for audits of listed companies, the JICPA has sought to strengthen its supervisory function of Quality Control Review as part of its efforts to provide high level of discipline to audit firms conducting audits of listed companies, etc.

In the FY 2024 Quality Control Reviews, the "Guidelines for Confirmation of Eligibility of Audit Firms Conducting Audits of Listed Companies, etc." has progressed, and the number of quality control-related issues has decreased significantly. The CPAAOB will continue to confirm the effectiveness of Quality Control Reviews.

As for the quality management area of the Quality Control Review, many findings were related to fostering a culture that emphasizes audit quality, setting additional quality objectives, requirements for the responsible person of quality management, length of time to conduct quality management activities, information security, wrap-up of audit files and management and retention of audit work papers, and formulation of policies and procedures regarding consultation on difficult or contentious matters, etc. In the area of audit engagements, there tend to be many deficiencies related to the audit of accounting estimates, and identifying, assessing and addressing the risk of material misstatements including fraud risk.

5. Collection of Reports

a. Overview

The CPAAOB may collect reports from the JICPA or audit firms when necessary. To ensure and enhance audit quality at all audit firms in Japan with limited inspection resources at its disposal, it is necessary that the CPAAOB continually understands challenges that audit firms are facing

with effective use of collection of reports. In this view and the perspective of promoting audit firms to develop proper operation management system and quality control system (hereafter “operation management system etc.,” the CPAAOB wields collection reports regarding the status of development and implementation of operation management system etc. (including the status of implementing measures of improvement) in audit firms considering their scale and characteristics, the results of the CPAAOB inspections and JICPA's Quality Control Reviews.

i. Collection reports for large-sized and mid-tier audit firms

In the case of large-sized audit firms and mid-tier audit firms, the CPAAOB periodically analyzes quantitative and qualitative information concerning their operation management system etc. so as to contribute to further effective inspection. Particularly, it collects information related to the status of development and implementation of operation management system etc. under effective governance and efficiently functioning management (including the efforts to optimize operations such as developing audit methods utilizing digital technology and the efforts to develop and secure human resources). It also understands the actual status of measures regarding cybersecurity.

Further, it utilizes the information through the collection reports to perform comparative analysis of audit firms and to identify sector-wide issues, etc.

With regard to large-sized audit firms, the CPAAOB basically conducted inspections (regular inspections) once every two years, and in the following program year, follow up on these inspections (verifying the status of improvements in issues pointed out in inspections conducted in the previous program year. For details, see [“II. CPAAOB Monitoring, 6. Inspections, b. State of implementation of inspections, i. Recent conduct of inspections”](#)). In principle, follow-up shall be conducted through collection of reports but may be conducted through inspections based on the results, etc. of regular inspections conducted in the previous program year.

ii. Collection of reports from small and medium-sized audit firm, partnership and solo practitioner

In the case of small and medium-sized audit firm, partnership and solo practitioner, the CPAAOB selects firms partly based on the results of Quality Control Reviews. It then gathers and analyzes information about measures taken to address issues pointed out amid Quality Control Reviews, their operations management system, their quality control system, and so on. Furthermore, in many cases, as small and medium-sized audit firms are especially influenced by the CEO, it understands CEO's awareness towards the current status of audit quality and efforts for improvement. And it conducts hearings as necessary.

iii. Collection reports for small and medium-sized audit firm, partnership and solo practitioner (follow-up after notification of inspection results)

With regard to problems notified as results of inspections to small and medium-sized audit firm, partnership and solo practitioner, the CPAAOB understands the progress of improvement through collecting reports and facilitates audit firms' voluntary improvements after a set period

of time. It also conducts hearings as needed.

iv. Collection reports for audit firms in need of particularly immediate remediation

As a result of inspection, where the overall rating of the firm's business administration is "Unsatisfactory and in need of immediate remediation in operations management system, etc. (Overall rating 4)," the CPAAOB wields collection reports at the time of the notification of the inspection results and prompt the firms to make improvements (for information about overall ratings, see "[7. Notification of Inspection Results](#)").

b. Implementation

i. Collection of reports from large-sized audit firms and mid-tier audit firms

In PY2024, the CPAAOB collected reports from all large-sized and mid-tier audit firms in order to review their operations management system including items such as the status of response to the revised quality control standards, their process of acceptance and termination of audit engagements, the status of audit tools utilizing digital technology, assurance related to non-financial information including sustainability information, measures towards abolition of quarterly disclosure system, and the status of providing audit services to IPO preparing companies.

In PY 2024, the CPAAOB conducted follow up on one of the large-sized audit firms by collecting reports, and confirmed their measurements to make improvements in response to deficiencies pointed out during regular inspections.

ii. Collection of reports from small and medium-sized audit firms, partnership and solo practitioner

In PY2024, reports were collected from 52 small and medium-sized audit firms, selected mainly based on the results of Quality Control Reviews in PY2023. The reports contained items related to improvement recommendations issued by Quality Control Review, matters related to operations management system, matters concerning the quality control environment, matters concerning audit engagement, design and operation of a quality control system in compliance with the Revised Standards, the status of compliance with the revised code of ethics, matters related to audit methods using digital technology, the status of practical measures and responses for the abolition of the quarterly report system, the status of assurance service related to non-financial information, and the status of providing audit services to IPO preparation companies, etc.

Of the 52 firms, 8 firms (those with a relatively large number of items requiring improvement, a large number of new audit engagements with listed companies, and audit risks of audited companies that require attention) were interviewed individually, either in person or remotely, from the perspective of encouraging them to voluntarily ensure and improve audit quality. In order to hold in-depth discussions, inspectors also participated in the hearings.

During the interviews, in light of the circumstances surrounding small and medium-sized audit

firms, the CPAAOB sought to encourage them to establish quality control practices that ensure appropriate audits. While conveying the CPAAOB's awareness of these issues, the CPAAOB focused on asking questions about audit firms' quality control systems, including their responses to the results of Quality Control Reviews, the management policy of the CEO, the development and operation of the governance environment, recruitment and training policies, and responses to revisions to audit standards, and so forth.

The results of interview will be used as important reference for such as the future inspection.

iii. Collection of reports from small and medium-sized audit firms etc. (follow-up after notification of inspection results)

In PY2024, among small and medium-sized audit firms etc. that had been notified of inspection results by the CPAAOB in past program years, no audit firms were required to monitor the status of their response to the notified problems, and therefore, the CPAAOB did not collect reports after a certain period of time has passed since the notification of inspection results. However, if the overall rating of an audit firm's operations management system is "Unsatisfactory due to presence of significant deficiencies that need to be fixed" as a result of the inspection in PY2024, the CPAAOB plans to follow up with the audit firm after notifying the inspection results.

iv. Collection of reports from audit firms in need of particularly urgent remediation

In PY2024, six firms assessed as "unsatisfactory and in need of immediate remediation" as results of inspections conducted in PY2020 and PY2022 continually reported the status of their improvements. Also, two firms assessed as "unsatisfactory and in need of immediate remediation" as results of inspections conducted in PY2023⁹ and PY2024 submitted their reports simultaneously with the notification of inspection results. These firms include those that were found to have the following issues:

- The firm lacks awareness of the need to improve audit quality, and has not demonstrated leadership in establishing an effective and systematic operational control management to ensure appropriate audit quality.
- The firm has relies on the competence and responsibility of each executive partner to ensure audit quality in each individual audit engagement, and a leadership has not been demonstrated in maintaining and improving audit quality throughout the firm.
- The firm lacks awareness to foster a culture that emphasizes audit quality and to establish an effective and systematic operations management including quality control, such as insufficient awareness to comply with professional ethics and internal rules.
- The firm lacks awareness of sincere efforts to maintain and improve audit quality, and does not exercise leadership in ensuring an appropriate level of audit quality throughout the firm.

⁹ Refers to inspections conducted in PY 2023 for which inspection results were notified in PY 2024.

- The firm does not understand that, in order to maintain audit quality at an appropriate level, it is necessary to conduct rigorous operational control in accordance with internal rules and to strictly comply with audit standards, including quality control standards.

6. Inspections

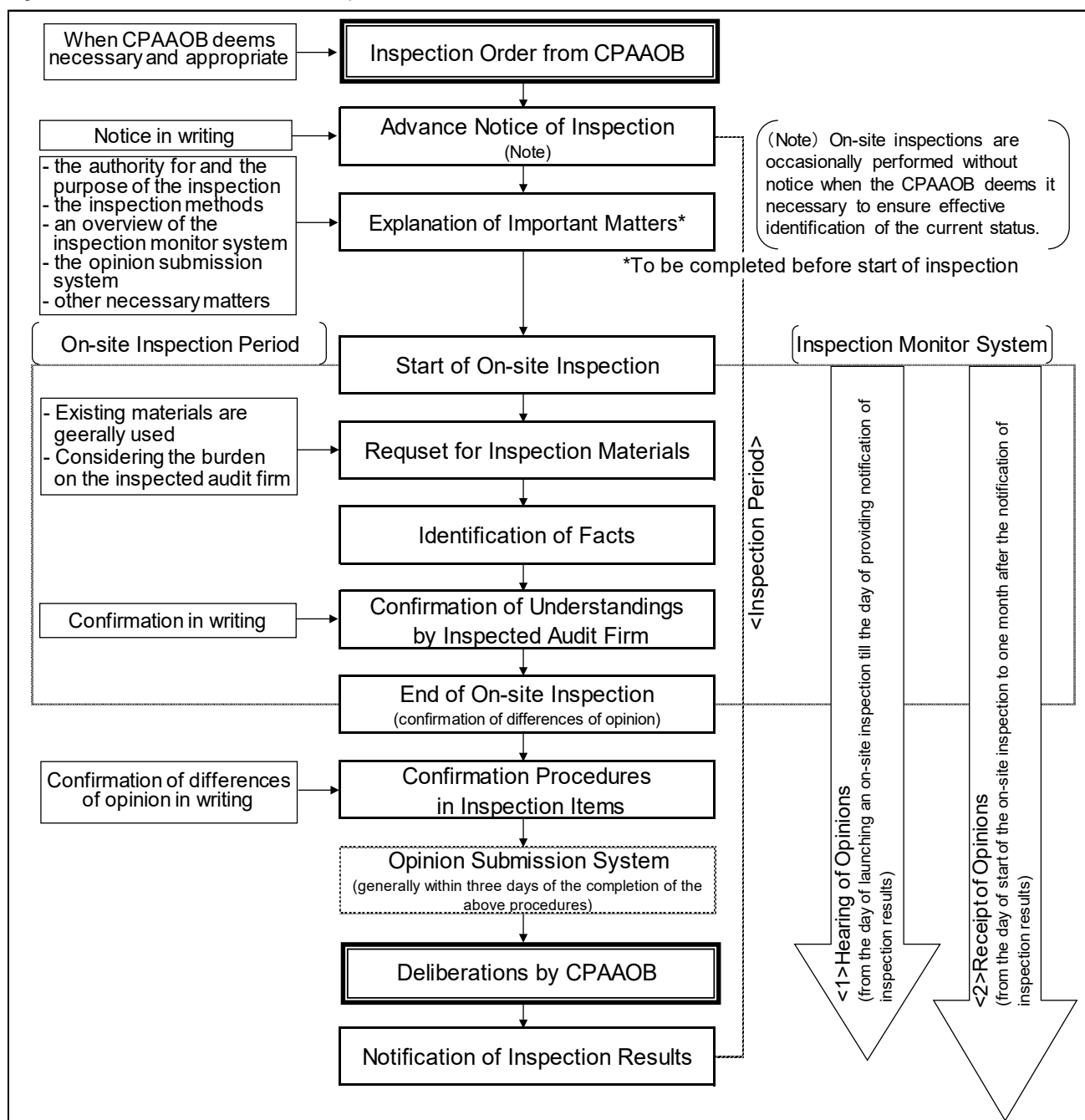
a. Overview

When deemed necessary and appropriate for the public interest or the protection of investors as the result of 4. or 5. above, the CPAAOB inspects audit firms (Article 49-3-2 of the CPA Act). Furthermore, when deemed necessary for ensuring the proper administration of the JICPA, the CPAAOB also inspects the JICPA (Article 46-12-1 of the CPA Act).

Basic matters concerning the CPAAOB's inspections, procedures for inspections, the handling of inspection results, etc. are prescribed in the "Basic Guidelines on Inspections Conducted by the Certified Public Accountants and Auditing Oversight Board" (lately revised in June 2024).

The standard workflow on inspections for audit firms in accordance with the Basic Guidelines is depicted below (Figure II-1-3).

Figure II-1-3: The standard workflow for inspections



The following is an explanation of the main components of the standard workflow:

i. Inspection order from the CPAAOB

The CPAAOB issues an order to inspectors to inspect an audit firm.

ii. Explanation of important matters

Before the on-site inspection, the inspectors explain to the responsible person at the audit firm the authority for and the purpose of the inspection, the inspection methods, an overview of the inspection monitor system and the opinion submission system, and other necessary matters.

iii. On-site inspection¹⁰

Generally, the inspectors visit the audit firm and inspect its operations management system, system of quality management, and audit engagements. The audit engagements inspected are selected based on the size of the audit firm, the key points of the basic plan on monitoring, and the audited company's audit risks.

Inspectors examine whether the audit firm's procedures on quality management comply with regulations, auditing standards and quality control policies established by the audit firm through the inspection of books, records and other materials and interviews of the audit firm's executives and staff.

Furthermore, inspectors obtain confirmation of facts and background information (findings) identified during the inspection in writing from the responsible person at the audit firm.

Since FY2020, the CPAAOB has used remote inspections, such as reviewing audit reports, etc., using a laptop borrowed from the audit firm and conducting interviews via a web conferencing system, in addition to the traditional in-person interviews. The CPAAOB will continue to conduct inspections utilizing both inspection methods.

iv. Confirmation procedures on inspection items

After the on-site inspection, the CPAAOB communicates to the audit firm any problems discovered during the inspection, solicits the views of the audit firm on these problems, and confirms with the audit firm matters whether there are any discrepancies of opinion between the CPAAOB and the audit firm.

v. Opinion submission system

If there is a chasm of opinion, the audit firm may submit its opinion to Secretary-General of Executive Bureau in writing, usually within a three-day period (excluding weekends and public holidays) from the day on which the procedures for confirmation of inspection items were completed. Furthermore, if it receives a request from the audit firm to extend the submission period, the CPAAOB considers extending the submission period by up to two days.

If an opinion is submitted by an audit firm, a person designated by the head of the Planning, Management and CPA Examination Division (hereinafter "the CPA Examination Division"), of the CPAAOB Executive Bureau or the head of the CPA Examination Division, review the opinion and facts concerned, compile the results of the review and submit them to the Board of the CPAAOB.

The results, if approved by the Board of the CPAAOB, is conveyed to the audit firm through the head of the CPA Examination Division.

¹⁰ The CPAAOB conducts the following types of inspections: "regular inspections," "ad-hoc inspections," which focus on inspection items and are conducted in a flexible and simple manner, and "follow-up inspections," which are targeted at large-sized audit firms.

vi. Inspection monitor system

The CPAAOB accepts opinions from audit firms about inspectors' inspection methods and so forth to grasp the CPAAOB's inspections and help ensure that they are conducted properly and efficiently.

Inspection monitoring is conducted by "asking for opinions" and "receiving opinions," and the head of the CPA Examination Division takes action, when necessary, such as giving instructions to inspectors.

b. State of implementation of inspections

i. Recent conduct of inspections

The frequency of inspections differs depending on the size of the audit firm. For large-sized audit firms, the CPAAOB will conduct inspections (regular inspections) once every two years in principle, and will follow up on these inspections in the following program year (verifying improvements in deficiencies pointed out in inspections conducted in the previous program year). In principle, follow-up shall be conducted through collection of reports, but may be conducted through inspections based on the results, etc. of regular inspections conducted in the previous program year. From PY 2016 to PY 2021, the CPAAOB conducted follow-up inspections to verify improvements in the program year following the program year in which it conducted regular inspections.

Mid-tier audit firms will be inspected once every two years from PY2025. For PY2025 inspection plan, see ["C. CPAAOB Perspectives and Objectives of Monitoring, etc., 2. Basic Plan for Monitoring Audit Firms for Program Year 2024."](#)

Inspections of small and medium-sized audit firms are conducted as necessary, in light of deficiencies pointed out in Quality Control Reviews.

Details of the inspections during the past five years are as below (Figures II-1-4 and II-1-5).

Figure II-1-4: Status of implementation of inspections in the past five years (based on commencement of inspections)
(unit: audit firms)

Fiscal/PY	2020 (Note 1)	2021 (Note 1)	2022	2023	2024
Large-sized audit firms	4(2)	4(2)	2	2	2
Mid-tier audit firms	2	1	2	2	2
Small and medium-sized audit firms, partnerships and solo practitioners	4	4	5	5	3
Foreign audit firms, etc. (Note 2)	0	0	1	0	0
Total	10(2)	9(2)	10	9	7

(Note1) Figures in parentheses are the number of follow-up inspections.

(Note2) See ["B. Foreign Audit Firms"](#) for information on foreign audit firms etc.

(Source) Prepared by the CPAAOB based on results of inspections by the CPAAOB

Figure II-1-5: Number of inspections, inspectors, inspection periods and number of audit engagements

	Large-sized audit firms	Mid-tier audit firms	Small and medium-sized audit firms
Number of inspections(case)	9	7	11
Average number of inspectors(headcount)	8.7	8.0	5.1
Average inspection period(calendar days)	243.1	182.4	137.9
Average number of inspected audit engagements (companies)	6.1	5.0	2.9

(Note1) Inspections conducted and completed in the five years from PY2020 through PY2024 are covered. Inspections of foreign audit firms and others, follow-up inspections, cases involving the submission of opinions and cases recommended to the Commissioner of the FSA were excluded because they involved procedures different from those of normal inspections.

(Note2) Inspection period means the period (calendar day basis) between the date on which notice of the inspection was made (in the case of inspections with no advance notice; the date on which the on-site inspection started) and the date on which notification of the inspection results was issued.

(Source) Prepared by the CPAAOB based on the results of inspections

ii. Deficiencies

(i) Characteristics of deficiencies identified through inspections of the system of quality management

Characteristics of the deficiencies identified through the CPAAOB inspections in and after PY2021 were as follows:

Large-sized audit firms tended to shift primal responsibility for quality management from the quality management section at their headquarters to the audit services section, which was closer to the audit teams. The results of recent inspections presented outstanding issues; for example, although cooperation between the quality management section and audit services sections has been progressed, there still need for penetration of improvement measures into audit teams (where auditing services are actually performed) and for verification of effectiveness of such improvement measures, etc. (For information on the organization of large-sized audit firms, see "[III. Operation of Audit Firms, A. Operations Management System, 1. Organizational Structure of Audit Firms](#)").

Although mid-tier audit firms have made structural improvements to take systematic approaches, they are still facing problems such as the limitation of the number of personnel responsible for quality management and the awareness of the CEO about the need to ensure and enhance quality management and to cooperate with the quality management section.

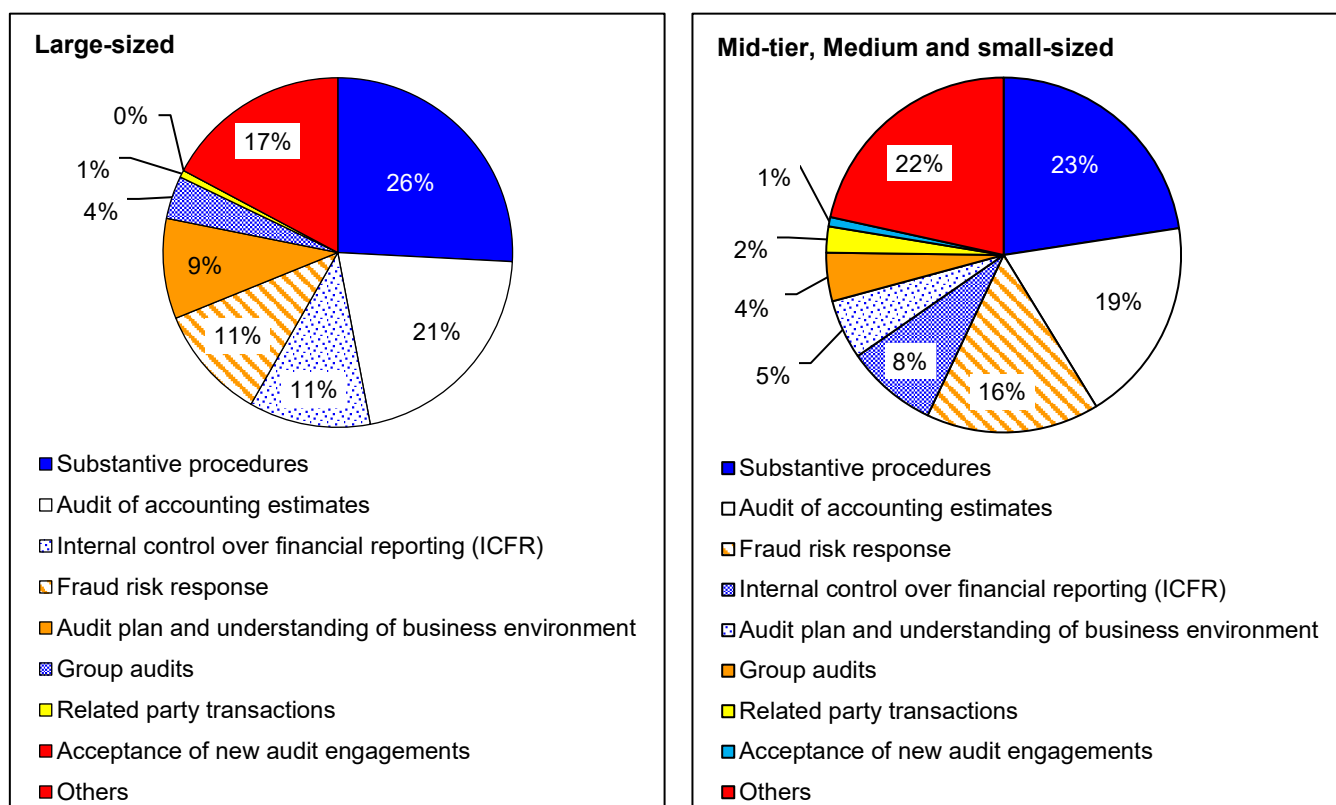
At small and medium-sized audit firms, in addition to the fact that the CEO had insufficient awareness of quality management, there was a lack of understanding of the level of quality management and audit procedures required by the existing auditing standards. In addition, root cause analysis, which is necessary to prevent the occurrence of similar deficiencies, was not sufficiently performed for issues pointed out in Quality Control Reviews, etc. Moreover, there were cases in which a sense of ethics as a professional expert was lacking, and a culture of disregarding the maintenance of integrity and credibility was formed and promoted (systematic falsification of audit documentation).

(ii) Characteristics of deficiencies identified through inspections of audit engagements

Deficiencies identified through inspections of audit engagements from PY2022 to PY2024 can be classified in line with the ASCS structure as follows (Figure II-1-6).

Regardless of the size of audit firms, deficiencies in substantive procedures (audit procedures, such as analytical verification procedures and detailed tests that were conducted with regard to transaction types, account balances, and footnotes to address the risk of material misstatements) were the most common, followed by deficiencies related to the audit of accounting estimates. In addition, deficiencies concerning dealing with fraud risk and internal control over financial reporting were continually found. The CPAAOB therefore performed inspections with a focus on such deficiencies.

The CPAAOB encourages inspected audit firms to take their initiatives in improving their operation, by analyzing the causes of the deficiencies identified in the inspections and sharing them through dialogue with the inspected audit firms. The Case Report from Audit Firm Inspection Results is available for detailed information about examples of deficiencies identified during the inspections and their causes. (For the overview of the Case Report, see ["C. The CPAAOB Monitoring Perspectives, Objectives etc., 5. Communication of Monitoring Information".](#))



(Note) Classifications of deficiencies noted at seven (total number of inspections) large-sized audit firms, five mid-tier audit firms (total number of inspections), and 11 small and medium-sized audit firms

(Source) Prepared by the CPAAOB based on the results of inspections by the CPAAOB

7. Notification of Inspection Results

a. Inspection results notification

The responsible person at the audit firm is notified of the inspection results in writing. The current inspection results notification contains the information shown in Figure II-1-7¹¹.

Figure II-1-7: Items included in inspection results notification

- | |
|---|
| <ol style="list-style-type: none">1. Key points2. Inspection viewpoints3. Measures against deficiencies developed by the inspected audit firm to ensure the proper execution of services with the aim of maintaining and improving quality control (quality control environment)4. Conduct of audit services (audit engagements) |
|---|

b. “Key points” section

Among the sections in an inspection results notification, the “Key points” section elaborates deficiencies identified during the CPAAOB inspections that are regarded as significant. It comprises three subsections (operations management system, quality control system and audit engagements) and confers an overall rating according to the status of these subsections.

The overall rating of the operation of services at the inspected audit firm is presented at the beginning of the “Key points” section of the inspection results notification, as shown in Figure II-1-8.

Figure II-1-8: Example of key points

- | |
|--|
| <ol style="list-style-type: none">1. Key points
As a result of our inspection of your audit firm and within the scope of our inspection, we discovered the operation of your firm is ... (one of five overall rating grades).
<ol style="list-style-type: none">(1) Operations management system
... (presents problems with its governance and operation of services)(2) Quality control system
...(presents deficiencies in the system of quality control)(3) Audit engagements
...(presents deficiencies in audit services) |
|--|

The CPAAOB has included overall ratings of audit firms’ operation of services in the inspection results notification since the inspections commenced in PY2016. The aims are to accurately convey the CPAAOB’s assessment of audit firms and to ensure proper understanding of their level of quality control among audit and supervisory board members etc. of audited companies, to whom the inspection results notification is provided. It is expected that this will contribute to further enhancing two-way communication based on the results of inspections.

c. Overall rating grades

The overall rating takes the form of one of the following five grades and is based on the assessment results of audit firms’ operations management system, quality control system and

¹¹ As Overall ratings will not be given for ad-hoc inspections or follow-up inspections of large-sized audit firms, the inspection results notifications in those cases differ from the ones of regular inspections

audit engagements. Each grade is assessed with the following descriptions.

"Satisfactory" (Overall rating: 1)

The description is used when the operation of services is deemed satisfactory, e.g., there are almost no deficiencies in the operations management system, quality control management and audit engagements.

"Generally Satisfactory with minor deficiencies" (Overall rating: 2)

The description is used when the operation of services is deemed satisfactory on the whole though there are problems that need to be fixed, e.g., there are no significant deficiencies despite the presence of some deficiencies in the operations management system, quality control management or audit engagements.

"Unsatisfactory due to presence of significant deficiencies that need to be fixed" (Overall rating: 3)

The description is used when the operation of services is deemed unsatisfactory, e.g., there are significant deficiencies in the operations management system, quality control management or audit engagements that need to be fixed.

"Unsatisfactory and in need of immediate remediation in operations management system, etc." (Overall rating: 4)

The description is used when the operation of services is deemed unsatisfactory and in need of immediate remediation.

"Extremely unsatisfactory" (Overall rating: 5)

The description is used when significant deficiencies are identified in the quality control system and audit engagements, and voluntary remediation by the audit firm cannot be expected.

In the case of an audit firm rated as "unsatisfactory and in need of immediate remediation (overall rating 4)," the CPAAOB collects a report at the time of the notification of inspection results and encourages the firm to promptly make improvements (for more details, see ["5. Collection of Reports, b. Implementation, iv Collection of reports from audit firms in need of particularly urgent remediation"](#)). In the case of an audit firm rated as "extremely unsatisfactory (overall rating: 5)," the CPAAOB make recommendations concerning administrative actions and other measures to the Commissioner of the FSA.

d. Distribution of overall ratings

The distribution of overall ratings in the last five years of inspections (regular inspections launched and completed between PY2020 and PY2024) is shown below (Figure II-1-9).

No audit firms were qualified as "Satisfactory (overall rating: 1)," the highest grade in the overall rating scheme. All audit firms, therefore, were rated as "Generally satisfactory with minor

deficiencies (overall rating: 2)" or lower based on the assessment of their operations management system, quality control and audit engagements.

Many small and medium-sized audit firms, partnerships and solo practitioners had overall ratings lower than those of large-sized and medium-tier audit firms. This may be due in part to the fact that when inspecting small and medium-sized audit firms, the CPAAOB mainly selects audit firms whose quality control system needs to be confirmed immediately based on recommendations in the Quality Control Reviews, etc.

At small and medium-sized audit firms with low overall ratings, there was insufficient awareness of quality control among the CEO. In addition, partners and staff members lacked an awareness of recent environmental changes pertaining to accounting and auditing and did not understand adequate levels required by the current audit standards.

Figure II-1-9: Overall ratings for inspections in the last five years (based on commencement of inspections) (unit: audit firms)

Overall rating	Large-sized audit firms	Mid-tier audit firms	Small and medium-sized audit firms, partnerships and solo practitioners
Satisfactory" (Overall rating: 1)	-	-	-
Generally satisfactory with minor deficiencies" (Overall rating: 2)	4	-	-
Unsatisfactory due to presence of significant deficiencies that need to be fixed" (Overall rating: 3)	-	2	2
Unsatisfactory and in need of immediate remediation in operations management system, etc." (Overall rating: 4)	-	3	8
Extremely unsatisfactory" (Overall rating: 5)	-	-	10

(Note1) Totals for audit firms subject to regular inspections that were commenced and completed between PY2019 and PY2023

(Note2) For audit firms underwent multiple regular inspections in the period under review, overall ratings in the latest inspection are tallied.

(Source) Prepared by the CPAAOB based on information obtained through the CPAAOB inspections

- e. Communication of "key points" to audit and supervisory board members etc. of all audited companies

Audit firms are required to communicate the "key points" in their inspection results notifications and the action they are taking in response to them to audit and supervisory board members etc. of all audited companies¹².

In addition, audit firms are required to communicate the details of the deficiencies and the action to them to the audit and supervisory board members etc. of audited companies where their audit engagements were selected for the inspections.

It is expected that the audit and supervisory board members etc. of audited companies, will use the communicated information not partially but comprehensively to better understand the status of the establishment and implementation of the audit firm's quality control system and to

¹² The ASCS requires audit firms to convey in writing to the audit and supervisory board members etc. the details of inspection results notifications and the measures for improvements (ASCS 260, No. 16, A31-2).

communicate with the audit firm in a fulfilling manner.

f. Handling of inspection results

An inspected audit firm is required to obtain prior consent from the CPAAOB to disclose¹³ inspection results to a third party. In recent years, CPAAOB has received a large number of requests from audit firms for prior consent to disclose inspection results and other information as requested by potential audited companies (e.g., companies considering which auditors to appoint) etc.

However, an inspected audit firm is not required to obtain the CPAAOB's prior consent if it conveys inspection results to auditors and others at audited companies, mentioned above in d., and presents them to the JICPA based on rules of the JICPA Quality Control Committee's detailed operational rules for handling of notification documents for inspection results.

This approach is expected to facilitate communication between auditors and others of audited companies and audit firms through the utilization of inspection results and improve the effectiveness of the JICPA's Quality Control Reviews.

It is desirable that not only audit members etc. of audited companies but also potential audited companies make use of the CPAAOB inspection results etc. in order to confirm the status of the establishment and implementation of quality control systems by accounting auditors.

8. Recommendation

The CPAAOB recommends that the Commissioner of the FSA take administrative disciplinary actions or other measures based on Article 41-2 of the CPA Act, if deemed necessary as a result of the inspection. In the PY 2024, the CPAAOB made recommendations to the Commissioner of the FSA against two audit firms and two CPAs whose operations were deemed to be extremely inappropriate. For more details on the recommendations, please refer to the CPAAOB website.

<https://www.fsa.go.jp/cpaaob/shinsakensa/kankoku/index.html>

¹³ Details on disclosing inspection results to third parties are posted on the CPAAOB website (Revised in June 2024).

B. Foreign Audit firms

1. System for Foreign Audit Firms

Financial statements which shall be submitted under the FIEA by domestic listed companies must generally require an audit attestation by Japanese CPAs or audit firms. However, in the case of foreign company, financial statements to be submitted pursuant to the FIEA generally require audit attestation by CPAs or audit firms in the home country of the foreign company. Therefore, to avoid duplicate audits, an exception is granted in cases where the issuer company has taken an audit attestation deemed to be equivalent to that prescribed under the FIEA.

With the aim of further enhancing the soundness of Japan's capital markets, the CPA Act was amended in 2007 to require foreign CPAs and audit firms auditing the financial statements of foreign companies, etc. subject to the FIEA disclosure rules to submit the notification to the FSA Commissioner.

Having submitted the notification to the FSA, the audit firms are regarded as foreign audit firms (Article 1-3(7), Article 34-35 (1) of the CPA Act) and are subject to inspection and supervision by the CPAAOB and the FSA.

Based on the "Approach to Inspections and Supervision of Foreign Audit Firms"¹⁴ (published on September 14, 2009), the CPAAOB generally collects reports from foreign audit firms once every three years, most recently having collected from 35 foreign audit firms in 14 countries/regions in PY2021. Based on the results of analysis of the information provided by this collection, the CPAAOB also conducted an inspection of one foreign audit firm each in PY2022.

2. Foreign Audit Firms

Regarding the locations of foreign audit firms that have registered with the FSA, the largest number are based in Europe, with the second largest number being headquartered in the Asia-Pacific region (Figure II-2-1).

The top countries/regions are France and Cayman Islands with eight firms, the U.S. and Hong Kong with seven firms. Foreign audit firm registrations are published and updated as "Registered Foreign Audit Firms" on the FSA website.

Figure II-2-1: Number of registered foreign audit firms, etc. (as of March 31, 2025)

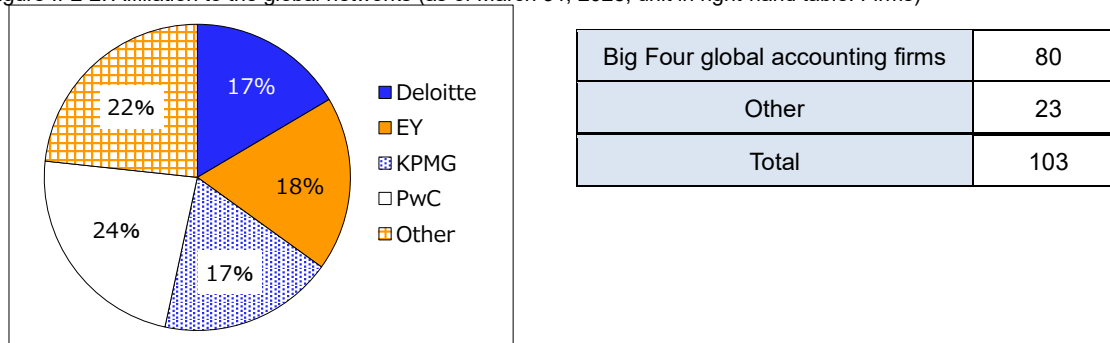
	Number of countries/regions	Number of foreign audit firms, etc.
Europe	16	60
Asia-Pacific	10	30
North America	2	10
Central/South America	1	1
Middle East	1	2
Total	30	103

(Source) Prepared by the CPAAOB based on information from the FSA website

¹⁴ Set out specific implementation procedures and points to be noted regarding policies for the supervision / inspection of foreign audit firms (published in September 2009)

Out of the foreign audit firms, around 80% is affiliated with one of the Big Four global accounting firms (Figure II-2-2).

Figure II-2-2: Affiliation to the global networks (as of March 31, 2025; unit in right-hand table: Firms)



(Note) Compiled the foreign audit firms that are registered with the FSA and whose audit firm names include the names of the Big Four global networks.

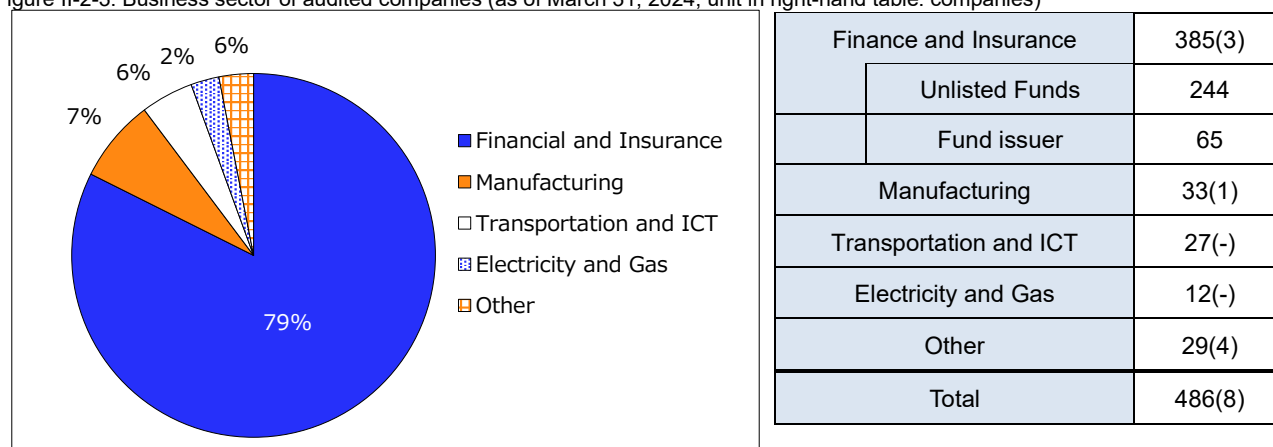
(Source) Prepared by the CPAAOB based on information from the FSA website

3. Audited Companies

Securities issued by foreign companies that are subject to the FIEA disclosure regulations include not only shares issued by a foreign company that are offered for public offering or secondary distribution, or listed on an exchange in Japan, but also bonds issued by foreign companies, beneficiary certificates issued by foreign investment trusts, and foreign investment securities. Among foreign companies currently subject to disclosure rules, most are unlisted funds (foreign investment trusts and foreign investment securities).

Regarding the business sectors of companies audited by foreign audit firms, 81% are classified as finance and insurance, and around 75% of these are unlisted funds (Figure II-2-3).

Figure II-2-3: Business sector of audited companies (as of March 31, 2024; unit in right-hand table: companies)



(Note) Figures in parentheses are the number of companies (including funds) listed in the exchange markets in Japan

(Source) Prepared by the CPAAOB based on information on the FSA website

C. The CPAAOB monitoring Perspectives, Objectives etc.

Since its establishment in April 2004, the CPAAOB has endeavored to reinforce trust that investors place in the capital markets based on its mission to enhance the fairness and transparency of Japanese capital markets by raising the quality and ensuring the reliability of audits by CPAs.

As part of these efforts, the CPAAOB formulates a Basic Policy for Monitoring Audit Firms each term (three years) and a Basic Plan for Monitoring Audit Firms, which is based on the Basic Policy, each program year. In this way, the CPAAOB articulates the objectives and approach for monitoring, priorities for each program year, and so on.

1. Basic Policy for Monitoring Audit Firms

The entire text of the Basic Policy for Monitoring Audit Firms for the CPAAOB's 8th Term (April 2025 - March 2028, published on May 28, 2025) is presented on CPAAOB's website, but monitoring perspectives, objectives, etc. are summarized below:

[Principal Points in the Basic Policy]

In the 8th Term, the CPAAOB will encourage audit firms on a continuous basis to voluntarily ensure and improve the quality of audits and achieve the appropriate management of operations, including the quality control of audits, through effective and efficient monitoring, taking into account rapid changes around audit firms, such as introduction of registration system for auditors of listed companies, etc. and progress in discussions on disclosure and assurance of sustainability information. In particular, the following points will be emphasized in monitoring.

- Confirmation and validation of preparedness for smooth introduction of quality control system and responses to it at audit firms

As the standard on quality control for audits has been revised, audit firms will be required to introduce a quality control system based on the following risk approaches (*):

- (1) To set quality objectives
- (2) To identify and assess quality risks that will block the achievement of quality objectives
- (3) To determine and implement a policy or process of addressing assessed quality risks, and
- (4) To make improvements, if any, based on root causes

The 8th Term of monitoring by the CPAAOB will place emphasis on post-introduction improvement and operation of the quality control system.

(*) The revised quality control standards will become applicable, starting with the auditing of financial statements in the business year or fiscal period that will begin after July 1, 2023 (In the case of audit firms other than large-sized audit firms as defined by the CPA Act, the application will take effect in the business year or fiscal period that will begin after July 1, 2024).

- Securement and improvement of service quality at audit firms that audit listed companies

In the audit of listed companies, the replacement of large-sized audit firms with mid-tier or small and medium-sized audit firms has been declining since peaking at June 2022. However, the trend of

switching to mid-tier or small and medium-sized audit firms continues, and the range of such firms undertaking audit of listed companies continues to expand.

As a result, in the 8th Term, the CPAAOB will continue to put greater emphasis on the inspection of small and medium-sized audit firms considered in need of immediately ensuring and improving the quality of audits.

2. Basic Plan for Monitoring Audit Firms for Program Year 2025

The full text of the Basic Plan for Monitoring Audit Firms for Program Year 2025 (July 2024 - June 2025, published in July 18, 2025) can be found on the CPAAOB website. Monitoring priorities are described below.

[Basic Plan for Monitoring (for Activities Other than Inspections)]

a. Examination of JICPA Quality Control Reviews and cooperation with the JICPA

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, 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 also continue discussing the JICPA's enhancement of instruction and supervision of small and medium-sized audit firms.

b. Collection of reports

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.

In collecting reports, priority items shall be 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), development and operation of quality control systems in compliance with the revised Quality Control Standards, etc., introduction of audit tools leveraging digital technologies (including the implementation of cybersecurity measures), practical efforts and responses to challenges in connection with the abolition of the quarterly securities report system, and practical efforts and responses to challenges in audits of audited companies that disclose

annual securities reports before ordinary general shareholders' meetings, etc.

c. Collection and analysis of information regarding 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. In addition, 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.

[Basic Inspection Plan]

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. Focus points regarding operational management systems

The CPAAOB will conduct inspections this program year by focusing on the followings.

- Effectiveness of operational management systems
- Audit firm management's commitment to ensuring and improving audit quality etc.

c. Focus points regarding quality control systems

The CPAAOB will conduct inspections this program year by focusing on the followings. 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.

- Effectiveness of quality control systems
- Development and operation of quality control systems in compliance with the revised

Quality Control Standards, etc.

- 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
- Securement, fostering and distribution of audit resources (including the status of implementation of monitoring of audit resources)
- 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)
- Initiatives to develop an organizational culture emphasizing compliance with laws and professional ethics etc.

d. Focus points regarding individual audit engagements

The CPAAOB will conduct inspections this program year by focusing on the followings.

- Implementation of audits regarding fraud risks
- Implementation of audits regarding revenue recognition
- Implementation of audits regarding accounting estimates
- Implementation of group audits etc.

e. Inspection of foreign audit firms

When selecting foreign audit firms, etc. 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.," and the "Basic Policy for Report Collection and Inspection of Foreign Audit Firms, etc. by the CPAAOB."

3. Strengthening Monitoring

a. Monitoring other than inspections

In order to conduct efficient and effective monitoring, the CPAAOB holds periodic dialogues with the management of large-sized and mid-tier audit firms, including their top management, and gathers information on the latest quality control systems at each audit firm. The information collected is used effectively, for example, as a reference for understanding industry trends and identifying points of focus in conducting inspections. In addition, since PY2022, the CPAAOB has been holding dialogues with the management of relatively larger firms among small and medium-sized audit firms that conduct audits of listed companies.

b. Enhancing the capacity to conduct monitoring

In order for the CPAAOB's monitoring to appropriately respond to issues surrounding audit firms and the internationalization of accounting practices, it is important to enhance the monitoring framework such as by developing human resources and strengthening information collection

and analysis. In PY2024, the CPAAOB continued to promote human resource development through active participation of its staff in international conferences and other events and also conducted training courses aimed at acquiring expertise necessary for monitoring.

4. Cooperation with Related Organizations

In order to ensure and improve audit quality, it is important not only to monitor audit firms, but also to cooperate with organizations related to auditing and to share awareness of issues and problems surrounding audit firms. To this end, the CPAAOB has been working with relevant bureaus within the FSA, as well as with the JICPA and other relevant organizations.

a. Cooperation with relevant bureaus within the FSA

With regard to issues related to audits of individual audit engagements, more effective and efficient inspections can be conducted by cooperating with the FSA's relevant bureaus that conduct supervision and inspections of the disclosure of audited companies. To this end, the CPAAOB will share information and exchange opinions with the relevant bureaus of the FSA and the SESC on issues related to disclosure and audit of listed companies and utilize the obtained information in its monitoring. In addition, the CPAAOB also shares information with relevant bureaus of the FSA on inspection results of audit firms.

b. Cooperation with JICPA

The CPAAOB encourages further improvement of the effectiveness of the Quality Control Reviews conducted by the JICPA, by reviewing the effectiveness of the JICPA's Quality Control Reviews through inspections of audit firms and by sharing with the JICPA problems identified during the inspection.

Since PY 2015, the CPAAOB and the JICPA have held working-level meetings to discuss issues related to Quality Control Reviews. Further discussions are being held to ensure that the CPAAOB inspections and the JICPA Quality Control Reviews are as effective as possible overall.

In PY2024, the measures to improve the effectiveness of Quality Control Reviews and to improve audit quality in small and medium-sized audit firms continued to be discussed.

In addition to the above, the CPAAOB shares awareness of issues at the top level through such as training seminars for Quality Control Reviewers hosted by the CPAAOB and exchanges of opinions between senior officials of the CPAAOB and the JICPA.

c. Cooperation with other related organizations

In order to conduct efficient and effective monitoring, the CPAAOB shares its awareness of issues by exchanging views with Stock exchange on the status of communication between auditors and audited companies and the status of changes in auditors, and also uses the information obtained in its monitoring.

In addition, as the roles and responsibilities of audit and supervisory board members etc. have become increasingly important in recent years, the CPAAOB regularly exchanges views with the

Japan Audit & Supervisory Board Members Association on the status of communication between audit and supervisory board members etc. and auditors.

5. Communication of Monitoring Information

From the viewpoint that it is important to provide information on the results of monitoring audit firms to the general public and to increase interest in and awareness of audits, the CPAAOB has published this report, the Case Report from Audit Firm Inspection Results, and the Basic Plan for Monitoring Audit Firms (“various monitoring information”).

a. Development and publication of the Case Studies of Audit Firm Inspection Results

The CPAAOB annually revises and publishes a compilation of examples of deficiencies identified during its inspections of audit firms as "Case Report from Audit Firm Inspection Results" (Case Report for PY2025 was published on July 7, 2025). The purpose of the Case Report is to present the level of audit quality expected by the CPAAOB, encourage audit firms to make voluntary efforts to ensure and improve audit quality, and to provide reference information to the directors and audit and supervisory board members, etc. of listed companies as well as investors and other market participants.

b. Communication of various monitoring information

The CPAAOB actively shares various monitoring information by holding briefings for stakeholders in various fields and contributing articles to relevant magazines. In particular, the CPAAOB Chairperson and inspectors explain about the Case Report from Audit Firms Inspection Results at training sessions run by the JICPA. In PY2024, with the aim of encouraging audit firms to make voluntary efforts to ensure and improve audit quality, the CPAAOB gave lectures at the JICPA headquarters and seven regional associations across Japan. It also gave lectures at the Institute of Internal Auditors Japan and other relevant organizations.

III. Operation of Audit Firms

III. Operation of Audit Firms

A. Operations Management System

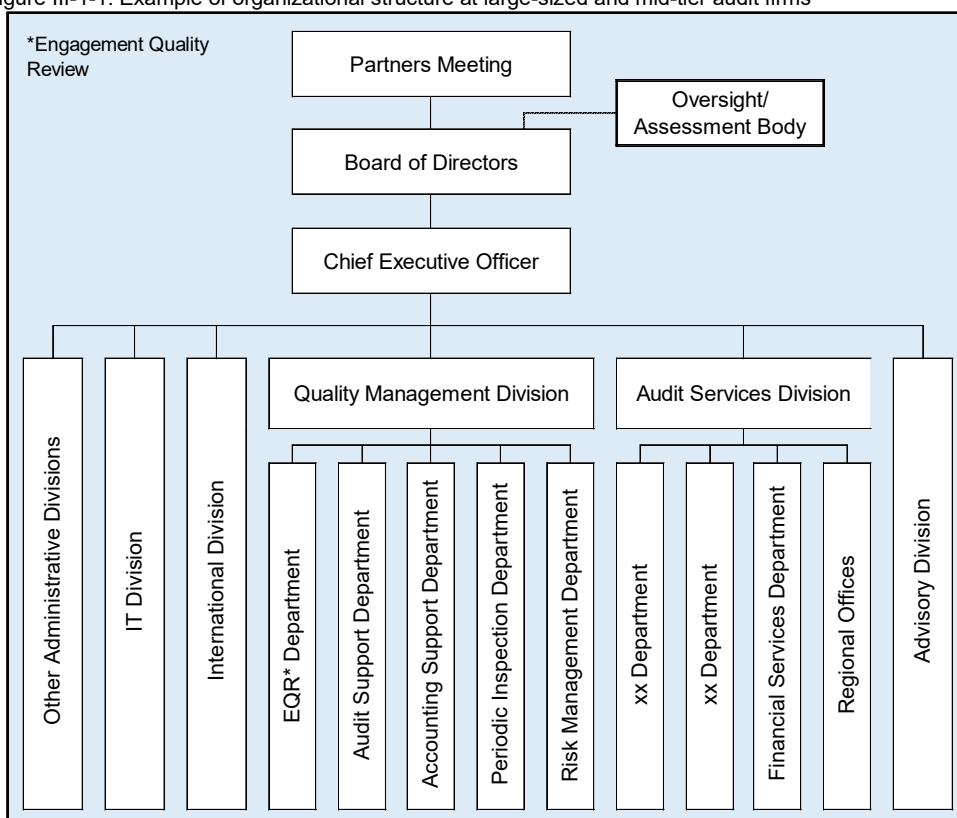
1. Organizational Structure of Audit Firms

The characteristics of the organizational structure of each type of audit firm, as categorized by size, are shown below.

Large-sized and mid-tier audit firms have a board of directors and the Management Committee, which are established under the partners meeting, the highest decision-making body composed by all partners, to make important decisions and administer corporate operations. There is also an oversight/assessment body to oversee and assess the effectiveness of management functions from a standpoint independent of the firm's management. The audit services division is divided into several departments that serve different regions or handle different services, and there is also a quality control division that supports audit services. Large-sized and mid-tier audit firms have structures more focused on functions than those seen at small and medium-sized audit firms. (Figure III-1-1).

Large-sized audit firms have established sector-specific divisions within their audit services division that conduct audits of listed financial institutions, such as the Financial Services Department.

Figure III-1-1: Example of organizational structure at large-sized and mid-tier audit firms



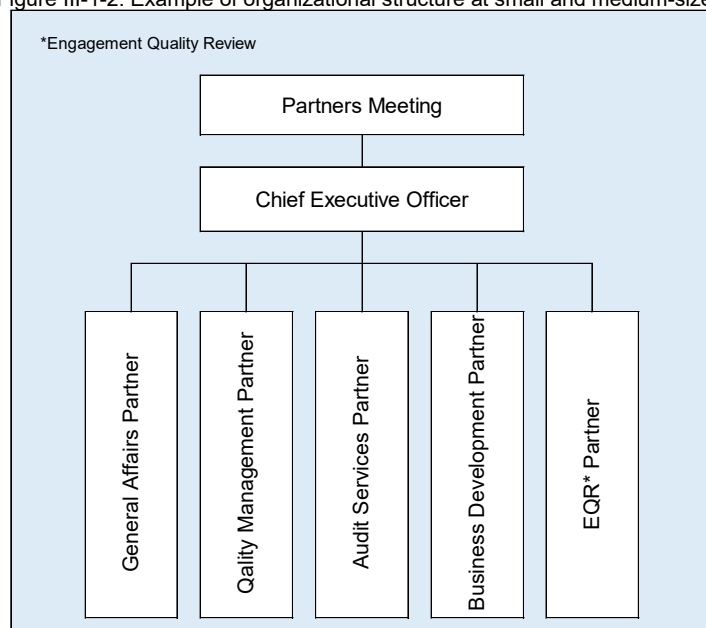
(Note) The organizational structure of mid-tier audit firms is often simpler than the structure shown in the above figure.

(Source) Prepared by the CPAAOB

On the other hand, the majority of small and medium-sized audit firms do not have subdivided audit engagement division, and their organizational decisions are made by partners meeting without the establishment of the board of directors or oversight/assessment body due to the human resource

constraint. Similarly, they manage quality management by assigning a person in charge instead of establishing a department for the purpose. However, with this management, the level of quality control depends on the ability and involvement time of the person in charge, and knowledge and experience are less likely to be accumulated in the organization in the audit firm. Therefore, the system of quality management of small and medium-sized audit firms are weaker than that of large-sized audit firms (Figure III-1-2).

Figure III-1-2: Example of organizational structure at small and medium-sized audit firms



(Source) Prepared by the CPAAOB

Characteristics of organizational structure based on audit firm size are as follows: (Figure III-1-3)

Large-sized audit firms strategically assign full-time staff members to sections divided in accordance with their operations and are promoting efforts to improve the quality of audits through the specialization and hierarchization of operations, such as transferring certain quality management functions to a section in charge of audit engagements. As a recent trend, principal responsibility for quality management is shifting from the quality management section at the headquarters to the audit services section, which is closer to audit team. There are cases in which the audit services division sets up a quality management committee, and this committee monitors audits conducted by the audit services section in cooperation with the quality management section at the headquarters. There are also cases where an independent monitoring section is established, and this monitors the development of the system of quality management and the effectiveness of its operation.

At mid-tier audit firms, head-office functions are being strengthened through, for example, increases in the headcount of the head-office as a way of responding to rises in the number of audited companies. At some firms, however, the operations system has not been adequately modified to ensure that consistent quality is maintained as the business operations expand.

At small and medium-sized audit firms, staff members have dual caps of audit engagement as well as quality management. However, there are some cases where partners and full-time staff sometimes do

not devote adequate time to quality management, due to the situation where the partners are also often allowed to engage in their side job such as operating their own accounting office and/or proportion of part-time staff are relatively high.

Figure III-1-3: Characteristics of each type of audit firm

	Large-sized audit firm	Mid-tier audit firm	Small and medium-sized audit firms
Number of partners	Approx. 240 to 570	Approx. 40 to less than 100	Up to approx. 50 (Note)
Number of full-time personnel	Approx. 3,300 to 7,700	Approx. 210 to over 950	Up to approx. 110 (Note)
Decision-making bodies	- The highest decision-making body is the partners meeting - A board of directors and an executive committee are set up under the partners meeting	- The highest decision-making body is the partners meeting - A board of directors is set up under the partners meeting	- Most decisions are made at the partners meeting - Larger firms have a board of directors beneath the partners meeting
Oversight/assessment bodies	- A body is established to supervise/assess business execution bodies such as the board of directors and management committee - Subcommittees are established for "nomination" (nominations of chief operating officers and other executives), "compensation" (evaluation of executives/partners, compensation decisions, etc.), and "audit" (accounting and audit areas other than accounting). A public interest subcommittee is also established to monitor business execution from a public-interest standpoint - Third parties with independence ("independent third parties") serve as members of oversight/ assessment bodies and subcommittees	- Oversight/assessment bodies are established but their powers are limited compared with those at large-sized audit firms - Many firms do not establish subcommittees for nomination, compensation, and audit - While audit firms use independent third parties as constituent members of oversight/assessment bodies, there are some situations where the involvement of the independent third parties is limited to advice and suggestions to executive bodies.	- Due to being small in scale, many firms have systems of checks and balances between partners without establishing oversight/assessment bodies. - Many firms appoint independent third parties to participate in business operations meetings, etc. and utilize them as members of management councils, management oversight committees, supervisory boards, etc.
Design of business operation departments	- Multiple audit services departments are established, and firm-wide operation including regional offices is also conducted - A department specializing in financial services has been established - Departments in charge of quality management and risk management are established	- Management of firms, including regional offices, in addition to the establishment of multiple audit engagement sections - Departments in charge of quality management are established	- Many firms appoint partners to handle the particular services without establishing particular departments - Larger firms have set up organizations that resemble those of mid-tier audit firms
Number of offices	There are many cases of setting up regional offices on a nationwide scale in addition to the three big cities (Tokyo's 23 wards, Osaka City and Nagoya City).	Besides the firm's main office, there are often also offices in metropolises (Tokyo, Osaka and Nagoya)	Many firms only have a main office
Design of quality control divisions	- A quality management division comprises various departments for functions such as revising and distributing audit manuals, providing advice on accounting procedures, IFRS and US accounting standards, conducting engagement quality reviews and periodic inspections in relation to its system of quality management - A risk management department, which is responsible for monitoring audit contracts, independence, and audit risks, has been established - Audit services departments also often have quality management functions	Under the quality management division, a department in charge of risk management, accounting consultations, engagement quality reviews and periodic inspections is generally established.	- Many firms appoint partners to handle both quality management and audit engagements without establishing quality management divisions - In some small firms, representatives are also in charge of quality management

(Note) Excluding an audit firm whose number of partners and full-time staff members is much higher than others.

(Source) Prepared by the CPAAOB from CPAAOB inspections, collected reports and operational reports

2. Efforts in Response to Audit Firm Governance Code

The Audit Firm Governance Code was formulated in March 2017, and subsequently in response to a

series of government ordinances (published in January 2023 and put into effect in April) accompanying revisions to the CPA act (May 2022), which mandated audit firms that audit listed companies to establish a framework for conducting operations in line with the Code and requiring enhanced information disclosure. In line with these developments, the Code was revised in March 2023 with the aim of accompanying acceptance of small and medium-sized audit firms. The obligation to establish a system in line with the Code was effective from the accounting period of the audited company that began on or after July 1, 2024 (for large-sized audit firms, from July 1, 2023).

The Audit Firm Governance Code has been formulated with the organizational management of audit firms that audit listed companies in mind. It is expected that the Code will be applied in a “comply or explain” manner (either implement the principles or explain the reasons for not implementing the principles). Audit firms are required to put the five principles into practice in ways suited to their own distinct circumstances in order to implement it and achieve effective organizational administration.

Principle 1: The Role to Be Accomplished by an Audit Firm

An audit firm has the public interest role to ensure the credibility of corporate financial information through the audits, seek to protect stakeholders such as participants in the capital market and thereby contribute to the sound development of the national economy. In order to accomplish this role, the audit firm should encourage its members to have frank and open-minded dialogue, enhance mutual development, promote their full competence, and continuously enhance the audit quality on a firm-wide basis.

Principle 2: Organizational structure (management functions)

An audit firm should have effective management in order to develop its organizational operations as a whole for the continuous enhancement of the audit quality.

Principle 3: Organizational structure (oversight/assessment functions)

An audit firm should have a function to oversee and assess the effectiveness of its management from the independent viewpoint and thereby support to enhance the effectiveness of the management.

Principle 4: Operation

An audit firm should develop an operational structure to effectively manage its operations. An audit firm should also strengthen the people retention and development and proactively engage in a dialogue and discussion within the firm and with audited companies about the possible enhancement of audit quality.

Principle 5: Ensuring transparency

An audit firm should ensure full transparency to allow stakeholders in the capital market to appropriately assess its audit quality, by explaining the status of the Code's implementation. The audit firm should also effectively utilize the internal and external assessment of its efforts for improvement in its management and operations.

When it comes to the status to adopt each principle of the Code from the viewpoint of the firms' scalability, large-sized and mid-tier audit firms have adopted all the principles. Some small and medium-sized audit firms do not adopt all of the principles, with oversight/assessment functions within organizational structure (Principle 3) and ensuring transparency (Principle 5) often not being adopted, in particular.

As described above, because of the situation where there is size-based variation in the application of oversight/assessment functions within organizational structure (Principle 3) and ensuring transparency (Principle 5), we examine the efforts that audit firms are making with respect to these two principles.

- a. Oversight/assessment functions within organizational structure (Principle 3)
 - i. Strengthening oversight/assessment functions through the utilization of independent third parties

- (i) Large-sized audit firms

Large-sized audit firms are taking steps to incorporate a public interest perspective and the knowledge of independent third parties in order to strengthen their oversight/assessment bodies. As methods of achieving this, two patterns have been observed: A pattern of including independent third parties as outside committee members in existing oversight/assessment bodies (Pattern 1) and a pattern of setting up separate and independent bodies such as a public interest committee (Pattern 2) (Figure III-1-4).

Pattern 1: independent third parties are directly involved as outside members in the processes pursued by nomination, compensation, and audit subcommittees.

Pattern 2: independent third parties are not directly involved in these processes by setting up separate and independent bodies such as a public interest committee comprising outside members.

Note that all large-sized audit firms state whether independent third parties are involved in each of the processes of “nomination,” “compensation,” and “audit” in the reports etc. concerning audit quality that they publish annually.

- (ii) Mid-tier audit firms

The publication of the Audit Firm Governance Code has prompted mid-tier audit firms to make efforts to establish independent bodies, such as public-interest committees that are comprised of independent third parties as oversight/assessment bodies. However, with the exception of some firms, they have not established subcommittees for “nomination,” “compensation,” and “audit,” so involvement by independent third parties in nomination, compensation, and audit processes is more limited than at large-sized audit firms.

- (iii) Small and medium-sized audit firms

Of the 52 small and medium-sized audit firms implemented collection of reports, 38 have not established oversight/assessment bodies on the grounds that they could exercise mutual supervision.

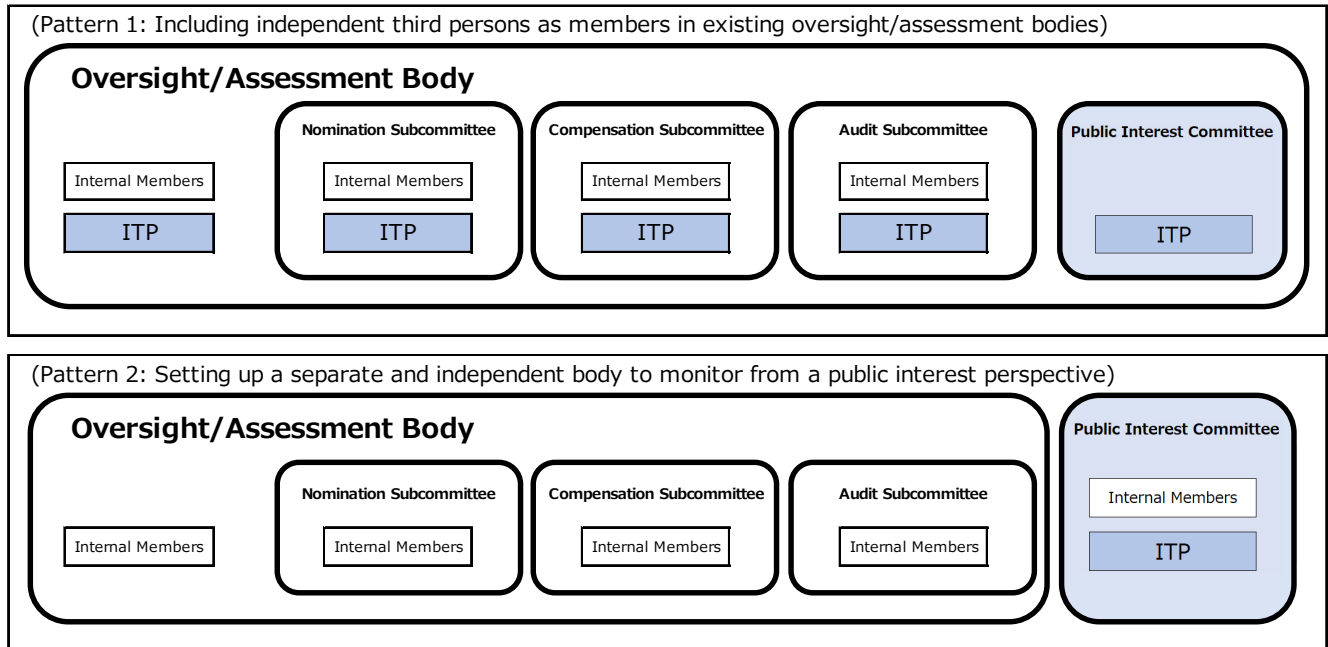
However, of the firms that have not established oversight/assessment bodies, 19 firms have independent third parties that take part in meetings relating to business operations. Also, there is a case where an audit firm published continuous consideration of the necessity of independent third parties’ involvement from the perspective of fulfilling the public interest of audit firms.

On the other hand, the 14 firms that have oversight/assessment bodies make use of independent third parties as members of oversight/assessment bodies such as management

councils, management oversight committees, and supervisory boards.

Note that many firms do not clearly define specific procedures for each process of “nomination,” “remuneration,” and “audit.”

Figure III-1-4: Strengthening oversight/assessment functions at (ITP in this figure means independent third parties)



(Source) Prepared by the CPAAOB

ii. Efforts to utilize the knowledge and experience of independent third parties

(i) Large-sized audit firms

In seeking to incorporate a public interest perspective and the knowledge and experience of independent third parties listed in a. i. above, it is important to provide independent third parties in a timely and appropriate manner with necessary information about audit firms such as organizational administration, nomination and dismissal in members of executive bodies, and matters concerning assessment and compensation. It is also important to seek comments from these independent third parties in a timely manner.

Under the pattern in which independent third parties are included as constituent members of existing oversight/assessment bodies (Pattern 1 in Figure III-1-4), firms provide information to them and receive opinions from them through their participation in meetings of the oversight/assessment bodies. There are also efforts to improve the effective use of independent third parties by raising the ratio of outside members who are independent third parties in the oversight/assessment bodies and subcommittees.

On the other hand, where the independent organizations are set up separately (Pattern 2 in Chart III-1-4 above), the audit firm provides information to independent third parties through internal committees, etc., and receives opinions from independent third parties, and has opportunities to exchange opinions regularly with the CEO. In Pattern 2, since independent

third parties are members of bodies that are independent of existing oversight/assessment bodies, it is particularly important to provide independent third parties with the information they need in a timely and appropriate manner so that effective discussions are conducted. To provide independent third parties with necessary information in a timely and appropriate manner, some firms confer independent third parties the right to attend meetings of executive bodies, including those of group firms, and the power to demand information. Other firms have taken such steps as establishing a secretariat to assist outside committee members, who are independent third parties.

(ii) Mid-tier audit firms

Many mid-tier audit firms have established independent bodies such as public interest committees constituting of independent third person. However, unless the independent third parties are provided with the information they need in a timely and appropriate manner, there are potential risks that the oversight/assessment bodies will not function adequately. With regard to this point, some firms are endeavoring to ensure that required information is provided, for example, conferring on independent third parties the right to attend meetings of executive bodies and the right to demand information. Nevertheless, some firms have not determined the authority that allows independent third parties to obtain information proactively.

(iii) Small and medium-sized audit firms

Oversight/assessment bodies established in small and medium-sized audit firms often consist of in-house partners and few independent third parties. In many cases, the audit firms provide information to independent third parties through the oversight/assessment bodies and exchange opinions at meetings of business execution bodies. The range of information provided to independent third parties and that of business execution bodies' meetings attended by independent third parties differ from firm to firm. The degree of utilization of knowledge of outside experts also varies.

iii. Experience/expertise of independent third parties

When it comes to independent third parties among the members of oversight/assessment bodies, it is necessary to assign persons with the expected knowledge and experience based on the size of audit firm, its governance structure and organizational issues. Furthermore, consideration needs to be given not only to independence from the audit firm, but also independence from companies that the firm audits.

Large-sized and mid-tier audit firms tend to assign people with managerial experience at general business companies, and many of these firms also appoint persons with backgrounds in the legal profession, such as attorneys at law, or former government ministries and agencies. At small and medium-sized audit firms, many of these firms appoint persons with academic backgrounds.

The number of independent third parties assigned is three or four at large-sized audit firms, one to three at mid-tier audit firms, and generally one at small and medium-sized audit firms. Some large-sized and mid-tier audit firms assign independent third parties to chair their oversight/assessment bodies and “nomination,” “compensation” and “audit” subcommittees to improve the effective use of them.

b. Ensuring transparency (Principle 5)

i. Explanations of application of each of the principles of the Audit Firm Governance Code and efforts to improve audit quality

(i) Large-sized audit firms

Large-sized audit firms issue reports regarding the audit quality on annual basis and post on their websites. These reports describe how they apply each of the principles of the Audit Corporate Governance Code and the action they are taking to improve audit quality. These audit quality reports include detailed information about their organizational structure, quality controls, human resources development, their networks and so on. In recent years, they devote considerable space to explanations of compliance with the new quality control standards, in addition to Audit Quality Indicators (AQIs), effective use of technology in auditing, and response to disclosures of non-financial information. Some firms also report the results of action taken to address issues identified the previous year and issues to be tackled in the following year, while others disclose attendance by independent third parties at executive meetings etc.

(ii) Mid-tier audit firms

Mid-tier audit firms issued reports regarding the audit quality, mainly to explain their organizational structure and quality control, and posting them on their websites. The contents of their reports are more simplified than those of large-sized audit firms and some omit the explanations of AQIs, human resource development plan such as educational programs and training curriculums, etc., which are available in the large-sized audit firms' report. On the other hand, some firms explain their measures for effective use of technology in auditing, response to the disclosures of non-financial information, and the explanations of compliance with the new quality control standards. Also, some firms released the current assessment by organizational members for the improvement of audit quality such as the results of in-house questionnaires on quality control.

(iii) Small and medium-sized audit firms

Of the 52 small and medium-sized audit firms implemented collection of reports, 19 firms have released reports on the quality of audit. Regarding the application of the Audit Firm Governance Code, 13 firms provide explanations in their audit quality reports, etc. and 9 firms provide explanations on their websites. Most of the 30 audit firms that have not made public the application of the Audit Firm Governance Code plan to do so in the future through

the issuance of audit quality reports and other publications.

Compared to mid-tier audit firms, the items and content of audit quality reports or explanations on websites relating to audit quality are often less detailed, and some of them do not explain specific organizational frameworks.

ii. Dialogue with stakeholders in the capital market for further improvements in their audit qualities

(i) Large-sized audit firms

Large-sized audit firms have conducted surveys and dialogues related to the quality of audits between Chief Financial Officers (CFOs) and audit and supervisory board members of audited companies. Recently, they have worked on creating opportunities for dialogue with a broader range of capital market participants, such as by holding opinion exchange meetings with institutional investors and analysts, including independent third parties.

In recent years, large-sized audit firms have taken steps to create opportunities for dialogue with a broader range of capital market participants, such as by holding opinion exchange meetings with institutional investors and analysts, including independent third parties.

(ii) Mid-tier audit firms

Some mid-tier audit firms appeared to conduct surveys from CFOs and audit and supervisory board members of audited companies related to the quality of audits. There are also cases in which firms make use of the meetings held for investors by the JICPA or Exchanges instead of hosting dialogue sessions individually.

(iii) Small and medium-sized audit firms

In many of the small and medium-sized audit firms that have disclosed the application status of the Audit Firm Governance Code, it is limited to having an exchange of opinion between engagement teams and the CFOs and audit and supervisory board members of audited companies.

The enforcement of relevant government orders in conjunction with the revision of the CPA Act made it obligatory for audit firms that audit listed companies to have systems in place to conduct operations in line with the Audit Governance Code and systems that require substantial information disclosure. As a result, many small and medium-sized audit firms that had not adopted the Audit Firm Governance Code in the past are now required to deal with the Code. Audit Firms are required to autonomously implement the Audit Firm Governance Code and realize effective organizational management taking into account their own size and characteristics. And the JICPA is expected to leverage its knowledge and experience obtained from self-regulation to provide sufficient guidance and supervision as a professional organization.

■ Disclosure of Audit Quality Indicators (AQI) ■

There is no established definition of audit quality, and it is difficult to measure directly. For this reason, large-sized and mid-tier audit firms and some small and medium-sized audit firms set up AQIs, which quantifies their efforts and results of audit quality improvement according to each firm's situation. They try to understand the audit quality status through continuous monitoring of AQIs. The AQI at the firm level is also disclosed to the public through annual audit quality reports issued by mainly large-sized and mid-tier audit firms.

Comparing the AQIs in the most recent audit quality reports of large-sized and mid-tier audit firms, we found the following points. It should be noted that AQIs are selected by audit firms to show a balanced picture of audit quality improvement based on their own circumstances, so that it is not possible to determine that there is an AQI deficiency just because an audit firm that does not report the AQI reported by other audit firms.

(Large-sized Audit Firms)

- AQIs related to IT (e.g., investment amount, tools adoption rate, etc.) are listed, given that all firms are promoting the use of IT and service delivery centers (*) in their audits.
- In addition to IT-related AQIs, others commonly published are: AQIs related to internal quality control inspections (e.g. number of significant deficiencies identified in periodic inspections), average training hours of partners and staff, AQIs related to responses to globalization (e.g. % of staff with overseas work experience), and AQIs related to diversity (e.g. % of female staff).
- In addition to the above, many firms have posted AQIs related to the systems of quality management (e.g., number of personnel engaged in quality management activities), AQIs related to independence (e.g., results of internal inspection), results of inspections by external organizations, etc.

(Mid-tier Audit Firms)

- Commonly listed AQIs are related to personnel structure and quality control system (e.g. number of personnel), independence (e.g. response rate of independence confirmation forms, number of violations identified), and internal inspection (e.g. number of significant findings).
- Some firms also list AQIs related to the use of IT

AQIs are expected to promote constructive dialogue between audit firms and audit clients and other stakeholders as a common language, and to strengthen audit firms' PDCA cycle regarding audit quality. Audit firms are requested to continuously review the selection of AQIs and the way of disclosure so that they can have constructive dialogues with stakeholders.

Figure: AQIs in audit quality reports of audit firms

	Large-sized audit firms	Mid-tier audit firms
AQIs common to all firms	• Use of IT and service delivery centers for audits - Investment amount, tool adoption rate, etc. • Internal inspection of quality control - Coverage of periodic inspection, results of periodic inspections, etc. • Training - Average hours of training • Globalization - % and No. of staff with overseas working experience, No. of staff with global process experience, etc. • Diversity and inclusion - % of female employees (all employees, by job level), childcare leave usage rate, etc. • Awareness survey of employees • Inspection results by external parties - Administrative action by the FSA, significant deficiencies identified in the JICPA Quality Control Review, etc.	• Personnel Composition – No. of staff by job level • Quality control system – No. of personnel and % of total staff engaged in quality control, etc. • Independence - Response rate for written confirmation, No. of violations identified • Internal inspection - Inspection results (No. of significant findings, etc.)

	Large-sized audit firms	Mid-tier audit firms
AQIs common to several firms	• Average annual working hours of auditors • Personnel Composition • Staff engaging in quality control • Monitoring on independence	• Average annual working hours of auditors • Training - Training hours per staff, attendance rate of mandatory training, and average number of credits earned, etc. • Results of inspections by external parties - Administrative action by the FSA, significant deficiencies identified in the JICPA Quality Control Review, etc.
AQIs found in only one firm	• Sustainability assurance – No. of staff responsible for assurance on reporting, No. of responsible staff in-charge and No. of annual assurance reports issued • No. of audit staff changes – No. of transfers per year • Ratio of recruitment - Ratio of mid-career recruits, ratio of mid-career recruits other than CPAs and CPA passers • Retirement rate - No. of support provided by specialist departments, etc.	• Use of IT - Investment amount, tool adoption rate, percentage of investment to operating revenues • Diversity and inclusion - % of female employees (all employees, by job level), childcare leave usage rate, etc. • Paid leave usage rate, etc. • Acceptance and renewal of audit engagements – No. of listed audited companies • Awareness survey, etc.

(*) Delivery center: An organization in which audit assistants who do not have CPA qualifications perform check services, etc. that do not require expert judgment, in order to focus on services that require expert judgment by CPAs, etc.

3. Human Resources of Audit Firms

a. Partners and full-time personnel

In most large-sized audit firms, most CPA exam passers are hired immediately after passing the essay exam, while only a small proportion of CPAs and CPA exam passers are recruited mid-career. In general, the CPA exam passers hired become CPAs at the audit firm concerned, and some of them are internally selected for promotion to managerial positions. Furthermore, some of them are later promoted to partner (for details, see [“I. Overview of the Audit Sector, B. Audit Firms, 1. Organizational Structure of Audit Firms”](#)).

Many mid-tier audit firms and small and medium-sized audit firms, meanwhile, find it difficult to recruit enough CPA exam passers and thus tend to have a larger portion of CPAs hired midcareer. The recruits are mainly CPAs who have left large-sized audit firms, and these firms are endeavoring to secure the necessary headcount for audit engagements etc.

In many cases, new audit firms are also established by CPAs who have left large-sized audit firms.

The number of partners and full-time staff members, analyzed by scale, has generally leveled off at large-sized audit firms since FY2020, but increased since FY2023. For mid-tier audit firms, there has been increasing trend since FY2020, however, it decreased in FY2024 due to the merger of PwC Kyoto with PwC Aarata in FY2023. The same increasing trend has been observed for small and medium-sized audit firms since FY2019, partly due to the establishment of new firms.

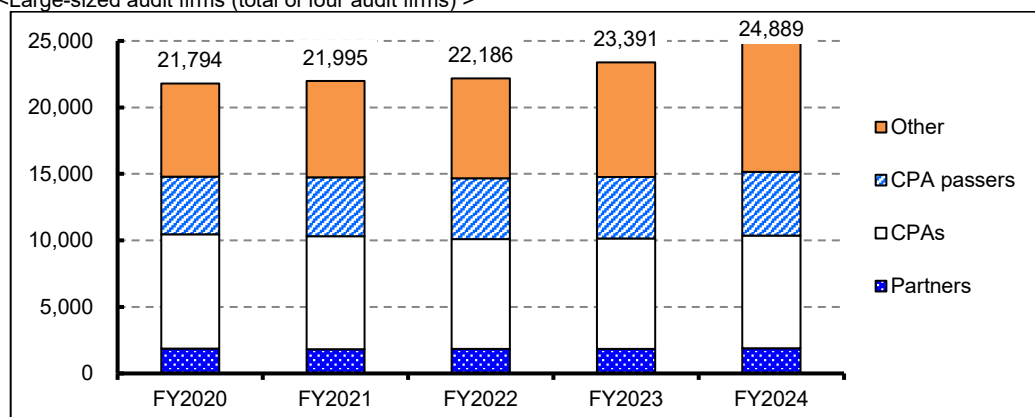
As far as the structure of manpower is concerned, the number of CPA exam passers, etc. tends to increase in or after FY2020 at all audit firms in disregard of scale. The number of staff members other than CPAs and CPA examination passers, has also been on the rise at all audit firms in recent years. According to the latest data, non-CPA staffs account for 39% of the total workforce at large-sized audit firms, 27% at mid-tier audit firms, and 25% at small and medium-sized audit firms. Compared to FY2020 (FY2019 for small and medium-sized audit firms), the ratio was increased for only large-sized audit firms (34%), while the ratio decreased for both mid-tier audit firms (30%) and small and medium-sized audit firms (27%) (see Figure III-1-6).

Audit firms have increased their staff members other than CPAs and CPA exam passers, to deal with the audited companies promoting IT, to improve operational efficiency, to address personnel shortages, and to facilitate CPAs to focus more on tasks requiring professional judgements, and so on. Among these personnel are IT experts who conduct IT audits with the use of technologies and support engagement teams in carrying out audit procedures using IT, and audit assistants who support engagement teams by sending/receiving balance confirmation letters, preparing various reports, and sorting data.

Some large-sized audit firms have improved their operations by establishing specialized

organizations to centrally manage such as the work/procedures of audit assistants, skill development, and job allocations.

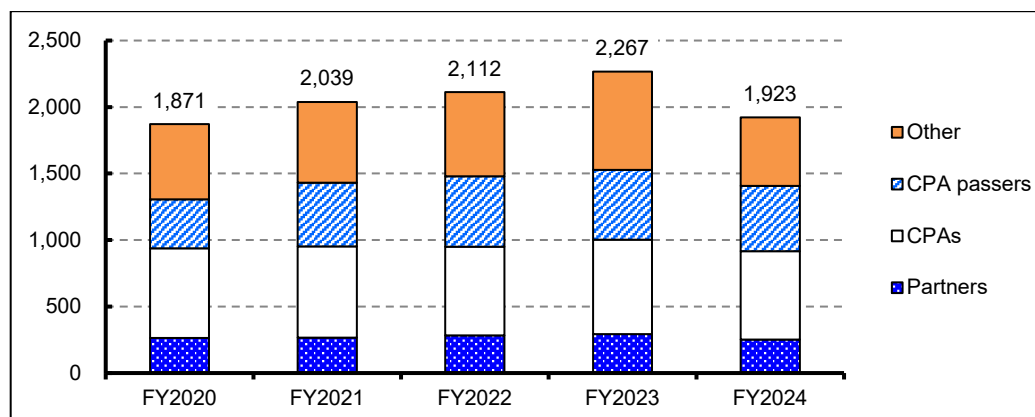
Figure III-1-5: Change in the number of partners and full-time personnel (unit: persons)
<Large-sized audit firms (total of four audit firms) >



(Note) The number of PwC Kyoto in FY2023 is included in the mid-tier audit firms.

(Source) Prepared by the CPAAOB based on operational reports submitted by audit firms.

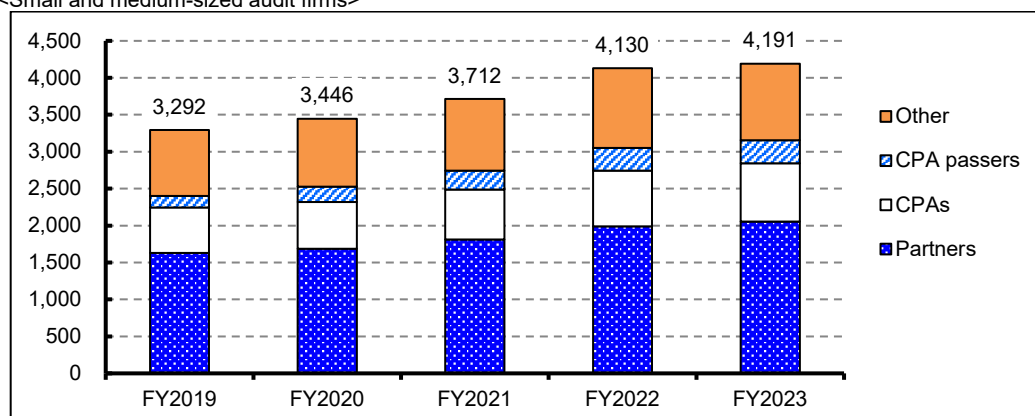
<Mid-tier audit firms (total of four audit firms)>



(Note) The number of PwC Kyoto in FY2023 is included in the mid-tier audit firms.

(Source) Prepared by the CPAAOB based on operational reports submitted by audit firms.

<Small and medium-sized audit firms>



(Note1) The data are aggregates of personnel for each fiscal year based on audit firm's operational reports. The book-closing months of small and medium-sized audit firms vary widely, so figures for FY2024 have not yet been compiled. As a result, the figures for small and medium-sized audit firms only cover the period to up to FY2023.

(Note2) The number of small and medium-sized audit firms varies from year to year, but 273 such firms are included in the figures for FY2023.

(Source) Prepared by the CPAAOB based on operational reports submitted by audit firms.

b. Side businesses by partners

Large-sized audit firms do not permit dual work by partners at tax accountant offices or solo private accountant offices in principle.

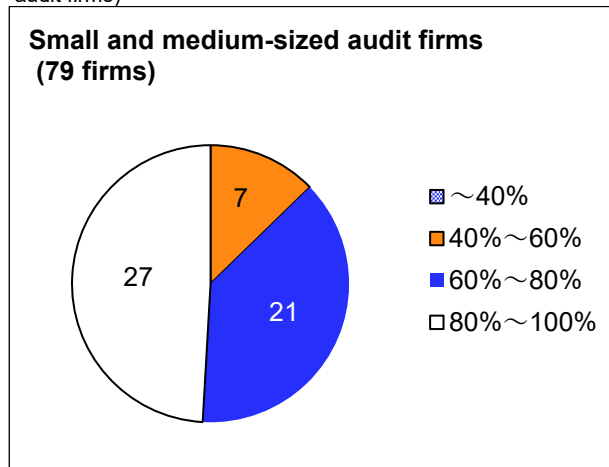
As with large-sized audit firms, some mid-tier audit firms that do not permit dual work by partners. However, at some mid-tier audit firms, the number of partners having dual work accounts for around 50% of the total number of partners. Those partners work for the JICPA and for tax business at their own offices as dual work.

Furthermore, when we calculate the percentage of time spent on work in audit firm that accounts for the total working hours of each partner on a per-partner basis, we find that even at mid-tier audit firms that allow partners to engage in dual work, the percentage of time that partners, including those that engage in dual work, spend on work in audit firm exceeds 90%.

Most small and medium-sized audit firms permit dual work as many partners are already operating a tax accountant office on their own when they join them.

Figure III-1-6 shows the ratio of time engaged in work in audit firm to the total working hours of each partner, calculated on a per-partner basis, as ascertained through inspections and the collection of reports from small and medium-sized audit firms.

Figure III-1-6: Number of audit firms by percentage of time spent by partners engaged in the audit firm's operations (unit: audit firms)



(Source) Prepared by the CPAAOB based on partner's declarations collected through the inspections and collection of reports in PY2023.

c. Part-time personnel

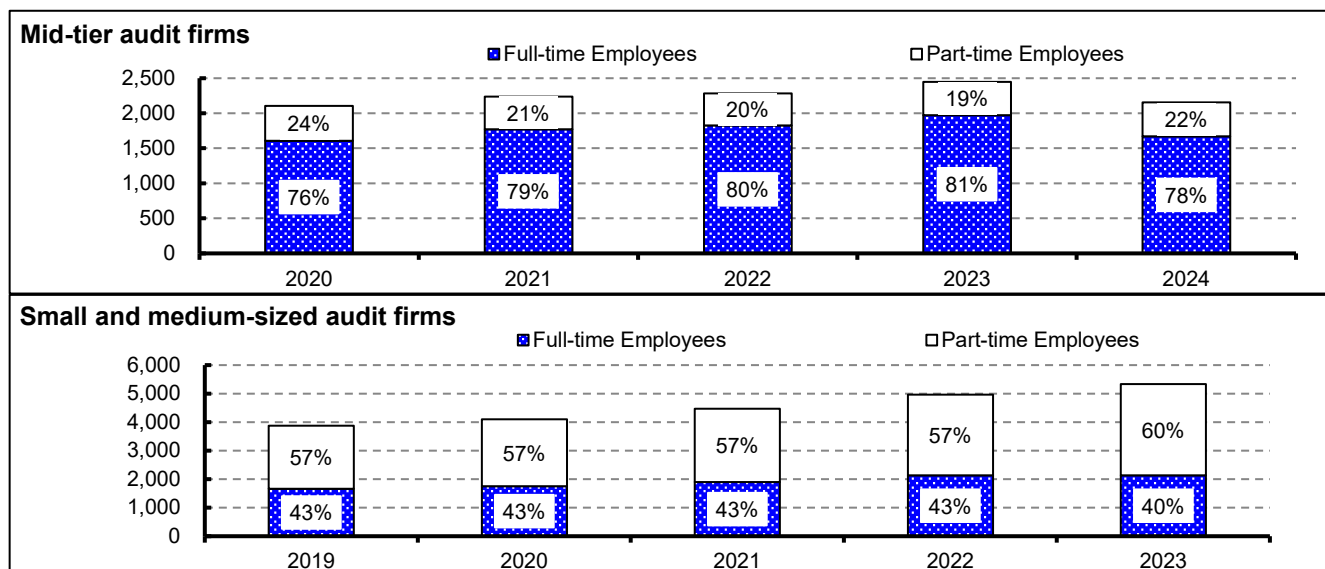
Part-time staff members account for an extremely low; around 3% to the total headcount at large-sized audit firms.

The ratio of part-time staff to total staff at small- and medium-sized audit firms has been on a decreasing trend, and in the last three years, the ratio has remained at around 20% in total for each firm.

The ratio of part-time staff members was around 60% at small and medium-sized audit firms,

indicating that they rely mainly on the audit assistants to support their operation (see Figure III-1-7). In particular, at audit firms with a full-time staff of four or less which occupies around 70% of small and medium-sized firms, the ratio of part-time staff to total staff is about 90% (see Figure III-1-8).

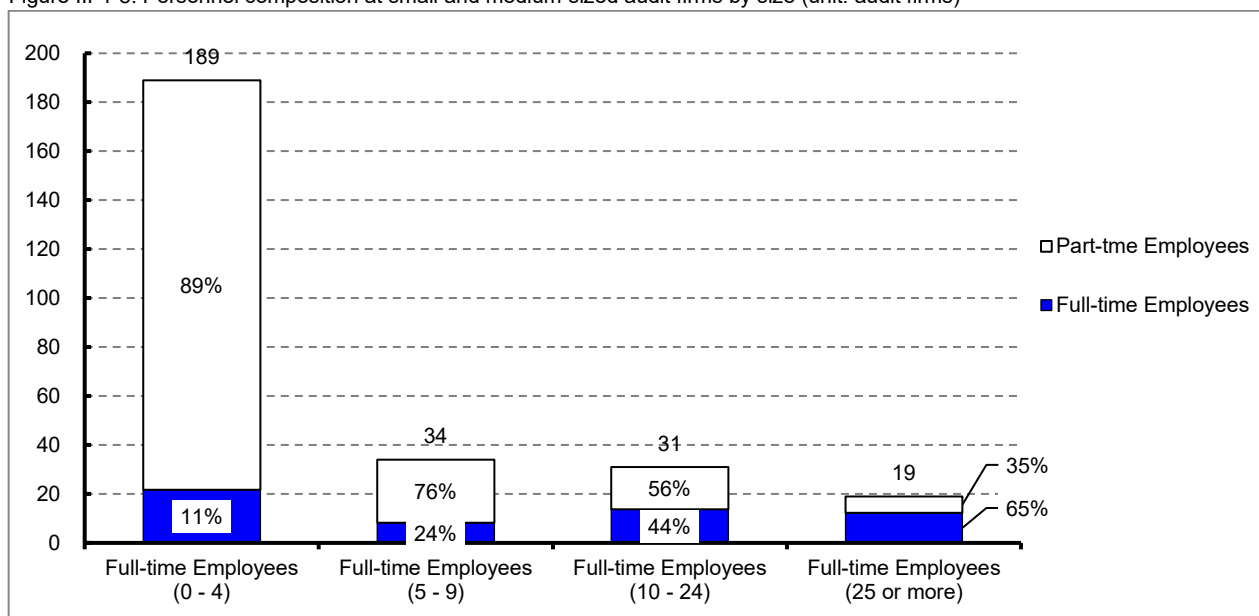
Figure III-1-7: Number of full-time and part-time personnel (unit: persons)



(Note) The data is based on operational reports submitted by audit firms. The number of PwC Kyoto in FY2023 is included in the mid-tier audit firms

(Source) Prepared by the CPAAOB based on operational reports submitted by audit firms.

Figure III-1-8: Personnel composition at small and medium-sized audit firms by size (unit: audit firms)



(Note) The 271 audit firms were classified by the number of full-time personnel based on the operational reports submitted by small and medium-sized audit firms in FY2022, after which the number of employees was totaled and the composition ratios of full-time and part-time personnel calculated.

(Source) Prepared by the CPAAOB based on operational reports submitted by audit firms.

4. Organizational Structure for Providing Audit Services

An audit engagement team, as an audit service provider, is required to exercise professional skepticism¹⁶, carry out appropriate risk assessments and risk-response procedures and perform proper audit procedures for improving audit quality. The CPAAOB endeavors to understand the engagement team's status through its inspections of audit engagements, and to ascertain the status of the conduct of audit services through other monitoring activities. This section elaborates on the status of engagement teams.

An engagement team consists of an executive partner who takes primary responsibility, CPAs serving as audit assistants and other audit assistants. Other audit assistants include CPA exam passers and other audit assistants (staff members who are not qualified to be involved in the audit of financial statements by CPAs, etc.). If the business activities of an audited company are complicated and extensive in scale, IT, tax and other in-house experts join the team. As occasion demands, experts of corporate value assessment and fraud response within a group audit firm may also join the team. The general job classification-based formation of an engagement team (Note 1), formed by a large-sized audit firm to audit a big domestic listed company, is shown in Figure III-1-9.

Large-sized audit firms are implementing measures to reduce clerical work by CPAs at audit sites (where auditing services are performed), as mentioned in 5. Organizational Structure for Supporting Audit Services. As a result, the number of members and job classification-based formation of engagement teams may change depending on the progress made in the measures.

Figure III-1-9: Example of the composition and main roles of engagement team members at a large-sized audit firm

		Position	Principal roles
Three engagement partners		Partner	Control of audit services, communication with the senior management of the audited company
Assistants to the engagement partners	One senior manager/ Manager	Senior manager/Manager	Management of engagement team, management of audits
	One senior manager/ Manager	Senior manager/Manager	Management of foreign component audits
	10 CPAs	Manager/Senior staff	Performance of audit procedures in significant audit areas
	13 qualified assistants (CPA exam passers, etc.)	Staff	Performance of audit procedures other than important audit procedures
	Four unqualified assistants	Assistant	Data processing, reconciliation of administrative vouchers, other tasks not requiring significant judgements, management of sending/ collection of balance confirmation letters, administration of engagement documentation
	Seven in-house experts (Note 2)	Partner, manager, senior staff, etc.	Assessment of IT control, verification of corporate tax, etc. treatment and of adequacy of retirement benefit obligations at audited companies

(Note1) An example of an engagement team auditing a company having consolidated sales of approximately 1.6 trillion JPY that requires approximately 15,000 hours for audit engagements.

(Note2) In-house experts are assigned to engagement teams as needed

(Source) Prepared by the CPAAOB based on information obtained through the CPAAOB inspections

¹⁶ An attitude with a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

The general features of the composition of engagement teams were as follows.

At large-sized audit firms, experienced CPAs exert audit procedures for key audit areas under the instruction and supervision of engagement partners. Inexperienced CPAs, CPA examination passers, etc. usually cover audit procedures for audit areas other than important audit areas. Audit assistants help with audit services by performing such administrative tasks as sending balance confirmation letters. As mentioned above, furthermore, large-sized audit firms consolidate services done by audit assistants at a separately established service delivery center for enabling CPAs to concentrate on work requiring professional judgment by reducing their workload.

At mid-tier audit firms, although the number of personnel on the audit team is limited, the composition of the team is similar to that at large-sized audit firms, with work basically allocated according to the abilities of the audit team members. Some mid-tier audit firms continue to strengthen the recruitment of audit assistants.

Small and medium-sized audit firms often have audit assistants on a part-time basis due to limited human resources for audit teams, although in some firms it is difficult to assign enough audit assistants to their teams. Compared with large-sized audit firms, therefore, the members with primary responsibility for auditing tend to play larger roles, for example, the audit manager needs to engage in audit procedures (Figure III-1-11).

<Structure of the engagement team in an audit of a financial institution>

To audit listed financial institutions subject to accounting and auditing procedures greatly different from those applicable to ordinary business enterprises, large-sized audit firms have set up mechanisms capable of performing an audit based on professional knowledge and experience, such as the establishment of financial business sections destined to audit the financial institutions. An engagement team to audit a listed financial institution involves knowledgeable members about the financial institution audit in such manners as forming a team mainly from a financial business section or deploying a primary responsible member from the section.

<Structure of the engagement team in an IPO audit>

In recent years, no audit firm has established an organization specializing in IPO audits, but in June 2024, some large-sized audit firms set up specialized departments for IPO audits. At some other audit firms, IPO audits are conducted by their existing audit departments. Among these, large-sized and mid-tier audit firms have taken measures to appropriately address the risks inherent in IPOs (such as vulnerabilities in internal controls) by prioritizing the assignment in members with extensive IPO audit experience to audit divisions and audit teams.

Furthermore, many large-sized and mid-tier audit firms have established special organizations to support IPO-related services. These departments serve as contact points for general business companies seeking IPO-related services and act as special organizations responsible for maintaining and improving audit quality in IPO audits.

Figure III-1-10: Typical engagement team composition and main roles of team members

		Large-sized audit firms	Mid-tier audit firms	Small and medium-sized audit firms
Engagement partners		- Setting material audit areas and assessing audit risks - Reviewing audit procedures performed by assistants - Communicating with management and the audit and supervisory boards	- Setting material audit areas and assessing audit risks - Reviewing audit procedures performed by assistants - Conducting audit procedures in material audit areas - Communicating with management and the audit and supervisory boards	- Setting material audit areas, assessing audit risks, and drafting audit plans - Reviewing audit procedures performed by assistants - Conducting audit procedures (including material audit procedures) - Communicating with management and the audit and supervisory boards
Assistants to the engagement partners	CPAs (Note)	- Drafting audit plans - Conducting audit procedures in material audit areas - Reviewing audit procedures performed by other audit assistants	- Drafting audit plans - Conducting audit procedures (including material audit procedures) - Reviewing audit procedures performed by other audit assistants	- Conducting audit procedures (including data analysis and sending, collection and management of balance confirmation documents) - Reviewing audit procedures performed by other audit assistants
	CPA exam Passers, etc.	Conducting audit procedures other than material audit procedures	Conducting audit procedures other than material audit procedures	- Conducting audit procedures other than material audit procedures - Not employed in most of smaller firms
	Unqualified assistants	- Data processing, reconciliation of administrative vouchers, other tasks not requiring significant judgements - Administration of sending/ collection of balance confirmation letters, administration of audit documentation	- Data processing, reconciliation of administrative vouchers, other tasks not requiring significant judgements - Administration of sending/ collection of balance confirmation letters, administration of audit documentation	Not employed in most of firms

(Note) CPAs at small and medium-sized audit firms are often part-time.

(Source) Prepared by the CPAAOB based on the CPAAOB inspections

5. Organizational Structure for Supporting Audit Services

With audited companies becoming larger in scale and promoting the sophistication and internationalization of operations, audit firms need to not only provide expertise and develop IT-driven tools and systems but also support engagement teams through such means as setting up environments that contribute to efficient and effective implementation of operations.

Accordingly, the CPAAOB monitoring focuses not only on audit engagements but also on whether audit firms take measures to ensure the appropriateness of audit services (the environment for supporting audit services) tailored to the firm's scale and characteristics. This section provides an overview of the system for supporting audit services. We will also provide some examples, mainly from large-sized audit firms, of systems for identifying audit risk and efforts to promote the development of IT-driven tools and systems and separate a clerical task.

a. Overview of support system

To ensure appropriate services, large-sized audit firms have assigned over 100 full-time personnel to their quality control divisions, and have established various departments: contract management, periodic review in relation to a system of quality control, accounting support, audit support, engagement quality review, IT, international services, and risk management (Figure III-

1-11). See "[B. Engagement Quality Reviews](#)" and "[C. Monitoring of System of Quality Management](#)" for information on engagement quality reviews and periodic reviews. A number of large-sized audit firms are strengthening quality control functions within their audit operation divisions and are taking steps to gather information on the firm's quality control in a timely manner and to provide support to engagement teams. Audit firms, especially large ones, have introduced, in addition to digitizing audit working papers, analytical tools to recognize unusual figures in journal entry data, tools to identify fraud risks, communications tools to facilitate the online exchange of information and reference material between audited companies and engagement teams, etc. (For progress in the digitization of auditing services, see "[6. Usage of Technology in Audit and Cybersecurity Efforts, a. Progress with the Adoption of IT in Audit Engagements](#)").

In addition, there is a case where large-sized audit firms establish organizations in charge of not only menial tasks, such as sending and collecting balance confirmation documents, checking the descriptions of securities reports, and entering and processing data for use by CPAs, etc. in audits but also confirmation work in certain audit services, such as management assessment procedure related to internal control, in order to enable CPAs and others to concentrate on tasks requiring their professional judgement. Organizations of such kind are located within an audit firm's existing office or newly established near Tokyo and regional cities. While their workload is done mainly by audit assistants at the organizations, audit firms carry out the provision of guidance and supervision in order to ensure a certain level of quality for the work, such as providing training programs for audit assistance and CPAs' check process for their works. With regard to the confirmation of balances, Audit Confirmation Center GK, jointly founded by large-sized audit firms in November 2018, has jointly developed a system to confirm receivables and obligations, provided an online platform related to the confirmation of balances, and is being entrusted with operations to send balance confirmation documents, etc. As such, large-sized audit firms, which are relatively stable financial-wise and have adequate human resources, are further reinforcing support in recent years to streamline operations by engagement teams through the development of various IT-based tools, division of clerical work and so forth.

Despite being smaller in scale than large-sized audit firms, mid-tier audit firms have similarly established quality control divisions. Furthermore, they have also started digitalization of audit documentations by, for example, adopting the audit-paper management systems used by their affiliated overseas member firms. There are many cases where small and medium-sized audit firms do not have a quality control section and instead appoint a person in charge of quality control or CEOs concurrently take charge of quality control. Note that most small and medium-sized audit firms have not digitalized audit papers, and instead are producing audit papers using, for example, widely available software. Notably, in October 2024, the Audit Confirmation Center LLC established the "Audit Firm Council for Expanding the Digitalization of Balance Confirmations," aiming to promote system development and expand usage among mid-tier and

small and medium-sized audit firms.

Figure III-1-11: Example of a support system at a large-sized audit firm

Support departments		Roles
Quality management division	Contract management department	Approving acceptance and continuance of audit engagements
	Accounting support department	Responding to technical inquiries concerning accounting standards, procedures, etc.
	Audit support department	Responding to technical inquiries concerning audit standards, manuals, and procedures
	Monitoring department	Ongoing monitoring and implementing periodic review, and monitoring and review of quality control system
	Engagement quality review department	Performing engagement quality review as well as the higher-level reviews against material or high-risk issues
IT division		Auditing IT areas of audited companies, supporting engagement teams with the use of IT audit tools
International division		Collecting/providing local information overseas and liaising with overseas member firms, etc.
Risk management division		Responding to inquiries concerning professional ethics and independence, collecting and analyzing risk information, supporting responses to risk of fraud, etc.

(Source) Prepared by the CPAAOB based on the CPAAOB inspections

b. Management of risk information

Audit firms develop and maintain the firm-wide management of risk information to handle high-risk audit engagements and to respond to the risk of fraud.

Specifically, large-sized audit firms handle this as follows (Figure III-1-12).

Figure III-1-12: Examples of management of risk information at large-sized audit firms

[Actions taken by risk management department] • Developing a database of past fraud cases and sharing that information within the audit firm • Selecting high-risk audit engagements through gathering information for past and current years and implementing continued monitoring and support to engagement teams • Establishing a procedure to obtain internal or external expert advice when a situation which indicates material fraudulent misstatement or a suspicion of material misstatement caused by fraud is identified, Issuing instructions for the launch of higher-level review • Organizing a team of experts for investigating fraud within an audit firm or its group firms • Establishing and operating a desk for receiving reports from whistleblowers inside or outside the audit firm [Actions taken by engagement teams] • Addressing the risk of fraud through the use of data analysis tools • Seeking expertise from the quality control division and undergoing a high-level engagement quality review in the risk of fraud or considering high-risk matters
--

(Source) Prepared by the CPAAOB based on the CPAAOB inspections

6. Usage of Technology in Audit and Cybersecurity Efforts

a. Progress with the adoption of IT in audit engagements

In recent years, the use of IT in audit engagements, including AI, by audit firms, mainly large-sized audit firms and mid-tier audit firms, has been increasing significantly. This is partly because audited companies are rapidly digitizing their accounting records, transaction records, etc. with the society digitalized, and in conjunction with this, audit firms also need, as “workstyle reforms” are introduced, to perform audit engagements more efficiently and effectively. This is affecting the nature of audits, and large-sized and mid-tier audit firms are moving proactively, either jointly with their global networks or independently, to deploy or develop IT-driven audits.

Here we elaborate audit firms’ strategies at present; how audit firms are developing their audits.

i. Unification of audit tools

Audit firms that are members of the global networks use audit tools provided by the global networks (for more details, see [“7. Responses to Overseas Expansion of Companies b. Ties with Global Networks”](#)). Audit tools in question not only have the function of preparing and storing working papers but also include audit support tool functions, such as those for safe transfer of data and materials to and from audited companies, and timely tracing of progress in auditing, including work by the team of auditing subsidiaries.

Unified R&D and IT operation of the global networks promotes the efficiency of IT investment, and feedback from their member firms on remedies or requests of audit tools may be beneficial to the global networks enabling them to improve security and refine functions of the audit tools.

However, there are also cases of Japanese audit firms independently developing/deploying analytical tools and implementing them as forecasting system on accounting fraud.

ii. Task automation (RPA¹⁷)

While CPAs have conventionally conducted standardized work for the implementation of audit procedures, such as processing and collection of data, by themselves, the introduction of audit support tools has advanced in recent years. The tools in question include a one-stop function from the extraction to analysis of data. With the function, the automatization of work, such as processing data and drafting working papers, is making headway. For example, it has become possible to automatically extract information needed for analytical work from data, collected in a lump from an audited company's core operation system, and produce findings inside an audit support tool.

iii. Sophistication and expansion of data analytics

Amid the increasing introduction of audit support tools, the improvement of their functions has made it possible to multilaterally analyze all accounting data of an audited company. Findings

¹⁷ RPA is short for robotic processing automation and represents efforts to streamline and automatize office work by means of artificial intelligence and other technologies. It is realized by software robotics that operates software and other programs like humans. It is also called “digital labor” and “virtual knowledge worker.”

by a broad-ranged analysis, many of which are currently used to assess risks at the time of working out an audit plan, are expected to be used in the entire auditing process through the formation of audit opinions.

In the past, audit firms performed risk analysis that involved the measurement of indications of fraudulent accounting etc. in audited companies' financial information. Recently, however, the advancement of AI has been facilitating the development and introduction of tools to predict future fraud using non-financial information and means to detect abnormal transactions that may lead to fraudulent accounting from among large amounts of accounting records, which enables audit judgements to be made based on more sophisticated analysis. Accordingly, integrating the results of analysis of non-financial information such as reputation about audited companies, audit firms are expected to be able to analyze a broader range of risks.

iv. From ex post facto audit to real-time audit

At present, most audit work are centered on the period after the date of the fiscal year end, but with the aim of setting up a more comfortable working environment by leveling audit work throughout a period, and making audits more sensitive to risks and more likely to uncover frauds at an early stage, by the use of the aforementioned IT tools, audit firms are exploring the applicability of audit techniques for the day-to-day analysis of transactions etc. (real-time audit).

i., ii., and iii. above are fields in which progress is being made with deployment in large-sized audit firms, while iv. is an area expected to be applied in the future. The introduction of these advanced audit techniques requires that the originals of transaction records etc. of audited companies are kept in electronic form, and the handover of the data also requires the consent of the audited company concerned. Additionally, time is required for data cleansing to enable utilization of data for RPA and data analytics. Due to these problems, progress is gradual. Regarding iii. above, although the accuracy of fraud detection tools is becoming better than before, individual audit firms are developing tools that can detect abnormal transactions with higher fraud risks and fraud employing more complicated means.

Figure III-1-13 presents information on the adoption of the audit tools, etc. discussed above based on the size of the audit firm. It shows that large-sized audit firms, which audit numerous large companies, which possess vast amounts of data, are taking the lead in the adoption of audit tools in audit engagements.

On the other hand, regarding the use of audit tools by small and medium-sized audit firms, according to the responses of collection of report from 52 small and medium-sized audit firms, 22 firms have already implemented electronic audit documentation, and 11 firms have considered the possibility of implementing such tools. In addition, 12 firms replied that they had already introduced journal analysis tools (analysis of transaction details (journal entries) and detection of abnormal journal entries), indicating that small and medium-sized audit firms are

also making use of IT in auditing, although not to the same extent as large and medium-sized audit firms.

As the improvement of IT skills on the part of partners and staff, who operate auditing tools, is indispensable to promote the use of IT, audit firms, especially large-sized ones, are nurturing IT experts through the introduction of auditing tools and training about data analyses. At the same time, they are recruiting experienced IT engineers from outside to develop their IT systems earlier.

Figure III-1-13: Utilization of IT in audit operations at large-sized audit firms and mid-tier audit firms

Status	Large-sized audit firms	Mid-tier audit firms
Installed	▪ Electronic audit documentation system (audit paper preparation and audit procedure management) ▪ Journal analysis tools (analysis of transaction details (journal entries) and detection of abnormal transactions) ▪ Evidence reconciliation tools (precise methods for cross-checking data from outside with all sales data at audited companies) ▪ File exchange system (used for exchanging data with audited companies) ▪ RPA (automation of data input and manipulation) ▪ Debit/credit balance confirmation system (automation of the external confirmation of the existence/accuracy of transactions)	▪ Electronic audit documentation system (audit paper preparation and audit procedure management) ▪ Journal analysis tools (analysis of transaction details (journal entries) and detection of abnormal transactions)
Being installed/ introduced at some firms	▪ AI (for forecasting potential fraudulent transactions using historical financial information, generative AI for internal information (rules and audit manuals etc.) to respond to internal inquiries) ▪ Audit databases (storing knowhow etc. on an in-house database to disseminate it)	▪ Evidence reconciliation tools ▪ File sharing systems ▪ RPA (automation of data input and manipulation)
Under development	▪ AI (fraud forecasting using non-financial information) ▪ Drones (improved efficiency in physical inventory count) ▪ Utilization of blockchains ▪ Text analysis (digitalization and analysis of documents)	▪ AI (forecasting potential fraudulent transactions using historical financial information)

(Source) Prepared by the CPAAOB based on information obtained through the collection of reports, etc.

■ Effective audit using AI ■

Due to the rapid advancement in the capabilities of generative AI (*1), the use and consideration of AI, including generative AI, is increasingly permeating the financial reporting ecosystem. Through monitoring audit firms, the CPAAOB is working to understand the impact of IT adoption in auditing, including the use of AI. In the auditing industry, particularly among large-sized audit firms, there is a growing trend toward introducing or considering AI tools, including generative AI, from the perspectives of operational efficiency and enhanced data analytics. The use of AI is expected to enable auditors to focus more on tasks that require evaluation and professional judgment, thereby contributing to improvements in audit quality and the overall attractiveness of audit work.

To strongly support sound AI utilization by financial institutions, including audit firms, the Financial Services Agency (FSA) conducted a survey on the actual use of AI among financial institutions and, based on the results, compiled use cases and initial discussion points into the “AI Discussion Paper,”¹⁸ which was published in March 2025.

The survey results also revealed that, within the audit industry, conventional AI (*2) is being used in tools for anomaly detection in transaction and journal entry data, identification and assessment of fraud risks, and searching internal documents such as audit standards and manuals. Furthermore, to achieve greater efficiency and sophistication, some firms are incorporating generative AI into these tools, either through implementation or pilot testing. Generative AI is also increasingly being considered for tasks such as summarization, translation, and proofreading of documents to assist auditors.

On the other hand, several challenges have been identified in the use of AI, including the lack of standardized data and insufficient accumulation of data related to fraudulent accounting. In particular, generative AI presents more complex issues than conventional AI, such as difficulties in ensuring explainability of the output process and the risk of hallucinations (phenomena where outputs are generated that are not based on actual data). Audit firms are working to address these challenges by developing and introducing technologies to supplement AI utilization, verifying results through backtesting to improve response accuracy and explainability. They are also establishing governance frameworks, including additional internal policies and usage restrictions for generative AI tools, while proceeding with their adoption or consideration of such tools.

The development and implementation of AI tools is also progressing at a global level through initiatives within global networks. The impact of AI advancements on audit quality continues to be discussed at the IFIAR (For IFIAR, refer to the column “International Forum of Independent Audit Regulators (IFIAR)” on page 95). In the report titled “*Use of Technology Including AI in Auditing*,”¹⁹ published in March 2025, the following key points were emphasized to ensure that audit firms can utilize AI and other technological tools in ways that enhance audit quality:

- Improve and redesign operational processes at all levels—including global networks, national audit firms, and audit teams—to better understand and monitor the impact of technology on audit quality.
- Prioritize the development and implementation of technological tools that have a significant positive impact on audit quality.
- When utilizing AI including generative AI, establish appropriate governance and monitoring frameworks, ensuring transparency and explainability of input and output processes and verifying that tools function as intended.
- Take necessary measures to control technological tools used in audit work and ensure that audit firms and audit teams receive proper training and take responsibility for judgments related to audit results derived from such tools.

As further advancements in AI are anticipated, it remains essential for audit oversight authorities in each country to continue coordinating and cooperating in monitoring developments related to AI utilization.

¹⁸ “AI Discussion Paper - Preliminary Discussion Points for Promoting the Sound Utilization of AI in the Financial Sector” https://www.fsa.go.jp/en/news/2025/20250304/aidp_en.pdf

¹⁹ IFIAR “Use of technology in audits – observations, risks and further evolution” <https://www.ifiar.org/?wpdmdl=18273>

**1 Generative AI refers to models with a vast number of parameters, such as large language models (LLMs), which are trained on unstructured data (e.g., text, images) from the internet and are capable of generating new content such as documents, images, audio, and video.*

**2 Conventional AI refers to systems that use machine learning to learn patterns and characteristics from pre-provided data and generate responses based on input data.*

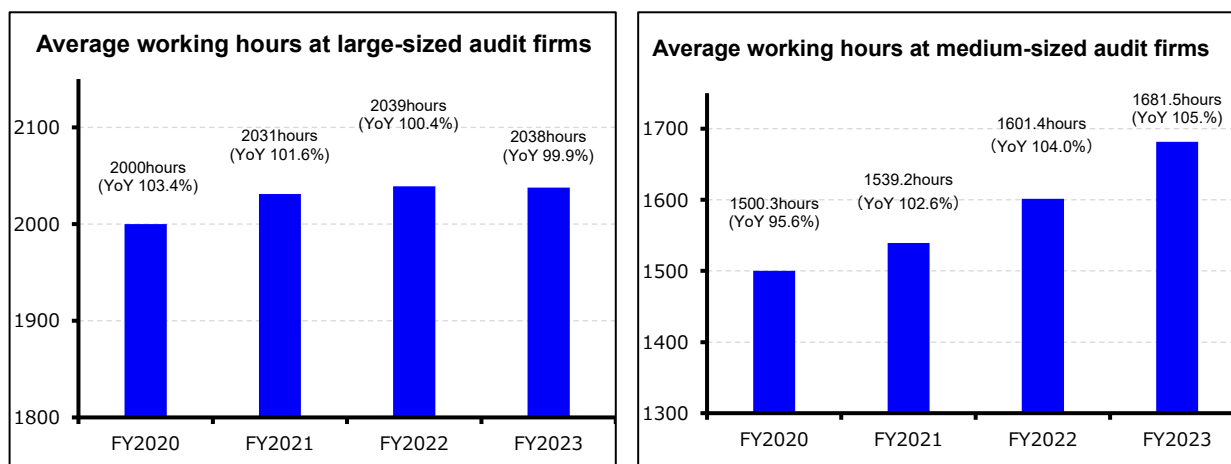
*Both *1 and *2 are extracted from the “AI Discussion Paper”.*

■ IT tool adoption and its impact on average working hours at large-sized and mid-tier audit firms ■

Some audit firms state the average annual working hours of partners, staff, etc. in their audit quality reports. The following table shows the average annual working hours and the average year-on-year rate of change for which we were able to confirm the information provided in the audit quality reports of large-sized audit firms and mid-tier audit firms over the last four years.

Although the average working hours of large-sized audit firms are longer than those of mid-tier audit firms, the rate of change from the previous year was lower for large-sized audit firms than for mid-tier audit firms, with the exception of FY2020.

Although this is a comparison of simple averages and is not a detailed analysis, it is possible that in addition to the transfer of audit services from large-sized audit firms to mid-tier audit firms and small and medium-sized audit firms, the introduction of IT tools in audit services and the transfer of operations to service delivery centers, which large-sized audit firms are actively promoting, are having an effect.



(Source) Prepared by the CPAAOB based on the audit quality report of each audit firm.

Going forward, particularly among mid-tier audit firms, the increased use of IT tools and service delivery centers by audit teams may lead to downward trend in average annual working hours. Furthermore, the introduction of AI-based tools is expected to further enhance the effectiveness of these efforts.

b. Cybersecurity efforts

As mentioned earlier, large-sized audit firms in particular are embedding audit tools and exchanging data with audited companies via e-mail and file exchange systems. These use cases have been permeating as data volume has risen, and transaction data has become more digitized.

At the same time, the risks posed by information leaks due to cyberattacks and other factors have risen, as seen in the damage inflicted by cyberattacks on audit firms overseas. Now that the information leaks in audited companies, in particular, cause serious damage to the audit firm's trust, bolstering cybersecurity steadily is a must. Accordingly, the CPAAOB has been focusing on the following.

[Monitoring of audit firms]

The CPAAOB reviews audit firms' cybersecurity measures through periodic collection of reports, hearings and dialog. These approaches have enabled it to identify the following efforts common to large-sized audit firms and some of mid-tier audit firms.

- Establishing basic information security policies and promoting information protection inclusive of cybersecurity across the global network as a whole
- Setting up organizations responsible for cybersecurity (CSIRT²⁰) and, as necessary, recruiting experts in-outside the audit firm
- Identifying the data held by the audit firm, rating the materiality, and developing policies for data use as well as contingency plans for information security incidents and cyberattacks
- Undergoing reviews by the global network to confirm the effectiveness of the audit firm's information security system, making improvements in the system, collecting information on cyberattacks and information security countermeasures, and utilizing this information to develop and improve the information security system.

In general, cyber-attacks are said to target vulnerabilities in security systems. Among small and medium audit firms, there are cases where the rules and regulations on information security are not aligned with actual situations. Furthermore, in responses on cybersecurity initiatives in collection of reports from 52 small and medium-sized audit firms, some firms have not developed basic cybersecurity policies or implemented anti-virus software. On the other hand, more than half of the firms have undertaken initiatives such as acquiring and analyzing communication logs and establishing incident reporting procedures. These efforts have significantly increased compared to the previous fiscal year.

On April 1, 2023, the "Registration System for Auditors of Listed Companies, etc." was launched. Under this system, a qualification assessment is conducted to determine whether audit firms

²⁰ CSIRT (Computer Security Incident Response Team) is the collective term for the organizations responsible for dealing with incidents pertaining to computer security.

have an adequate framework to conduct audit and attestation services for listed companies fairly and appropriately ("confirmation of eligibility"). To serve as a concrete guideline for conducting these assessments, the JICPA formulated and published the "Guidelines for confirmation of eligibility of audit firms engaged in the audit of listed companies". In August 2024, this guideline was revised. Following the revision, audit firms conducting audits of listed companies are now urgently required to strengthen their information security systems, including the protection of confidential information handled in audit services, centralized data management, and ensuring the safety of external access. Small and medium-sized audit firms have been conducting self-assessments using the guideline, evaluating whether their circumstances align with those described in the guidelines. If they are found to be applicable, they are expected to voluntarily implement improvements. As a result, it is believed that progress has been made in enhancing their information security systems.

■ CPA and Anti-Money Laundering and Countering the Financing Terrorism (AML/CFT) ■

Legal and accounting experts have a high level of expertise in law and accounting, etc., and have high social credibility. Therefore, transactions conducted through their duties and related operations can be abused as a means of money laundering and terrorist financing.

The "Act for Partial Revision of the Act on Special Measures Concerning the Freezing of Property of International Terrorists and Other Measures Implemented by Japan in Response to United Nations Security Council Resolution 1267 and Other Resolutions, etc., in Response to International Traffic in Illicit Funds and Other Transactions" ("Revised Act") enacted on December 2, 2022, newly established the following provisions for legal/accounting experts.

1. The purpose of the transaction and the beneficial owner of the corporation are added to the items to be confirmed in certain transactions (Financial consultation business for the sale and purchase of residential land and buildings, management and disposal of property, etc.) conducted by CPAs, etc.
2. CPAs have been added to the list of entities subject to the suspicious transaction report (STR) obligation.

Based on the Revised Act, the FSA published in December 2023 a partially amended draft of "Points of Attention Regarding the Act on Prevention of Transfer of Criminal Proceeds" and "Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism for CPAs and Audit Firms," which have been applied since April 2024.

The revised guideline provides more concrete explanations of the obligations required under the amended law, including items (i) and (ii), as well as how to respond to them. In addition, the guidelines state that CPAs are required to adopt a risk-based approach in responding effectively to risks associated with money laundering and terrorist financing. This means they should identify and assess these risks appropriately and then take flexible and prioritized actions—such as building or improving internal systems—to effectively reduce the risks within acceptable levels.

7. Responses to Overseas Expansion of Companies

a. Group audits

Many listed companies have established subsidiaries or affiliated entities overseas and operates their business locally. M&A targeting overseas businesses are also on the rise in recent years. For this, companies are necessitated to address many issues, such as establishing a system to

manage overseas subsidiaries, examining complicated economic transactions, and dealing with different accounting standards. Furthermore, serious accounting fraud incidents often come out at overseas subsidiaries. With the importance of group audits growing under the circumstances, audit firms are strengthening measures to address them.

ASCS 600 “Special Consideration for Group Audits” was revised in January 2023, and its application begins with audits of financial statements for fiscal years beginning on or after April 1, 2024. Therefore, a brief overview of group audits and auditing procedures are stated based on the revised ASCS 600 “Group Audits” as follows.

i. Overview of group audits

When auditors at a parent company ("group auditors") perform an audit attestation of group financial statements, the work covers the parent as well as consolidated subsidiaries and head offices and branches, etc. (each company and other entity that serves as a unit for preparation of financial information included in group financial statements is called a "component unit"). For example, an internationally operating manufacturer has many component units (subsidiaries) not only in Japan but also overseas, such as subsidiaries set up in countries with reasonable labor force and sales subsidiaries.

Group auditors are required to identify and assess the risks of material misstatement of the group financial statements and determine audit procedures based on those assessed risks (ASCS 600 para 13. (b)). Also, group auditors evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, as a basis for forming an opinion on the group financial statements (ASCS 600 para 13. (d)).

ii. Risk assessment of the group financial statements

Based on the understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control, the group auditor takes responsibility for the identification and assessment of the risks of material misstatement of the group financial statements (ACAS 600 para 30 and para 33). Key members of the group auditors need to discuss the possibility of there being a material misstatement in the financial statements of the group caused by fraud or error and must focus in particular on the risks of material misstatements resulting from fraud (ACAS 240 para 14, ACAS 315 para 16, and ACAS 600 para 30, para A91 and para A92).

In recent years, there have been many cases of fraud etc. discovered after the fact at overseas subsidiaries that would seriously affect group financial statements. It has therefore become more important to perform risk assessments based on an adequate understanding of the group management system such as establishing a department at a head office tasked with managing foreign subsidiaries or performing internal audits to foreign subsidiaries and group environment including internal control of overseas subsidiaries.

iii. Responding to the Assessed Risks of Material Misstatement

Group auditors take responsibility for the nature, timing and extent of further audit procedures to be performed, timing and extent of the work to be performed at the components at which to perform further audit procedures and the nature (ACAS 600 para 37).

In response to the assessed risks of material misstatement, the group auditor may determine the following scope of work to be appropriate at a component. Component auditors can be, and often are, involved in all phases of the group audit, including in the design and performance of further audit procedures.

- Design and perform further audit procedures on the entire financial information of the component;
- Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures; or
- Perform specific further audit procedures.

The approaches to group audit procedures taken by audit firms of different sizes are as follows (Figure III-1-16).

Figure III-1-14: Approach to group audit procedures taken by audit firms of different sizes

	Large-sized audit firms	Mid-tier audit firms	Other
Group audit manual	Incorporating the global network's group audit manual into the firm's audit manual	Many firms incorporated the global network's group audit manual into the firm's audit manual, but some prepared their own	Many firms prepared their own group audit manual
Audit instructions (Note1)	Using the global network's template for audit instructions	Many firms used the global network's template for audit instructions, but some prepared own templates	Many firms prepared their own templates.

(Note1) Documentation used by the group auditors to communicate its requirements to the component auditors.

(Note2) Regarding "Other" in the figure, of the 52 firms from which reports were collected in PY2024, information is presented for 21 firms conducting audit engagements for which group audit is required in cases where there is any component overseas. Among these, only five firms are affiliated with their global networks and using the group audit manual or audit instructions provided by the global networks.

(Source) Prepared by the CPAAOB based on information obtained through the CPAAOB inspections or the collection of reports

iv. Communication with component auditors

ACAS 600 requires sufficient and appropriate involvement by the group engagement partner or group auditor in the work of component auditors and emphasizes the importance of two-way communication between the group auditor and component auditors (ASCS 600 para 8).

The group auditors therefore not only sent and received audit instructions and reports on the audit results and grasped the situation by phone or e-mail, etc., but also communicated by visiting component auditors and online meetings. Large-sized audit firms and some mid-tier audit firms have established support systems for their group auditors by establishing international business support sections inside of the firm and dispatching Japanese expatriates to key overseas offices. These measures help facilitate communication between group auditors and component auditors and provide group auditors with local information.

b. Ties with global networks

Large-sized audit firms, mid-tier audit firms, and some small and medium-sized audit firms, partnerships, and solo practitioners contracted the member firm agreement and belong to global networks in order to facilitate audits of audited companies exploring overseas operations by leveraging the global network's know-how such as audit manuals.

i. Membership of global networks

All large-sized and mid-tier audit firms as well as some small and medium-sized audit firms, partnerships, and solo practitioners that need to audit the overseas operations of audited companies, belong to global networks, and are moving forward with the establishment of structures for group audit (Figures III-1-15 and III-1-16). However, not all small and medium-sized audit firms, partnerships, and solo practitioners that are expected to conduct group audits belong to global networks (for details, see [“7. Responses to Overseas Expansion of Companies”](#)).

Figure III-1-15: Number of audit firms belonging to global networks²¹ (FY2023) (unit: audit firms)

Large-sized audit firms	4
Mid-tier audit firms	4
Small and medium-sized audit firms	22
Total	30

(Source) Prepared by the CPAAOB based on operational reports

Figure III-1-16: List of global networks to which large-sized and mid-tier audit firms belong

Audit firm	Global network
KPMG AZSA LLC	KPMG International Limited (KPMG)
Deloitte Touche Tohmatsu LLC	Deloitte Touche Tohmatsu Limited (DTT)
Ernst & Young ShinNihon LLC	Ernst & Young Global Limited (EY)
PricewaterhouseCoopers Japan LLC	PricewaterhouseCoopers International Limited (PwC) (Note)
GYOSEI & CO.	NEXIA International Limited (NEXIA)
BDO Sanyu & Co.	BDO International Limited (BDO)
Grant Thornton Taiyo LLC	Grant Thornton International Limited (GT)
Crowe Toyo & Co.	Crowe Global

(Source) Prepared by the CPAAOB based on data from publicly disclosed materials from each audit firm (as of July 1, 2024)

The operating revenues of global networks comprise revenues from audit services, tax related services and advisory services, and a breakdown of the top-ranking global networks in terms of

²¹ Among small and medium-sized audit firms, the firms that have concluded cooperative relations (alliances) with overseas audit firms are included.

operating revenues is shown below (Figure III-1-17). The scale of the Big Four global networks is particularly prominent.

Figure III-1-17: Operating revenues of global networks (unit: billion USD)

	DTT	PwC	EY	KPMG	BDO	GT
Operating revenues	672	553	512	384	150	80
Audit services (Share of operating revenues)	128 (19%)	194 (35%)	173 (34%)	134 (35%)	62 (41%)	35 (43%)
Tax-related services (Share of operating revenues)	113 (17%)	126 (23%)	121 (24%)	87 (23%)	34 (23%)	16 (21%)
Advisory services (Share of operating revenues)	431 (64%)	233 (42%)	218 (42%)	163 (42%)	54 (36%)	28 (36%)

(Source) Prepared by the CPAAOB based on data from publicly disclosed materials of each global network (2024 accounting year).

In Japan, the Big Four global networks'²² share of audit services is 97% of the 225 companies that comprise the Nikkei Stock Average (Nikkei 225). Overseas, they account for even larger shares of audit services as shown below for the 500 companies comprising the S&P 500 index in the U.S. and the 350 companies with the largest market capitalizations on the London Stock Exchange (FTSE 350 index), meaning that the situation in these countries is the same as in Japan (Figure III-1-18)

Figure III-1-18: Big Four global networks' share of audit services for large listed companies in Japan, the U.S., and the U.K.

	Japan	US	UK
Big Four global networks' share (based on number of companies)	97%	99%	89%

(Sources) Japan: Compiled by the CPAAOB from QUICK and exchange data (as of March 31, 2025)

U.S.: Compiled by the CPAAOB from Bloomberg data (as of March 31, 2025)

U.K.: "Key Facts and Trends in the Accountancy Profession, September 2024," Financial Reporting Council

ii. Relationships with global networks

Member firms comprising global networks are responsible for a range of areas including quality control in exchange for enabling to use the networks' logos and brand, to share mutual business and know-how. The nature and degree of these responsibilities vary depending on the scale of the global network. In general, the larger global audit network would be more impactful on its member firms.

(i) Large-sized audit firms

Each of the large-sized audit firms belongs to one of the Big Four audit firms (Deloitte Touche Tohmatsu, Ernst & Young, KPMG, and PricewaterhouseCoopers) and has established close relationships with them. Specifically, they not only have the right to use the networks' logos and brand, but are also involved in the operation performed by the networks. For example,

²² Large-sized audit firms

their CEOs and the Person In Charge Of Quality Control (PICOQC) participate in important meetings of the global network and express Japan's views as members of high-level committees. In addition, members of oversight/assessment bodies attend meetings organized by global network.

Embedding audit manuals and tools prepared by the networks, the large-sized audit firms perform audits in accordance with them subject to the networks' standards. As of other quality control issues including engagement quality reviews, independence, they have adopted the standards and the procedures prepared by the networks.

Some large-sized audit firms, in addition to using the network's manuals and tools, dispatch the personnel like PICOQC etc. to the global firm in order to directly reflect the views of Japan in the initiatives taken at the network level, such as the revision of audit manuals and the development of audit tools.

They also regularly undergo global reviews conducted by the networks in order to confirm that audit quality, particularly for audit engagements, is secured at the level required by the networks (for details, see "[C. Monitoring of System of Quality Management, 2. Utilization of Global Reviews](#)").

Furthermore, some firms have an appetite to manage member firms on a regional basis. In the Asia-Pacific region, large Japanese audit firms tend to play a central role by participating as board members in organizations.

(ii) Mid-tier audit firms

All mid-tier audit firms are affiliated with global audit networks. However, the extent of their ties differs depending on size of the networks. Some have formed alliances that are at the same level of those of the large-sized audit firms, while others maintain moderate ties, only having the right to use the networks' logos and brand, and receiving referral of audit engagements from member firms in other countries, but are not provided with audit manuals and other information or undergo global reviews.

(iii) Small and medium-sized audit firms

Among small and medium-sized audit firms, while some have partnerships with global networks at a level comparable to large-sized audit firms, others have looser affiliations. In such cases, their involvement is limited to using the global network logos and brand and receive referrals for audit engagements from countries where member firms are located, and are not provided with audit manuals or subjected to global reviews.

Established in 2006, the IFIAR is an international organization comprising independent audit regulators that conduct inspections and other tasks on audit firms to improve the audit quality globally through cooperation and collaboration between authorities concerned. (As of March 2024, it had members from 56 countries and jurisdictions, including Japan.) In April 2017, the Secretariat of IFIAR was established in Tokyo, becoming the first headquarters of international organization in Japan.

As the host country of the IFIAR Secretariat, Japan has supported IFIAR's activities and discussions. In addition, the Director-General of the CPAAOB, who also serves as the Deputy Commissioner of the Strategy Development and Management Bureau of the Financial Services Agency, held the position of IFIAR Vice Chair for two years starting in April 2021, and Chair for two years starting in April 2023. Japan has thus taken a leading role in promoting global audit quality as both Chair and Vice Chair of IFIAR.

As the first Chair and Vice Chair country from Asia, Japan has contributed to strengthening IFIAR's functions as an international organization by expanding membership, particularly in Asia, facilitating knowledge sharing among IFIAR members, and engaging in dialogue with global networks. Japan has also responded swiftly to emerging issues such as assurance of sustainability-related information and the use of technology and has enhanced external communication of the outcomes of IFIAR's discussions.

With the globalization of corporate activities, ensuring high-quality audits globally is becoming increasingly important. Even after the end of its term as Chair, Japan will continue to play a leading role in IFIAR's activities and discussions as the host country of the Secretariat and a member of the IFIAR Board Meetings.

8. Treatment of Key Audit Matters

From the perspective of enhancing transparency and the provision of information pertaining to audits conducted under the FIEA, entries of "Key Audit Matters" (KAMs) in audit reports came to be required.

a. Processes and key points for deciding on and reporting KAMs

i. Auditors take into consideration the following matters out of those they discussed with audit and supervisory board members and others in the process of auditing, and decide the matters to which they paid special attention:

- Matters in which risks requiring special consideration were identified or which were deemed to have a high risk of material misstatements
- Degree of judgement by auditors about matters involving material judgment by management, including matters in which high uncertainty of estimate is identified
- Effects on audits from material matters or transactions taking place in the relevant year

ii. Out of the matters to which they paid special attention, auditors as professionals narrow down especially important matters, decide them as KAMs, and mention the following in a section set for them in audit reports.

- Content of KAMs
- Reference to notes in related financial statements where applicable
- Reasons why auditors considered the matter especially important in the audit of financial statements in current fiscal year and determined it as KAMs.
- Auditor's responses in audit

b. Responses by audit firms

Recent monitoring has identified the following responses among large-sized and mid-tier audit firms. In addition to these efforts, systems related to KAMs, including communications with audited companies, have been established (Figure III-1-19). These initiatives have been continuously implemented even after the second year of application, based on the recognition of the need to prevent boilerplate disclosures.

i. Development of guidance for preparation of KAMs

- Preparation and dissemination of guidance and descriptive examples with which audit teams comply when preparing for KAMs

ii. Provision of training

- Training to provide explanation of good examples on KAMs based on analyses of actual application cases
- Training to provide explanation of points to note in drafting KAMs

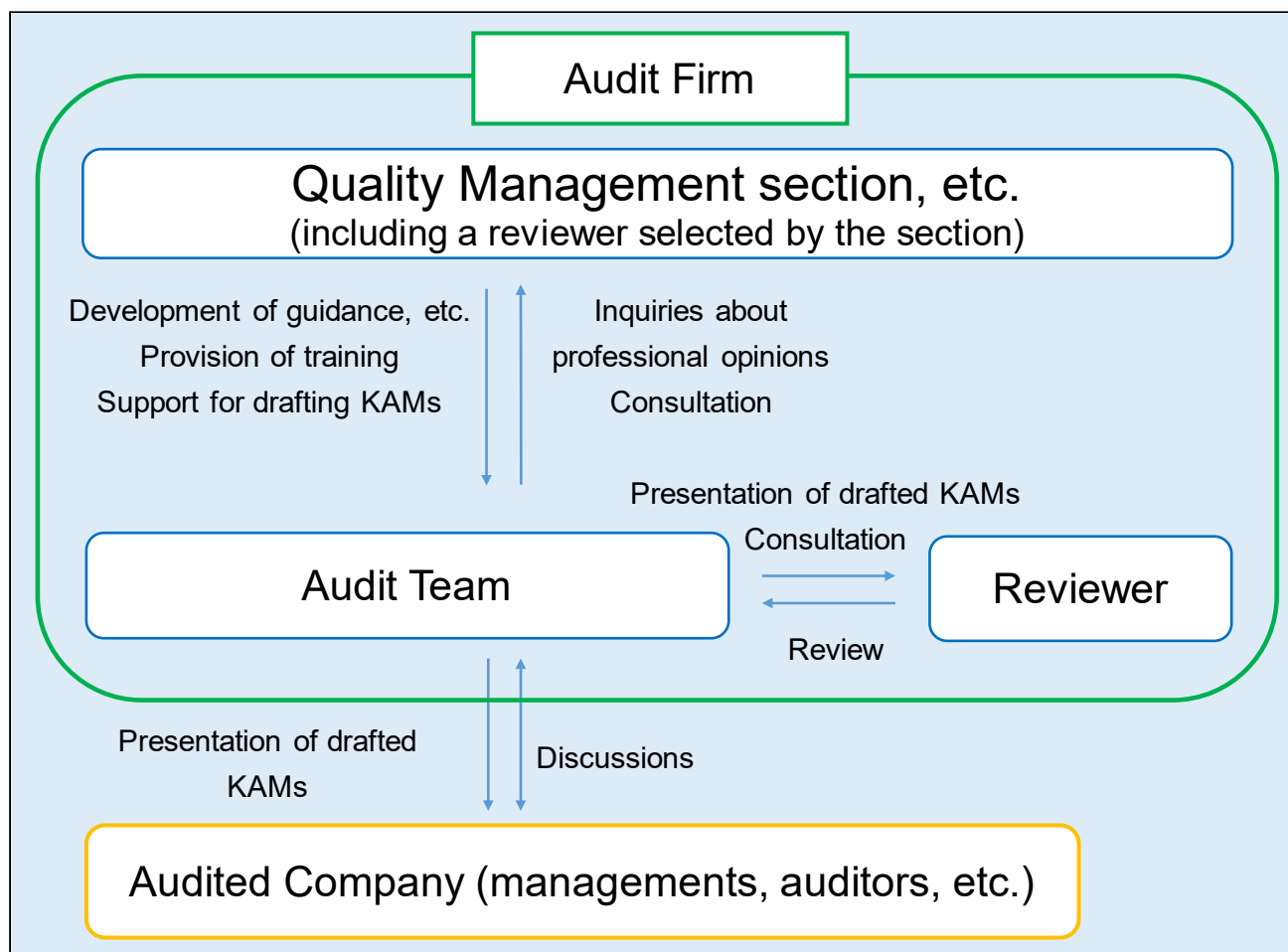
iii. Quality control section's support for audit team

- Clarification of the specific content of communication and schedule to achieve in-depth communication throughout the year with the management, audit and supervisory board members and others of an audited company
- Monitoring and follow-up of audit teams' handling of KAMs
- Review of draft KAMs by a reviewer selected by the quality control section when the audit team drafts new KAMs or makes significant revisions to previously reported KAMs.

iv. Reviews and inquiries of professional opinions

- Request for conference-format reviews by the headquarters and inquiries about professional opinions in specific cases, such as treating the non-disclosure of KAMs or assumption related to a going concern as KAMs

Figure III-1-19: Example of an audit firm's system for reporting of KAMs



(Source) Prepared by the CPAAOB based on information obtained through the CPAAOB inspections or the collection of reports

c. Analyses of KAMs and recommendations

FSA and other related organizations have released documents and other information related to KAMs (Figure III-1-20).

Figure III-1-20: Publication related to KAMs

Organizations that published their analyses, timing of publication, published documents, and web links
Japanese Institute of Certified Public Accountants (April 2023) Auditing Standards Statements 701, Public knowledge document No.2, "Public knowledge document on the third year application of Key Audit Matters (KAMs)" https://jicpa.or.jp/specialized_field/20230403ffh.html Summarizes points to keep in mind from the viewpoint of preventing boiler-plate and improving the usefulness of KAM.
Securities Analysts Association of Japan (February 2024) Good examples of KAMs helpful for securities analysts 2023 https://www.saa.or.jp/account/account/pdf/Kam20240213.pdf - In cooperation with the JICPA, the report introduces 23 'Excellent KAMs' and two 'Special KAMs' as good examples of KAMs, and describes the points that were evaluated and the comments of the analysts in charge. - Released three versions in February 2022, February 2023 and February 2024.
Financial Services Agency (June 2023) Efforts to establish and permeate the practice of Key Audit Matters (KAMs) https://www.fsa.go.jp/news/r4/sonota/20230630-9/20230630-9.html Summarizes the major efforts to establish and permeate the KAM in practice.

- Although "Study Group on KAM" or "Characteristic Examples and Key Points of Key Audit Considerations (KAM)" are not planned to be held after FY 2023, the efforts to further improve KAM practices will be continued through follow-up of KAM publication and collaboration with relevant organizations.

The KAM is expected to promote constructive dialogue between auditors and stakeholders, but it also raises concerns such as boiler-plate and polarization of good and bad cases. The CPAAOB will examine the decision-making process on KAMs, the descriptions of audit responses, and the implementation status regarding audit responses through the inspections based on the Basic Plan for Monitoring Audit Firms.

9. Domestic Audit Firm Groups

a. Structure of domestic audit firm groups

Many large-sized and mid-tier audit firms form their own audit firm groups that use common brand of global networks they join. And within the group, audit firm and other entities cooperate with each other in providing services in Japan ("domestic groups"). Besides the audit firms, these groups generally include consulting companies, financial advisory companies that carry out financial due diligence and provide financial advice on M&A deals, tax accountant firms, and attorney firms ("group companies").

In terms of structure of a domestic group to which large-sized audit firms belong, there are many examples of firms setting up holding company to manage the global brand and place each group company including the audit firm on an equal footing. However, there are also cases where the audit firm directly invest in other group entities (excluding entities of certified experts such as tax accountant firms or attorney firms, etc.), making them subsidiaries.

Domestic groups to which large-sized audit firms belong often establish councils comprising representatives from the major group entities. This structure facilitates coordination of interests among group entities and discussions at joint domestic group initiatives.

b. Group operating revenues

The ratio of non-audit and attestation revenue to operating revenue at groups consisting of audit firms and their subsidiaries, etc. ("audit firm groups")²³ had once decreased to 39% as certain large-sized audit firms spun off non-audit and attestation services and subsidiaries from their group in FY2015 and FY2017. However, it has been on an upward trend in recent years due to increases in revenue of group companies other than audit firms (Figure III-1-21). For audit firms' operating revenue, see "[I. Overview of the Audit Sector, B. Audit Firms, 5. Financial Condition \(Operating Revenue, Proportion of Audit and Attestation Services and Non-audit and Attestation Services\)](#)".

At mid-tier audit firm groups, the ratio of non-audit and attestation revenue in total group revenue has stayed lower than at large-sized audit firm groups, moving roughly in a range between 10% and 13% from FY2015 through FY2024. The revenue structure of mid-tier audit firm groups

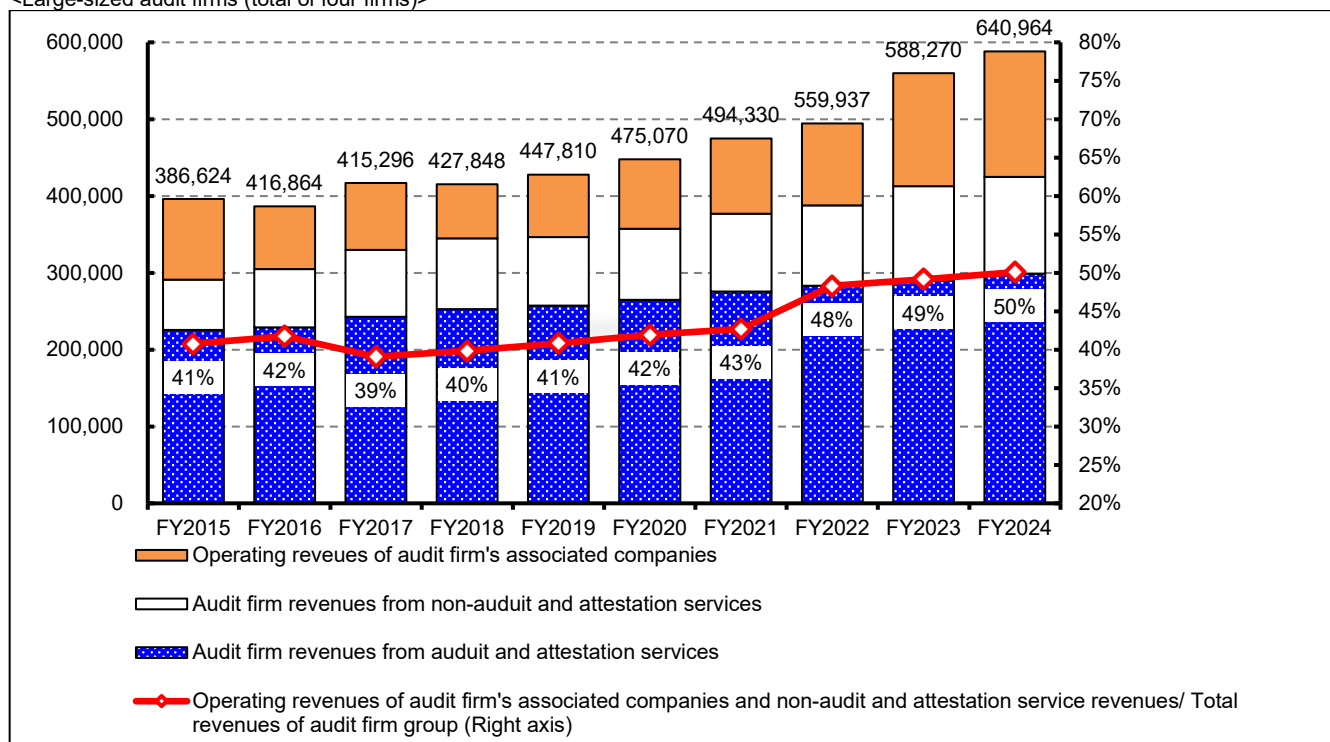
²³ Some group companies that do not have capital relationship with an audit firm have operating revenue of over 100 billion yen.

differs significantly from that of large-sized audit firm groups, as audit and attestation revenue accounts for a significant portion of total group revenue in the former (Figure III-1-24).

Regarding small and medium-sized audit firms, few firms have group entities other than the audit firm itself, and it can be observed that non-audit services are generally provided directly by the audit firms.

Figure III-1-21: Changes in operating revenues of audit firm group excluding audit firm and non-audit and attestation service revenues' share of these operating revenues (unit: million JPY (left axis))

<Large-sized audit firms (total of four firms)>



(Note1) Operating revenues of audit firm groups include revenues of the audit firm itself, as well as in principle, the revenue of group entities that fall under subsidiaries of the audit firm. This also includes the revenues of subsidiaries that provide intra-group services.

(Note2) Non-audit and attestation service revenues are the total of the non-audit and attestation revenue of the audit firm and the revenues of the subsidiaries etc. of the audit firm.

(Note3) One audit firm group changed its fiscal year-end in FY2017, so the FY2017 operating revenues for that audit firm group covers an eight-month period. As a result, FY2017 operating revenues are calculated by extrapolating eight-month operating revenues to one-year periods (by multiplying figures by 12 months/8 months) for the audit firm group that changed its fiscal year-end.

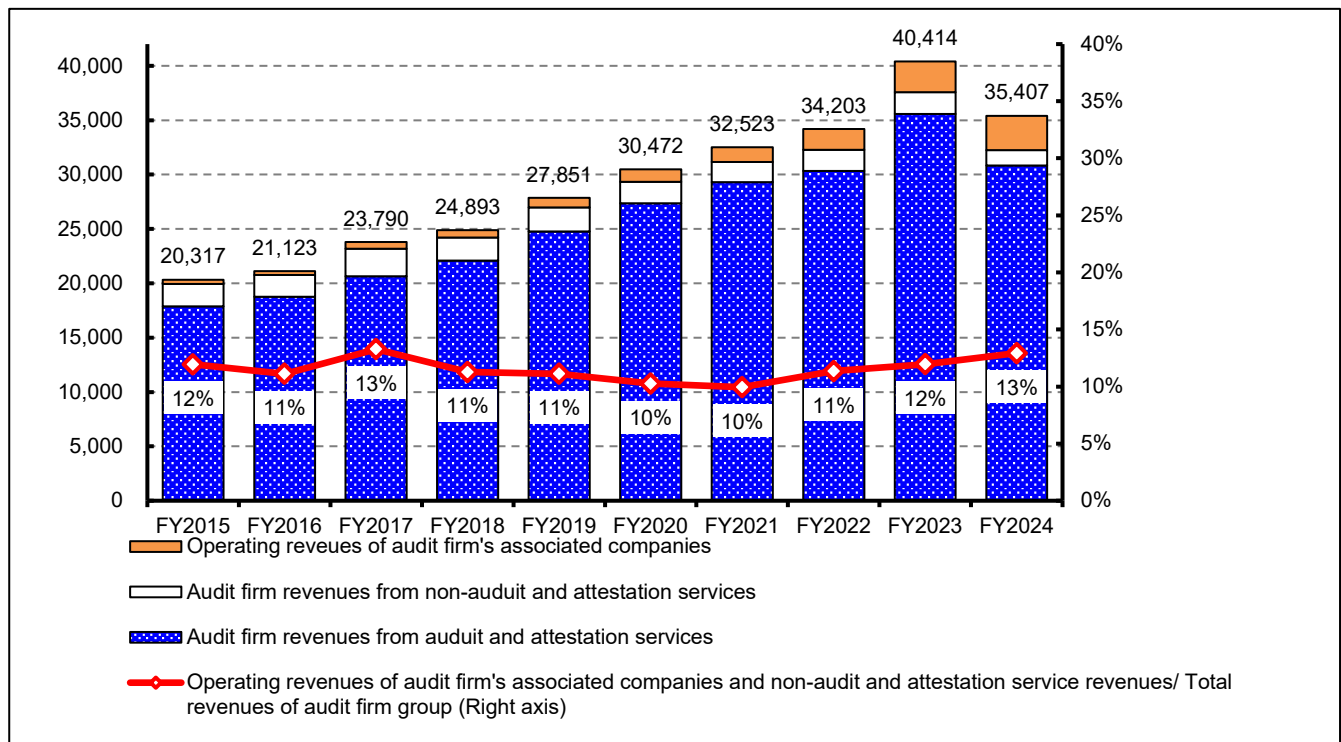
(Note4) In FY2015 and FY2017, certain large-sized audit firms spun off businesses or subsidiaries that perform non-audit and attestation services

(Note5) From FY2015 to FY2023, the operational reports were prepared based on the fiscal year prior to the establishment of PwC Japan. Therefore, the figures include the revenues of PwC Aarata.

(Source) Prepared by the CPAAOB based on operational reports submitted by audit firm

Figure III-1-22: Changes in operating revenues of audit firm group excluding audit firm and non-audit and attestation service revenues' share of these operating revenues (unit: million JPY (left axis))

<Mid-tier audit firms (Total of five firms from FY2015 to FY2023, total of four firms in FY2024)>



(Note1) Operating revenues of audit firm groups include revenues of the audit firm itself, as well as in principle, the revenue of group entities that fall under subsidiaries of an audit firm within the group, in principle.

(Note2) Non-audit and attestation service revenues are the total of audit firm revenues from non-audit services and domestic network firm revenues

(Note3) One audit firm group changed its fiscal year-end in FY2016, and it did not submit its report within the program year, so the FY2016 operating revenues for that audit firm group covers a fifteen-month period. As a result, when aggregating the figure, FY2015 data was used for the FY2016 operating revenues for the audit firm group. Operating revenues for FY2017 represent 15 month worth of operating revenues.

(Note4) From FY2015 to FY2023, the operational reports were prepared based on the fiscal year prior to the establishment of PwC Japan. Therefore, the figures include the revenues of PwC Kyoto. FY2024 does not include the revenue of PwC Kyoto.

(Source) Prepared by the CPAAOB based on operational reports submitted by audit firms

B. Engagement Quality Reviews

The “IV. Reporting Standards 1. General Principles” in Auditing Standards require auditors to be undertaken a review prior to the expression of the audit opinion in order to confirm that their opinion has been formulated appropriately in accordance with audit standards generally accepted as fair and reasonable. The review is therefore the final safeguard for ensuring the appropriate audit opinion. When evaluating the audit procedure implemented by the audit team, material judgement in audit process and audit opinion, objectivity of engagement quality review has significant impact on the audit quality.

There are three main styles of engagement quality reviews adopted by audit firms: a. the concurring review partner style (a review is performed by a partner other than the engagement partner), b. the council style (an engagement quality review is performed by a council), and c. the combination style (both the concurring review partner style and council style are adopted).

a. Concurring review partner style

An engagement quality review normally involves the engagement quality (EQ) reviewer, who is appointed for each audit engagement, performing the entire review from the audit planning stage to the expression of the audit opinion. This means that a deeper review can be possible. For example, efforts are made to accumulate information on the audited company and the engagement team, and throughout the period of the audit, the review examines whether the engagement team is responding appropriately to changes in the circumstances of the audited company.

However, in the case of the concurring review partner style, the quality of the review is heavily influenced by the abilities of specific EQ reviewers. At some small and medium-sized audit firms, the review of all audit engagements is handled by a specific reviewer, and in such cases the quality of review for the audit firm as a whole is affected by the abilities of this specific reviewer.

b. Council style

The council style covers not only cases where engagement quality reviews are conducted by a single council, but also cases where there are multiple levels of councils. In the case of the multi-level councils, important matters etc. involved in the expression of the audit opinion are determined in advance, with a high-level council undertaking the review of these matters.

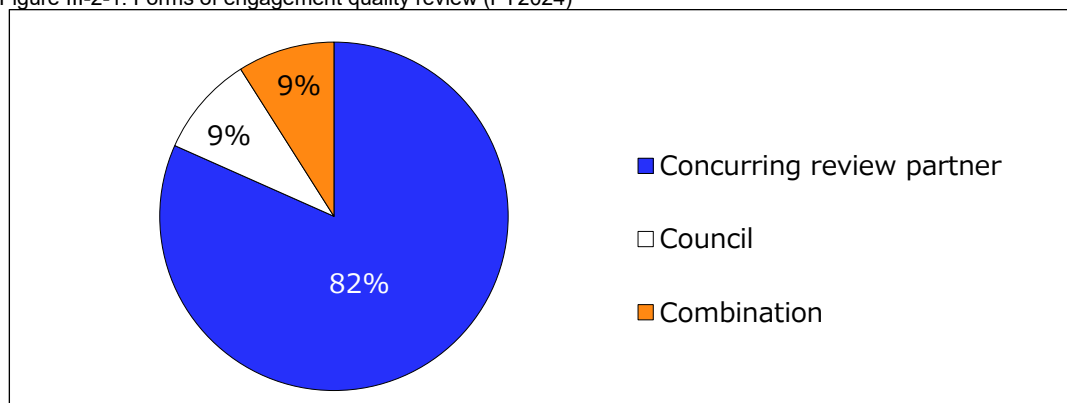
Since reviews of the council style involves the collaboration of several EQ reviewers, it allows for more multi-faceted reviews than the concurring review partner style.

c. Combination style

Under the combination style, the concurring review partner style is used in some cases, while the council style is used when the matter involved in expressing audit opinion falls under predetermined criteria. In another case, either the concurring review partner style or the council style is used, depending on the risk of each audit engagement.

The forms of engagement quality review are shown below (Figure III-2-1).

Figure III-2-1: Forms of engagement quality review (FY2024)



(Note1) Aggregated the status of 278 audit firms based on operational reports submitted by the audit firms

(Note2) As fiscal year-end varies widely among small and medium-sized audit firms, their results in FY2024 have yet to be tallied. This report therefore covers their results through FY2023 (from April 2023 through March 2024).

(Source) Prepared by the CPAAOB based on operational reports submitted by audit firms

Many large-sized audit firms adopt a concurring review partner style, in which a designated partner is responsible for all stages of the audit from planning through to the issuance of the audit opinion. These firms predefine key matters that are critical to forming the audit opinion or involve significant audit judgments, and conduct consultations to obtain expert views on those matters.

Mid-tier audit firms adopt both the concurring review partner style and the council style. For example, a reviewer conducts reviews of risk assessments performed by the audit team, the appropriateness of risk-response procedures, etc., while material matters for investigation are brought up at a review committee at headquarters. Furthermore, during reviews, some firms consult with bodies etc. featuring third parties in the case of important matters that would likely have a substantial social impact to ensure that decisions harmful to public interest are not made.

Around 80% of small and medium-sized audit firms, however, employ the concurring review partner style, though some perform engagement quality reviews using the council style or the combination style.

Regarding the appointment of reviewers, many firms select them among personnel who meet previously defined eligibility requirements for reviewers in terms of knowledge, experience, competence, position, etc., and they are appointed by the review division or the quality management division in consideration of the circumstances of audited companies. At some firms, however, the audit operations department etc. make the list of candidates who are then approved by the review division, the board of directors of the firm, etc.

In large-sized and mid-tier audit firms, the review division and others often monitor the review results, etc. and the time spent by reviewers.

There also are audit firms implementing programs to further improve review functions, such as reinforcing the information shared among reviewers, carrying out review-related compulsory training programs and conducting engagement quality reviews by reviewers belonging to quality management divisions at headquarters in higher risk audit engagements compared to ordinary engagements.

C. Monitoring of System of Quality Management

Audit firms are responsible for maintaining and improving audit quality, and in this sense, it is important for them to positively take the initiative in improving audit quality.

For this, it is important for audit firms to understand the levels of quality control in audit engagements in a timely manner and continuously have remediation in place. The CPAAOB inspects the monitoring of audit firms' system of quality management.

Furthermore, when an audit firm is a member of a global network, sometimes the global network may require member firms to conduct domestic audit engagements in accordance with its global policy to ensure consistent high audit quality across countries. The global network also conducts reviews to verify compliance with these policies by their member firms ("global review"). Given that large-sized and mid-tier audit firms have introduced the global review system into their quality control systems, the CPAAOB describes how those firms utilize global reviews in this section.

1. Periodic Inspections

Once an audit has completed, the audit firm is required to conduct procedures to ascertain whether an engagement team performed audits in accordance with the quality control system prescribed by the audit firm ("periodic inspections"). This inspection must be performed for at least one of the audits that each engagement partner has conducted during a certain period (e.g. three years) (QCSCS (amended in January 2023) para 38, A151 to A154).

Although periodic inspections are being conducted at all audit firms, factors such as the number of inspections, the number of inspectors involved and tools used differ depending on the sizes of the firm. Large-sized audit firms belonging to the Big Four global networks, in particular, are asked to perform periodic inspections based on the network's periodic inspection framework and verification tools (Figure III-3-1).

Furthermore, regardless of their size, the results of the inspections and the identified deficiencies are shared for raising risk awareness to all partners and staff at each firm through in-house training, etc.

Moreover, the inspection results are usually reflected on performance evaluation of engagement partners at large-sized audit firms and some mid-tier audit firms to boost the effectiveness of audit quality improvements.

Large-sized and mid-tier audit firms have set up a section tasked with monitoring audit services to enhance the objectivity and effectiveness of monitoring in their system of quality management. They conduct periodic inspection mainly by members of the section.

Figure III-3-1: Overview of the periodic inspections conducted in FY2024

	Large-sized audit firms	Mid-tier audit firms	Other (Note2)
Number and method of selection of audit engagements to be inspected	Each engagement partner is mandatory inspected at least once every three to four years. Furthermore, additional selections are made depending on the size and complexity of the audited company.	Each engagement partner is mandatorily inspected at least once every three years. Furthermore, additional selections are made depending on the size and complexity of the audited company.	Each engagement partner is mandatorily inspected approximately once every three years.
Inspectors	Under the supervision of partners in charge of quality management, partners and assistants who are not involved in inspected audit engagements (Inspection team is mainly composed of staff belonging to the monitoring division.)	Under the supervision of partners in charge of quality management, partners and assistants who are not involved in inspected audit engagements	Persons not involved in inspected audit services (including those outside the audit firm concerned) are under the supervision of a partner in charge of quality management.
Number of inspectors	Approximately between 20 to 200	Approximately between 15 to 25	Between one and around 20
Number of engagements handled by each inspector	One to two engagements	One to two engagements	One to seven engagements
Inspection framework (procedures, assessment policy), tools to be used	Conducted under the inspection framework and tools provided by the global network. Regarding responses to specifically Japanese auditing standards, many firms have partially tailored the global network's tools, such as adding items.	Some firms conduct under the inspection framework provided by the global network, while others conduct based on each firm's own inspection framework and tools.	Conducted based on each firm's own inspection framework. Many firms use "Checklist for Periodic Inspections" and "Audit Service Review Procedures" provided by JICPA as inspection tools.
Use of inspection results	Inspection results are shared within the firm and reflected in evaluations of partners and staff.	Inspection results are shared within the firm. Some firms reflected them in evaluations of partners and staff.	Inspection results are shared within the firm.

(Note1) The number of engagements per inspector was calculated by dividing the number of audits subjected to periodic inspections conducted in FY2024 by the number of inspectors involved.

(Note2) As fiscal year-end varies widely among small and medium-sized audit firms, their results in FY2024 have yet to be tallied. This report therefore covers their results through FY2023 (from April 2023 through March 2024).

(Source) Prepared by the CPAAOB based on information obtained through the CPAAOB inspections or the collection of reports

2. Utilization of Global Reviews

The Big Four global networks are increasingly focus on whether member firms in each country are delivering high quality audit services. For this reason, global networks require member firms in each country to comply with the detailed quality control provisions and audit manuals they provide. They also conduct global reviews to confirm compliance with these provisions and manuals in periodic inspections and individual audit engagements performed by the member firms. Large-sized and mid-tier audit firms are subject to global reviews conducted by the global networks to which they belong.

Global networks other than the Big Four sometimes require their member firms to comply with the audit manual provided by the global network to the same degree as that of the Big Four, but most of them operationalize more relaxed rules than the Big Four. Given that global networks do not necessarily require their member firms to conform to local or international auditing standards, there is a wide variation in nature and frequency of global reviews. For information on ties with global networks, see [“III. Operation of Audit Firms, A. Operations Management System, 7. Responses to Overseas Expansion of Companies, b. Ties with Global Networks, ii. Relationships with global networks”](#).

While all large-sized and mid-tier audit firms are subject to global review, few of the small and medium-sized audit firms that are part of the global networks are subject to the global review (Figure III-3-2).

Figure III-3-2: Overview of global reviews

	Large-sized audit firms	Mid-tier audit firm	Other
Whether global reviews are performed	All firms are reviewed	All firms are reviewed	Only some firms are reviewed
Frequency of global reviews	Every year	once every three to four years	Typically, once every three years
Global reviewers	In most cases, the global review is performed by global network reviewers.	In most cases, the global review is performed by global network reviewers.	In most cases, the global review is performed by reviewers appointed by the global network.

(Note) Few small and medium-sized audit firms etc. are members of global networks.

(Source) Prepared by the CPAAOB based on information obtained through the CPAAOB inspections or the collection of reports

3. Monitoring Before Expression of Audit Opinions

Monitoring is conducted prior to the expression of audit opinions, especially by large-sized audit firms as a measure to improve the quality of audits in recent years.

Monitoring before the expression of audit opinions is an operation assigned to a reviewer, designated by the quality control sector or audit services sector, to promptly find problems in quality management and prompt the audit team to take timely remedies.

Monitoring, furthermore, is often carried out in audit areas involving high risks, such as fraud or going concern, and those where deficiencies are continuously detected through external inspections and internal regular inspections, such as accounting estimates.

D. Education, Training and Evaluation of Audit Personnel

In order to maintain and improve audit quality, audit firms need to provide their audit personnel with opportunities to acquire necessary expertise and also need to evaluate them appropriately. It is particularly important to train and properly evaluate the audit personnel who can exercise the professional skepticism needed to detect accounting fraud. The CPAAOB monitors and inspects recruit, training, and assignment of, and evaluation/compensation, etc. for partners etc. of audit firms.

In this section we elaborate on the audit firms' human resource development and retention, education and training, and evaluation of its audit personnel (including engagement partners with primary responsibility).

1. Human Resource Development and Retention

To deal with changes to the auditing environment and the deepening complexity of audit methodologies, large-sized and mid-tier audit firms have been developing medium-to-long-term policies for developing human resources and offering education and training, in the context of which they have also provided personnel with a variety of career opportunities (Figure III-4-1).

Figure III-4-1: Examples of career opportunities at large-sized and mid-tier audit firms

- Carrying out work rotations and inter-organizational transfers (including regional offices)
- Involving in quality control activities and advisory and other non-audit services
- Placing personnel overseas at member firms
- Seconding personnel to locations outside the audit firm (e.g., group firms, JICPA and other relevant organizations, business companies, etc.)

(Source) Prepared by the CPAAOB based on information obtained through the CPAAOB inspections or the collection of reports

In addition, programs aimed at retaining human resources have been introduced, such as the adoption of flexible working arrangements including remote work and flextime, review of personnel evaluation programs, including compensation, and provision of various career plans through counseling and of work opportunities matching career plans. Some audit firms provide on-the-job training for young staff members on a one-to-one basis. There also are firms where counseling sessions are held on a group basis, such as those involving staff members of the same generation, to support them in maintaining their motivation. Among other cases, a mentor system that enables workers to seek advice on their personal problems helps reduce the rates of turnover and absence from work, while the turnover rate is monitored as an AQIs along with efforts to improve work environments for the enhancement of workers' interest in audit services.

2. Education and Training of Engagement Teams

Audit firms are required to establish quality objectives related to the development of specialist personnel and their capability and appropriateness to consistently perform high-quality audits (QCSCS para 28). To meet this requirement, audit firms have developed structures for educating and training their engagement teams in proportion to their size (Figure III-4-2).

Figure III-4-2: Examples of systems for education/training

Large-sized and mid-tier audit firms	• Establishing a training section within the human resources department to design and operate training programs for each job classification and level of experience • Audit firms implement a series of training programs to perform audit work such as updates of accounting and auditing standards, utilization of monitoring tools including data analysis tool, responses to fraud risks, key points and particular issues related to industrial sector and IPO audits, results of periodic internal inspections, CPAAOB's inspections and JICPA's Quality Control Reviews, professional ethics and independence, information security. • Conducting examinations to measure understanding of training • Audit firms provide support for acquiring language-related qualifications and implement language training programs at home and abroad (including online training) • In addition to the above, periodic training on issues specific to financial institutions is provided to personnel working on the audits of listed financial institutions. Briefings on the latest industry trends are also organized
Small and medium-sized audit firms, partnerships and solo practitioners	• Providing opportunities to attend training sessions held at the JICPA headquarters or regional chapters, or to study by watching JICPA training e-learning in most audit firms • Sharing results of periodic internal inspections, CPAAOB inspections and JICPA Quality Control Reviews within firms. Specifically, many firms share the details of improvement measures based on the results of periodic internal inspections, etc. during firm-wide training sessions.

(Source) Prepared by the CPAAOB based on information obtained through the CPAAOB inspections or the collection of reports

Large-sized and mid-tier audit firms have education and training sections, and mainly large-sized audit firms have developed training programs based on job classification and experience in conjunction with their global audit networks. Furthermore, by deploying e-learning systems, they enable individuals to access education and training at times and locations that are convenient for them. On the other hand, training programs for specialized personnel with limited experience in audit practices such as onboarding sessions for new employees tend to be conducted primarily in person.

Even among small and medium-sized audit firms, partnerships and solo practitioners, some of the comparatively larger ones have introduced level-based training systems and e-learning systems, while others are providing opportunities for education and training by covering the cost of tuition fees for external training programs. On the other hand, many small and medium-sized audit firms, partnerships and solo practitioners have difficulties in providing training programs that are suitable to auditors' experience and capability and situation in their audited companies. Thus, many firms are only confirming that their partners and staff are undergoing the Continuing Professional Development system provided by JICPA (i.e. whether they have obtained the required number of credits).

(Education and training needed for IFRS adoption)

As the number of companies adopting and having decided to adopt IFRS in Japan has now exceeded 290, large-sized audit firms in particular are working to develop partners and staff involved in audits of companies adopting IFRS. For that reason, the CPAAOB monitors the training structures relating to IFRS, with key examples shown below (Figure III-4-3). In some small and medium-sized audit firms,

partnerships and solo practitioners, all partners and staff are required to take training provided by the JICPA on IFRS. However, in many cases, those involved in audits of companies applying IFRS are expected to rely on self-study.

Figure III-4-3: Examples of education/training related to IFRS

Large-sized and mid-tier audit firms	• Introducing in-house IFRS certification, and providing periodic training on updates of the standards for certified personnel • Setting up specialized sections for interpretation and specific application of IFRS, and distributing necessary guidelines within the firm, in addition to providing advice and consultations on specific issues to audit teams • Dispatching personnel to network organizations responsible for examining the interpretation and application policies of IFRS, or holding periodic exchange of opinions with such organizations.
--------------------------------------	--

(Source) Prepared by the CPAAOB based on information obtained through the CPAAOB inspections or the collection of reports

3. Evaluation of Engagement Team Members

The appropriate performance evaluation of engagement team members demonstrates that the audit firm is committed to audit quality, and ongoing effort is particularly important for fostering the organizational culture that forms the foundation of audit quality. Audit firms must establish quality objectives that ensure professionals demonstrate a commitment to quality through their conduct and attitude, develop and maintain the appropriate competencies to fulfill their roles, and are held accountable and evaluated through timely assessments, compensation, promotions, and other incentives. (QCSCS para 32 (2)).

a. Evaluation of partners

Large-sized and mid-tier audit firms evaluate partners based on their contribution to audit quality and the management of the firms and the exploitation of new business. In particular, they have adopted evaluation methods placing emphasis on audit quality. For example, large-sized audit firms make assessments as mentioned in Figure III-4-4.

Figure III-4-4: Examples of evaluations of partners at large-sized audit firms

• Partners are usually evaluated in various areas, including team management and a business development based on "Performance Evaluation Rules." In the case of partners who provide audit services, there is an emphasis on quality control. • Partners are evaluated with an emphasis on audit quality, including global capabilities • Skills and performance evaluations are conducted and quality control as well as ethics/compliance are given considerable weight in skills evaluations. • Assessments made during periodic inspections in relation to firm's system of quality control (for details, see "C. Monitoring of System of Quality Management, 1. Periodic Inspections") as well as the results of Quality Control Reviews etc. are reflected in the performance evaluations of engagement partners.
--

(Source) Prepared by the CPAAOB based on information obtained through the CPAAOB inspections or the collection of reports

The results of performance evaluation are provided to partners, and the partners are usually expected to take the action deemed necessary, such as setting goals for addressing areas

required improvement. Some audit firms adjust partner compensation and assignment of audited companies based on evaluation results. The firms occasionally restrict partners' involvement in audit engagements when evaluation results are extremely poor.

Some small and medium-sized audit firms, partnerships and solo practitioners, however, do not conduct periodic evaluations of partners, and even when they do, they have not often articulated policies and procedures for the evaluations. When conducting audits of listed companies, the Governance Code for audit firms stipulates that firms should establish and implement policies related to personnel management, evaluation, and compensation (Principle 4, Guideline 4-2), and further development of such frameworks is expected going forward.

b. Evaluation of staff

Audit firms evaluate personnel in accordance with their evaluation standards and determine promotions based on the results of the evaluations.

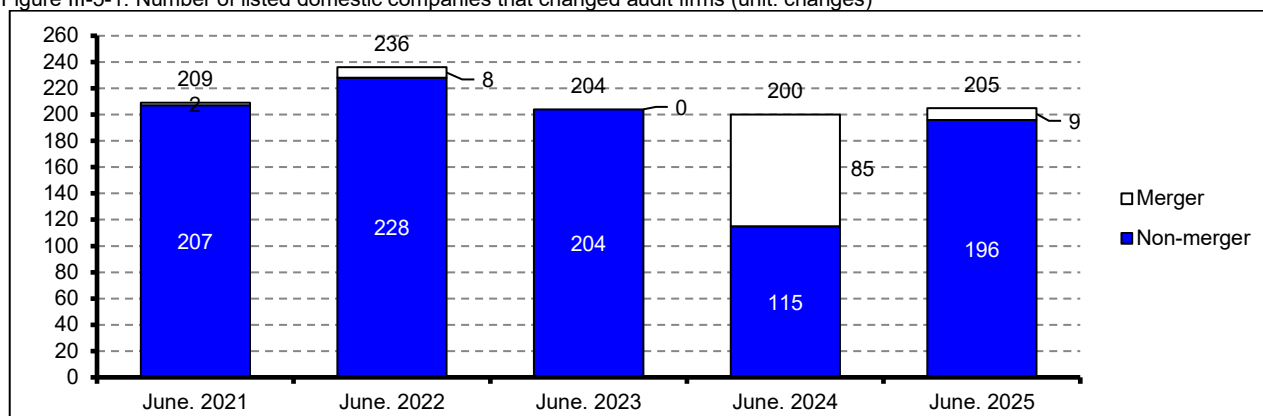
Large-sized and mid-tier audit firms establish rough standard of promotion by employees' seniorities. They generally promote managers after approximately a seven to 10 year and to partners, following a selection process. As small and medium-sized audit firms rarely hire newly qualified CPAs, they often hire mid-career CPAs on the assumption that they are going to be promoted to partners. Many large-sized and mid-tier audit firms evaluate personnel based on their understanding of auditing standards related to audit quality, communications skills within an engagement team, management skills (including capacities for an international issue) and so forth. Although small and medium-sized audit firms evaluate personnel in a similar manner to large-sized and mid-tier audit firms, some of them have not established policies regarding promotion and selection system based on evaluation results. When conducting audits of listed companies, the Governance Code for audit firms stipulates that firms should establish and implement policies related to personnel management, evaluation, and compensation (Principle 4, Guideline 4-2), and further development of such frameworks is expected to go forward.

E. Acceptance of New Audit Engagements and Changes of Accounting Auditors

Since the acceptance of new audit engagements can have a significant impact not only on the quality standards of individual audit engagements but also on overall operations of the audit firm, the CPAAOB conducts review through monitoring activities and also seek to understand the reasons for changes in accounting auditors and the impact of the acceptance of the new audit engagements on the firm's overall quality control. The section below analyzes the acceptance of new audit engagements and changes in accounting auditors, and the connection between details ascertained through monitoring activities and publicly available information.

There were 205 cases of changing auditors of domestic listed companies in the year to June 2025. The total number of changes has remained at roughly the same level over the past three years. Compared to the fiscal year ending in June 2024, when many changes were due to mergers, the number of changes for reasons other than mergers²⁴ has increased significantly (Figure III-5-1). For information on mergers, see "[I. Overview of the Audit Sector, B. Audit Firms, 4. Mergers of Audit Firms](#)".

Figure III-5-1: Number of listed domestic companies that changed audit firms (unit: changes)



(Note) The number of companies that had decided on an incoming auditor by the end of June of each period based on timely disclosure of listed domestic companies.

(Source) Prepared by the CPAAOB

As can be seen from changing in audit firms by size for reasons other than mergers, there had been a declining trend in changes from large-sized audit firms to mid-tier audit firms or small and medium-sized audit firms since peaking in the year to June 2022. However, in the year to June 2025, this trend reversed, showing an increase (Figures III-5-2 and III-5-3). This trend is considered to reflect the fact that large-sized audit firms continue to place importance on operational management when continuing audit contracts, taking into account audit fees, audit risk, and the personnel required to perform the audit engagement. At the same time, audited companies selecting auditors are placing greater emphasis on selecting auditors by considering factors such as the duration of continuous audit periods and the reasonableness of audit fees.

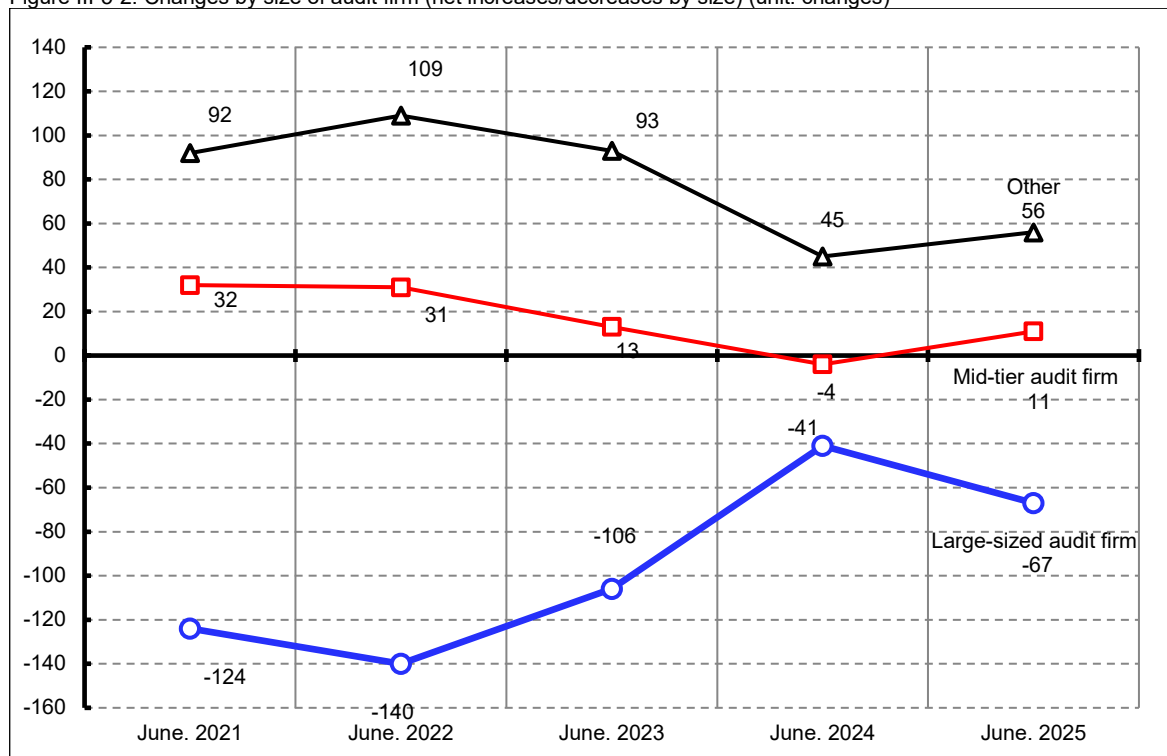
For information about business operations concerning continuance of audit contracts at large-sized audit

²⁴ In the fiscal year ending June 2025, there were no mergers between audit firms. However, changes involving the transfer due to the integration of regional offices of an audit firm, as well as transfers to newly established audit firms founded by CPAs currently performing audits, are categorized as "mergers."

firms, see "[3. Reasons for Changes in Accounting Auditors as Identified Through Monitoring Activities](#)".

In addition, while there has been an increase in changes from one small and medium-sized audit firm to another, large-sized audit firms and mid-tier audit firms have continued to take a cautious stance toward entering into new audit engagements with listed domestic companies that were previously audited by small and medium-sized audit firms, particularly from the perspective of audit fees and related considerations. Likewise, these listed domestic companies are increasingly selecting other small and medium-sized audit firms, as a result of considering factors such as audit fees and the appropriateness of audit services in relation to their business scale. The above-mentioned shift from large-sized audit firms to mid-tier as well as small and medium-sized audit firms indicates an increase in the role of small and medium-sized audit firms in auditing listed companies. However, the CPAAOB's recent inspection of small and medium-sized audit firms identified inadequate systems to properly conduct audit services, making it imperative for them to maintain and improve their audit quality. As a result, the CPAAOB will place greater emphasis on inspections of small and medium-sized audit firms.

Figure III-5-2: Changes by size of audit firm (net increases/decreases by size) (unit: changes)



(Note1) Net increases/decreases in the number of changes

(Note2) Aggregates of number of companies that had decided on an incoming auditor by the end of June of each period, based on timely disclosures by listed domestic companies

(Note3) Figures in the above table do not include changes due to mergers of audit firms.

(Source) Prepared by the CPAAOB

Figure III-5-3: Total changes by size (unit: changes)

From/To		June 2023	June 2024	Increase/Decrease
Large-sized	→ Large-sized	12	14	2
	→ Mid-tier	10	25	15
	→ Other	40	49	9
Mid-tier	→ Large-sized	5	3	▲2
	→ Mid-tier	0	2	2
	→ Other	11	14	3
Other	→ Large-sized	4	4	0
	→ Mid-tier	2	3	1
	→ Other	31	82	51
Total		115	196	81

(Note1) Aggregates of number of companies that had decided on an successor auditor by the end of June of each period, based on timely disclosures by listed domestic companies

(Note2) "Other" in the figure refers to small and medium-sized audit firms, partnerships and solo practitioners.

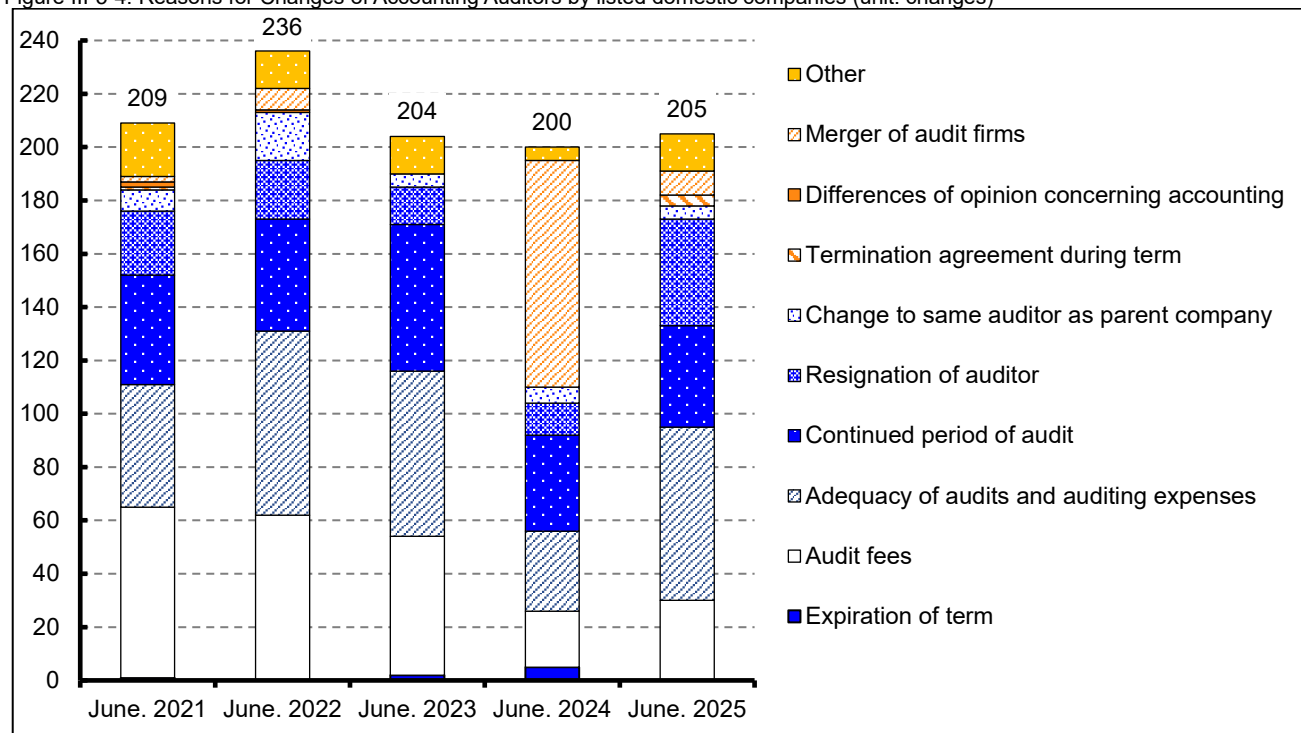
(Note3) Figures in the above table do not include changes due to mergers of audit firms.

(Source) Prepared by the CPAAOB

1. Reasons for Change of Accounting Auditors Given in Timely Disclosures by Audited Companies

When a listed domestic company changes its accounting auditors, the company shall disclose the change immediately (Article 402 of the Securities Listing Regulations, Tokyo Stock Exchange). In this case, the substantial reason for the change and the background thereof must be specifically disclosed. Under this regulation, many firms stated the proposal of increase in audit fees as well as the adequacy of audit work in light of the size of the company's business and the reasonableness of audit fees as reasons for changes. In addition, in many cases, the reason for changes in accounting auditors is stated as a result of comparison with other audit firms in consideration of the prolonged continuous audit period of the current auditor. (Figure III-5-4). In the year to June 2025, many cases continued to state that the change of accounting auditors was due to these reasons. In addition, the number of cases in which the current accounting auditor declined to renew the audit engagement has also increased. Among these, there are cases where the reason cited is the anticipated increase in audit workload without sufficient personnel to handle it, or the fact that registration as an auditor of listed companies was not granted.

Figure III-5-4: Reasons for Changes of Accounting Auditors by listed domestic companies (unit: changes)



(Note1) Compiled based on timely disclosures by listed domestic companies choosing new auditors by the end of June each year.

(Note2) In the case of two or more reasons disclosed, the classification was made based on principal reasons.

(Source) Prepared by the CPAAOB

2. Reasons for Change of Accounting Auditors during Fiscal Term

In the year to June 2025, there were four cases of changes of accounting auditors in the middle of the fiscal year out of a total of 205. The changes were primarily due to terminations or resignations initiated by the audit firms, following the discovery of inappropriate accounting practices at the audited companies.

3. Reasons for Changes of Accounting Auditors as Identified Through Monitoring Activities

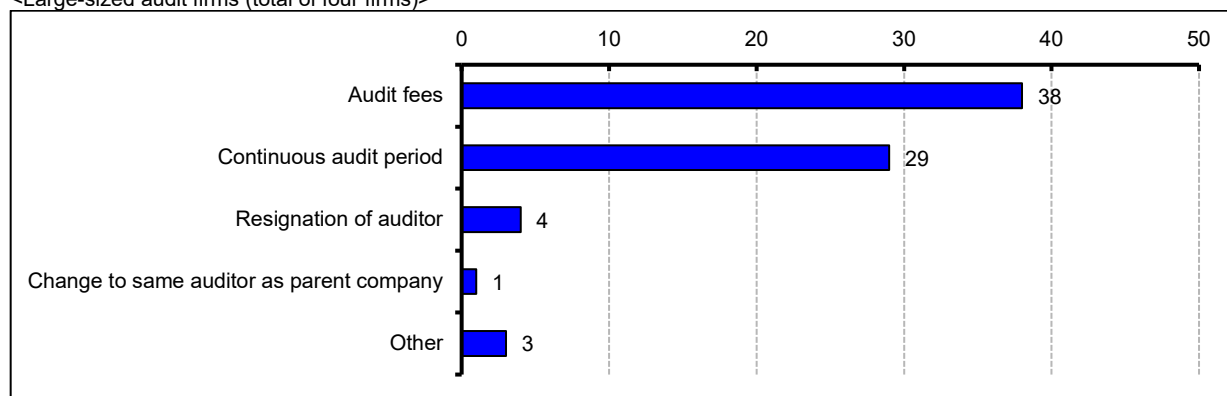
This section lays out reasons for changing accounting auditors ascertained through monitoring activities in PY2024 rather than through timely disclosure by audited companies. The number of changes obtained through the CPAAOB monitoring does not match the number obtained through company disclosure for the following reasons: inspections were not conducted, and reports were not collected from all audit firms in PY2024 and the number includes the previous year's figures due to the timing of inspections and collection of reports.

a. Large-sized audit firms

Among the 57 cases of changes in accounting auditors reported by large-sized audit firms as predecessor accounting auditors through inspections and information collection, the most frequently cited reason, similar to the previous year, was "audit fees", followed by "continuous audit period" (Figure III-5-5). Many cases cited both "audit fees" and "continuous audit period" as the reason for the changes. This suggests that audited companies are considering factors

such as continuous audit period and audit fees when deciding to change their accounting auditor. At the same time, when considering whether to renew audit contracts, large-sized audit firms continue to manage their audit engagements by analyzing each audit engagement individually or across the firm as a whole, taking into account whether audit fees are commensurate with audit risk, whether the audit risk is within a manageable range for continuing the engagement, and whether sufficient personnel can be secured to carry out the audit.

Figure III-5-5: Reasons for changes in accounting auditors according to the predecessor auditors (unit: changes)
<Large-sized audit firms (total of four firms)>



(Note1) Based on data from 57 changes identified through inspections and report collection during PY2024.

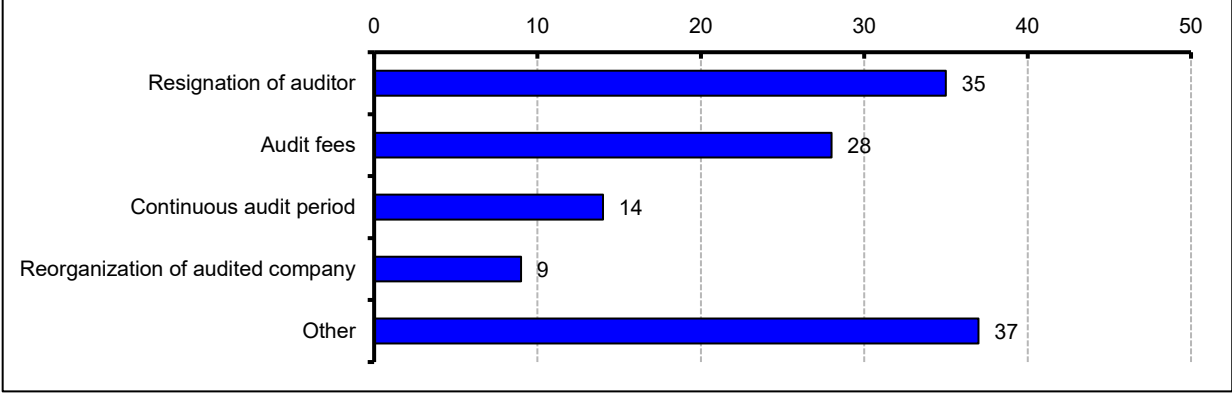
(Note2) If there was more than one reason, that change is included in the figure for each reason (a cumulative total of 75)

(Source) Prepared by the CPAAOB

- b. Mid-tier audit firms and small and medium-sized audit firms, partnerships and solo practitioners
Among the 83 cases of changes in accounting auditors reported by mid-tier audit firms and small and medium-sized audit firms as predecessor accounting auditors through inspections and information collection, the most frequently cited reason was “resignation proposed by auditors”. The underlying reasons for these resignations often included increased audit risk due to deteriorating business performance or weakness in the audited company’s accounting systems, as well as personnel shortages within the audit firm.

Following this, many cases cited both “audit fees” and “continuous audit period” as the reason for the changes. In addition, under “other” reasons, there were cases the included the unification of accounting auditors with parent companies, the discovery of inappropriate accounting practices at the audited company, and administrative disciplinary actions taken by the Financial Services Agency against the audit firm (Figure III-5-6).

Figure III-5-6: Reasons for changes in accounting auditors according to the predecessor auditor (unit: changes)
<Audit firms other than large-sized audit firms>



(Note1) Based on data from 83 changes for which the reason was identified through the inspection by the CPAAOB in PY2024 and reports collected from four mid-tier audit firms, 55 small and medium-sized audit firms.

(Note2) If there was more than one reason, that change is included in the figure for each reason (a cumulative total of 123)

(Source) Prepared by the CPAAOB

F. Audit Fees

1. Rules on Audit Fees

Audit fees are determined through negotiations between auditors and audited companies. The JICPA has set guidelines for the calculation of audit fees to serve as a reference.

On the other hand, the JICPA's Code of Ethics, most recently amended in June 2024, states that an audit firm may quote whatever fee deemed appropriate based on the content and value of services, while the quotation of a low fee without due foundation may make it difficult to offer professional services according to applicable technical and professional standards. Therefore, the quotation of a low fee causes auditor's self-interest that disturbs auditor from observing the principles concerning proper capacity and attention required to professional specialists.

2. Methods for Calculating Audit Fees

The JICPA's "Guidelines for the Calculation of Audit Fees" give "hourly rates" and "fixed fees and hourly rates" as possible approaches. These methods are used when calculating estimated amount. The actual audit fee is determined through negotiations with audited companies (Figure III-6-1).

Figure III-6-1: Methods for calculating estimated audit fees

Methods	Methods for calculating estimated audit fees
Hourly rates	Audit fees are calculated by multiplying the number of hours an audit team spend by a certain unit price (hereinafter referred to as the "charged rate").
Fixed fees and hourly rates	Audit fees comprise two components: the fixed fee (a fixed amount) and the hourly rates (a variable amount). The fixed fee is determined based on the factors such as the type of audit (FIEA audits, Companies Act audits, etc.) and the size of audited companies (capital, assets, sales, etc.), while the hourly rates are calculated by multiplying the time planned to spend on the audit by the charged rate.

(Source) Prepared by the CPAAOB based on "Guidelines for the Calculation of Audit Fees" (October 2003), JICPA

According to the reports collected in PY2024, audit fee estimates are calculated as follows.

a. Large-sized audit firm

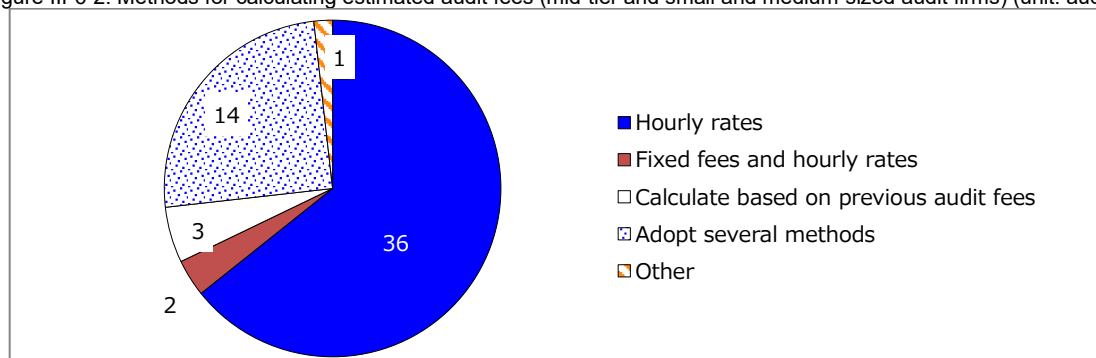
All large-sized audit firms state that they adopt the hourly rates approach for audit fee estimates. Hourly rates are set for each hierarchy level of employee, and the rate is determined while considering indirect costs associated with firm management and quality control such as the payrolls of administrative departments and IT system-related expenses.

Some large-sized audit firms set elaborate charge rates, taking into account not only job classification but also the complexity of the audit engagement and each service provided.

b. Mid-tier audit firms and small and medium-sized audit firms, partnerships and solo practitioners

Many firms charge fees based on the hourly rates approach. There are also firms that combine basic and service execution fees, calculate fees on the basis of fees in the past, or use multiple calculation methods (Figure III-6-2).

Figure III-6-2: Methods for calculating estimated audit fees (mid-tier and small and medium-sized audit firms) (unit: audit firms)



(Note) Aggregated from reports collected from mid-tier and small and medium sized audit firms in PY2024

(Source) Prepared by the CPAAOB

Regarding the hourly rates approach, 60% of mid-tier audit firms and small and medium-sized audit firms, partnerships and solo practitioners do not set charged rates by job classification (Figure III-6-3).

Figure III-6-3: Setting of rates corresponding to job classification (mid-tier and small and medium-sized audit firms)

Settings	Number of audit firms	Percentage
Rates set	23	41%
Rates not set	33	59%
Total	56	100%

(Note) Aggregated from reports collected from mid-tier and small and medium sized audit firms in PY2024

(Source) Prepared by the CPAAOB

3. Audit Fees Before and After Changes in Accounting Auditors

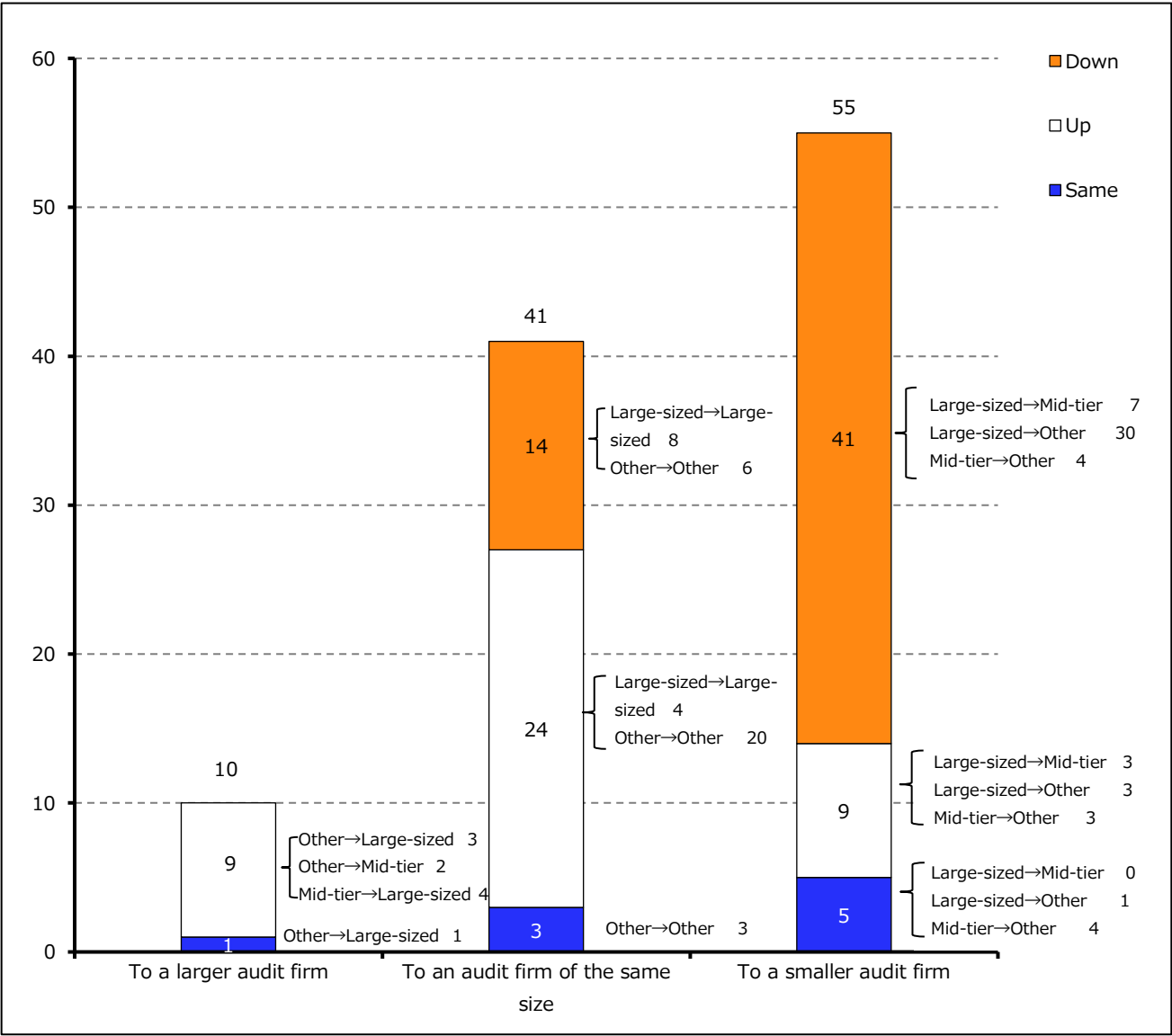
As audit fees are often reviewed after changing auditors, the CPAAOB analyzed pre- and post-transfer fees for 106 cases of changes in auditors at listed domestic companies that submitted timely disclosure from July 2023 to June 2024, excluding those involving mergers of audit firms. The analysis found that the changes in audit fees varied depending on the scale of the successor accounting auditor.

In cases where companies changed from larger audit firms (10 cases), there were no instances of audit fee reductions. Meanwhile, in changes to audit firms of the same scale (41 cases), audit fees increased in approximately 60% of cases (24 cases), while they decreased in about 30% of cases (14 cases). Furthermore, in changes to smaller firms (55 cases), audit fees decreased in around 70% of cases (41 cases). Specifically, among these, in cases where companies changed from a large-sized audit firms to small or medium-sized firms (34 cases), audit fees decreased in approximately 90% of cases (30 cases) (Figure III-6-4).

As noted earlier in [1. Reasons for Change of Accounting Auditors Given in Timely Disclosures by Audited Companies](#), many listed domestic companies cited the appropriateness of audit services and audit fees in relation to their business scale as reasons for changing auditors. Based on the results of the above analysis, it appears that some listed domestic companies determined that the audit fees charged by their incumbent auditors were excessive relative to their business scale, and therefore

primarily small and medium-sized audit firms selected as successor auditors with the aim of reducing audit fees.

Figure III-6-4: Audit fees following Changes of Accounting Auditors (unit: changes)



(Note1) Tabulated timely disclosures of changes in accounting auditors by listed domestic companies (from July 2023 to June 2024) are included, provided that the audit fees before and after the changes were publicly disclosed
 (Note2) Breakdowns of these changes are shown in the graph
 (Note3) "Other" in the figure refers to small and medium-sized audit firms, partnerships and solo practitioners.
 (Source) Prepared by the CPAAOB based on timely disclosures of changes in accounting auditors and securities reports submitted by June 2025

4. Dependence of Fees (Safeguards)

When the proportion of audit fees received from a specific audited company becomes high relative to the total revenue²⁵ of the audit firm²⁶, the resulting fee dependency and concerns over losing that source of income may increase the level of self-interest threats and create undue pressure on the audit

²⁵ Total of audit and attestation revenue and non-audit and attestation revenue (various advisory services, tax processing and so forth)
²⁶ Audit firms and business enterprises that control business enterprises and audit firms through their contracts, human relations and so forth.

firm, potentially impairing its independence.

The “Guidelines on Independence” was abolished as of March 31, 2023, following the revision of the Code of Ethics by the JICPA and the publication of “Practical Guidance on Code of Ethics No.1, Q&A on the Code of Ethics” (Practical Guidance). The “Guidelines on Independence” had previously stipulated that where the audit fees from a particular listed domestic company exceeded 15% of the audit firm’s revenues for two consecutive years, the audit firm must examine which of the safeguards below would be appropriate:

- a. Prior to the issuance of the audit opinion on or after the second year’s financial statements, the audit firm requests a professional accountant, who is not a member of the audit firm, to perform an engagement quality review of that engagement
- b. After the audit opinion on or after the second year’s financial statements has been issued and before the issuance of the audit opinion on the third year’s financial statements, the audit firm requests a professional accountant, who is not a member of the firm to perform a periodic inspection of that engagement, or the JICPA to perform a Quality Control Review of that engagement

Rules on remuneration dependency are newly established in the revised Code of Ethics. Under these rules, if the reliance on remuneration for a particular audited company exceeds or is likely to exceed 15% for two consecutive years, the audit firm is required to implement a safeguard by undergoing a review equivalent to an engagement quality review conducted by a member who is not part of the audit firm, prior to expressing its audit opinion (“pre-issuance review”) .

The revised Code of Ethics applies to audit engagements for fiscal years beginning on or after April 1, 2023. However, in the initial year of application, audit firms are expected to apply the safeguards prescribed under the former “Guidelines on Independence.”

With regard to the status of implementing safeguards related to fee dependency, no applicable cases were identified among large-sized audit firms or mid-tier audit firms. However, among small and medium-sized audit firms, safeguards were implemented in 8 engagements across 8 firms, out of 57 firms identified through inspections and the collection of reports conducted in PY2024.

Among the eight engagements, six that applied safeguards based on the former “Guidelines on Independence” were addressed through periodic inspections after the audit opinions were expressed. For the remaining two engagements, which applied safeguards under the revised Code of Ethics, the audit firms are required to undergo a pre-issuance review prior to expressing their audit opinions.

■ Enhancing audit quality and improving profitability and operational efficiency ■

Audit firms have been implementing various initiatives (“quality control measures”) to address deficiencies identified through external inspections and to maintain and improve audit quality. However, the depth of inspections conducted by the CPAAOB and the Quality Control Reviews by the JICPA has been increasing year by year. Although the nature of the deficiencies identified has evolved, the number of findings has not significantly declined. Moreover, securing the necessary resources—both personnel and time—for audit teams responsible for actual audit execution and for quality control divisions that plan and implement quality control measures remains a challenge. In particular, for large-sized audit firms, due to the scale of their organizations, it is not easy to ensure that quality control measures are thoroughly implemented across all departments and locations.

In recent years, especially among large-sized audit firms, efforts have been made to standardize and centralize audit procedures by assigning less complex tasks to audit assistants or processing them collectively at delivery centers. These efforts aim to allocate more time from CPAs and other professionals to higher-risk audit areas. Additionally, the development and application of audit tools utilizing technologies such as AI have been advancing, contributing to both the efficiency and sophistication of audit work. Furthermore, in order to ensure sufficient and appropriate audit quality, firms are making more precise estimates of the time required for audit engagements and are requesting revisions to audit fees from audited companies, thereby reviewing the level of audit compensation.

According to business reports submitted to the Local Finance Bureaus, personnel expenses and IT-related costs continue to rise across audit firms, while the total amount of audit fees has not increased proportionately. Analysis of timely disclosure information related to changes in auditors at listed domestic companies also reveals that many companies cite proposed increases in audit fees or the appropriateness of audit services and fees in relation to their business scale as reasons for the change.

Although the number of registered CPAs has been gradually increasing in recent years, the number of those affiliated with audit firms has not grown at the same pace. This is partly due to the growing number of attractive career opportunities in other fields, such as consulting firms or as CFOs of operating companies, where compensation levels may be higher. As a result, concerns have emerged regarding a shortage of professionals engaged in audit work.

In this context, while audit firms are actively investing in human resources and IT to secure the necessary resources for ensuring the effectiveness of quality control measures, revisions to audit fees have not always reached a level sufficient to ensure sustainable profitability. In some cases, this has led to the risk of audit contracts being terminated. Faced with the challenge of fulfilling their mission to contribute to the market through the delivery of high-quality audits, the management of audit firms must navigate the difficult balance between improving audit quality and maintaining profitability.

Ensuring the reliability of capital markets requires strengthening market governance²⁷, and further enhancement of the audit function is essential. However, the importance of audits in capital markets and the public-interest role of audit firms are sometimes overlooked. Therefore, in addition to discussions on improving audit quality, it is expected that active dialogue will take place from the broader perspective of the capital market, including audited companies and market participants, regarding the importance of financial audits, the fair evaluation of audit work, and the future role that audit firms should play.

Although the term “market governance” is used in various contexts, in this report it refers broadly to not only market discipline exercised by market participants, but also to the functions of audit firms and others that help ensure an environment in which such discipline can operate autonomously.

²⁷ Although the term “market governance” is used in various contexts, in this case, it broadly refers not only to market discipline exercised by market participants, but also to the functions of audit firms and other entities that ensure an environment in which such discipline can operate autonomously.

IV. Responses to Changes in the Global Environment Surrounding Audits

IV. Responses to Changes in the Global Environment Surrounding Audits

A. Trends Surrounding Small and Medium-Sized Audit Firms

1. Changes in the Environment Surrounding Audits by Small and Medium-Sized Audit Firms

In recent years, there has been a continuing trend among listed domestic companies to change accounting auditors from large-sized audit firms to mid-tier/small and medium-sized audit firms. Particularly, the number of cases in which small and medium-sized audit firms serve as accounting auditors for newly listed domestic companies has been increasing, indicating a growing role expected of them in the capital markets.

Against this backdrop, the Quality Control Standards were revised in November 2021 to require the introduction of a risk-based system of quality management in response to the need to maintain and improve audit quality. For audit firms other than large-sized audit firms, this revision applies to audits of fiscal years beginning on or after July 2024. Additionally, in July 2022, the JICPA's Code of Ethics was amended to strengthen regulations related to independence. Further revisions were made in July 2024, targeting definitions of engagement teams and provisions related to group audit engagements.

These changes have had a significant impact on the operations of small and medium-sized audit firms. In addition to establishing systems to provide audit services to listed domestic companies, these firms are now required to implement and operate new system of quality management, and respond to strengthened independence regulations concerning audit fees, non-audit fees, fee dependency, and the concurrent provision of non-assurance services.

Furthermore, in light of changes in the economic and social environment surrounding accounting audits, including the expansion of the base of auditors for listed domestic companies, the CPA Act was revised in May 2022. This led to introduce a legal registration system for auditors of listed companies in place of the self-regulatory registration system for auditors of listed companies, which had been conducted by the JICPA. The registration of audit firms, etc. that conduct audits of listed domestic companies has been conducted by the Quality Control Committee of the JICPA, which has been responsible for the review system. Since April 1, 2023, it has been conducted by the "Registration Review Committee for Auditors of Listed Companies", which was newly established within the JICPA. The Committee consists of seven members, three of whom are members of the JICPA and four of whom are non-members. This has added further transparency and objectivity to the screening of registrations and decisions on cancellation of registrations. The revised Ordinance for Enforcement of the CPA Act ("Revised Ordinance for Enforcement") requires registered auditors of listed companies to establish a framework for information disclosure and business operations in accordance with the Audit Firm Governance Code amended in March 2023, to be applied from the beginning of the first accounting period of audited companies that starts on or after July 1, 2024 (July 1, 2023 for large-sized audit firms).

2. Response by the JICPA to Small and Medium-Sized Audit Firms

a. Operational status of the registration system for auditors of listed companies

The registration system for auditors of listed companies is designed to contribute to the reliability of financial audits by:

- (i) registering audit firms that conduct audits of listed companies in a legally mandated list of auditors of listed companies (“list of auditors of listed companies”),
- (ii) requiring a high level of discipline from registered auditors of listed companies (“registered auditors of listed companies”),
- (iii) having the JICPA conduct confirmation of eligibility to verify whether these registered auditors are fulfilling their responsibilities (“confirmation of eligibility”), and
- (iv) making decisions on cancellation of registrations when necessary.

The JICPA receives applications from entities who intend to be registered to the list of auditors of listed companies and conducts a review for application review to assess the status of their system of quality management. It also performs confirmation of eligibility to determine whether the applicant firms or registered auditors of listed companies have the necessary systems in place to fairly and appropriately conduct audit attestation services for the financial statements of listed companies. Based on the results of these confirmations of eligibility, the Registration Review Committee for Auditors of Listed Companies makes decisions whether to approve or cancel registration.

For confirmation of eligibility, the JICPA utilizes the Quality Control Review system, including the review for application review, and published the Guideline for confirmation of eligibility of audit firms engaged in the audit of listed companies (“Guideline”), which outline viewpoints and standards for review teams to consider when assessing eligibility. This Guideline also requires listed company auditors to perform self-assessments to determine whether they meet the conditions described in the Guideline, and if any deficiencies are identified, they must take voluntary improvement measures. This Guideline was revised in August 2024 to reflect the application status of the Revised Standards and discussions within the Registration Review Committee for Auditors of Listed Companies, including reorganization of items and addition of new viewpoints and criteria.

Audit firms that were conducting audits of listed companies at the time the revised law came into effect were designated as “Deemed Registered Auditors of Listed Companies” and allowed to continue audit attestation services until September 30, 2024, under transitional measures. From October 1, 2024, such firms are categorized as either “firms to be examined by the Registration Review Committee for Auditors of Listed Companies” or “firms whose registration has been denied but continue to audit listed companies.” For these deemed registered auditors of listed companies seeking formal registration, confirmation of eligibility is generally conducted based on written documentation (questionnaires), rather than through a review for application review.

The Registration Review Committee for Auditors of Listed Companies held a total of 33 meetings

between April 2023 and June 2025. During this period, 126 audit firms (including six firms other than deemed registered auditors of listed companies that newly applied for registration) were added to the list of auditors of listed companies. As of the end of June 2025, eight audit firms remained as deemed registered auditors of listed companies.

b. Enhancement of information disclosure by small and medium-sized audit firms

Under the Revised Ordinance for Enforcement, registered auditors of listed companies are required to establish a system for: (i) appropriately evaluating the status of operations management system and publishing the results of the evaluation and the reasons for the evaluation, etc. (Article 93); (ii) publishing the status of business management, etc. (Article 95); and (iii) conducting business in accordance with the Audit Firm Governance Code and publishing the status of application of the Code (Article 96).

The publication under Article 93 of the Revised Ordinance for Enforcement is made by making explanatory documents containing matters set forth in the Revised Ordinance of Enforcement available for public inspection. However, the publication under Article 95 and 96 of the Revised Ordinance for Enforcement does not specifically designate the subject and media in which the information should be described. This is because it is not appropriate to require registered listed company auditors to disclose a uniform set of items, and they are expected to proactively determine the disclosure items they consider important and to carry out substantial information disclosure through originality and ingenuity.

The JICPA has been requiring small and medium-sized audit firms conducting audits of listed companies to prepare and publish the "Annual Report on Audit Quality Management" ("annual report"), in response to Articles 95 and 96 of the Revised Ordinance of Enforcement. As a reference for preparing the annual report, the JICPA published "Guidance for the Preparation of Annual Reports on the Management of Audit Quality" in September 2023. This guidance encourages autonomous and proactive efforts by small and medium-sized audit firms to maintain and improve audit quality and provides a conceptual framework to help ensure the contents of the report are substantial and meaningful.

Furthermore, the JICPA requires small and medium-sized audit firms conducting audits of listed companies to conduct a dry run (simulation) of the annual report prior to the effective date of Articles 95 and 96 of the Revised Ordinance for Enforcement. As part of this dry run, firms are requested to submit a dry-run version of the annual report as a deliverable.

The effective date for the application of Articles 95 and 96 of the Revised Ordinance for Enforcement is defined as the start of the first accounting period of the audited entity beginning on or after July 1, 2024. For small and medium-sized audit firms, the reporting period is set as the first fiscal year ending after this effective date. The annual report must be published within six months from the end of this reporting period. (For example, if an audit firm whose fiscal year ends in June and the first audited company whose accounting period begins on or after July 1, 2024 has a fiscal year that ends in March,

the beginning of the audited company's accounting period is April 1, 2025, and the audit firm is required to report on the fiscal year ending June 30, 2025 and to publish its annual report by the end of December 2025. The audit firms are required to publish their annual reports by the end of December 2025 for the reporting period ending in June.)

The JICPA has shared key observations from the submitted dry-run versions of the Annual Report with its members. In April 2025, it held a training session on information disclosure through the Annual Report, during which it reported on various topics, including:

- questions and answers received through the consultations for information disclosure,
- analysis of key observations, and
- analysis of Audit Quality Indicators (AQIs) included in the formal versions of the Annual Report.

c. Support for strengthening the fundamentals of small and medium-sized audit firms

The JICPA accelerates efforts to strengthen the foundation of small and medium-sized audit firms and improve audit quality through enhancement of information disclosure and various support measures.

The JICPA not only supports small and medium-sized audit firms that conduct audits of listed companies in enhancing their information disclosure but also implements initiatives to strengthen their management foundations. Specifically, it has identified six key areas of management infrastructure (quality management, organizational and governance structure, human resources, IT systems, financial base, and international responsiveness) and, led by the JICPA's Small Medium Practices Policy Committee and the Small and Medium-Sized Audit Firms Liaison Council, has carried out various initiatives.

Furthermore, as part of its medium-term support measures for small and medium-sized audit firms, the JICPA has implemented or planned to implement the following key initiatives.

- Publication of guidance for the revised Quality Control Standards
 - Publication of Practical Guidance No.3 to the QCSCS No.1: *Q&A on Quality Control and Engagement Quality Reviews for Audit Firms and Audit Engagements*
 - Revision of the Practical Guidance No.4 of the QCSCS No.1: *Tools for Quality Control at Audit Firms*
 - Publication of Research Report No. 8 by the Small and Medium Practices Policy Committee: *Guidance on Preparing Quality Management Regulations for Audits*
- Training session for Compliance with the revised Code of Ethics
- Opinion Exchange with Capital Market Participants
- Support for recruitment and training at small and medium-sized audit firms
 - Launched a "CPA Job Information" website on JICPA's members-only portal
 - Published the "Employment Guidebook for Small and Medium-Sized Audit Firms", targeting successful candidates for the CPA Examination.
- Maintenance of overseas office directory

- Enhancement of support functions for small and medium-sized audit firms
 - Interactive training sessions to improve audit quality

To support the development and assistance of small and medium-sized audit firms, and to strengthen individual consultation functions, the JICPA organizes interactive sessions led by former reviewers of the Quality Control Review. These sessions involve a small number of participating firms and are conducted in a format that includes Q&A and discussions, facilitating the exchange of opinions and sharing of information.
 - Seminar on the case report from audit firm inspection results published by the CPAAOB
- Support for digitalization of small and medium-sized audit firms

Driven by the activities of the Small and Medium-Sized Audit Firm IT Community (a forum of IT personnel from small and medium-sized audit firms), the JICPA is implementing the following initiatives

 - Identifying the status of IT infrastructure development and the use of IT-based audit methods at small and medium-sized audit firms
 - Providing support for the development of IT infrastructure, including cybersecurity measures, and the development of IT-based audit tools
 - Specific digitalization support measures include the development of a shared IT infrastructure environment (support for the creation of a platform of an electronic audit documentation system)
 - Holding training sessions on effective use of IT
 - Organizing regular meetings of the Small and Medium-Sized Audit Firm IT Community
- Holding regular meetings to exchange opinions with small and medium-sized audit firms, etc.
 - Holding regular meetings to exchange opinions with small and medium-sized audit firms

d. Support within the audit industry involving the JICPA

The Audit Confirmation Center GK, established through joint investment by large-sized audit firms, provides a platform for balance confirmation procedures that focuses on standardization and efficiency in audit operations, acceleration of confirmation processing, and ensuring high-level security. Traditionally, the process required sending, responding to, and collecting confirmation letters in paper form. However, by utilizing this platform, it has become possible to send electronic confirmation letters and receive responses via the web.

The electronic confirmation letters cover balances such as accounts receivable and payable, bank transaction balances, and securities transaction balances. As of November 1, 2024, in addition to large-sized audit firms and mid-tier audit firms, 94 small and medium-sized audit firms and offices are using the platform. However, among small and medium-sized audit firms, only about 50 firms are currently utilizing it.

In October 2024, the JICPA participated in the Council of Audit Firm for Expanding Electronic Balance Confirmation, established by the Audit Confirmation Center. Through this participation, the Council is

advancing discussions and examining issues to promote the digitization of balance confirmation procedures across the entire audit industry. As mentioned above, since the use of the platform by small and medium-sized audit firms remains limited, the Council is discussing system development and other measures to promote the expansion of its use among these firms.

The Audit Digital & Innovation Consortium LLC (“ADIC”), established through joint investment by one mid-tier audit firm, two small and medium-sized audit firms, and one business corporation, aims to provide platform services that contribute to the digitalization and digital transformation of small and medium-sized audit firms, including the introduction of electronic audit working paper systems. Specifically, it supports the development of a cloud-based IT platform that enables small and medium-sized audit firms to use electronic audit working papers in a secure environment.

ADIC was established with the advice and cooperation of the JICPA, and even after its establishment, the JICPA continues to support the development of a shared IT infrastructure environment for small and medium-sized audit firms through the provision of information and exchange of opinions.

In addition to the above, although the JICPA is not involved, the Audit Firms Support Association (“AFSA”), a general incorporated association established in April 2024 by three mid-tier audit firms and two small and medium-sized audit firms as members, aims to enhance the audit quality of small and medium-sized audit firms. The AFSA supports these firms in meeting the requirements set forth in the Governance Code for Audit Firms and other standards. Specifically, the AFSA provides services such as offering advice as an independent third party to member small and medium-sized audit firms engaging listed company audits, responding to inquiries from members on professional opinions by accounting and auditing experts, and supporting improvements in response to significant findings from external inspections. In the future, the AFSA also plans to offer support for training related to accounting, auditing, and ethics.

3. Response by the CPAAOB

The Revised Standards, as "Points to Note Regarding Implementation of the Revised Quality Control Standards," state that it is particularly important for small and medium-sized audit firms to be provided with necessary support from a medium - to long-term perspective, and that the administrative authority should strive to ensure proactive quality management by audit firms through inspections by the CPAAOB, while supporting the efforts of the JICPA.

As part of its efforts to support small and medium-sized audit firms, the CPAAOB delivered a lecture targeting the management of small and medium-sized audit firms during a course titled “*Strengthening Organizational and On-site Capabilities of Audit Firms*” held by the Accounting Education and Training Organization, a general incorporated foundation. In this lecture, the CPAAOB explained its expectations regarding appropriate organizational management.

In addition, the CPAAOB has published the Case Report from Audit Firm Inspection Results and has given presentations on these case studies at training sessions held by regional offices of the JICPA.

Furthermore, based on the Basic Policy for Monitoring in the 8th Term, the CPAAOB continues to place emphasis on inspections of small and medium-sized audit firms, while also supporting them by delivering lectures at seminars and training sessions organized by relevant institutions

B. Recent Trends with Auditing

1. Trends in International Auditing and Assurance Standards and Ethical Standards

The International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), both established within the International Ethics and Auditing Federation (IFEA)²⁸, are engaged in the development of international auditing standards, assurance standards and ethics standards.

Recent major revisions to the International Standards on Auditing (ISA) issued by the IAASB include the revision of ISA 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements. In March 2025, the IAASB Board approved the finalization of the revised standard, which is scheduled to be applied to audits of financial statements for fiscal years beginning on or after December 15, 2026. The revised ISA 240 clarifies the auditor's role and responsibilities in relation to fraud in financial statement audits. It requires auditors to communicate with management and those charged with governance regarding fraud, and to identify matters that they consider to be of particular importance in the audit of the current year's financial statements as Key Audit Matters. The revision of ISA 570 (Going Concern), which sets a 12-month period for management's assessment on going concern from the date of financial statement approval, was finalized at the IAASB Board meeting held in December 2024. The finalized standard was published in April 2025, and is scheduled to be applied to audits of financial statements for fiscal years beginning on or after December 15, 2026. In addition, the IAASB is currently advancing a project to revise ISA 330 (The Auditor's Responses to Assessed Risks) and ISA 520 (Analytical Procedures) alongside the revision of ISA 500 (Audit Evidence), based on public comments received on the exposure draft published in November 2023. The aim of this project is to address key areas such as professional judgment and the maintenance of professional skepticism, consistency between practice and auditor behavior, and the use of technology in obtaining and evaluating the sufficiency and appropriateness of audit evidence. The IAASB plans to publish the exposure draft for these revisions in December 2025.

One of the major recent developments in international assurance standards established by the IAASB is the International Standard on Sustainability Assurance (ISSA) 5000, titled "*General Requirements for Sustainability Assurance Engagements*." A draft of ISSA 5000 was released for public comment in August 2023. Subsequently, in September 2024, the IAASB board approved the finalization of the standard, and it was officially published in November of the same year. ISSA 5000 applies to all assurance engagements related to various types of sustainability information, and to all assurance practitioners, including certified public accountants and others. It covers both limited assurance and reasonable assurance. The standard is applicable to assurance concerning sustainability information for periods beginning on or after December 15, 2026, or sustainability information as of a specific date on or after December 15, 2026.

²⁸ An organization created to replace the International Federation of Accountants (IFAC) and bring under its umbrella the IAASB and IESBA in 2022, in the interest that standard-setters should be independent of professional accountants. Transferring of IAASB and IESBA to IFEA was implemented in January 2023.

A major recent development in the IESBA Code of Ethics established by the IESBA is that, following the approval of revisions at the IESBA board meeting in December 2024, the IESBA published in January 2025 the *International Ethics Standards for Sustainability Assurance Engagements (including International Independence Standards) and Other Revisions to the IESBA Code Relating to Sustainability Assurance and Reporting*, as well as the *Revisions to the IESBA Code Relating to the Use of Work of External Experts*. The former establishes a new part (Part 5) that regulates the independence and ethics of the practitioners, including those who are not professional accountants, who perform sustainability assurance engagements that meet certain criteria. The latter provides guidelines for evaluating the competence, capability, and objectivity of individuals who possess expertise other than that of professional accountants or sustainability assurance practitioners, when their work is used in sustainability assurance. The revisions to the IESBA Code of Ethics relating to assurance engagements will apply to sustainability assurance engagements for fiscal years beginning on or after December 15, 2026, or for sustainability information as of a specific date on or after that same day. The above-mentioned Part 5 will apply to sustainability assurance engagements for fiscal years beginning on or after July 1, 2028, or for sustainability information as of a specific date on or after that date.

2. Revision of the Code of Ethics by JICPA

Referring to revisions made to the IESBA Code of Ethics, the JICPA amended its Code of Ethics in July 2022. Major additions and modifications to individual rules include matters related to compensation and non-assurance activities.

Regarding compensation, audit firms are required to disclose information related to audit fees (audit fees and non-audit fees) when the client of an audit engagement is a business entity with a high degree of social impact ("PIE"). Also, as a safeguard for cases where the firm's fee dependence on PIEs exceeds or is likely to exceed 15% for two consecutive years, pre-audit opinion review is now required, and disclosure of fee dependency becomes mandatory. In addition, in cases where the firm's fee dependence on PIEs continues to exceed or is likely to exceed 15% for five consecutive years, the firm is required to resign after the fifth annual opinion.

For non-assurance engagements, if the client of the audit engagement is a PIE, the audit firm or network firm must not provide non-assurance engagements that could be subject to self-review as a disincentive.

The Cabinet Office Ordinance on Audit Certification of Financial Statements, etc. was also revised to require audit firms to add matters concerning the fees that CPAs or audit firms (including those who belong to the same network as these firms) receive from audited companies (including consolidated subsidiaries and non-consolidated subsidiaries) as descriptions in audit reports.

In July 2024, the JICPA also revised its Code of Ethics. The main revisions include provisions related to the definition of listed entities and public interest entities (PIEs), the definition of engagement teams and regulations concerning group audit engagements, and provisions related to technology (including

a change in terminology related to “confidentiality”). The revised Code of Ethics has been effective since April 1, 2025.

3. Other Trends in Financial Reporting Systems

a Discontinuation of the quarterly disclosure system and its impact on audit firm's operation

The quarterly disclosure system was legislated in June 2006. However, in recent years, economic and social conditions have changed significantly, and the demand for reviewing framework of company's information disclosure is observed. Under these circumstances, the importance of non-financial information related to medium- to long-term corporate value has increased in corporate disclosure. On the other hand, it is pointed out that there are overlaps between quarterly reports based on the FIEA (Quarterly Securities Report) and those based on exchange rules (Quarterly Earnings Report (Tanshin)), and such reports should be reviewed from the viewpoint of cost reduction and efficiency. In light of this, on November 20, 2023, the "Act for Partial Amendment of the Financial Instruments and Exchange Act, etc." was enacted to abolish the quarterly report system and uniformly require companies submitting securities reports to submit semiannual reports.

In November 2023, based on the council of experts, the Tokyo Stock Exchange (TSE) formulated the “Practical Policy Concerning the Revision of the Quarterly Disclosure System” and revised the Securities Listing Regulations in March 2024, making reviews of the first and third quarters by an auditor mandatory only in the following cases.

- 1) A listed company receives a result other than an unqualified opinion in an audit report of their latest Annual Securities Report, Semiannual Securities Report or Quarterly Earnings Report (only if a review has been conducted)
- 2) A listed company receives a result other than an unqualified opinion in an Internal Control Audit Report of the latest Annual Securities Report
- 3) A listed company has significant deficiencies in internal controls that should be disclosed in their latest Internal Control Report
- 4) A listed company does not submit the latest Annual Securities Report or Semiannual Securities Report by the initial deadline
- 5) The Semiannual Securities Report for the current term is amended, and a review report is attached to the amended financial statements

* 1) and 3) are also applicable to cases where the most recent Annual Securities Report, Semiannual Securities Report, Quarterly Earnings Report (only in receiving a review) or Internal Control Report is amended, and the amendment report meets the conditions.

** Except where it is clear that the reliability of financial statements is not in question regarding 4) and 5).

Furthermore, the Business Accounting Council has released "Written Opinion of the proposals to revise the quarterly review standards to the interim review standards". This revision changes

the name of the quarterly review standards to the interim review standards, as it is common to all interim reviews conducted by auditors who audit annual financial statements, including reviews on quarterly earnings reports (kessan tanshin), in addition to reviews on interim financial statements under the revised FIEA. And it also introduces a form of conclusion regarding compliance in addition to the form of conclusion regarding fair disclosure stipulated in the current quarterly review standards.

The differences between the conclusion regarding fair disclosure and the conclusion regarding compliance are described in the Secretariat's materials of the Corporate Accounting Committee of the Business Accounting Council at its 55th meeting held on December 14, 2023.

Both the "Conclusion regarding fair disclosure" and the "Conclusion regarding compliance" require an assessment of whether the accounting policies used by management are in accordance with accounting principles generally accepted in Japan and applied on a consistent basis, whether the choice and application of policies fairly reflects the reality of accounting events and transactions, and whether the interim financial statements are in accordance with accounting principles.

In addition, "conclusions regarding fair disclosure" involves an assessment from a step-away point of view whether the financial statements as a whole are appropriately presented for the users of interim financial statements to understand the financial position and results of operations.

JICPA has published the following practical guidelines for the review of interim financial statements and related matters that require understanding.

- Interim Review Standards Statement No. 1, "Review of Interim Financial Statements Conducted by an Independent Auditor": An amendment to the existing Quarterly Review Standards Report No. 1, "Quarterly Review", responding to the reviews of interim financial statements under the FIEA.
- Interim Review Standards Statement No. 2, "Review of Interim Financial Statements Conducted by the Independent Auditor": Responding to interim reviews other than interim reviews under the FIEA conducted by annual auditors.
- Revision of the Practical Guidelines for Assurance Engagements 2400, "Review of Financial Statements": Responding to interim reviews other than FIEA reviews conducted by auditors other than annual auditors.
- Practical Guidance No. 1 for Interim Review Standards Statement No. 2 "Q&A Regarding Interim reviews of Quarterly Financial Statements, etc. Prescribed by the Securities Listing Regulations of the Tokyo Stock Exchange (Practical Guidance)"
- Revision of the Interim Review Standards Statement No. 1 and No. 2 (Implemented in March 2025): Clarification that specific independence requirements apply to audits of financial statements of certain entities.

- Revision of Practical Guidance No. 1 for Interim Review Standards Statement No. 2 (Implemented in March 2025): Addition of Q&A regarding marginal notes in interim review reports.

According to collection of reports from large-sized audit firms, among the 1,481 audited companies that published their quarterly financial results for the first quarter ended June 30, 2024, 324 companies (21.8%) underwent voluntary reviews. Even in cases where a voluntary review was not conducted, procedures were often performed as part of the annual audit, and it was reported that there were no significant differences in workload or fees compared to cases where a voluntary review was conducted.

According to collection of reports from mid-tier audit firms, among the 618 audited companies that published their quarterly financial results for either the first or third quarter ended June 30, 2024, 176 companies (28.4%) had either already undergone or were scheduled to undergo voluntary reviews. Similar to large-sized audit firms, procedures were often performed as part of the annual audit even when a voluntary review was not conducted. However, some firms noted a slight reduction in workload and fees in such cases.

According to collection of reports from small and medium-sized audit firms (52 firms), among the 374 audited companies that published their quarterly financial results for either the first or third quarter ended June 30, 2024, 96 companies (25.6%) had either already undergone or were scheduled to undergo voluntary reviews. Even when a voluntary review was not conducted, procedures were often performed as part of the annual audit, similar to large-sized and mid-tier audit firms. However, 115 companies (30.7%) were reported as having no such procedures performed, and some firms noted a reduction of more than 10% in workload and fees in these cases.

According to the collection of reports, the abolition of the quarterly reporting system has had the following practical impacts:

- Even when a voluntary review is not conducted, audited companies may request a check of figures disclosed in the quarterly financial results. In response, some firms accept such requests as simplified review, others enter into new voluntary review agreements, while some decline the requests altogether.
- When auditor involvement shifts from quarterly to semi-annual, some firms express concerns about reduced timeliness and depth of communication with audited companies. Additionally, delays in understanding the business environment and the concentration of audit work during the half-year and year-end periods are also cited as concerns.
- Some firms report that by deprioritizing companies without voluntary review agreements, they have gained more flexibility in assigning audit personnel and scheduling audit work internally.
- There are concerns that the likelihood of corrections to quarterly financial results may

increase, and that signs of fraud may be detected later, potentially requiring additional procedures during the annual audit.

CPAFOB will continue to monitor the impact of the abolition of the quarterly disclosure system on audit practices.

b Submission of the Annual Securities Report Prior to the Shareholders' Meeting

In March 2025, the Minister for Financial Services issued a request titled "Appropriate Information Disclosure Prior to the Shareholders' Meeting" to all listed companies. The request indicated that the most desirable timing for submitting the annual securities report would be at least three weeks prior to the shareholders' meeting. However, taking into account the practical burden on companies, the request encouraged companies to begin by considering submission a day or several days before the meeting starting this year. FSA stated that, while aiming to reduce the burden on companies, it would monitor the submission status of annual securities reports for fiscal years ending March 2025 and beyond and consider conducting reviews of the reports.

The annual securities report review is a framework for examining the appropriateness of disclosures in securities reports and promoting enhanced disclosure quality. It has traditionally been conducted jointly by the Financial Services Agency and Local Finance Bureaus. The review consists of three main components: (1) reviews related to legal amendments, (2) thematic reviews, and (3) reviews utilizing various information sources.

In this context, the recent request titled "Appropriate Information Disclosure Prior to the Shareholders' Meeting" will be addressed through an in-depth thematic review, taking into account responses to the questionnaire related to legal amendments. The review related to legal amendments covers changes in laws and regulations and applies to all companies submitting securities reports. The thematic review focuses on specific topics, selecting target companies for more detailed examinations. Companies, subject to this review receive individual questionnaires from their respective Local Finance Bureaus.

For this review, companies submitting annual securities reports are expected to respond to the legal amendment-related questionnaire by selecting one of five options. Among these, companies that choose one of the following responses (i) that they plan to submit the annual securities report prior to the shareholders' meeting starting from the fiscal year ending March 31, 2027 or later; (ii) that they do not plan to submit the report prior to the shareholders' meeting for the time being; or (iii) "Other" will be asked to provide additional explanations or reasons in the questionnaire.

In June 2025, the FSA presented materials at the third meeting of the Liaison Council for Preparing the Environment for Disclosure of Annual Securities Reports Prior to Shareholders' Meetings. According to the materials, out of 2,262 listed domestic companies with fiscal years

ending March 2025, 1,241 companies indicated that they plan to disclose their annual securities reports prior to the shareholders' meeting, representing 54.9% of the total.

Large-sized audit firms have expressed the following views regarding the impact of submitting annual securities reports prior to the shareholders' meeting on audit operations:

- There may be a need to shorten the audit period for the annual securities report, requiring earlier identification of audit procedures that can be brought forward, and more proactive pre-discussions and resolutions regarding new disclosures and topics.
- Audited companies need to consider the overall schedule for the shareholders' meeting and the preparation of the securities report and establish a cooperative framework with auditors based on mutual agreement.
- Many firms have received requests to advance the timing of audit report submission, presenting challenges in securing audit resources, revising audit schedules, and confirming earlier preparation efforts by audited companies.
- If the report is submitted a day or a few days before the shareholders' meeting, it is expected that there will be no significant impact on the firm's operations.
- In cases where the audit schedule must be significantly advanced, beyond just a few days before the shareholders' meeting, firms indicate that it will be necessary to conduct prior meetings focused on matters amended by laws and regulations, and to perform early checks of disclosure skeleton drafts (drafts containing only qualitative information, with quantitative data left blank). They also highlight the need to address differences in disclosure content compared to cases where the report is submitted after the shareholders' meeting, particularly with regard to reviewing sections other than "Financial Statements."

CPA AOB will continue to monitor the impact of submitting annual securities reports prior to the shareholders' meeting on audit practices.

■ Introduction of new lease accounting standards ■

A lease transaction refers to an arrangement in which a company rents and uses a specific asset such as a building, machinery, or vehicle for a fixed period. In this arrangement, the leasing company owns the asset, and the company ("lessee") obtains the right to use the asset by paying lease fees.

In Japan, the accounting standards for lease transactions were established in 2007 with the issuance of the Accounting Standard for Lease Transactions (ASBJ Statement No. 13) and the Guidance on Accounting Standard for Lease Transactions (ASBJ Guidance No. 16). These standards, collectively referred to as the "former lease accounting standards," were consistent with international accounting standards at the time.

Under the former lease accounting standards, lease transactions were classified into finance leases and operating leases. A finance lease is a transaction in which the leasing company purchases the asset on behalf of the lessee and leases it to the lessee. These leases are non-cancellable during the lease term, and the lease payments cover almost the entire cost of the asset and related expenses. In contrast, an operating lease transaction is more similar in nature to a typical rental agreement. Only finance lease transactions were required to be recorded as assets and liabilities on the balance sheet.

However, in January 2016, the International Accounting Standards Board (IASB) issued IFRS 16 "Leases," which requires lessees to recognize all lease transactions as assets and liabilities on the balance sheet. As a result, differences arose between Japanese accounting standards and international standards, particularly in the recognition of liabilities. This discrepancy raised concerns about potential issues in international comparability.

In response, the Accounting Standards Board of Japan (ASBJ) began developing a new accounting standard that would require lessees to recognize all lease transactions as assets and liabilities on the balance sheet. Since March 2019, ASBJ has been conducting thorough deliberations on this matter.

In September 2024, the ASBJ issued the Accounting Standard for Leases (ASBJ Statement No. 34) and the Guidance on Accounting Standard for Leases (ASBJ Guidance No. 33), collectively referred to as the "new lease accounting standards." Under these new standards, the term "lease transactions" was revised to simply "leases," and, in principle, all assets and liabilities arising from leases must be recorded on the balance sheet.

The new lease accounting standards apply to companies subject to disclosure under the FIEA, including listed companies, their subsidiaries and affiliates, as well as large companies under the Companies Act. The standards will be effective from the beginning of the consolidated fiscal year or business year starting on or after April 2027, with early adoption permitted from the beginning of the fiscal year or business year starting on or after April 2025.

Under the new lease accounting standards, the definition and identification criteria for leases have been revised. A transaction is identified as a lease based on three key considerations: (1) whether the asset can be specifically identified, (2) whether the party has the right to obtain economic benefits from the asset, and (3) whether the party has the right to direct the use of the asset.

As a result, companies subject to the new standards must begin by collecting relevant contracts and reviewing each one to determine whether they qualify as a lease. Furthermore, to support audit procedures, they are required to prepare documentation that records the basis for their lease determinations. Therefore, in order to accurately identify transactions subject to the new lease accounting standards and to ensure appropriate accounting treatment, companies are required to implement accounting systems and revise their business processes, accordingly. In particular, identifying applicable transactions imposes a significant workload on companies. However, some audit firms are working to reduce this burden by developing generative AI tools that assist in determining whether a transaction falls within the scope of the new standards.

In preparation for the implementation of the new lease accounting standards, companies subject to the standards are expected to make prompt and thorough preparations. At the same time, audit firms must also respond to the increased scope of contracts subject to audit, the greater complexity of accounting treatments, and the resulting increase in audit workload, while also enhancing their professional expertise as auditors.

C. Trends in Sustainability Disclosure and Assurance

1. Trends in Disclosure of Sustainability Information

In recent years, there has been a continued emphasis on sustainability information in corporate management and investors' decisions, and non-financial information related to medium - to long-term corporate value has become increasingly important. Non-financial information is expected to contribute not only to corporate management and investment decisions, but also to direct capital toward companies that are actively engaged in addressing social issues related to climate, nature, human rights and the exclusion of marginalized groups, thus embedding such efforts in society in terms of the financial system.

Until recently, the mainstream of disclosure of sustainability information has been conducted voluntarily such as integrated reports; however, both in Japan and internationally, discussions are progressing toward the establishment of disclosure standards that stipulate specific reporting requirements.

Internationally, the International Sustainability Standards Board (ISSB) finalized Standard S1 (IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information) and Standard S2 (IFRS S2 Climate-related Disclosures) in June 2023. These standards have been applied from financial years beginning on or after January 2024. While many countries are in the process of developing their own standards equivalent to those issued by the ISSB, some have already begun, or are planning to begin, direct application of the ISSB standards.

In Japan, the disclosure of sustainability information began with annual securities reports for fiscal years ending on or after March 31, 2023. To enable disclosures based on specific standards, the Sustainability Standards Board of Japan (SSBJ) finalized and published its sustainability disclosure standards on March 5, 2025. These standards consist of three documents: the Universal Sustainability Disclosure Standard “Application of the Sustainability Disclosure Standards” (“Application Standard”), the Theme-based Sustainability Disclosure Standard No. 1 “General Disclosures” (“General Standard”), and the Theme-based Sustainability Disclosure Standard No. 2 “Climate-related Disclosures” (“Climate Standard”). Much of the content is aligned with the standards issued by the International Sustainability Standards Board (ISSB). For example, the Application Standard includes fundamental elements such as the reporting period and timing, which correspond to parts of the ISSB’s S1 standard. The General Standard and the Climate Standard outline the core content regarding sustainability-related risks and opportunities. The Climate Standard focuses on climate-related risks and opportunities, while the General Standard covers other types of risks and opportunities.

In preparation for the introduction of sustainability disclosure standards and assurance systems in Japan, discussions have been underway since March 2024 within the Financial System Council’s Working Group on Disclosure and Assurance of Sustainability-related Financial Information (“Sustainability WG”). These discussions are centered around companies (particularly those listed on the Prime Market of the Tokyo Stock Exchange) that are engaged in constructive dialogue with global investors. Specific topics under consideration include the scope of application, the timing of

implementation and transitional measures, and the handling of responsibilities and safe harbor provisions in cases of false statements.

Although sustainability disclosure is being newly introduced or expanded in countries outside Japan, there are also signs of regulatory easing in some regions due to concerns over regulatory burdens and changes in political leadership. For example, in the United States, the Securities and Exchange Commission (SEC) finalized its climate-related disclosure rule in March 2024, requiring all SEC-registered domestic and foreign companies to disclose climate-related information. The rule was designed to be phased in from 2026, depending on company size. However, following a series of lawsuits challenging the rule, the SEC decided in April 2024 to suspend its enforcement until judicial decisions are finalized.²⁹ Meanwhile, at the state level, there are movements to require climate-related disclosures from companies that meet certain criteria.

In the European Union, the Corporate Sustainability Reporting Directive (CSRD), which came into effect in January 2023, requires companies to disclose and assure sustainability reports. The timing of its application is set in phases depending on whether a company is listed or unlisted, and on its size. Starting with the fiscal year 2024, the directive has been applied to “large companies”³⁰ located in the EU such as listed companies with more than 500 employees. Subsequently, in February 2025, the European Commission published two legislative proposals known as the “Omnibus Package,” aimed at simplifying sustainability-related regulations. These proposals were designed to reduce the regulatory burden on EU companies and enhance their global competitiveness. The proposed legislation includes measures to reduce the burden on companies, such as a two-year postponement of the application timeline for companies that have not yet become subject to reporting obligations³¹, a narrowing of the scope of applicable companies through changes to the threshold criteria, and a decision not to proceed with a future transition to reasonable assurance for sustainability reporting.³²

2. Trends in Assurance on Sustainability Disclosures

a Expansion of non-financial information disclosure

It is also useful for investors and other stakeholders to ensure standards for the disclosure of sustainability information so that disclosure of each company has a certain degree of consistency and increase the reliability of information through assurance by a third party. In recent years, amid growing interest in a sustainable society, there has been an increase in sustainability-themed finance such as ESG investment. At the same time, society is also paying attention to information dissemination that may cause misleads among stakeholders, such as

²⁹ In March 2025, the SEC announced that it had withdrawn its defense of the climate-related disclosure rule in the ongoing litigation.

³⁰ A company is considered a “large company” and subject to the applicable regulations if it meets at least two of the following three criteria: (1) Net assets exceeding 25 million euros, (2) Net sales exceeding 50 million euros, (3) Number of employees exceeding 250.

³¹ For large companies other than those classified as “Wave 1” (i.e., listed companies with more than 500 employees to which the CSRD began applying from the fiscal year 2024), referred to as “Wave 2,” the application of the directive is scheduled to be postponed to the fiscal year 2027. For listed small and medium-sized enterprises (excluding micro-enterprises), referred to as “Wave 3,” the application is expected to begin in the fiscal year 2028.

³² Among the proposals in the Omnibus Package, the postponement of the application timeline was approved by the European Parliament and the Council of the European Union in April 2025 and has already entered into force.

greenwashing.

To ensure the quality of third-party assurance on sustainability information, the ISSA 5000 standard published by the IAASB in November 2024 allows for application to all assurance providers, including non-professional accountants. The standard assumes that members of the engagement team and EQC reviewers will apply IESBA standards or at least equivalent or higher requirements for assurance engagements, and that the engagement practitioner is a member of a firm that is subject to ISQM1 or at least equivalent or higher requirements. Furthermore, ISSA 5000 sets out requirements and application guidance for each component of the assurance process, from the acceptance and continuance of engagement contracts to the preparation of assurance reports.

Also, in December 2024, IESBA finalized the “International Ethics Standards for Sustainability Assurance (Including International Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting” and “Using the Work of an External Expert”. For more information, see ["B. Recent Trends with Auditing, 1. Trends in International Auditing and Assurance Standards and Ethical Standards"](#).

In Japan, discussions are underway regarding the introduction of an assurance system for sustainability information disclosed in annual securities reports. These discussions are taking place within the Sustainability WG and its subcommittee, the “Expert Group on Assurance of Sustainability Information” (“Expert Group”). The Sustainability WG is examining broad policy directions, such as the scope and level of sustainability assurance and the types of entities that should be responsible for conducting assurance engagements. Meanwhile, the Expert Group is engaged in more detailed deliberations on the specific rules that should apply to assurance practitioners, including registration requirements, responsibilities and liabilities, and assurance standards related to sustainability information. The outcomes of the Expert Group’s discussions are reported to the Sustainability WG. At the sixth meeting of the Sustainability WG, held in June 2025, an interim report on the progress of these discussions was presented.

Regarding international developments, in Europe, large companies that began reporting under the CSRD from the fiscal year 2024 are required to obtain limited assurance at the same time as the disclosure obligations take effect. In addition, as mentioned earlier in section 1., the Omnibus Package includes a proposal to postpone the application timeline by two years for companies other than those classified as “large companies” under the CSRD.³³ It also proposes to continue with limited assurance and not to transition to reasonable assurance in the future. On the other hand, in the United States, the SEC’s climate-related disclosure rule includes provisions for transitioning from limited assurance to reasonable assurance for sustainability

³³ For foreign companies such as parent companies located outside the EU that have subsidiaries or branches within the EU, the start date for limited assurance has not been postponed, and its introduction is scheduled to begin from the fiscal year 2028.

information. However, enforcement of this rule was suspended in April 2024.³⁴

b Response by Audit Firms

Regarding assurance of sustainability information, investors have expressed a desire for enhanced reliability of sustainability information. In response, audit firms that have accumulated experience in providing assurance through financial audits are taking the following actions.

Large-sized audit firms, either directly or through their group entities, are providing advisory services related to sustainability information. In addition, they conduct voluntary assurance engagements on sustainability information as an accredited assurance body of the Japanese Association of Assurance Organizations for Sustainability Information.³⁵ In addition, a department has been established to promote the sustainability information assurance engagements, which promotes collaboration between audit-related departments and non-financial information specialists, and also allows audit staff to accumulate practical experience by engaging in the assurance of sustainability information.

Furthermore, those firms have developed a system of assurance procedures in collaboration with global network, formulated rules for quality control, and put in place the system of quality management including EQ reviews. Within global networks, audit procedures are being revised in line with ISSA 5000, which was finalized in November 2024. Some firms have begun receiving information from their global networks, and others have started using tools developed within those networks to improve the efficiency and standardization of assurance engagements. Human resources development for sustainability assurance engagements at large-sized audit firms is relatively well-developed among audit firms in Japan. Some firms have implemented structured training programs that combine learning and practical experience and require audit practitioners to complete these programs as mandatory training. In certain cases, firms have also introduced certification system for sustainability disclosure and assurance professionals.

Many mid-tier audit firms have formed project teams to gather information and provide training within the firm. In some cases, dedicated departments have been established to promote assurance engagements for sustainability information. To strengthen human resources, many firms support the registration of their staff as certified reviewers with the Japanese Association of Assurance Organizations for Sustainability Information. Collaboration with global networks is also active, including collecting information on international developments and providing training content. However, some firms report that they do not receive support from their global networks. Additionally in certain cases, advisory firms within the same group are engaged in supporting sustainability disclosures and conducting voluntary assurance engagements. Through these

³⁴ Subsequent developments are the same as those described in Footnote 32.

³⁵ The Japanese Association of Assurance Organizations for Sustainability Information is a general incorporated association. Its predecessor was the Japan Environmental Information Review Association, which was established in 2005 for the purpose of ensuring the reliability of reviews of environmental reports, etc. and contributing to the improvement of reliability of environmental reports, etc. by realizing efficient and effective reviews. The association has six accredited review organizations.

practical activities, know-how is being accumulated within domestic group entities. At the same time, some firms are still in the process of developing the necessary systems, manuals, and guidance for conducting assurance engagements.

Regarding small and medium-sized audit firms, we gathered information on the status of engagement with assurance services for non-financial information through collection of information from 52 small and medium-sized audit firms.

Among the firms that responded, most indicated that they were "interested in assurance engagements related to non-financial information and making specific consideration within the firm such as gathering information". These firms reported gathering information through training sessions hosted by professional associations or global networks. Some have established internal structures to consider assurance services for sustainability information, participated in training provided by associations or global networks, or engaged in activities such as those organized by the Sustainability Information Support Committee for Small and Medium-Sized Firms.

In addition, 85% of firms responded that they were either "interested in assurance engagements on non-financial information but have not yet considered specifically," or "not interested in assurance engagements on non-financial information, and do not intend to respond even if consulted." Among these, 27% noted a lack of management resources as a reason, while 15% stated that they had not begun specific discussions because none of their audit clients are currently subject to mandatory third-party assurance requirements.

■ The impact of political developments in various countries on corporate accounting and audit industry ■

In recent years, elections have been held in many countries around the world, resulting in the formation of governments that advocate conservative and protectionist policies. These political developments have had a certain impact on corporate accounting and the audit industry.

For example, in June 2024, elections for the European Parliament, the legislative body of the European Union (EU), were concluded. In countries such as France and Germany, parties promoting nationalist policies increased their number of seats, and far-right groups also gained more seats within the European Parliament. This outcome was largely driven by the economic stagnation in EU member states, particularly France and Germany, and is closely linked to the growing support for protectionist policies aimed at enhancing the growth and competitiveness of the EU, including their domestic companies. In response to this situation, the European Commission, under the supervision of the European Parliament, published “Omnibus Package” in February 2025 aimed at simplifying sustainability-related regulations and reduce the burden on companies. As a result, Japanese companies operating within the EU are now required to reconsider their approach to sustainability-related disclosures. Likewise, audit firms have also had to revise their engagement plans concerning the assurance of sustainability information.

In November 2024, the United States held both presidential and congressional elections. The Republican Party won the presidency and secured a majority in both houses of Congress. The party, which advocated anti-liberal and conservative policies, including protectionist policies such as “America First.” These policies gained a certain level of support from the public who were dissatisfied with issues such as undocumented immigrants allegedly taking away job opportunities, and the continued rise in prices. Immediately after the inauguration of the new president in January 2025, an executive order titled “Ending Illegal Discrimination and Restoring Merit-Based Opportunity” was issued in the aim of eliminating DEI (Diversity, Equity, Inclusion) programs in U.S. government agencies. Some U.S. member firms of the Big Four global networks, which had provided extensive consulting services to U.S. government agencies, responded to this executive order by abolishing their internal DEI programs. The Big Four global networks had previously promoted DEI programs partly to address the shortage of certified public accountants. For example, by opening doors to all minorities, ensuring equal opportunities for promotion and advancement, and publicly communicating that they accept individuals without discrimination as members of their organizations, they aimed to attract more CPA candidates. The recent developments represent a reversal of that approach.

Furthermore, in the United States, protectionist policy management under the new administration have become more prominent. In February 2025, additional tariffs on imports from China came into effect, and in April 2025, the introduction of reciprocal tariffs was announced. Under this policy, an additional 10% tariff would be applied to all imported goods from every country, with further tariff increases planned for countries and regions with large trade deficits. As a result, although the situation had stabilized by the end of June of the same year, the policy led to significant fluctuations in exchange rates and U.S. interest rates, thereby increasing uncertainty and opacity in the economic environment and having a major impact on the business operations of Japanese companies. In response to this situation, large-sized audit firms, in coordination with their global networks, have been disseminating internal materials and information regarding accounting and audit considerations. Specifically, they have indicated necessary audit responses such as reviewing risk assessments considering the impact on the business plans of audited companies, and examining accounting estimates, including impairment of goodwill and fixed assets.

In May 2025, the U.S. House of Representatives passed a budget reconciliation bill commonly referred to as the “One Big Beautiful Bill Act”, which includes provisions aimed at making income tax cuts permanent, introducing tax exemptions for tips and overtime income, and increasing funding for border security and immigration measures. One notable provision in the bill calls for the transfer of the PCAOB’s responsibilities and authority to the SEC within one year of the bill’s enactment, effectively proposing the dissolution of the PCAOB. As of the end of June 2025, the bill remains under deliberation in the U.S. Senate. If enacted, a key concern will be whether the SEC can effectively replicate the PCAOB’s functions such as oversight and inspection of audit firms and the development of auditing standards without compromising quality. Some audit oversight authorities in Europe have expressed reservations regarding this point. Large-sized audit firms that conduct audit engagements subject to PCAOB inspection have been preparing to comply with the PCAOB’s newly issued quality control standard- QC1000 and are closely monitoring developments in the Senate’s deliberations.³⁶

³⁶ As of the end of June 2025, the provision calling for the dissolution of the PCAOB does not meet the requirements of Senate rules for

CPAAOB has stated that it will continue to monitor how political developments in various countries may affect corporate accounting and the auditing profession through its oversight of audit firms.

inclusion in budget-related legislation. This is because the PCAOB is funded by public companies and does not contribute to federal budget reductions, and the SEC does not have the budgetary capacity to absorb the PCAOB. Accordingly, there are indications that this provision may be separated from the budget reconciliation bill and reconsidered independently.

(Reference materials)

1. Links to monitoring-related documents

Basic Policy for Monitoring Audit Firms

<https://www.fsa.go.jp/cpaaob/english/oversight/20251015/20251015.html>

Basic Plan for Monitoring of Audit Firms (Program Year 2025)

<https://www.fsa.go.jp/cpaaob/english/oversight/20251015-2/20251015-2.html>

Basic Guidelines for Inspections

<https://www.fsa.go.jp/cpaaob/shinsakensa/kihonkeikaku/20240626-1/20240626-1.html>

List of Recommendations

<https://www.fsa.go.jp/cpaaob/shinsakensa/kankoku/index.html>

Framework for Inspection/Supervision of Foreign Audit Firms, etc.

<https://www.fsa.go.jp/cpaaob/english/shinsakensa/kouhyou/20090914.html>

Basic Guidelines on Information Requirements and Inspection on Foreign Audit Firms etc.

<https://www.fsa.go.jp/cpaaob/english/oversight/20240626/20240626.html>

Annual Report of the CPAAOB (Fiscal Year 2024)

<https://www.fsa.go.jp/cpaaob/shinsakai/reports/06/gaiyou/gaiyou.html>

Case Report of Audit Firm Inspection Results (Program Year 2025)

<https://www.fsa.go.jp/cpaaob/shinsakensa/kouhyou/20250707/20250707.html>

Disclosure of inspection results, etc. to third parties

<https://www.fsa.go.jp/cpaaob/shinsakensa/kouhyou/20240626/20240626.html>

Self-Regulation Report 2024 -Quality Control Review System- (JICPA)

<https://jicpa.or.jp/english/what-we-do/qc/#qualityControl3>

2. Links to related organizations

Certified Public Accountants and Auditing Oversight Board website

<https://www.fsa.go.jp/cpaaob/english/index.html>

Financial Services Agency website

<https://www.fsa.go.jp/en/index.html>

The Japanese Institute of Certified Public Accountants website

<https://jicpa.or.jp/english/>

Japan Exchange Group website

<https://www.jpx.co.jp/english/>

Sustainability Standards Board of Japan (SSBJ) website

<https://www.ssb-j.jp/en/>

US Public Company Accounting Oversight Board (PCAOB) website

<https://pcaobus.org/>

International Forum of Audit Regulators (IFIAR) website

<https://www.ifiar.org>

International Federation of Accountants (IFAC) website

<https://www.ifac.org>

International Auditing and Assurance Standards Board (IAASB) website

<https://www.iaasb.org>

International Ethics Standards Board for Accountants (IESBA) website

<https://www.ethicsboard.org>

International Sustainability Standards Board (ISSB) website

<https://www.ifrs.org/groups/international-sustainability-standards-board/>

International Organization of Securities Commissions (IOSCO) website (press release related to sustainability guarantees)

<https://www.iosco.org/news/pdf/IOSCONEWS686.pdf>



**Certified Public Accountants
and Auditing Oversight Board**

<https://www.fsa.go.jp/cpaaob/english/index.html>