

2025 Monitoring Report Key Points

July 2025

Certified Public Accountants and
Auditing Oversight Board



About the 2025 Monitoring Report

Refer to
P1

Purpose of Publication

- 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 this report for the purpose of promoting understanding within our society of the importance of audits by providing easy-to-understand and relevant information that is centered on the circumstances and the results of the CPAAOB's monitoring activities and encompasses the current state and changes in the environment surrounding the audit sector.

Composition

- The Report comprises the following four sections (I – IV).

I. Overview of the Audit Sector

- Overview of the audit sector as a whole through presenting the developments of the number of CPAs, audit firms, and audited companies etc.

II. Monitoring by the CPAAOB

- A whole picture of the CPAAOB's monitoring activities including inspections

III. Operation of Audit Firms

- Operation of audit firms including the structure, digitalization, and group audit
- Current situation of change of auditors, and trend of audit fees change caused by auditor change

IV. Responses to the Changes in the Global Environment Surrounding Audits

- Trends in institutional reforms in light of recent changes to the audit environment

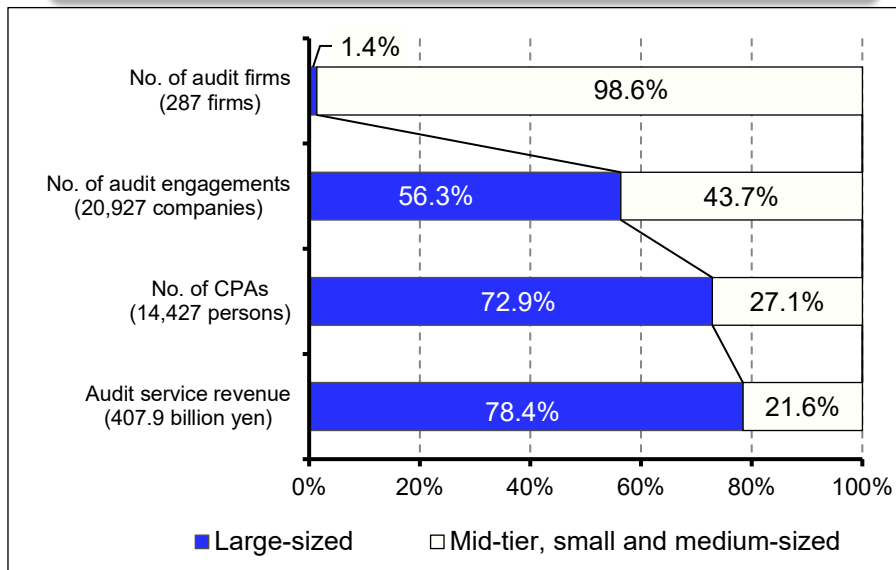
* Include topics that will attract readers' interest in columns within each section.

Concentration of Audit Engagements at Large-Sized Audit Firms

Refer to
P29-31

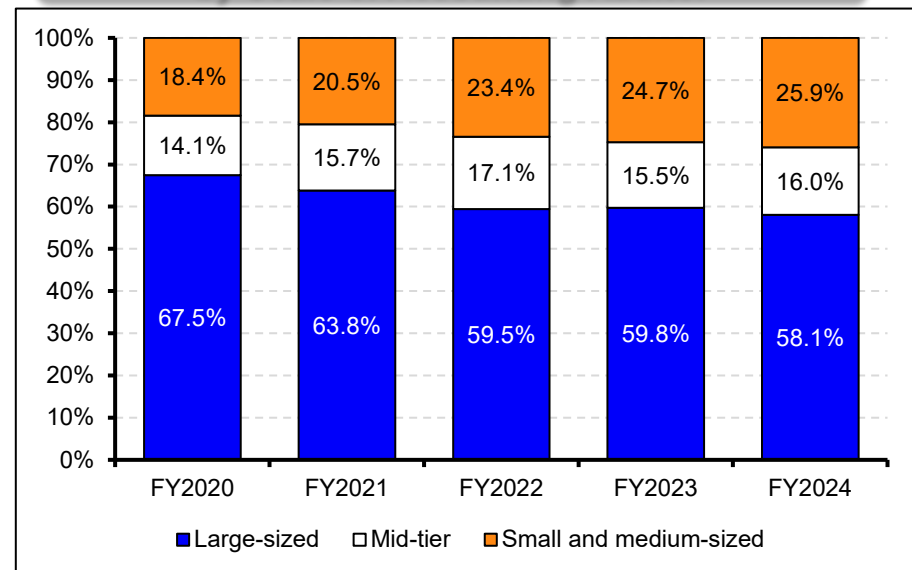
- Approximately 78% of audit service revenue is concentrated in the large-sized audit firms.
- In recent years, the share of large-sized audit firms has been declining in terms of both the number of audit engagements and audit service revenue.
- Similar market concentration trends are observed in the United states and the UK.

Market Share by Type of Audit Firm (FY2023)



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

Number of Listed Domestic Companies by Scale of Accounting Auditor



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

Big Four Global Networks' Share of audit Engagements for Major Listed Companies (Based on Number of companies)

Refer to
P 95

	Japan	United States	UK
Big Four global networks' share	97%	99%	89%

(Note) Shares were calculated based on the numbers of companies included in the following stock indexes:
 Japan: Nikkei225
 United States: S&P500
 UK: FTSE350

System of Quality Management

- To ensure audit quality, it is important that audit firms develop/operate appropriate quality management structures to serve as a foundation for having their partners perform audit services properly.
- "The Quality Control Standards for Audits" were established in 2005 for audit services and were later revised in November 2021, reflecting the introduction of the "International Standard on Quality Management 1" (ISQM1) and related developments ("Revised Standards").
- Audit firms are required to comply with professional ethics not only in audit engagements but also in non-audit services.

Concept of the Revised Standards

- While the former Standards required to develop determinate policies and procedures uniformly, the revised Standards introduces risk-based approach requiring audit firms to:

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

Components of the Revised Standards

- 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 implementation of services
- e. Engagement performance
- f. Resources for operational management of the audit firm
- g. Information and communication
- h. Monitoring of the systems of quality management and improvement process
- i. Succession among audit firms

Effective Date of Revised Standards of Quality Control for Audits

Large-Sized Audit Firms*

Apply to audits of financial statements for business year or accounting period on or after July 1, 2023.

* Audit firms that provided audit and attestation services to more than 100 listed companies, etc. in the most recent fiscal year (Article 24 of the Ordinance for Enforcement of the CPA Act)

Other than Large-Sized Audit Firms

Apply to audits of financial statements for business year or accounting period on or after July 1, 2024.

Progress at Large-Sized & Mid-Tier Audit Firms

- In response to ISQM1 and other standards that came into effect in December 2022, firms have worked in coordination with global networks. All firms have adopted the revised standards.
- While considering the quality objectives and risks set by global networks, firms have added evaluation items based on the revised standards to fulfill the required components.
- Large-sized and most mid-tier firms have conducted comprehensive evaluations regarding their compliance with the revised standards.
- Efforts are being made to embed the system of quality management into daily operations and prevent it from becoming a mere formality.

Progress at Small and Medium-Sized Audit Firms

- Since the revised standards came into effect, firms have been working to develop systems and regulations.
- Around 25% of firms spent the most time setting quality objectives, 20% on developing governance and leadership rules, and 15% on reviewing all quality management rules.
(Based on the results of the collection of reports from 52 small and medium-sized audit firms in PY2024)

Monitoring of the Systems of Quality Management

Periodic Inspections of Audit Engagements

- A procedure to confirm that audit teams have conducted their engagements in accordance with the system of quality management established by the audit firm. Conducted every few years for each completed engagement by the audit partner (e.g., every three years).
- The number of inspections, reviewers, and tools used varies depending on the size of the audit firm.
 - Reviewers Large-sized audit firms: around 20 to 200, Mid-tier audit firms: around 15 to around 20, Other: 1 to around 20.
- Regardless of the size, audit firms share the results and identified deficiencies with all partners and staff through internal training to enhance risk awareness.

Utilization of Global Networks

- The Big Four global networks require their member firms in each country to follow a detailed audit manual and conduct global reviews to confirm compliance with the manual. Large-sized audit firms and some mid-tier audit firms undergo these reviews annually.
- Outside the Big Four, global networks apply more flexible rules regarding compliance with their audit manual, and the nature and frequency of global reviews vary widely.

Monitoring Before Audit Opinion Issuance

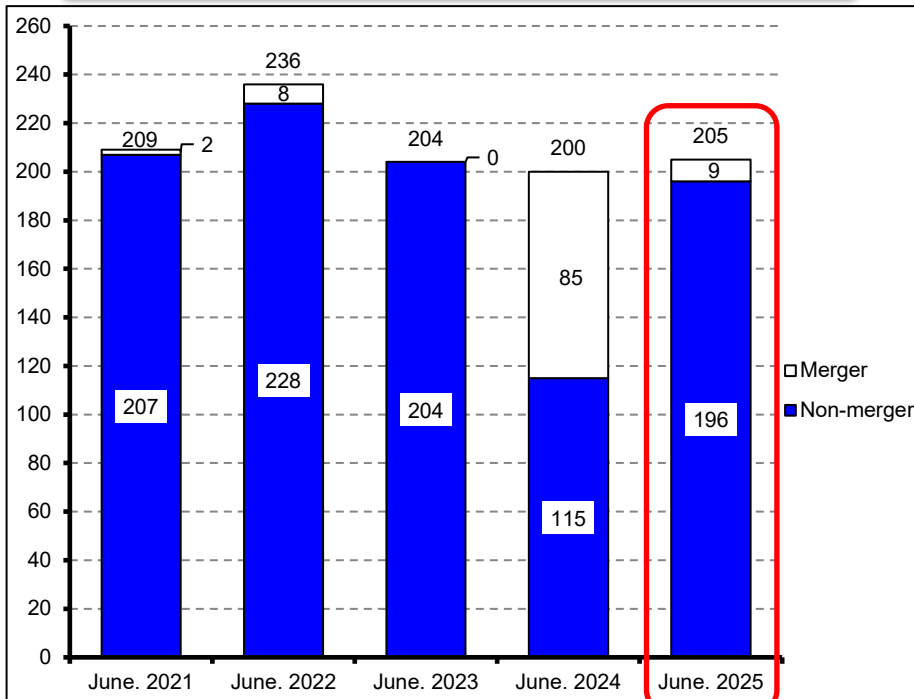
- In recent years, especially large-sized audit firms have implemented this monitoring to improve audit quality.
- It focuses on ongoing audit engagements to identify issues early and encourage timely responses from engagement teams.
- This monitoring is often applied to high-risk areas, such as fraud.

Changes of Accounting Auditors (1/2)

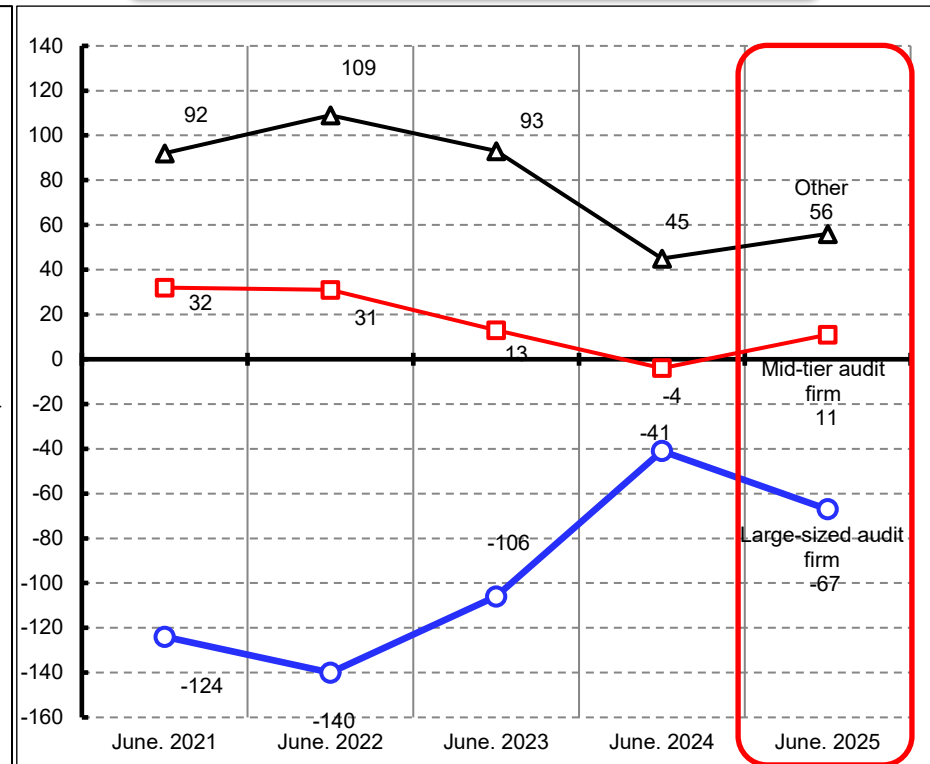
Refer to
P 111-112

- There were 205 changes in accounting auditors. The total number of cases has remained a roughly the same level for the past three years.
- By firm size, the trend of switching from large-sized audit firms to mid-tier/small and medium-sized audit firms had been declining since peaking in the year to June 2022, but turned upward again in the year to June 2025.

Number of Listed Domestic Companies Changed Audit Firms (unit: companies)



Changes by Size of Audit Firm (unit: companies)



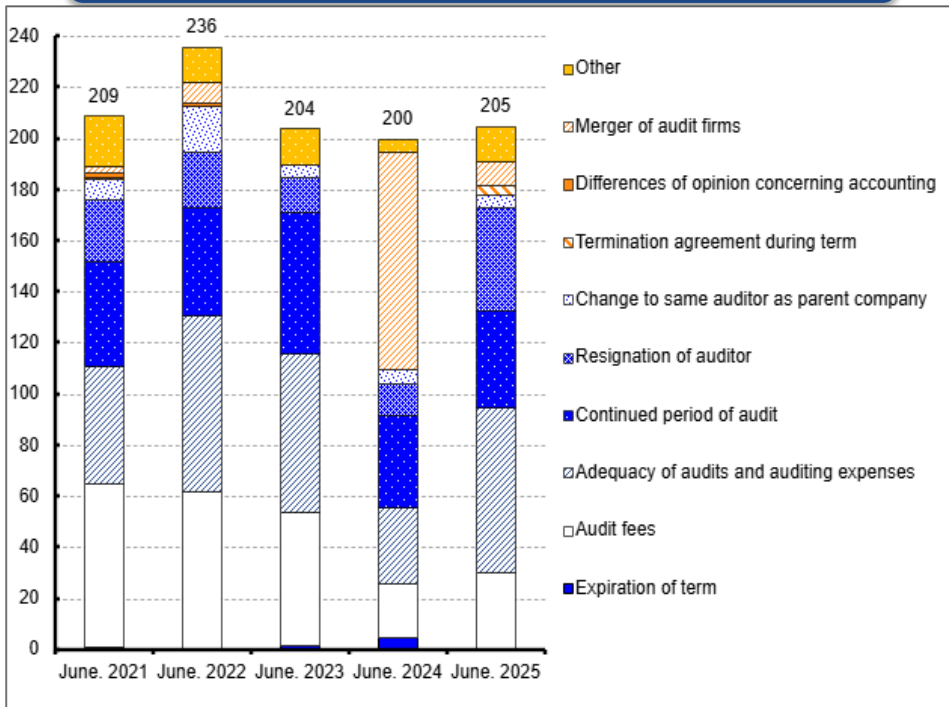
(Note) The figures above show the number of companies that had decided on an incoming auditor by the end of June of each period, based on timely disclosures of listed domestic companies.

Changes of Accounting Auditors (2/2)

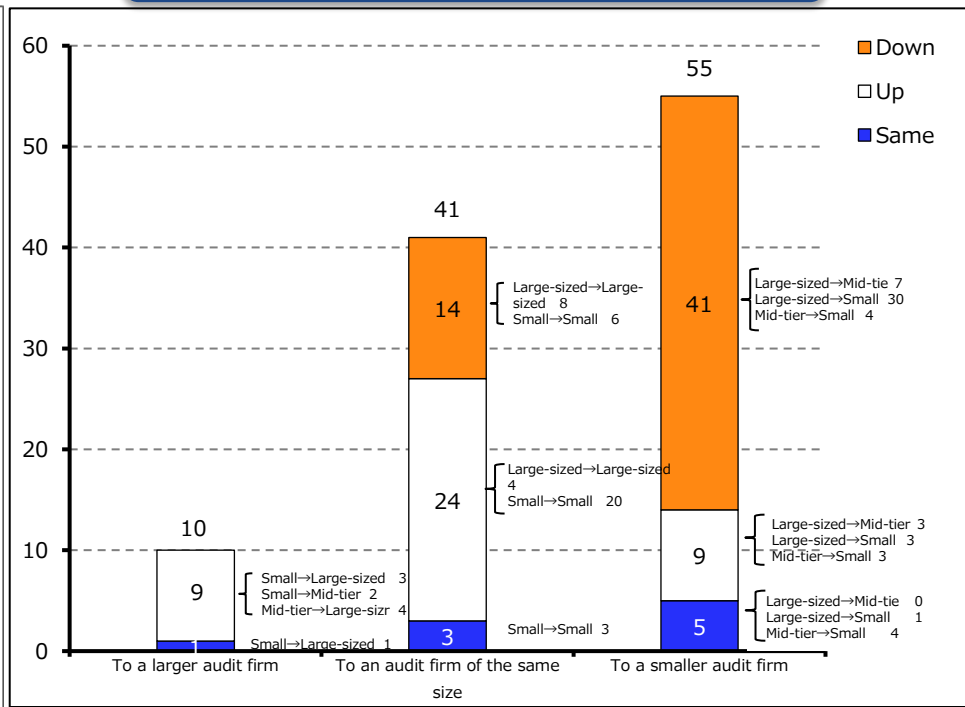
Refer to P 113-114,117-118

- In the year to June 2024, many cases cited increase audit fees, audit responses and appropriateness of audit fees suitable for the scale of the company's business, and the prolonged audit period as reasons for auditor changes.
- More cases were being reported where current auditors decline audit contract renewals. Some cases cite the anticipated increase in audit workload without sufficient personnel as the reason, while others cited the failure to obtain registration as an auditor for listed companies.
- About 70% of changes to smaller audit firms led to lower fees. Among these, changes from a large-sized audit firm to a small and medium-sized audit firm saw fee reductions in around 90% of cases.

Reasons for Changes in Accounting Auditors by Listed Domestic Companies (unit: companies)



Audit Fees Following Changes in Accounting Auditors (unit: companies)



(Note1) Complied by the CPAAOB 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.
(Note1) Based on changes in accounting auditors between July 2023 and June 2024 where the audit fees before and after the changes were publicly disclosed.
(Note2) Prepared by the CPAAOB based on timely disclosures of changes in accounting auditors and security reports submitted by June 2025
(Note3) Breakdowns of these changes are shown in the graph.

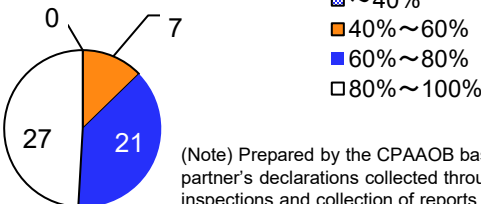
Side Businesses by Partners and Part-Time Personnel

Side Business by Partners

- Large-sized audit firms do not permit side businesses by partners at tax accountant offices or solo private accountant offices in principle.
- While responses vary among mid-tier audit firms, even in cases where side businesses are permitted, partners engaged in the audit firm's operations for more than 90% of their working hours.
- At small and medium-sized audit firms, dual work is generally allowed, as many partners already operate their own tax accountant offices at the time of joining.

Audit Firms by % of Partner's Allocation Time in Firm Operations

Small and medium-sized audit firms
(55 firms)



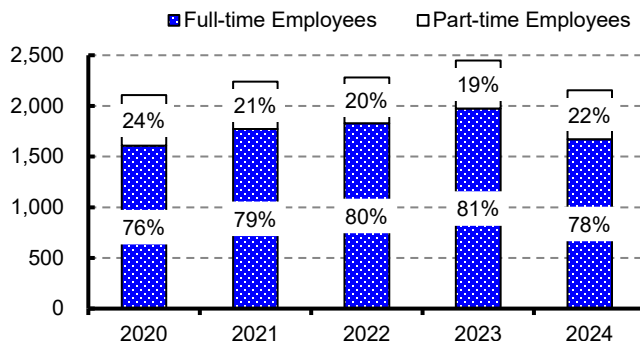
(Note) Prepared by the CPAAOB based on partner's declarations collected through the inspections and collection of reports

Part-Time Personnel

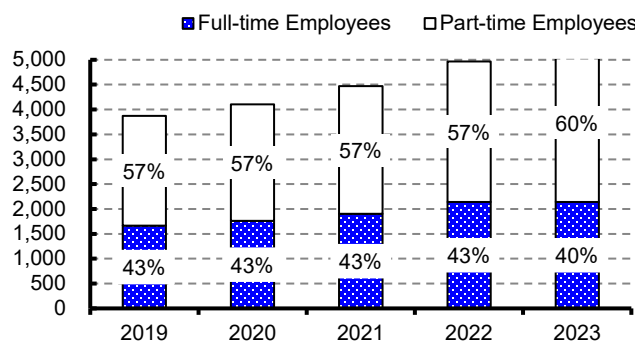
- Part-time staff account for around 60% of personnel at small and medium-sized audit firms. Some of the firms rely on part-time staff as audit assistants essential to their operations.

Number of Full-time and Part-time Personnel (unit: persons)

Mid-tier audit firms



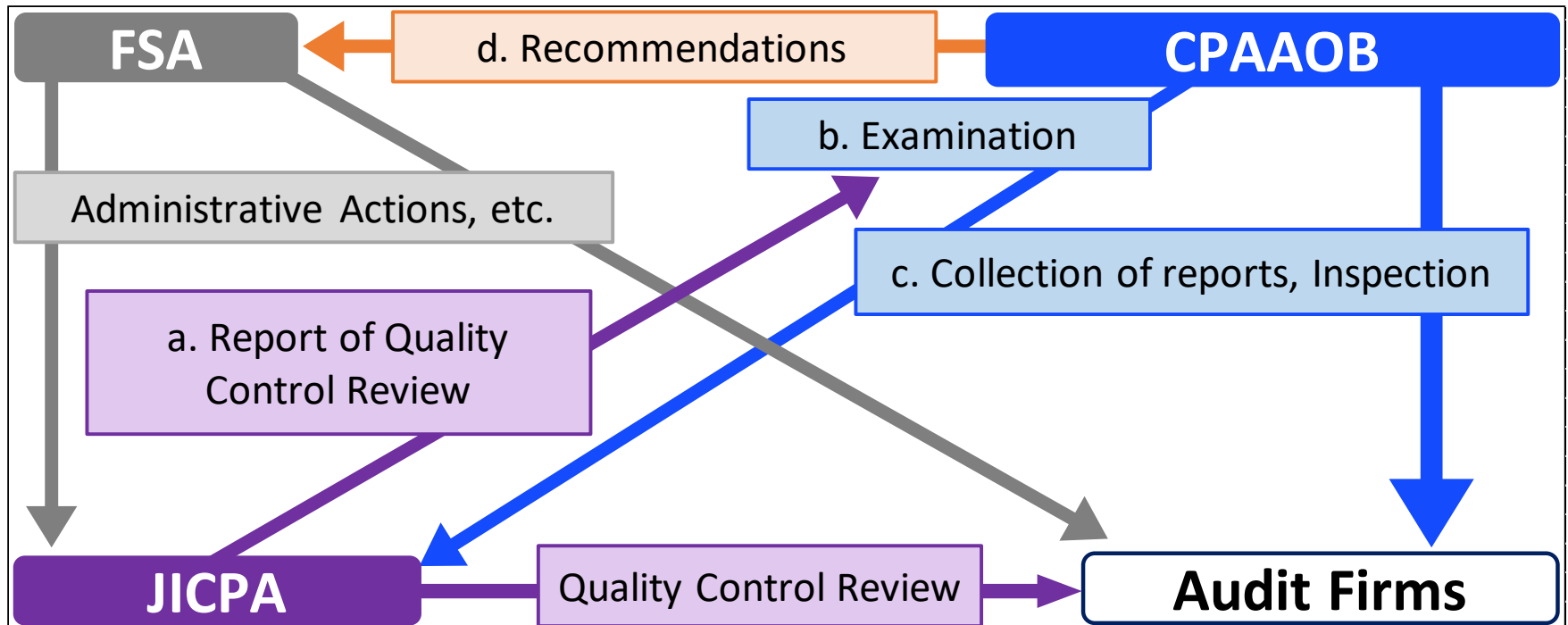
Small and medium-sized audit firms



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

Overview of the CPAAOB Monitoring

- Based on the JICPA Quality Control 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.)
- When deemed necessary, the CPAAOB collects reports from the JICPA and audit firms and conducts inspections. (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.)



Basic Policy and Basic Plan for Monitoring Audit Firms

- The CPAAOB articulates its objectives and approach for monitoring in its Basic Policy for Monitoring Audit Firms each term of office for its Chairman and Commissioners (three years) .
 - “Basic Policy for Monitoring Audit Firms – For Achieving High-Quality Audits-” for the CPAAOB’s 8th Term (April 2025-March 2028) was published on May 28, 2025.
- Based on the objectives and approach for monitoring articulated in the above Basic Policy, the CPAAOB formulates the Basic Plan for Monitoring Audit Firms each Program Year.
 - Basic Plan for Monitoring Audit Firms for Program Year 2025, which shows monitoring priorities in PY 2025, was published on July 18, 2025.

Key points of the Basic Plan for Monitoring Audit Firms for PY 2025

■ Large-sized audit firms

- Inspections are conducted once every two years in principle. Follow-up inspections are conducted in 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.

■ Mid-tier audit firms

- Inspections are conducted once every two years in principle.

■ Small and medium-sized audit firms

- 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.

Situation with Overall Ratings

Refer to
P 53-54

Overall Ratings

- Based on inspection results, the operation of services of an audit firm is given one of five grades. This grade constitutes their overall rating, and the firm is notified of it. When this notification is made, the firm is required to disclose it to the audit and supervisory board members of the audited companies (from PY2016).
- No audit firms qualified as “Satisfactory”, the highest rating in the overall rating scheme, so all audit firms were rated as “Generally satisfactory with minor deficiencies” or lower according to the status of their operational management.
- Small and medium-sized audit firms tended to have lower overall ratings than large-sized audit firms and mid-tier audit firms. This may partly be because the CPAAOB selects audit firms to be inspected on a risk basis.

Overall rating description	Details	Large-sized audit firms	Mid-tier audit firms	Small and medium-sized audit firms
Satisfactory (rating: 1)	Given when operation of services is deemed to be satisfactory	–	–	–
Generally satisfactory with minor deficiencies (rating:2)	Given when there are issues needing to be fixed, but operation of services is deemed to be satisfactory as a whole	4	–	–
Unsatisfactory due to presence of significant deficiencies that need to be fixed (rating: 3)	Given when operation of services is deemed to be unsatisfactory	–	2	2
Unsatisfactory and in need of immediate remediation in operations management system (rating: 4)	Given when operation of services is deemed to be unsatisfactory and in need of immediate remediation	–	3	8
Extremely unsatisfactory (rating: 5)	Material deficiencies with the quality management and audit engagements were identified and voluntary remediation cannot be expected to be implemented by the audit firm (recommendation is made to the FSA Commissioner)	–	–	10

(Note1) The above figures are tabulated based on inspections that terminated from PY2020 to PY2024.

(Note2) Regular inspections take place once every two years in the case of large-sized audit firms, once every three years in the case of mid-tier audit firms (until PY2024), and as necessary in the cases of small and medium sized audit firms.

(Note3) For audit firms that underwent regular inspections multiple times during the relevant period, results of the latest inspection are tabulated.

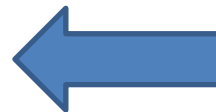
Changes in the Environment Surrounding Audits by Small and Medium-Sized Audit Firms

- In recent years, there has been a continuing trend of listed domestic companies changing their accounting auditors from large-sized audit firms to mid-tier/small and medium-sized audit firms. In particular, the role of small and medium-sized audit firms has been increasingly engaged as accounting auditors for newly listed domestic companies, reflecting their growing role in capital markets.
- Based on the above, the legal registration system for auditors of listed companies was introduced, and the Registration Review Committee for Auditors of Listed Companies has been conducting registration reviews and related procedures.

Registered Auditors of Listed Companies

(126 audit firms are registered (As of June 2025))

- Develop the system of operational management
- Develop the system of disclosing information (e.g. the status of complying with Audit Firm Governance Code)



“Confirmation of eligibility” by the JICPA

- Utilize Quality Control Review
- Registration Review Committee for Auditors of Listed Companies conducts screening of registrations

- Along with conducting “Confirmation of eligibility”, the JICPA assists small and medium-sized audit firms in enhancing their disclosure as well as the six business fundamentals (Quality management, organization and governance, human resources, IT/digital, finance, and international matters).

Trends Surrounding Small and Medium-Sized Audit Firms (2/2)

Support for Strengthening the Fundamentals of Small and Medium-Sized Audit Firms by the JICPA

- Published the Guidance for the Preparation of Annual Reports on the Management of Audit Quality
 - Shared key observations from submitted dry-run versions of the Annual Report and held a training session on information disclosure through the Annual Report
- Led by the Practices Policy Committee for Small and Medium-Sized Audit Firms and the Small and Medium-sized Audit Firms Liaison Council, the JICPA undertakes the following efforts:
 - Publication of the Guidance on Revised Quality Control Standards
 - Training sessions on the revised Code of Ethics
 - Opinion exchange with capital market participants
 - Support for recruitment and training
 - Enhancement of support functions for small and medium-sized audit firms (Interactive training with former quality control reviewers, seminar on the case report from audit firm inspection results)
 - Support for digitalization
 - ✓ Identifying the status of IT infrastructure and the use of IT-based audit methods, and developing shared IT infrastructure
 - ✓ Seminar on effective use of IT, and regular networking opportunity ("IT Community")
- Participation in the Council of Audit Firms for Expanding Balance Confirmation, aiming at promoting the digitalization of that procedures at small and medium-sized firms, and cooperation with the Audit Digital & Innovation Consortium, which supports the introduction of electronic audit working paper systems.

Response by the CPAAOB

- Key points of the revised Quality Control Standards state that the administrative authority should strive to ensure proactive quality management by audit firms through inspections by the CPAAOB, while supporting the efforts of audit firms and the JICPA.
- 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.

Discontinuation of the Quarterly Disclosure System and Its Impact on Audit Firm's Operations

- The Quarterly Disclosure System was “integrated” into Quarterly Earnings Reports based on the Exchange Rule (November 20, 2023). Accordingly, an auditor’s review of the Quarterly Earnings Report for Q1 and Q3 is conducted on a voluntary basis.
- Audit firms have already conducted, or plan to conduct, voluntary reviews for roughly 20–30% of listed audit companies that publish Quarterly Earnings Reports for Q1 or Q3.
 - Regardless of audit firm size, procedures were often performed as part of the annual audit even when a voluntary review was not conducted. Large-sized audit firms reported no significant differences in workload or fees compared to cases where a voluntary review was conducted.
 - Some mid-tier audit firms have indicated that not conducting voluntary reviews results in a slight reduction in workload and fees. Among small and medium-sized audit firms, approximately 30% have not performed procedures for listed companies, and some reported that workload and fees decreased by around 10%.
- The CPAAOB continues to monitor the practical impact and challenges on audit work resulting from the discontinuation of the Quarterly Disclosure System.

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.
- Large-sized audit firms have identified challenges arising from the submission of Annual Securities Reports prior to the shareholders' meeting, including the need to revise audit schedules, secure audit resources, and establish cooperative frameworks with audited companies.
- The CPAAOB will continue to monitor the impact of submitting annual securities reports prior to the shareholders' meeting on audit practices

Trends in Disclosure and Assurance on Sustainability Information

	International Trends	Domestic Trends
Enhanced Non-Financial Disclosure	- Required climate-related disclosures by SEC-registered companies (March 2024, enforcement currently suspended) - Initiated preparation and disclosure of sustainability information for large companies within the EU (from FY2024). Proposed “Omnibus package” in February 2025: deferral of the effective date for other companies and further burden-reduction measures	Created a section for views and initiatives regarding sustainability in Annual Securities Reports, etc. for fiscal years ending on or after March 31, 2023
Consideration of Sustainability Disclosure Standards	Finalized S1 (General requirements) and S2 (Climate-related disclosures) standards by ISSB (June 2023)	- Published sustainability disclosure standards (application, general disclosure and climate-related disclosure) by SSBJ (March 2025) - Conducted detailed discussions within the Working Group on Disclosure and Assurance of Sustainability-related Financial Information, aimed at preparing for implementation
Trends in Assurance of Sustainability Information	- Published the General Requirements for Sustainability Assurance Engagements (ISSA 5000) by IAASB (August 2023) - Published the International Ethics Standards for Sustainability Assurance and related revisions to the Code by IESBA (January 2025) - Initiated limited assurance for large companies within the EU (from FY2024). Proposed “Omnibus package”: deferral of the effective date for other companies and halting the future transition to reasonable assurance - Currently suspended regulations for a phased transition from limited assurance to reasonable assurance in the US	- Conducted discussions within the above Working Group and the Expert Group on Assurance of Sustainability Information, aimed at preparing for the introduction of an assurance system - Provided staff with practical experience through advisory and other services, and developed systems and training programs for assurance services by large-sized audit firms