To Directors, Company Auditors etc., Investors and Other Stakeholders

The relationship between directors/company auditors of audited companies and accounting auditors is being developed under the Companies Act and related regulations such as the Corporate Governance Code. On the other hand, among listed companies, for example, accounting fraud at overseas group companies continues to be seen.

Management is responsible for preparation of financial statements and the design and operation of internal controls. The execution of duties by management must be supervised by the Board of Directors and audited by corporate auditors. Furthermore, from the perspective of investor protection and securing reliability of the capital market, directors and company auditors are strongly expected to appropriately evaluate and select accounting auditors, who provide assurance as to fairness of financial statements, as well as to fulfill their responsibilities in order to ensure proper audits, such as by allowing adequate auditing time to ensure high quality audits and by fully collaborating with the accounting auditors.
It is also important for market participants, including shareholders of audited companies, that the directors and company auditors of audited companies appropriately evaluate and select accounting auditors, and that the companies' financial information is properly disclosed on a continuous basis by securing proper auditing.

In particular, effective from the fiscal year ended March 31, 2021, "key audit matters" (hereinafter referred to as "KAM") are required to disclose in order to improve transparency of audits conducted by accounting auditors and increase information value of audit reports. More effective audits are expected to further enhance collaboration and communication between accounting auditors and company auditors, etc. as well as discussions with management, leading to more effective audits. In addition, the Audit Firm Governance Code, which was revised in March 2023, stipulates that audited companies, shareholders, and other capital market participants are expected to actively exchange views with accounting auditors on measures to improve the quality of accounting audits, and utilize the useful information obtained from such exchanges to improve organizational management.

In light of this, this Case Report describes a wide range of examples of deficiencies identified in the CPAAOB's inspections in an easy-to-understand manner as much as possible from the viewpoint of providing directors and company auditors, etc. of listed companies, etc. and investors, etc. with reference information on audits. This Case Report also describes observed effective cases of improvement efforts by audit firms. We thus hope that this Case Report would be helpful as a reference for the appropriate evaluation of accounting auditors.