Revision of the Approach to the Monitoring of Audit Firms

July 17, 2026

Overview (1)

Mission and Responsibilities of the CPAAOB

- Enhancing investor confidence in Japan's capital markets by improving audit quality and ensuring the reliability of CPA audits, thereby enhancing the fairness and transparency of Japan's capital markets.

Changes in the Environment Surrounding Audits and Audit Firms

- Increase in accounting fraud cases disclosed by listed companies, including high-profile cases

  (Note) Following the amendment of the Certified Public Accountants Act (effective in 2023), the CPAAOB has been empowered to conduct verification regarding false or unjust attestation.

- While the range of audit firms auditing listed companies continues to expand, CPAAOB inspections have identified cases among small and medium-sized audit firms where quality management systems were not satisfactory, raising concerns that weaknesses in organizational infrastructure could affect audit quality.

- On the other hand, large-sized audit firms audit companies accounting for more than 90% of the total market capitalization of listed companies in Japan, making it necessary to maintain and improve audit quality in light of their importance to the capital markets. In addition, auditing methods are becoming increasingly sophisticated and diverse due to the introduction of AI systems and audit tools developed by their global networks, requiring closer monitoring of audit firms' operational management and quality management systems.



It is important to conduct monitoring more appropriately in accordance with the circumstances and risks of audit firms.

⇒Revision of the Approach to Monitoring

※ Monitoring includes both on-site monitoring (inspections) and off-site monitoring.

Overview (2)

Revision Details

- By timely and accurately understanding developments and risks surrounding audits and audit firms and conducting effective and efficient inspections based on such information, off-site and on-site monitoring will be more organically integrated.

Inspections

- Risk-based inspections (Where prompt confirmation is required, inspections may be conducted on an ad hoc basis irrespective of the standard inspection cycle.)
- Verification of suspected false or unjust attestation

<Standard Inspection Frequency by Size of Audit Firm>

Large-sized

- Full-scope and follow-up inspections, together with year-round monitoring using both on-site/off-site monitoring methods, including targeted reviews focusing on specific aspects of quality management systems and horizontal reviews on specific themes

(Previously: inspections once every two years.)

Mid-tier

- Inspections once every two years in principle. (No change.)
- For firms whose quality management status has improved and whose business operations remain consistently satisfactory, a review of inspection frequency will be considered in light of their risk profile and quality management status.

Consideration will also be given to applying an inspection approach similar to that used for large-sized audit firms, taking into account their global networks and quality management practices.

Small and Medium-sized

- Risk-based selection of audit firms based on the status of their operations and other factors, and increase in the number of inspections

Off-site Monitoring

Information Gathering and Analysis

- Timely identification of audit-firm risks based on JICPA quality control reviews, together with information gathering and analysis regarding the introduction of IT and AI and corrections to audited companies' financial results.

Improvement Follow-up

- Enhanced follow-up through collection of reports and other measures for audit firms whose business operations are not considered satisfactory, promoting effective remediation.