Certified Public Accountants and Auditing Oversight Board
July 17, 2026

Revision of the Approach to the Monitoring of Audit Firms

1. Background to the revision

In recent years, an increasing number of listed firms have disclosed findings of accounting fraud, including fraud cases that had significant social impacts.[1] The accounting fraud cases disclosed extend across all market segments, and audit firms of various sizes were responsible for the audit of the companies where they occurred.

Under the amended Certified Public Accountants Act (put into force in 2023), the Certified Public Accountants and Auditing Oversight Board (the "CPAAOB") is empowered to conduct verification regarding false or unjust attestation as well as audit firms' operational management and quality management systems. In light of that, it is necessary to make revisions to the approach to monitoring after reconsidering ways of verification, among other matters.

Regarding the choice of accounting auditors by listed firms, the trend of changing the auditor from a large-sized audit firm to a mid-tier or small and medium-sized audit firm has continued, so the range of audit firms that audit listed companies has continued to expand. However, with respect to small and medium-sized audit firms in particular, there are concerns that weaknesses in their organizational infrastructure could affect audit quality, as reflected in the presence of some audit firms whose quality management systems are not adequate.

On the other hand, as large-sized audit firms have continued to account for a share of more than 90% in the audit of listed companies in Japan in terms of market capitalization, it is necessary to maintain and improve audit quality in light of the importance of audit in Japan's capital markets. Auditing methods are becoming more and more sophisticated and diverse because of the introduction of AI systems[2] and auditing tools developed by global networks with which Japanese audit firms are

[1] The Japanese Institute of Certified Public Accountants (hereinafter "JICPA") will consider raising the self-regulatory requirements regarding staffing (e.g., the total number of employees and the number of employees who have engaged in audit work for three years or longer) that audit firms must meet at the time of registration from the viewpoint of further improving audit quality in response to the occurrence of accounting fraud cases ("Toward Enhancing the Credibility of Audits by Listed Company Audit Firms," published on January 26, 2026).

[2] At the International Forum of Independent Audit Regulators (IFIAR), discussions are being held on how to secure transparency and accountability in relation to the use of technology for audits in light of the dialogue between the six largest accounting networks (Deloitte, EY, KPMG, PwC, BDO, and Grant Thornton) and the knowledge gained through the practice of audit supervision by member audit regulators. In those discussions, supervisory challenges have been highlighted, including key considerations relating to the approval and evaluation processes for technology tools used by audit firms, as well as their internal monitoring processes and systems.

affiliated, so it is necessary to accurately grasp audit firms' business operations in general, including quality management.

From the viewpoint of adapting to changes in the environment surrounding audits and audit firms, the CPAAOB will revise the approach to the monitoring[3] of audit firms, and in light of the revisions, it will also revise the Basic Policy for Monitoring Audit Firms.

2. Specifics of the revisions

The revision seeks to promote more organic collaboration between off-site and on-site monitoring activities, for example by appropriately ascertaining the environment surrounding audits, audit challenges, and risks related to audit firms on a timely basis and by enabling effective and efficient implementation of inspections based on the findings.

(1) On-site monitoring (inspection)

In addition to conducting inspections under a risk-based approach, the CPAAOB will conduct verification regarding false or unjust attestation with respect to audit firms suspected of being involved in such conduct. In order to accurately ascertain the environment surrounding audits, audit challenges, and risks related to audit firms on a timely basis and conduct inspections effectively and efficiently based on the findings, the CPAAOB will change the standard inspection frequency, which varies by the size of audit firms, as follows from the viewpoint of more appropriately allocating inspection resources. When it is necessary to quickly verify an audit firm's operational management or quality management system, inspections are conducted on an ad hoc basis.

(i) Large-sized audit firms

In addition to full-scope inspections and follow-up inspections (inspections focusing mainly on improvements related to findings in previous inspections), the CPAAOB will implement inspections targeted specifically at the management of the quality management system and year-round monitoring[4] using on-site and off-site monitoring methods, including horizontal review,[5] which encompasses

[3] "Monitoring" as referred to here is a concept that includes both on-site monitoring (inspection) and off-site monitoring. Off-site monitoring refers to monitoring activities in general other than inspection, which include examining the results of the JICPA's Quality Control Reviews, ascertaining risks related to audit firms through the collection and analysis of information from the Financial Services Agency's relevant divisions and bureaus and business associations related to accounting audits, and conducting follow-up examination of improvements related to findings in inspections through the collection of reports from audit firms.

[4] With respect to large-sized audit firms, designated inspectors will be assigned to conduct year-round monitoring.

[5] Horizontal reviews seek to identify leading practices by conducting a comparative review of four large-sized audit firms under specific themes.

a comparative examination of multiple audit firms under specific themes.

(ii) Mid-tier audit firms

The CPAAOB will conduct inspections once every two years in principle. However, regarding audit firms whose quality management status has improved and whose business operations are consistently satisfactory, the CPAAOB will consider revising the inspection frequency in view of their risk profile and quality management status. In addition, the CPAAOB will consider applying an inspection approach similar to that used for large-sized audit firms in light of the situations and quality management methods of the global networks with which they are affiliated, among other factors.

(iii) Small and medium-sized audit firms

The CPAAOB will select audit firms to be inspected under a risk-based approach and may increase the number of audit firms inspected in view of the results of Quality Control Reviews conducted by the JICPA as well as audit firms' operational management systems, etc., and the degree of risks underlying audited listed companies.

(2) Off-site monitoring

No change will be made to the basic framework that comprises such activities as conducting Quality Control Reviews, collecting reports from audit firms, and holding interviews and dialogue with audit firms. However, in light of the changes in the environment surrounding audits and audit firms, the CPAAOB will bear in mind the following points when conducting off-site monitoring:

(i) Information gathering and analysis

The CPAAOB will ascertain risks related to audit firms accurately on a timely basis in view of the results of Quality Control Reviews conducted by the JICPA and gather information and conduct analyses regarding the introduction of IT and AI in audit processes and corrections made to audited companies' business results, etc.

(ii) Collection of reports and interviews (e.g., follow-up examination regarding the inspection results)

The CPAAOB will appropriately conduct follow-up examination regarding the inspection results. With respect to audit firms whose business operations are found to be unsatisfactory in particular, the CPAAOB will encourage them to make effective improvements by strengthening follow-up examination regarding the status of improvements through the collection of reports and other means.