Fiscal 2019 edition

※updated in April 2021

Certified Public Accountants and Auditing Oversight Board



CPAAOB

The Certified Public Accountants and Auditing Oversight Board (CPAAOB) was established in April 2004 as an independent authority under the Financial Services Agency (FSA). Since then, the CPAAOB has been making great efforts to build investor trust in the capital market by improving the audit quality and ensuring its reliability, with a mission to raise the fairness and transparency of the capital market.

Currently, the CPAAOB is in the sixth term (from April 2019 to March 2022). We will continue to conduct effective monitoring of audit firms while building a good relationship with the FSA and the Japanese Institute of Certified Public Accountants (JICPA) to encourage the firms to ensure appropriate operation. Particularly, we will review the effectiveness of firms' governance including operation management, which was enhanced following the FSA's publication of the "Audit Firm Governance Code" in March 2017. Also, regarding quality control systems, we will examine if firms are conducting an appropriate assessment on business risks such as the economic environment surrounding the audited company, and if each auditor is exercising professional skepticism in their audit practice.

Recently, the importance of auditing overseas subsidiaries has increased along with the global expansion of companies' businesses, and cooperation with overseas audit oversight authorities has become extremely important. Together with the FSA, the CPAAOB has contributed to the activities of the International Forum of Independent Audit Regulators (IFIAR) as a key member since it was founded.



The IFIAR's permanent secretariat was established in Tokyo in April 2017, and Japan's role and responsibilities are growing more important as an IFIAR host country. To improve global audit quality, the CPAAOB is willing to lead discussions at the IFIAR and cooperate with overseas audit oversight authorities.

The CPAAOB will continue to contribute to developing our economy through the optimal use of our authority and working closely with related organizations to improve global audit quality and increase trust in the capital market.

SAKURAI Hisakatsu, Chairperson

Professor Emeritus, Kobe University
Appointed chairperson of the CPAAOB in April 2019

The CPAAOB administers the CPA Examination and strives to conduct it in a fair and facilitated manner. It is important to continue to produce quality professionals with high ethical standards in order to maintain and improve the society-wide level of accounting and auditing as well as to ensure trust in the capital market. Furthermore, the rising expectations for CPAs to play an active role in various areas as accounting and auditing professionals reflects the globalization of the capital market and the overseas expansion of companies' businesses.

The numbers of both applicants and successful examinees for the CPA Examination increased in 2016 after several years of decline, and the increasing trend continued in 2017 and 2018. The CPAAOB has taken initiatives to present the appeal of the CPA profession in cooperation with the Japanese Institute of Certified Public Accountants. These initiatives include holding lectures at universities and high schools. We believe that those initiatives contributed to the increase in the number of applicants and the successful examinees due to the synergetic effect with Japanese economic recovery and the improvement of audit firms' business operations.



The CPAAOB will continue to conduct the CPA Examination in a fair and facilitated manner to secure and develop reliable accounting professionals. In addition, to steadily increase the applicants/potential applicants for the examination, the CPAAOB is making further efforts to attract more people, especially the younger generation and women, through lectures on the CPAs' mission and the importance of accounting and auditing in the capital market.

MATSUI Takayuki, Full-Time Commissioner

Former Professor at the Graduate School of Professional Accountancy,
Aoyama Gakuin University
Appointed Full-Time commissioner of the CPAAOB in April 2016

Overview of the CPAAOB

Organization and Responsibilities of the CPAAOB

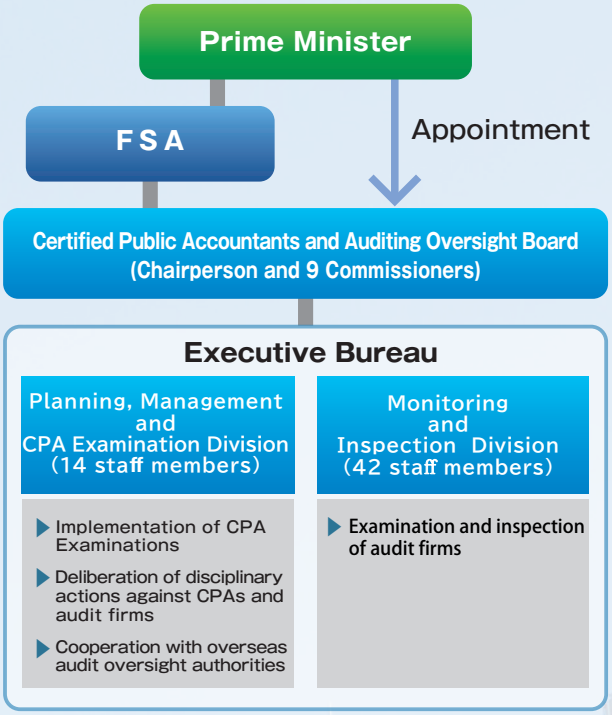
The CPAAOB is a council comprising a chairperson and nine commissioners set up in the FSA under the Certified Public Accountants Act. The chairperson and commissioners are appointed by the Prime Minister following the consent from both Houses, and they are allowed to exercise their authority independently. The terms of office for both the chairperson and the commissioners is three years. The CPAAOB is currently in its sixth term (April 2019 to March 2022), and is being led by chairperson SAKURAI Hisakatsu.

The key responsibilities of the CPAAOB are as follows:

- Examination and inspection of audit firms
- Implementation of CPA Examinations
- Deliberation of disciplinary actions against CPAs and audit firms
- Cooperation with overseas audit oversight authorities

The CPAAOB has an Executive Bureau that performs clerical work. The Executive Bureau is comprised of the Planning, Management and CPA Examination Division and the Monitoring and Inspection Division, under the Secretary-General of the Executive Bureau.

The main activities of the CPAAOB are summarized each year in its Annual Report, which is disclosed on its website.



Note: Numbers of staff members are for FY2021.

Members of the Sixth Board (as of April 1 , 2021)

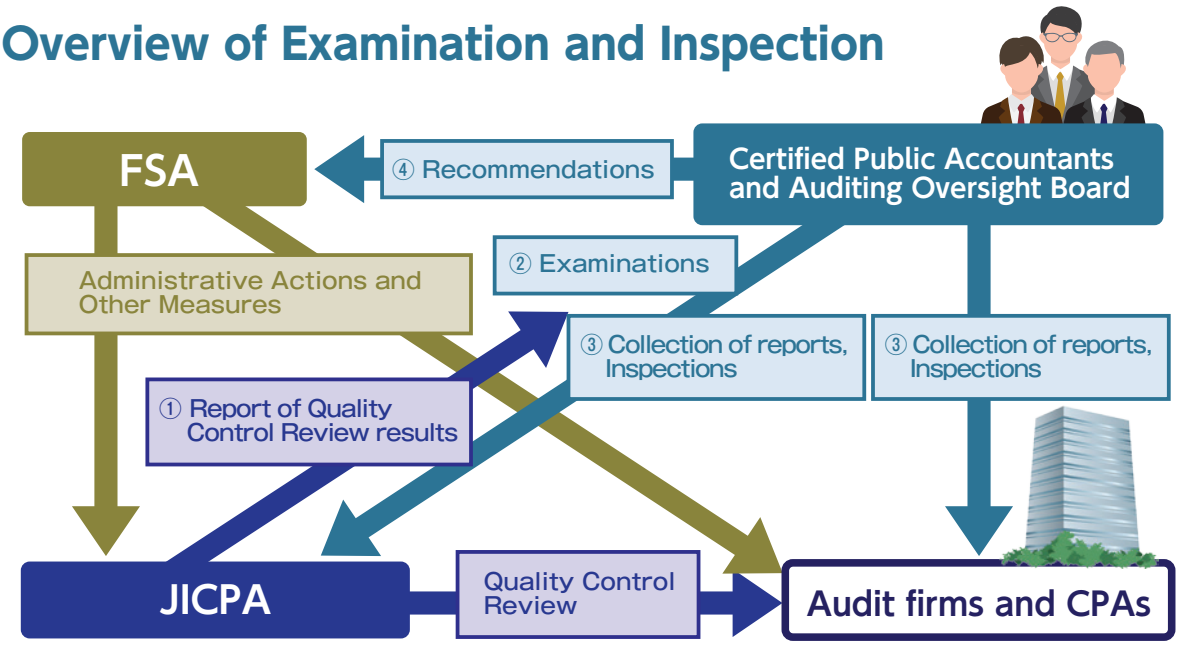
Chairperson	SAKURAI Hisakatsu	Professor Emeritus, Kobe University
Commissioner (full-time)	MATSUI Takayuki	Former Professor, Graduate School of Professional Accountancy, Aoyama Gakuin University
Commissioners (part-time)	ASAMI Yuko	Graduate Program Chair and Professor, Graduate School of Management, Gakushuin University
	SATO Yoshiko	Executive Managing Director and Chief Research Fellow, Japan Investor Relations Association
	TAMAI Yuko	Partner, Nagashima, Ohno & Tsunematsu
	TOKUGA Yoshihiro	Director, Dean and Professor of the Faculty of Economics and Business Administration, Kyoto University of Advanced Science
	MIZUGUCHI Keiko	Counselor and Chief Analyst, Japan Credit Rating Agency, Ltd.
	MINAKAWA Kunihito	Outside Director, Santen Pharmaceutical Co.,Ltd.
	YAMADA Tatsumi	Specially Appointed Professor, Faculty of Commerce, Chuo University
	YOSHIDA Keita	Partner, Deloitte Touche Tohmatsu LLC



Examination and Inspection of Audit Firms

The CPAAOB reviews and examines reports on Quality Control Reviews by the Japanese Institute of Certified Public Accountants (JICPA), and if necessary, conducts on-site inspections on the JICPA, audit firms, CPAs, and so forth. If it is found that Quality Control Reviews have not been conducted properly, that the quality control of audits by audit firms and CPAs is inadequate, or that their audit engagements have not complied with laws, regulations and standards, the CPAAOB will recommend that the Commissioner of the FSA take administrative actions or other measures to ensure the proper operation of the JICPA and audit firms.

Overview of Examination and Inspection



1 Report of Quality Control Review results by the JICPA

The JICPA reviews the audit quality control performed by audit firms and recommends improvements when necessary. The JICPA reports the results of the reviews to the CPAAOB.

2 Examinations

Using the report, the CPAAOB checks to see if the JICPA's quality control reviews, as well as the audit firms' auditing work, are conducted properly. If it deems it necessary, the CPAAOB asks the JICPA or audit firms to submit reports or documents.

3 Inspections

As the results of the examination, when deemed necessary for ensuring the proper administration of the JICPA, or when deemed necessary and appropriate for the public interest, or the protection of investors, the CPAAOB inspects or collects reports from the JICPA, audit firms, or other locations related to the audit firms' auditing work (e.g., audited companies).

4 Recommendations

If it finds it necessary after examinations or inspections, the CPAAOB makes recommendations to the FSA Commissioner for administrative actions and other measures that are deemed necessary in order to ensure the proper operation of auditing work by audit firms or the JICPA's work.

Inspections and Recommendations in the Past Five Years

	FY※1 2014	FY2015	PY※1 2016	PY2017	PY2018
Number of inspections ※2	15	9	12	9	10
Number of recommendations※2	5	4	2	1	0

※1 . FY (Fiscal Year) refers to the period from April to March of the following year, and PY (Program Year) refers to the period from July to June of the following year. PY2016 includes figures from April to June 2016 since the calculation period was changed from fiscal year to program year.

※2 .The number of inspections is described on the basis of the starting date of these inspections, and the number of recommendations is described on the basis of the publishing date of these recommendations.

Key Points of the Basic Policy for Monitoring Audit Firms (for sixth term)

Aiming to Further Enhance Audit Effectiveness

In accordance with the monitoring policy for the sixth term (April 2019–March 2022), the following viewpoints and objectives form the basis of monitoring.*

*Monitoring here includes both on-site monitoring and off-site monitoring. On-site monitoring refers to inspections, while off-site monitoring refers to activities other than inspections, such as the collection of reports and inquiries related to audit firms, information exchanges and cooperation with related departments of the FSA, the JICPA, and industry groups related to accounting audits, and the collection of information through dialogue with audit firms.

●Monitoring Perspective

The CPAAOB will always adopt the perspective of a citizen as it seeks to serve the public interest, and will employ all the functions it possesses to the full, to conduct effective monitoring that reflects the size of audit firms, operations management environments, and degree of risk of audited companies. By continuously encouraging audit firms to take steps voluntarily to ensure and improve audit quality, we will be aiming to ensure the trust in audits in capital markets.

Moreover, the CPAAOB will share useful information that it has obtained through monitoring with relevant FSA departments,—the Japanese Institute of Certified Public Accountants etc.—and will also proactively provide that useful information to the general public.

In addition, we will be cooperating with the International Forum of Independent Audit Regulators (IFIAR), and foreign audit regulatory authorities, and as necessary in the monitoring, will reflect international discussions concerning the audits that we have learned about through this cooperation, as well as developments with the global networks.

●Objectives of monitoring and basic approach to achieve them

The main focus of monitoring performed by the CPAAOB is not on whether specific audit opinions are appropriate, but rather, is aimed at encouraging improvements in the effectiveness of quality control reviews performed by the JICPA, and ensuring that audit engagements, including audit quality control conducted by audit firms and foreign audit firms, are performed appropriately. To achieve these objectives, the CPAAOB carries out monitoring as follows:

- Given that the entities responsible for ensuring proper conduct of audit engagements are audit firms, the CPAAOB performs effective monitoring to encourage audit firms to take action themselves.
- We conduct monitoring that emphasizes whether the quality control environments established by audit firms. For example, we verify that they are not only adhering to formal audit standards, but also demonstrating the kind of professional skepticism needed to identify accounting fraud, and examine whether audit firms are always keeping an eye on business risks of audited companies and assessing audit-related risks.
- We conduct ongoing monitoring of whether business management (governance) environments established based on the Audit Firm Governance Code are contributing to ensuring proper conduct of audit engagements at the audit firms concerned.

Basic Plan for Monitoring Audit Firms

Based on the Basic Policy, we formulate and publish a Basic Plan for Monitoring Audit Firms every year, for each of the program years (July to the following June) comprising the Term as guiding bias of monitoring in each program year.

Provision of Monitoring Information

The CPAAOB publishes an annual Monitoring Report compiling the results etc. of monitoring in a visual format, featuring numerous tables and graphs every year, because it is important not only to disclose inspection results to the audit firms themselves, but also make them available to the general public in the form of reports etc. on the outcomes of monitoring as a means of raising interest in and awareness of audits to ensure and improve audit quality.

In addition, to promote independent efforts by audit firms to ensure and improve audit quality, the CPAAOB publishes examples etc. of matters confirmed during inspections in the form of an annual Case Report from Audit Firm Inspection Results every year.

Overall Rating

The CPAAOB has implemented 5-level overall ratings, based on which it assigns an overall rating to the inspected audit firm's business administration in the inspection result notification, since PY 2016 (July 2016 – June 2017). This is meant to accurately communicate the CPAAOB's assessment results to audit firms and to enable audit & supervisory board members of the audited companies that receive disclosure of inspection results from audit firms to appropriately understand the quality control level of the audit firm.

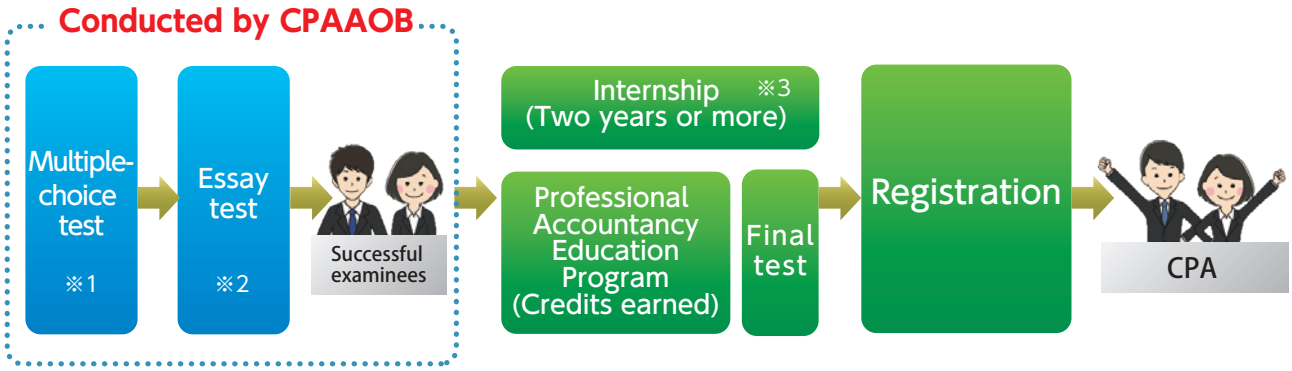
※Note: Please refer to the CPAAOB's website for the "Basic Plan for Monitoring Audit Firms," "Monitoring Report," "Case Report from Audit Firm Inspection Results," and "Overall Rating." (https://www.fsa.go.jp/cpaaob/english/oversight.html)

Implementation of CPA Examinations

The CPAAOB prepares and grades examination questions, determines successful examinees, revokes passing decisions, and prohibits, as necessary, applicants from taking the tests for the state CPA Examinations (clerical work for the examinations, such as proctoring, is commissioned to local finance bureaus). Through these operations, the CPAAOB helps conduct the examinations in a fair and facilitated manner.

Overview of the CPA Examination System

Anyone, regardless of age or academic background, can take the CPA Examination. As shown in the diagram below, the annual examination comprises a multiple-choice test held twice (December and May) and an essay test held in August. After the announcement of the results in November, successful examinees must obtain two years or more of internship, earn credits in the Professional Accountancy Education Program, and pass the final test before being registered as a CPA.



※1. Passage of the multiple-choice test is valid for the next two years.

※2. Even if an applicant fails the essay test, they are considered to have passed sections that are given scores above specified levels, meaning that they do not have to take the sections for the next two years when re-taking this test.

※3. The internship requirement can be fulfilled either before or after passing the CPA Examination.

Recent Statistics of CPA Examination

The numbers of applicants for the CPA Examination and of successful examinees has increased since 2016. Of those who passed, persons aged 20 to 24 account for the majority, among whom those aged 21 and 22 account for the most. Furthermore, the number of successful female examinees is increasing each year, accounting for around 20% of the total.

Year	Applicants (A)	Essay test examinees (B)	Successful examinees			Ratio of successful examinees	
			(C)	Those aged 20–24	Female applicants	(C) / (A)	(C) / (B)
2016	10,256	3,138	1,108	565	236	10.8%	35.3%
2017	11,032	3,306	1,231	648	242	11.2%	37.2%
2018	11,742	3,678	1,305	782	266	11.1%	35.5%

Online Application for the CPA Examination

Online application for the CPA Examination became available from the initial multiple-choice test of 2017. The usage rate of online applications for the 2019 examinations exceeded 70%.

Online application procedure is simplified. Applicants do not need to submit attachments when applying online. The examination fee is paid through the ATMs of financial institutions or by internet banking through the Pay-easy system.

Cooperation with Overseas Audit Oversight Authorities

As the work of accounting and auditing becomes increasingly internationalized in line with the internationalization of business and investment activities, the CPAAOB has striven to enhance information exchanges and cooperation with the audit oversight authorities of other jurisdictions by actively participating in the International Forum of Independent Audit Regulators (IFIAR). The CPAAOB is also working to ensure and improve the global audit quality by exchanging opinions with audit oversight authorities of other jurisdictions on a bilateral basis.

Participation in the IFIAR (Multilateral Cooperation)

Following a series of accounting scandals around the world in early 2000s, such as the Enron scandal in the United States, the importance of audit oversight has increased. Audit oversight institutions independent of the audit profession have been established in various jurisdictions in efforts to ensure and enhance audit quality. Amid such circumstances, the IFIAR was established in September 2006 to promote cooperation and coordination between the audit oversight authorities of different jurisdictions. As of June 2019, IFIAR participants totaled 55 jurisdictions. The CPAAOB and the FSA are participating from Japan.

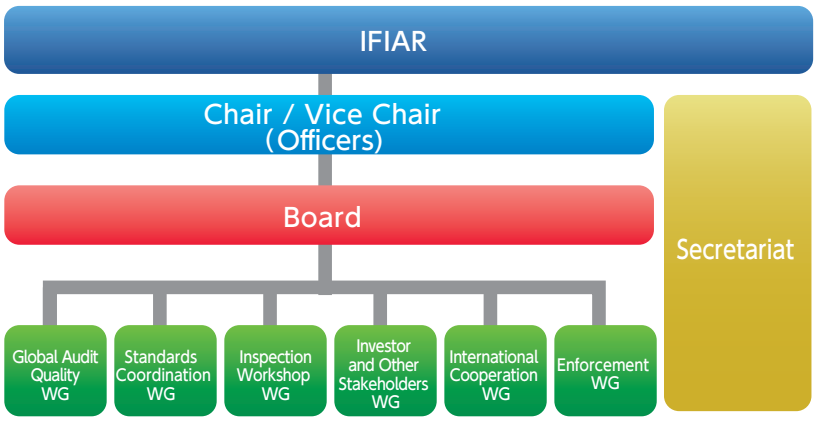
The CPAAOB strives to build and enhance international cooperation to ensure and improve audit quality by cooperating with the audit oversight authorities of other jurisdictions through active participation in the IFIAR's activities and individually exchanging opinions with the audit oversight authorities of other jurisdictions.

Overview of the IFIAR

In 2017, the IFIAR established its Board, a decision-making council organization, as part of its efforts to strengthen its functions as an international institution. The Board comprises maximum of 16 board members including eight nominated members based on market size and other factors, and up to eight elected members. Japan has served as a nominated member since April 2017 (four-year term). The Board discusses the IFIAR's strategic plans and operations, in which Japan actively takes part.

The IFIAR has six working groups (WG), and Japan is participating in all of them. As a key member of the IFIAR, Japan is working to build and enhance cooperation and coordination with audit oversight authorities of other jurisdictions to ensure and improve global audit quality. They do so through active contributions, including serving as vice chair of the Enforcement Working Group (since February 2019), as well as the leaders of an individual project of other working groups.

Organization chart



Note: "WG" stands for working group.

Establishment of the IFIAR Secretariat in Tokyo and the Japan Network for the IFIAR

In April 2017, the IFIAR Secretariat was established in Otemachi, Tokyo, and the IFIAR became the first international organization in the financial sector to have its main secretariat function in Japan. The CPAAOB and the FSA will actively contribute to the activities of the IFIAR as its key members, and work to provide necessary support for the smooth operation of the Secretariat.

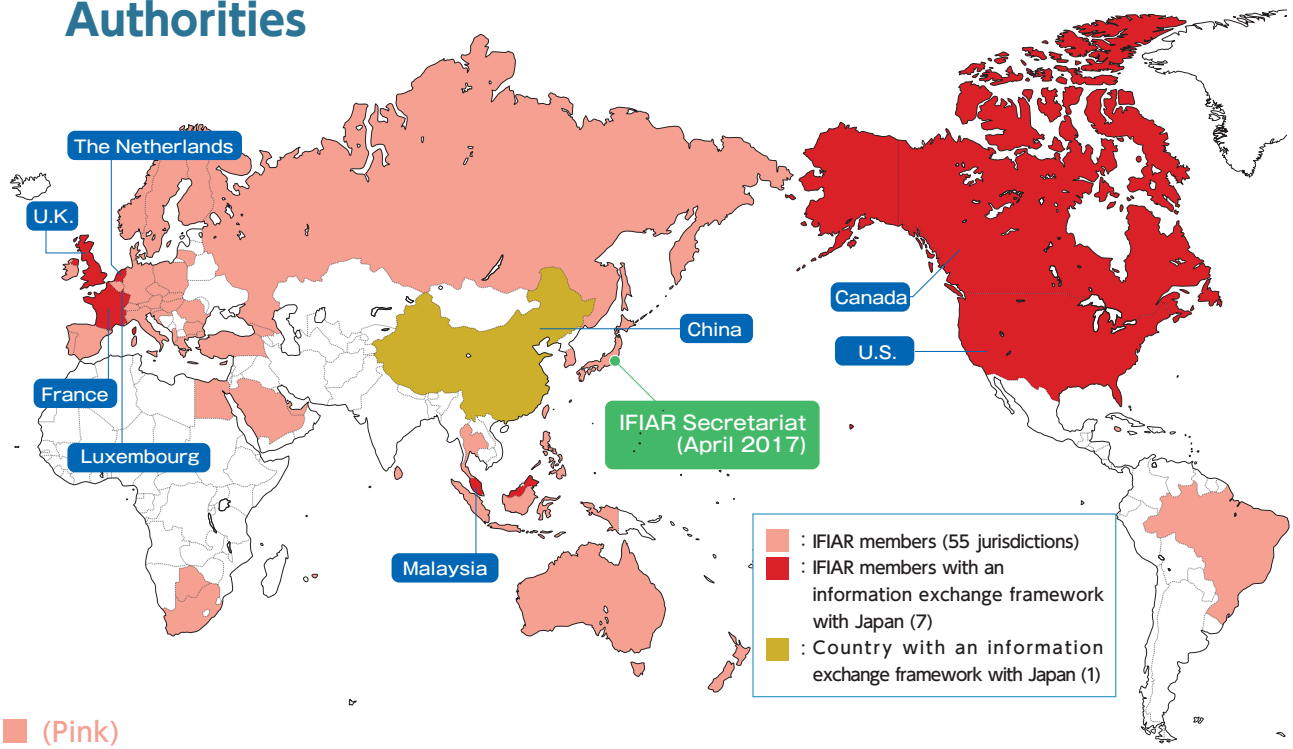
Furthermore, ahead of the establishment of the Secretariat, the Japan Network for the IFIAR was set up in December 2016, comprising a broad range of domestic stakeholders. The Network's objective is to contribute to the IFIAR's aim of improving global audit quality by building a network of stakeholders in Japan to strengthen relations with the IFIAR and support the activities of the Secretariat as well as raising awareness of audit quality in Japan.

Bilateral Cooperation

As corporate activities become increasingly globalized, ensuring the quality of cross-border audit procedures, such as the use of audit results by overseas audit firms in auditing consolidated financial statements, has become ever more important. It is also essential to enhance cooperation with relevant overseas authorities so that an audit oversight system on a global level can be established.

As well as participating in the IFIAR, the CPAAOB is working to build and enhance bilateral cooperation through efforts including information exchanges with the audit oversight authorities of other jurisdictions and conducting examinations and inspections using information exchange frameworks in the area of audit oversight, with the aim of sharing information on issues related to audits and inspections and audit firms that have cross-border operations.

Status of Cooperation with Overseas Audit Oversight Authorities



(Pink)

IFIAR members (55 jurisdictions)

Europe (32)

Albania	Austria
Belgium	Bulgaria
Croatia	Cyprus
Czech Republic	Denmark
Finland	France
Georgia	Germany
Gibraltar	Greece
Hungary	Ireland
Italy	Liechtenstein
Lithuania	Luxembourg
The Netherlands	Norway
Poland	Portugal
Romania	Russia
Slovak Republic	Slovenia
Spain	Sweden
Switzerland	United Kingdom

Asia / Oceania (11)

- Australia
- Chinese Taipei
- Indonesia
- Japan
- Korea
- Malaysia
- New Zealand
- Philippines
- Singapore
- Sri Lanka
- Thailand

Middle East (4)

- Abu Dhabi
- Dubai
- Saudi Arabia
- Turkey

Africa (4)

- Botswana
- Egypt
- Mauritius
- South Africa

North America (2)

- Canada
- United States

Latin America (2)

- Brazil
- Cayman Islands

(Red)

IFIAR members with an information exchange framework with Japan (7)

- Canada
- France
- Luxembourg
- Malaysia
- The Netherlands
- United Kingdom
- United States

(Brown)

Country with an information exchange framework with Japan (1)

- China

Dissemination of Information on CPA Examinations

The CPAAOB presents the appeal of the CPA profession mainly for the younger generation, such as university and high school students, from the perspective of raising interest in the CPA profession to increase the number of potential applicants for the CPA Examination.

Specific activities include lectures at nationwide universities and high schools by the chairperson and full-time commissioner on the social roles of CPAs and the increasing areas where they are active, as well as on the significance of accounting audits. Also, CPAAOB inspectors with CPA qualifications give lectures on their work in order that the students can get a clearer picture of the CPA's practice.

Furthermore, to offer more information, the CPAAOB publishes a CPA Examination brochure which explains the work of CPAs and provides an outline of the CPA Examination each year. The brochure is distributed at the above lectures and posted on the CPAAOB's website.

From the viewpoint of maintaining the transparency and reliability of the examination, the CPAAOB provides detailed information on the examination results, such as the number of applicants for the examination, successful examinees, and score class distribution, in addition to examination questions.

Please visit CPAAOB's website for further details. (https://www.fsa.go.jp/cpaaob/index.html)



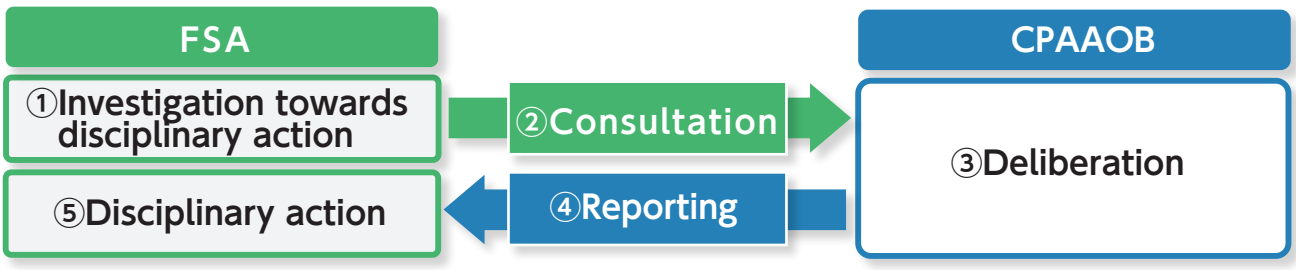


CPA Examination brochure



Deliberation of disciplinary actions against CPAs and audit firms

When taking disciplinary action on CPAs/audit firms, the standard procedure for the FSA Commissioner is to hold hearings and then seek the CPAAOB's opinion, except when such action is recommended by the CPAAOB (Article 32 [5] of the Certified Public Accountants Act). Specifically, the CPAAOB deliberates issues concerning discipline, such as the facts of the relevant conduct, applicable laws and ordinances, content of the hearings, and amount (severity of discipline), which were presented by the FSA Commissioner. Then the CPAAOB expresses its opinion on whether the FSA Commissioner's decision is reasonable.



Information Gathering from the General Public

The CPAAOB appreciates any information on CPAs, audit firms or the CPA Examination that assists us in carrying out our mission. Please contact us by e-mail, fax or postal mail using the contact information shown below. The CPAAOB makes use of any useful information in its work.

CPAAOB Information Reception Desk

E-mail: cpaaob@fsa.go.jp
F A X : 03-5251-7241 (available 24 hours)
M a i l: Information Reception Desk, Planning, Management and CPA Examination Division, Certified Public Accountants and Auditing Oversight Board Executive Bureau,
3-2-1, Kasumigaseki, Chiyoda-ku, Tokyo, 100-8905, Japan (Common government office No. 7)

The CPAAOB also has a separate desk dedicated to receiving information from whistleblowers based on the Whistleblower Protection Act, and responds to consultation via telephone. Anyone who wishes to provide information on criminal acts specified under the Certified Public Accountants Act, for which the CPAAOB has authorization for disposal or recommendation, is invited to communicate with the desk via e-mail or postal mail. In addition, anyone who wishes to inquire about whistleblowing is invited to communicate with the desk via e-mail, postal mail or phone.

CPAAOB Whistleblowing/Consultation Desk

(For whistleblowing)
E-mail: cpaaob.kouekitsuho@fsa.go.jp
M a i l: Planning, Management and CPA Examination Division (whistleblowing), Certified Public Accountants and Auditing Oversight Board Executive Bureau
3-2-1, Kasumigaseki, Chiyoda-ku, Tokyo, 100-8905, Japan (Common government office No. 7)

(For consultation)
E-mail: cpaaob.kouekisoudan@fsa.go.jp
M a i l: Planning, Management and CPA Examination Division (consultation), Certified Public Accountants and Auditing Oversight Board Executive Bureau
3-2-1, Kasumigaseki, Chiyoda-ku, Tokyo, 100-8905, Japan (Common government office No. 7)
T E L : 03-3506-6000 (Open 9:30 a.m. – 6:15 p.m. on weekdays)

The CPAAOB logo

The CPAAOB logo expresses the image of the CPAAOB, breathing fresh wind into the capital market, represented by a blue circle, and raising its transparency, as expressed by the gradually fading blue of the circle toward its right side.



Certified Public Accountants and Auditing Oversight Board
TEL 03 – 3506 – 6000 (main number)
URL https://www.fsa.go.jp/cpaaob/english/index.html

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