

Annual Report

July, 2021

Certified Public Accountants and Auditing Oversight Board

About this Annual Report

Based on Article 16 of the Certified Public Accountants and Auditing Oversight Board Rules of Operation determined pursuant to the provisions of Article 2 of the Certified Public Accountants and Auditing Oversight Board Cabinet Order, we hereby announce the status of the activities of the Certified Public Accountants and Auditing Oversight Board (CPAAOB) in FY2020 (April 1, 2020 to March 31, 2021).

For the convenience of readers, a portion of this Report will also mention information on activities taken before and after FY2020.

FY2020 and the current fiscal year shall refer to the period from April 1, 2020 to March 31, 2021. PY2020 and the current program year shall refer to the period from July 1, 2020 to June 30, 2021.

○ The CPAAOB Rules of Operation

Article 16 The CPAAOB shall, after the end of each fiscal year, publish its activities for that year, such as measures taken and the number of inspections conducted.

<<If you have any comments, etc., please contact the following address>>

Person in charge, Planning, Management and CPA Examination Division,
Executive Bureau of the CPAAOB

Telephone: 03-3506-6000 (Ext. 2440)

Contents

Preface	1
Measures taken by CPAAOB in Response to the COVID-19 Infection	4
1 Overview of the CPAAOB	
1.1 Certified Public Accountants and Auditing Oversight Board (CPAAOB)	6
1.2 Executive Bureau	6
2 Examination and Inspection of Audit Firms	
2.1 Outline	9
2.2 Basic Policy for Monitoring of Audit Firms, etc.	11
2.2.1 Basic Policy for Monitoring Audit Firms	11
2.2.2 Basic Plan for Monitoring Audit Firms	13
2.3 Monitoring and Inspections of Audit Firms	17
2.3.1 Quality Control Reviews by the JICPA	18
2.3.2 Examination of Quality Control Reviews	19
2.3.3 Collection of Reports from Audit Firms	20
2.3.4 Inspections of Audit Firms	21
2.3.5 Inspections Results	22
2.3.6 Recommendations to the Commissioner of the FSA	22
2.3.7 Inspections and Oversight on Foreign Audit Firms	22
2.4 Dissemination of Information relating to Examination and Inspection	24
2.4.1 Publication of “2020 Monitoring Report”	24
2.4.2 Publication of “Case Report from Audit Firm Inspection Results”	24
2.5 Cooperation with Relevant Organizations	25
2.5.1 Cooperation with Relevant Divisions of the FSA	25
2.5.2 Cooperation with the JICPA	25
2.5.3 Cooperation with the Financial Instruments Exchanges	26
2.5.4 Cooperation with the Japan Audit & Supervisory Board Members Association	26
2.6 Achievement in PY2020 Agenda	26
2.6.1 Inspections of Business Management System Such as Governance	26
2.6.2 Monitoring Based on Trends Related to Audits	27
2.6.3 Strengthening of Off-site Monitoring	27
2.6.4 Verifications of the JICPA’s Quality Control Reviews as well as Cooperation with the JICPA	28
2.6.5 Monitoring of Technology Use and Cybersecurity at Audit Firms	28
2.6.6 Strengthening Dissemination of Information	29
2.6.7 Enhancement of the Monitoring Environment	29

2.6.8 Review of Monitoring Method	29
---	----

3 Implementation of CPA Examination

3.1 Outline	31
3.1.1 Outline of CPA Examination	31
3.1.2 Outline of Current Examination	31
3.1.3 Internet-Based Acceptance of Examination Applications, etc.	34
3.2 Implementation of CPA Examinations	35
3.2.1 Changes in Dates of CPA Examinations	35
3.2.2 CPA Examination in 2020	36
3.2.3 Schedule of 2021 CPA Examination	38
3.3 Dissemination of Information on CPA Examination, etc.	38
3.4 Next Challenges	39
3.4.1 Fair and Smooth Management of CPA Examination	39
3.4.2 Efforts to Increase Applicants for CPA Examination	40

4 Deliberation of Disciplinary Actions, etc. Against CPAs, etc.

4.1 Outline	41
4.2 Outline of Case Concerned	41

5 Cooperation with Relevant Organizations in Other Jurisdictions

5.1 Activities of the International Forum of Independent Audit Regulators (IFIAR) ..	43
5.1.1 Background	43
5.1.2 Organization	44
5.1.3 Activities	45
5.1.4 Japan IFIAR Network	49
5.2 Bilateral Cooperation	50
5.3 Next Challenges	50

Annex: List of Members of Certified Public Accountants and Auditing Oversight

Board (Sixth Term)	52
---------------------------------	----

Preface

The Certified Public Accountants and Auditing Oversight Board (CPAFOB) was established in April 2004 in the Financial Services Agency (FSA) as an independent body to exercise its authority. Based on increased social expectations on audit quality, the CPAFOB has since been striving to enhance investors' trust in the capital market by improving audit quality and ensuring its reliability.

1. Review of the Current Fiscal Year

In April 2019, the CPAFOB entered its sixth term (April 2019 to March 2022), and FY 2020 is the second year of the sixth term.

With regard to the examination, inspection, etc. (monitoring) of audit firms, the CPAFOB collects reports from them and conducts inspections of them based on the "Basic Policy for Monitoring Audit Firms - Aiming To Further Enhance Audit Effectiveness" for the sixth term, published in May 2019, and the Program Year 2020 Basic Plan for Monitoring Audit Firms, published in July 2020. In the current fiscal year, the CPAFOB is reviewing the means of inspection from the viewpoint of the spread of COVID-19 infections, etc., and conducting inspections with an emphasis on whether each audit firm's governance, other management control and operational management systems are helping ensure and improve audit quality. The CPAFOB is also preparing "2021 Monitoring Report" and a collection of cases found in the inspection of audit firms as the "2021 Case Report from Audit Firm Inspections" in Program Year (PY) 2021 to inform not only parties concerned but also the general public of achievements made by its monitoring and enhance interest in and awareness of auditing. The reports are scheduled to be published around this July.

The 2020 CPA Examination was successfully implemented after changing its schedule in light of the expansion of COVID-19 infections and introducing measures to ensure the safety of applicants. As a result, the number of successful applicants remains stable as it leveled off from the previous year. The ratio of women to successful applicants rose to the highest under the current format of examination. The number of people who submitted applications increased for the fifth consecutive year since the PY2016 examination. The rise in the number of applicants is due to heightened interest in the examination, especially among young people, as a result of efforts to provide more information related to the examination. It is also considered attributable to enhanced convenience at the time of submitting applications due to the acceptance of internet-based applications, which is being used more and more every year.

As for cooperation and coordination with foreign audit regulators, the CPAFOB has been promoting the formation and reinforcement of such cooperation and coordination amid remarkable advances in the globalization of audit services against the backdrop of aggressive internationalization of corporate activities. Through activities, in particular, by

the International Forum of Independent Audit Regulators (IFIAR) having its secretariat in Tokyo, the CPAAOB, in cooperation with the FSA, has been actively contributing to the comprehension of international auditing systems and operations, and to international deliberations related to the improvement of global audit quality. Although the plenary meeting of the IFIAR, slated for April 2020, was cancelled due to the spread of COVID-19 infections, the CPAAOB actively participated in activities by the IFIAR through deliberations on issues of auditing based on the current state of affairs, such as sessions with the CEOs of the six largest global audit firm networks, which were held from August 2020. At a meeting of the Global Audit Quality (GAQ) Working Group held in March 2021, active deliberations were carried out on the improvement of audit quality with representatives of the six largest networks and IFIAR member regulators. In bilateral cooperative relations, the CPAAOB will continue to enhance its examination and inspection activities by sharing information on internationally active audit firms through information exchange frameworks, etc. concluded with foreign countries and will strengthen its coordination with foreign audit regulators.

2. Next Challenges

In FY2021, which is the third year of CPAAOB's sixth term, the board will steadily implement the following operations in particular, based on the efforts primarily carried out in the current year and the achievements made so far, as mentioned above.

With regard to the monitoring of audit firms, given that environments surrounding audit firms have continued to change greatly year after year with the spread of COVID-19 infections affecting the audit work. The CPAAOB thus will attempt to carry out the inspection of audit firms in a manner aptly corresponding to the changes. As audit firms are expected to play the main role of ensuring and enhancing audit quality as well as achieving the appropriate management of operations, the CPAAOB will monitor them effectively and efficiently so that they will be encouraged to voluntarily execute their remediation. In particular, the CPAAOB will continue to examine the effectiveness of governance and other management control as well as operational management systems. To disseminate the achievements made by its monitoring to parties concerned and the general public, furthermore, the CPAAOB is further keen to ameliorate the contents of Monitoring Report and so forth.

With regard to the CPA examination, the CPAAOB will continue efforts to further disseminate related information by holding lectures on such themes as the mission, role and so forth of CPAs and attractiveness of the license given to and profession taken on by CPAs in order to retain the upward trend in the number of people applying for the license and encourage as many people as possible, including young people and women, to take on the challenge of the examination.

As for cooperation and coordination with foreign audit regulators, the CPAAOB will actively participate in deliberations at the IFIAR and so forth and will strive to grasp the

overseas trend of discussions on how auditing should be in order to cope with changes in environments for CPAs, audit firms and audited companies at home and abroad, including the impact of the COVID-19 pandemic. In addition, the CPAAOB will contribute to the further improvement of global audit quality.

The CPAAOB, through those activities, will strive to increase the trustworthiness of Japan's capital market and even contribute to the sound development of the international economy by ensuring reliability in auditing.

March 2021

SAKURAI Hisakatsu
Chairperson
Certified Public Accountants and Auditing Oversight Board

Measures taken by CPAAOB in Response to the COVID-19 Infection

1. Non-Face-to-Face Meeting, etc.

- To hold non-face-to-face meetings starting in April 2020 in the wake of the spread of COVID-19 infections, the CPAAOB has made arrangements for participation by phone or online, which are actively used by part-time commissioners.

Other anti-infection measures, such as restrictions on entry into and exit from the conference room and maintenance of physical distance, have also been introduced.

2. Review of Monitoring Method

- Taking the spread of COVID-19 infections as an opportunity from the viewpoint of proactively introducing a new working style, the CPAAOB decided to review the method of monitoring audit firms in a manner to make it more efficient and viable to the CPAAOB and audit firms mutually.

Specifically, the monitoring was previously conducted based on direct visits to audit firms and face-to-face meetings, yet with regard to large-sized audit firms and mid-tier audit firms having advanced remote work environments, the CPAAOB considered and implemented methods of the inspection making use of remote work environments, such as a means without in-person visits in principle but through the use of online conference or access to data (See 2.6.8 Review of Monitoring Method (page 29)).

3. Implementation and Management of CPA Examination

(1) CPA Examination in 2020

- The second multiple-choice examination was held in August 2020, rather than in May theretofore, and the essay examination in November, rather than August, for two days instead of three days. In addition, the date of announcing successful applicants was changed to February 2021 from November 2020 (See 3.2.1 Change in Dates of CPA Examinations (page 35)).

- Examination fees were returned to applicants, based on advance applications, who were unable to take the examination as a result of the date change (See 3.2.2 CPA Examination in 2020 (page 36)).
- Some examination venues were changed to ensure sufficient distance between applicants.
- For the examinations after the date change, the CPAAOB asked applicants in poor health condition, including those having fever, to refrain from taking the examinations. In addition, the measurement of body temperature at the entrance of examination venues as well as wearing of face masks, avoidance of close-contact settings and ventilation inside, etc. were thoroughly implemented (See 3.2.2 CPA Examination in 2020 (page 36)).

(2) 2021 CPA Examination

- The multiple-choice examination was held once in May 2021, rather than twice theretofore, as a result of the date change for the 2020 CPA Examination (See 3.2.1 Changes in Dates of CPA Examinations (page 35)).

4. Implementation of Online Lectures

- Amid restrictions on conventional face-to-face lectures, those online were also held. SAKURAI Hisakatsu, Chairperson of the CPAAOB, MATSUI Takayuki, fulltime Commissioner, and others conducted online lectures on such themes as the social role of CPAs at 16 universities and two high schools (See 3.3 Dissemination of Information on CPA Examination, etc. (page 38)).

5. Cooperation with International Organizations

- The plenary session of the IFIAR, scheduled to be held in Switzerland in April 2020, was cancelled. While all meetings of the board, working groups, task forces and so forth were held online, the CPAAOB participated in them to contribute to activities by the IFIAR.
- IFIAR's working groups etc. discussed issues related to the COVID-19 infections. For example, at the Global Audit Quality (GAQ) Working Group Risk Call teleconference, the CPAAOB deliberated and exchanged information with other audit regulators on how to deal with financial year-end audits and fraud risks, which adopted the issue of "audit related risks arising from the COVID-19 pandemic" as its main agenda (See 5.1.3 Activities (page 45)).

1 Overview of the CPAAOB

1.1 Certified Public Accountants and Auditing Oversight Board (CPAAOB)

The CPAAOB is an administrative body led by a council system that was established in April 2004 in the FSA based on Article 35, Paragraph 1 of the Certified Public Accountants Act (hereinafter, “the CPA Act”) and Article 6, Paragraph 2 of the Act for the Establishment of the Financial Services Agency.

The CPAAOB is comprised of the Chairperson and up to nine Commissioners with understanding and knowledge of matters concerning CPAs who are appointed by the Prime Minister after the approval of both Diet houses. Most of the Commissioners serve part-time, but one of them can serve full-time. The term of the members is three years (Article 36, Article 37-2, Paragraph 1 and Article 37-3, Paragraph 1 of the CPA Act).

The Chairperson and Commissioners exercise authority independently. They shall not be dismissed against their will except for the reasons stipulated by the laws during appointed terms (Articles 35-2 and 37-4 of the CPA Act).

The CPAAOB comprises 10 members, Chairperson SAKURAI Hisakatsu, full-time Commissioner MATSUI Takayuki, and eight part-time Commissioners. The Board was launched for its sixth term (April 2019 to March 2022) on April 1, 2019.

The key responsibilities of the CPAAOB are as follows:

- 1) Inspection of CPAs, audit firms, foreign audit firms,^(Note) and the Japanese Institute of Certified Public Accountants (“JICPA”)
- 2) Implementation of CPA examinations
- 3) Deliberation of disciplinary actions against CPAs and audit firms
- 4) Cooperation and coordination with relevant organizations in other jurisdictions

(Note) Refers to a person or entity which conducts duties deemed to be equivalent to audit and assurance services in a foreign country and notifies the Commissioner of the FSA of the submission of foreign documents by foreign companies in accordance with the stipulations of the Financial Instruments and Exchange Law.

1.2 Executive Bureau

The CPAAOB has an Executive Bureau to handle its administrative duties (Article 41, Paragraph 1 of the CPA Act).

The Executive Bureau is comprised of the Planning, Management and CPA

Examination Office and the Monitoring and Inspection Office, led by the Secretary-General of the Executive Bureau. The Planning, Management and CPA Examination Office is in charge of implementing the CPA examinations, investigating and the deliberating on disciplinary actions against CPAs, etc., and coordinating general issues of the Executive Bureau. The Monitoring and Inspection Office is in charge of monitoring audit and assurance services provided by audit firms, etc. and the operation of the JICPA, and inspecting domestic and foreign audit firms, etc. and the JICPA.

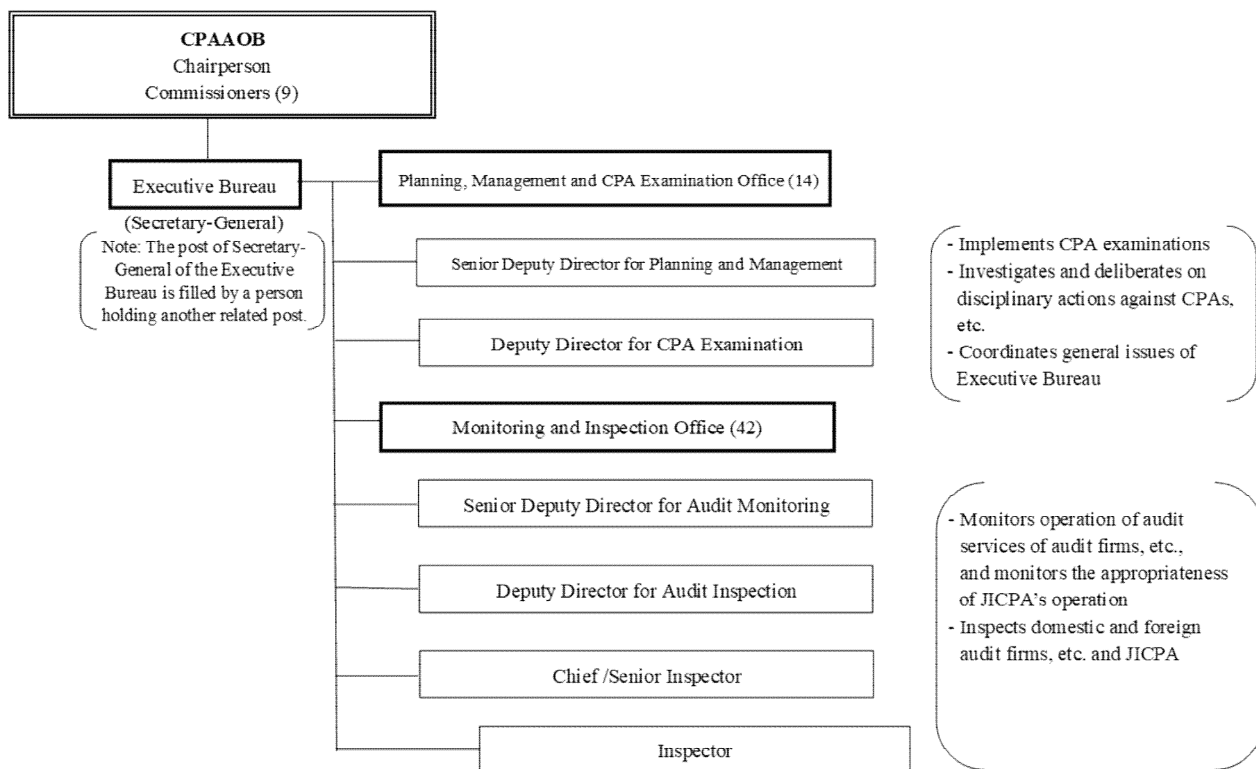
The Executive Bureau had 40 staff members when it was launched in April 2004. Its staff was steadily increased thereafter to 14 in the Planning, Management and CPA Examination Office and to 42 in the Monitoring and Inspection Office for a total of 56 staff members as of the end of FY2020.

Staffing of the Executive Bureau

(Fiscal year-end basis)

FY	2004	2005	2006	2007	2008	2009	2010	2011	2012 ~ 2015	2016 ~ 2017	2018 ~ 2019	2020
Planning, Management and CPA Examination Office	11	12	12	12	12	14	14	14	14	14	14	14
Monitoring and Inspection Office	29	29	31	35	39	41	44	43	42	42	43	42
Head of Chief Inspector	-	-	-	-	-	-	-	-	-	1	1	1
Chief Inspectors	4	4	4	4	5	5	7	7	7	6	6	6
Inspectors	18	18	20	24	26	28	28	27	26	26	27	26

Organization Chart of the CPAAOB



(Note) Figures in parentheses denote the number of personnel at the end of FY2021

While the above is the situation in FY2020, the CPAAOB will address improvement audit quality as one of the measures for FY2021 with the aim of creating a highly functional and attractive financial and capital markets. Effective from April 1, 2021, therefore, the Planning, Management and CPA Examination Office and Monitoring and Inspection Office of the CPAAOB's Secretariat have all been upgraded to departments.

2 Examination and Inspection of Audit Firms

2.1 Outline

To ensure fairness and transparency in the market as well as develop the market to earn investors' trust, the Japanese Institute of Certified Public Accountants (JICPA)'s quality control reviews (see Note) of audit firms, which had been self-regulated, have become statutory since the June 2003 revision of the CPA Act, for the purpose of strengthening oversight of audit firms. Under the revision, the CPAAOB receives reports on the results of these reviews from the JICPA to examine them. If the CPAAOB deems it necessary, the CPAAOB collects the reports from audit firms and conducts inspections.

For the purpose of ensuring the soundness of Japan's financial and capital markets, foreign audit firms that engage in audits of foreign companies subject to the disclosure regulations under the Financial Instruments and Exchange Act became subject to the inspections and supervision of the Financial Services Agency (FSA) and the CPAAOB after the June 2007 revision of the CPA Act, and the CPAAOB was given the mandate to collect the reports and conduct on-site inspections for them.

Specifically, the authority related to the following matters has been delegated from the Commissioner of the FSA to the CPAAOB (Article 49-4, Paragraphs 2 and 3 of the CPA Act):

- Business pertaining to the receipt of reports on the results of reviews by the JICPA on the operation of members' services (audit and assurance services) set forth in Article 2, Paragraph 1 of the CPA Act (Article 46-9-2, Paragraph 2 of the CPA Act)
- Collection of reports and inspections on the JICPA, CPAs and audit firms, which are conducted in relation to the above-mentioned reports (Article 46-12, Paragraph 1 and Article 49-3, Paragraphs 1 and 2 of the CPA Act)
- Collection of reports and inspections on foreign audit firms, etc. (Article 49-3-2, Paragraphs 1 and 2 of the CPA Act)

Based on the given mandate, the CPAAOB examines quality control review reports submitted by the JICPA and collects reports from and conducts inspections of audit firms when necessary and appropriate in light of public interest or investor protection.

The CPAAOB shall make a recommendation to the Commissioner of the FSA for administrative actions or other measures, if necessary, based on the results of

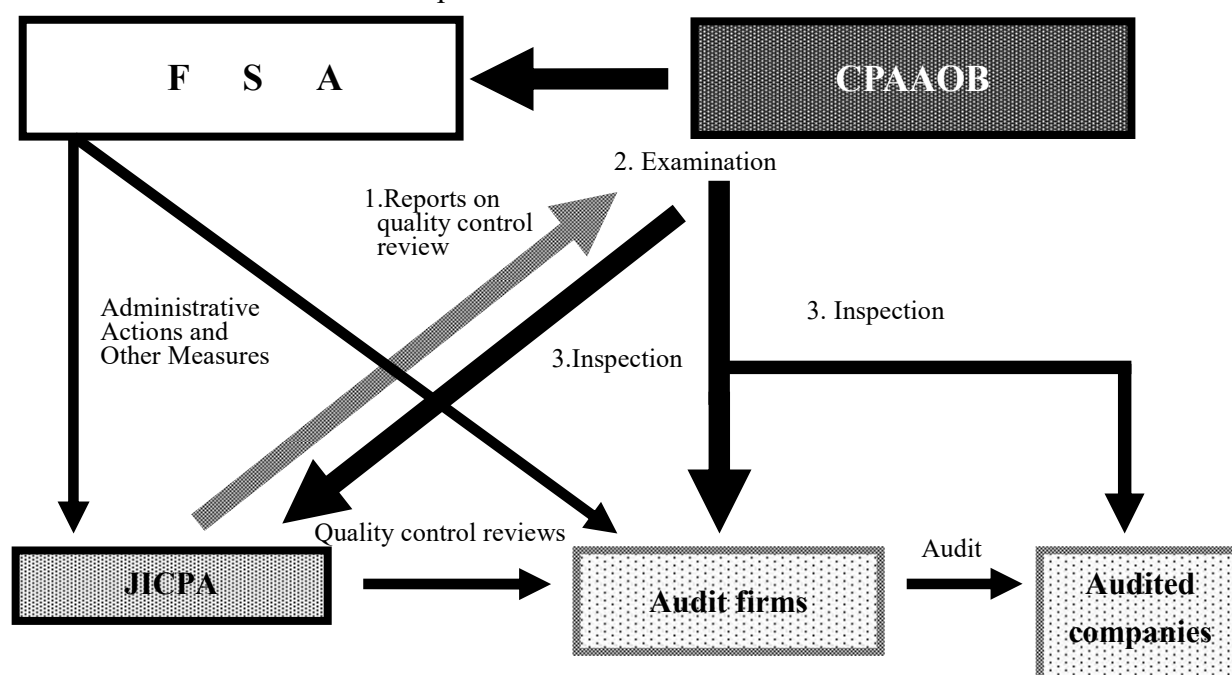
inspections (Article 41-2 of the CPA Act).

(Note) Quality control reviews

Quality control reviews are performed by the JICPA pursuant to the CPA Act, according to which the JICPA shall review the status of the operation of services by members set forth in Article 2, Paragraph 1 of the CPA Act. (Article 46-9-2, Paragraph 1 of the CPA Act).

Specifically, the JICPA is obliged to review the status of the quality control of audits performed by audit firms with the aim of maintaining and improving an appropriate level of audit quality when providing audit service as well as maintaining and enhancing social confidence in auditing.

Outline of Examination and Inspections



1. Reports on quality control review

Once every three years in principle (the time period may be shortened or lengthened in accordance with the situation), the JICPA reviews and assesses an audit firm's compliance with laws, regulations, audit standards, the JICPA's rules, and other related regulations. The CPAAOB obtains reports on the results of those reviews.

2. Examination

The CPAAOB examines the JICPA's reports and ascertains: (i) whether the quality control review system is being properly operated by the JICPA, and (ii) whether audit services are being properly provided by audit firms.

The CPAAOB requests the submission of reports or other materials from audit firms, if in the course of its examination, the CPAAOB finds it necessary to do so.

3. Inspection

If the CPAAOB deems it necessary and appropriate in light of public interest or investor protection, it conducts inspections of audit firms (including companies which are audited by audit

firms).

Furthermore, the CPAAOB conducts inspections of the JICPA when necessary to do so from the viewpoint of securing the appropriate conduct of administration by the JICPA.

4. Recommendation

Based on the results of inspection, the CPAAOB may make a recommendation to the Commissioner of the FSA for administrative actions or any other measures for securing fair operation of audit services by audit firms or that of administrative operations of the JICPA, when the CPAAOB deems it necessary.

(Note) Regarding the collection of reports from and inspections on foreign audit firms, etc., refer to item (ii), Section 2.3.7 “A framework for the collection of reports and inspections on foreign audit firms, etc.” (see page 23).

2.2 Basic Policy for Monitoring of Audit Firms, etc.

2.2.1 Basic Policy for Monitoring Audit Firms

In order to improve the effectiveness of audits conducted by audit firms through monitoring from the viewpoint of ensuring reasonable operation of auditing services including quality control, the CPAAOB published on May 17, 2019, the “Basic Policy for Monitoring Audit Firms - Aiming to Further Enhance Audit Effectiveness -” for the sixth term (April 2019 to March 2022), based on the results of monitoring (see Note) during the first through the fifth terms (April 2016 to March 2019).

(Note) Monitoring includes both on-site monitoring, i.e., inspections, and off-site monitoring, which refers to activities other than inspections including information obtained through the collection of reports, hearings, exchanges of opinions and cooperation, etc.

< Outline of the basic policies >

(i) Perspectives on monitoring

The CPAAOB shall implement more effective monitoring based on the scale and the operational management system of audit firms as well as the degree of risk at audited companies, and work to secure the credibility of audits in the capital market by continuously encouraging audit firms to maintain and enhance audit quality.

In addition, the CPAAOB shall proactively share useful information through monitoring with the relevant divisions of the FSA, JICPA, industry associations related to accounting auditing, as well as with the general public.

(ii) Purposes of monitoring and basic framework for achieving the purposes

The monitoring implemented by the CPAAOB is carried out not for the purpose of focusing on the validity of individual audit opinions themselves, but to ensure reasonable operation of auditing services performed at audit firms, including quality control of the audits, in addition to further improving the effectiveness of the quality control reviews by the JICPA. In order to achieve such purposes, the CPAAOB performs effective monitoring that encourages action taken by the audit firm itself, in consideration of the fact that the audit firm takes the lead in ensuring reasonable operation of auditing services.

Also, the CPAAOB focuses on whether audit firms exercise appropriate professional skepticism that can detect accounting fraud, and that the system of quality control practically maintains and enhances audit quality.

Furthermore, the CPAAOB continuously monitors if the business management system, such as governance, contributes to ensuring reasonable operation of auditing services at audit firms that have adopted the Principles for Effective Management of Audit Firms (The Audit Firm Governance Code), published by the FSA on March 31, 2017.

(iii) Basic policy for off-site monitoring

The CPAAOB receives reports on the results of quality control reviews conducted by the JICPA, and then the CPAAOB may collect reports related to the relevant reports when deemed necessary. Also, the CPAAOB shall collect information through cooperating and exchanging opinions with relevant divisions of the FSA, JICPA, and related parties, as well as dialogues with audit firms, and thus share awareness of issues. In addition, from the viewpoint of precisely understanding the actual situations and risks at audit firms, the CPAAOB shall endeavor to strengthen the analysis of the data collected through this kind of off-site monitoring.

(iv) Basic policy on inspections

Conducting effective and efficient inspections that reflect the circumstances of audit firms and the degree of risk at audited companies, the CPAAOB endeavors to enhance the effectiveness of inspections by, for example, improving inspection methods. The CPAAOB also works to maintain and enhance audit quality at audit firms by integrating inspections with off-site monitoring.

In consideration of the important role they play in capital markets, such as performing audits on many large-scale listed companies, the CPAAOB conducts annual inspections of large-sized audit firms (see Note 1), in principle.

Mid-tier audit firms (see Note 2) have a considerable number of listed audited companies and are responsible for fulfilling a certain role in capital markets, but their operational management system and system of quality control are not considered adequate compared to large-sized audit firms. For that reason, the CPAAOB inspects them regularly (once every three years in principle), maintaining a close watch on the progress made on those systems.

The CPAAOB also conducts inspections of small and medium-sized audit firms (see Note 3) based on the results of quality control reviews, operational management system of audit firms and the degree of risk at listed audited companies, as necessary.

(Note 1) A large-sized audit firm: Audit firms that have more than approximately 100 domestic listed audited companies and whose full-time staff members performing actual audit duties total at least 1,000. In this report, this term specifically refers to four audit firms: KPMG Azsa LLC, Ernst & Young ShinNihon LLC, Deloitte Touche Tohmatsu LLC and PricewaterhouseCoopers Aarata LLC.

(Note 2) A mid-tier audit firm: An audit firm that has a business scale second only to large-sized audit firms. In this report, this term specifically refers to five audit firms: Gyosei & Co., BDO Sanyu & Co., Grant Thornton Taiyo LLC, Crowe Toyo & Co., and PricewaterhouseCoopers Kyoto.

(Note 3) A small and medium-sized audit firm: audit firms other than a large-sized or mid-tier audit firm.

(v) Policy on the provision of monitoring outcomes

In order to ensure and enhance audit quality, the CPAAOB not only shares the inspection results with audit firms, but also provides the observations of monitoring widely to the general public in the form of reports and, from the point of view of the importance of increasing awareness of accounting auditing, further enhances and revises information.

2.2.2 Basic Plan for Monitoring Audit Firms

Based on the Basic Policy for Monitoring Audit Firms, the CPAAOB formulated the Basic Plan for Monitoring Audit Firms to show the direction of the monitoring for each program year and published it on July 14, 2020.

< Outline of the Basic Plan >

(i) Basic Plan Pertaining to Off-site Monitoring

(a) Collection of reports

(a-1) Large-sized and mid-tier audit firms

In terms of large-sized and mid-tier audit firms, the CPAAOB will continue to collect reports, including the qualitative and quantitative information necessary to inspect their business management (governance) and operational management system, status of collaboration with global networks, IT-based audit approaches, cybersecurity measures, etc., based on the Audit Firm Governance Code. Also, the CPAAOB endeavors to understand the audit and oversight environment for listed financial institutions, the audit of which requires sophisticated expertise and understanding of IT.

(a-2) Small and medium-sized audit firms

The CPAAOB will collect reports in a timely manner in order to encourage audit firms to achieve appropriate quality control. In doing so, the CPAAOB conducts inspections prioritizing issues, such as the management policies of the top, revenue and financial structure, the organization and human resources, as well as processes leading to the conclusion of new audit engagement agreements, in addition to the progress with establishing the system of quality control at audit firms.

Also, regarding problems found in inspection results, the CPAAOB works to understand the state of progress through collecting reports after a certain period of time has passed since the notification of the inspection results, and holds hearings as necessary.

(a-3) Case in which improvement of items identified in inspections is urgently required

Regarding audit firms for which the results of inspections acknowledge that improvement is urgently required, the CPAAOB collects reports at the same time as the notification of inspection results and encourages them to execute remediation immediately.

(b) Inspections of the JICPA's quality control reviews as well as cooperation with the JICPA

JICPA quality control reviews have apparently become more conscious of risks in recent years. However, there are also cases where operational control

systems at audit firms are not identified as qualified conclusions under quality control reviews, but they have been identified to be highly inappropriate under CPAAOB inspections. Going forward, the CPAAOB will verify the effectiveness and impact of effectiveness and the measures that the JICPA is supposed to implement.

Furthermore, regarding the balanced demarcation between CPAAOB inspections and JICPA quality control reviews, the CPAAOB and the JICPA are engaged in discussions, mainly with regard to the nature of quality control reviews for large-sized audit firms and ways of improving and expanding the role of guidance and supervision that the JICPA plays, targeting small and mid-tier audit firms. The JICPA has already taken steps based on these discussions, but from the viewpoint of ensuring that CPAAOB inspections and JICPA quality control reviews deliver maximum benefits as a whole, the CPAAOB will hold more concrete and constructive discussions this program year.

(c) Collection and analysis of information on audit firms

The CPAAOB is continuing to engage in periodic dialog with the management, including the top level, of large and mid-tier audit firms in order to understand the latest business operations and problems at audit firms/the audit business. Management, including the top level, has a significant impact on the organizational culture of audit firms, so the CPAAOB will continue to engage in dialog and endeavor to have more in-depth discussions. On the occasion of dialog with audit firms, the CPAAOB grasps the extent to which they have had in place such matters as KAM, the voluntary implementation of which has been introduced this year.

Additionally, the CPAAOB encourages them to elaborate and proactively disclose the information concerning quality control in order to assure that market participants can access such useful information.

The CPAAOB will also strengthen information sharing through exchanges of views, cooperation, etc., with the IFIAR, foreign audit regulators and the global audit networks, in addition to the FSA, the JICPA, financial instruments exchanges, and the Japan Audit & Supervisory Board Members Association. Furthermore, the CPAAOB will endeavor to upgrade organizational capabilities for collecting and analyzing data, information, etc. in accordance with the risks embedded in audit firms.

(ii) Basic Inspection Plan

- Whether the operational control system and the system of quality control are appropriate in accordance with the size and nature of the audit firm.
- What kind of impact the awareness of the management level, including the top, regarding quality control has on the operational management system of audit firms.
- Whether practitioners fulfill appropriate professional skepticism with a full understanding of the intentions and details of the rules, such as audit standards.

The CPAAOB inspects audit firms in consideration of their scalability and nature as the above points.

As well, the CPAAOB examines the impacts of COVID-19 infections, the situation of quality and operational control system, and the implementation of audit procedures and audit opinions based on the JICPA's guidance, etc.

(a) Large-sized audit firms

Considering their important roles in the capital markets, the CPAAOB inspects large-sized audit firms every year (alternating between regular inspection and follow-up inspection).

In the current program year, inspections will be conducted with an emphasis on the management system and the operational management system, including the tone at the top, the effectiveness of the governance system, the operational management system (tie-up between the quality control system at headquarters and each operational division, etc.) of audit firms, and the status of group audits, including overseas subsidiaries.

(b) Mid-tier audit firms

As the operational management system and quality control system of mid-tier audit firms may not be considered adequate compared to those of large-sized audit firms, the CPAAOB inspects them every three years in principle, maintaining a close watch on the progress made on those systems.

In the current program year, in addition to understanding the recognition and efforts of the management level, including the tone at the top toward improving audit quality, inspections will be conducted on the effectiveness of their governance system and management and operational management system, such as the integrity of the organization.

(c) Small and medium-sized audit firms

For small and medium-sized audit firms, the CPAAOB will inspect their systems of quality control and the conformity of individual audit engagements to audit standards, in addition to the influence of the recognition and interaction of the top on those items and the operational management system.

In the current program year, inspections will be conducted with an emphasis on keeping in mind whether identified deficiencies have resulted from the business model and whether remediate measures are only a formality and palliative. The CPAAOB also inspects those firms' operational management systems, such as the integrity of the organization, the appropriateness of risk assessment when accepting audits of listed companies, etc. with high audit risk, and the audit environment for those companies.

2.3 Monitoring and Inspections of Audit Firms

Audit firms may audit or attest financial documents for fees at the request of others (Article 2, Paragraph 1 of the CPA Act) and, using the title of "certified public accountant," they may also provide services such as compiling financial documents, examining or planning financial matters, or providing consultations on financial matters for fees at the request of others (Article 2, Paragraph 2 of the CPA Act).

As of the end of FY2020, the number of registered certified public accountants totals 32,478, of which the number of CPAs belonging to large-sized audit firms is 10,523 or approximately 32.4% of the total. The number of audit firms totals 258.

(Reference)

	End of FY2016	End of FY2017	End of FY2018	End of FY2019	End of FY2020
Number of registered certified public accountants	29,367	30,350	31,189	31,793	32,478
Large-sized audit firms	11,002	11,016	10,912	10,659	10,523
Number of audit firms	222	229	236	246	258

2.3.1 Quality Control Reviews by the JICPA

(i) FY2019

In FY2019, the JICPA performed 84 quality control reviews (58 audit firms (including two large-sized and two mid-tier audit firms and one partnership) and 26 CPAs). The conclusions are presented in the following table.

The Results of Reviews (FY2019)

(Number of audit firms)

Category	Unqualified conclusion		Qualified conclusion			Disclaimer of Opinion		Adverse Opinion		Total
	(a)	a/e	(b)	b/e		(c)	c/e	(d)	d/e	(e)
Audit firm	56	96.6%	2	3.4%		—	—	—	—	58
CPA	21	80.8%	5	19.2%		—	—	-	-	26
Total	77	91.7%	7	8.3%		—	—	-	-	84

(Note) 84 out of 79 cases include recommendations for improvement.

(ii) FY2020

In FY2020, the JICPA performed 56 quality control reviews (39 audit firms (including two large-sized and one mid-tier audit firm) and 17 CPAs), as the table below shows.

Status of Implementation of Quality Control Reviews

Quality control reviews Month and year conducted	2020					2021			Total
	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	
Quality control reviews Number of audit firms reviewed	8	2	13	11	10	7	2	3	56

Of the quality control reviews conducted in FY2020, 36 cases, the details of which had been approved by the Quality Control Committee, had been reported to the CPAAOB as of March 31, 2021. The conclusions of those reports were as follows.

- Discovery of important deficiencies (two certified public accountants)

(Note) Effective in FY2020, the previous kinds of conclusion (“unqualified conclusion,” “qualified conclusion,” and “adverse opinion”) have been replaced with “extremely important deficiency” and “important deficiency” in the “Report on Quality Control

Review.”

2.3.2 Examination of Quality Control Reviews

(i) Examination

The CPAAOB receives a report on quality control reviews from the JICPA, and examines the appropriateness of the JICPA’s quality control and the auditing services of audit firms.

More specifically, the CPAAOB confirms the implementation of quality control reviews and guidance for audit firms on remediation, and analyzes the findings of quality control reviews (to determine any adverse opinions or qualified conclusions applicable to the conclusions of the quality control reviews, or the nature of any deficiencies indicated in the quality control reviews) as well as details of remediation plans submitted by audit firms to the JICPA.

In addition to considering the need for conducting on-site inspections in light of these analysis results, the CPAAOB engages in exchanges of opinions with the JICPA (see page 25 “2.5.2 Cooperation with the JICPA,” “2.5 Cooperation with Relevant Organizations”).

When conducting examinations, the CPAAOB also utilizes information obtained from relevant organizations such as the FSA, the JICPA, financial instruments exchanges, and the Japan Audit & Supervisory Board Members Association (JASBA).

(ii) Analysis of FY2019 quality control reviews

The CPAAOB found the following through the examination of the FY2019 quality control reviews:

- In some cases, quality control review plans were formulated based on the results of past quality control reviews for an audit firm and risk evaluations when selecting individual audit engagements for review in order to enhance the risk approach.
- The review period was extended in accordance with the risk information found during the review and operations subject to individual audit were added.
- There are increasing cases with items identified in individual audit engagements going beyond superficial deficiencies in documentation and identifying deficiencies in audit procedures based on the nature of the deficiencies.

2.3.3 Collection of Reports from Audit Firms

(i) Periodical collection of reports from large-sized and mid-tier audit firms

For PY2020, the CPAAOB collected reports from all large-sized and mid-tier audit firms in July and September 2020 for the purpose of monitoring their business management (governance) system and operational management system. Still, information obtained through report collection was used for not only beforehand analysis of the nature of audit firms targeted for inspections but also a reference for selecting focus points on the occasion of inspections, which is beneficial to make inspections effective and efficient. In addition, the information is utilized for the horizontal review on their quality control systems among large-sized and mid-tier audit firms. The CPAAOB will continue collecting reports annually.

(ii) Collection of reports from small and medium-sized audit firms

Based on the PY2020 Basic Plan for Monitoring Audit Firms, the CPAAOB collected reports from 65 audit firms for which it was deemed necessary to monitor improvements made by small and medium-sized audit firms in response to JICPA's quality control reviews and to identify the business management system, etc. Those reports were collected in August 2020.

History of Collection of Reports

	PY2019		PY2020	
	No. of firms undergoing report collection	No. of firms undergoing QC reviews in FY2018 (excluding large-sized and mid-tier audit firms)	No. of firms undergoing report collection	No. of firms undergoing QC reviews in FY2019 (excluding large-sized and mid-tier audit firms)
Audit firms	31	52	65	80
Audit firms ^(Note)	22	42	43	54
Solo practitioners	9	10	22	26

(Note) Including partnerships.

Among the small and medium-sized audit firms which received the results of quality control reviews in FY2019, the CPAAOB chose the targets for report collection

based on the severity of the quality control review results.

(iii) Collection of reports after inspections (follow-up monitoring)

In PY2020, the CPAAOB collected reports from two audit firms which were inspected in PY2019 in order to confirm improvements made in response to deficiencies identified during the inspections. In addition, the CPAAOB informed two audit firms, deemed necessary to promptly achieve improvements, of inspection results and collected reports from them in order to prompt immediate improvements, and carried out monitoring related to improvement plans and the status of improvements for designated issues.

2.3.4 Inspections of Audit Firms

In PY2020, the CPAAOB conducted inspections of large-sized, mid-tier, and small and medium-sized audit firms based on their nature as well as in accordance with the Basic Inspection Plan (see 2.2.2 (ii) above).

With regard to large-sized audit firms, the CPAAOB conducted regular inspections of two firms and a follow-up inspection of one firm in PY2020.

With regard to mid-tier audit firms, inspections are generally performed once every three years in principle. The CPAAOB conducted inspections of two firms in PY2020.

With regard to small and medium-sized audit firms, inspections are performed as necessary. The CPAAOB conducted inspections of three firms in PY2020.

The CPAAOB carried out inspections aimed at encouraging the audit firms to find out the root causes of deficiencies and voluntarily act as entities responsible for appropriate management of operations.

Status of commencement of inspections in most recent five years (as of March 31, 2021)

PY	2016	2017	2018	2019	2020
Large-sized audit firms	4	4	4	4	3
Second-tier audit firms	2	2	1	2	2
Small and medium-sized audit firms	5	3	5	3	3
Foreign audit firms	1	0	0	1	0
Total	12	9	10	10	8

(Note 1) July 2016 periods have been changed to program years (July through the following June). Because PY2016 was the year in which this change was made, the data for it includes inspections conducted in April-June 2016.

(Note 2) For PY2020 inspections, those started before or on March 31, 2021, were included in the total.

2.3.5 Inspections Results

The CPAAOB has included an overall rating of audit firms' operation of services in the inspection results notification since inspections commenced in PY2016 (excluding inspections for foreign audit firms and follow-up inspections). The overall rating is classified in five grades. No audit firms have yet qualified as "Generally satisfactory," the highest rating in the overall rating scheme, so quality control at all audit firms was rated as "Satisfactory with minor deficiencies" or lower. (See below)

For details on the overall rating, please refer to the Monitoring Report.

(Overall ratings for inspections in PY2016 – 2020)

(As of March 31, 2021)

Classification	Large-sized audit firms, mid-tier audit firms	Small and medium-sized audit firms
Generally satisfactory	-	-
Satisfactory with minor deficiencies	10	3
Unsatisfactory	6	5
Unsatisfactory and in need of immediate remediation	-	5
Extremely unsatisfactory	-	5

(Note) Regarding inspections in PY2020, those for which inspection results notifications were issued before or on March 31, 2021, were included. We plan to update the above data in the 2021 Monitoring Report.

2.3.6 Recommendations to the Commissioner of the FSA

The CPAAOB found that operation of an audit firm was extremely inappropriate during its inspection. Pursuant to the provisions of Article 41-2 of the CPA Act, the CPAAOB recommended the Commissioner of the FSA to take administrative actions and other measures against these firms on Feb. 26, 2021.

2.3.7 Inspections and Oversight on Foreign Audit Firms

(i) Foreign audit firms

Foreign CPAs and audit firms providing corresponding audit and attestation services for the financial statements, which are subject to FIEA disclosure rules, are required to register with the FSA Commissioner in advance. Registered foreign audit firms, etc., are as follows:

Registered foreign audit firms, etc.

(As of March 31, 2021)

	Number of countries/regions	Number of foreign audit firms
North America	2	9
Central & South America	1	1
Europe	15	54
Asia & Pacific	9	28
Middle East	1	1
Total	28	93

- (ii) A framework for the collection of reports and inspections on foreign audit firms, etc.

The CPAAOB collects reports from and conducts inspections of foreign audit firms, etc. in accordance with “A Framework for Inspection/Supervision of Foreign Audit Firms, etc.”

Under the Basic Guidelines on Information Requirements and Inspection on Foreign Audit Firms etc. by the Certified Public Accountants and Auditing Oversight Board etc., the CPAAOB will collect reports from foreign audit firms, etc. once every three years, in principle. The CPAAOB will analyze information submitted from the firms and assess the need for further examinations based on aspects including whether or not the firms properly conduct services corresponding to audit and assurance services. The CPAAOB will perform inspections for the firms when deemed necessary as a result of the analysis. The CPAAOB will generally rely on oversight by the competent authorities of the firms’ home jurisdictions in principle, instead of seeking to obtain information from or conducting inspections on firms, provided that (a) the audit and public oversight systems in the firms’ home jurisdictions are deemed equivalent to those of Japan, (b) necessary information can be provided from such competent authorities through appropriate arrangements of information exchange, and (c) reciprocity is ensured.

- (iii) Collection of reports from foreign audit firms

In accordance with the Framework described in (ii) above and “Basic Guidelines on Information Requirements and Inspection on Foreign Audit Firms etc. by the Certified Public Accountants and Auditing Oversight Board,” the CPAAOB collected reports from 79 foreign audit firms, etc., in 29 countries or regions in PY2018. The next collection is planned for PY2021.

(Note) See “5.2 Bilateral Cooperation” on page 50 for details of the information exchange framework.

(iv) Inspections of foreign audit firms, etc.

In accordance with the results of the analysis of the information that was presented by foreign audit firms, etc. in the collection of reports conducted in PY2018 and cooperation with the oversight authorities of the home jurisdictions of foreign audit firms, etc. as indicated in (iii) above, the CPAAOB conducted inspections on one foreign audit firm in PY2019.

2.4 Dissemination of Information relating to Examination and Inspection

2.4.1 Publication of “2020 Monitoring Report”

Since 2016, the CPAAOB has been annually releasing the Monitoring Report with the aim of providing comprehensible information on the audit sector, not only to auditors and accounting experts, but also to market participants and general readers.

The full text of the 2020 Monitoring Report, released on July 14, 2020, is available at

<https://www.fsa.go.jp/cpaaob/shinsakensa/kouhyou/20200714/20200714-2.html>

The English version, released in January 2021, is available at

<https://www.fsa.go.jp/cpaaob/english/oversight/20210118/20210118.html>

2.4.2 Publication of “Case Report from Audit Firm Inspection Results”

(i) Publication of “Case Report from Audit Firm Inspection Results”

The CPAAOB annually publishes updates and cases pointed out in inspections of audit firms as “Case Report from Audit Firm Inspection Results” with the aim of promoting voluntary efforts by audit firms to ensure and improve their audit quality to the level that the CPAAOB expects and providing reference information to market participants, such as the directors/audit and supervisory board members of listed companies, and investors.

The full text of the 2020 Case Report from Audit Firm Inspection Results, released on July 14, 2020, is available at

<https://www.fsa.go.jp/cpaaob/shinsakensa/kouhyou/20200714/20200714-3.html>

The English version, released in February 2021, is available at

<https://www.fsa.go.jp/cpaaob/english/oversight/20210212/20210215.html>

(ii) Lectures about the Case Report

CPAAOB inspectors provide lectures about the Case Report together with lectures from the chairperson and commissioner of the CPAAOB in JICPA's training sessions.

In PY2020, the CPAAOB gave lectures at the head office of the JICPA and its Tokyo Chapter to encourage voluntary efforts at audit firms to ensure and improve audit quality.

In addition, the CPAAOB gave lectures at the JASBA and the Institute of Internal Auditors-Japan to promote proactive communication between auditors and audited companies by referencing the Case Report.

To encourage the use of the Case Report as a reference for operations in audit firms, etc., the CPAAOB also worked on publicity efforts such as publishing articles about the revision of the Case Report in the journals of the JICPA, the JASBA, etc.

2.5 Cooperation with Relevant Organizations

In order to ensure and improve audit quality, it is important not only to monitor audit firms, but also to cooperate with audit-related organizations to share issues and awareness of audit firms.

Therefore, the CPAAOB exchanges opinions not only with the relevant divisions of the FSA but also with other relevant organizations, including the JICPA and the financial instruments exchanges.

2.5.1 Cooperation with Relevant Divisions of the FSA

Cooperation with the relevant divisions of the FSA will lead to more effective and efficient inspections by sharing audit engagement issues. The CPAAOB discussed issues regarding the disclosures and audits of listed companies with the Securities and Exchange Surveillance Commission, and reflected the obtained information in the way it performed monitoring. The CPAAOB also shared the inspection results of audit firms with the relevant divisions of the FSA.

2.5.2 Cooperation with the JICPA

The CPAAOB is attempting to facilitate interaction with the JICPA for the purpose of enhancing the effectiveness of quality control reviews by the JICPA, such as by holding discussions between the CPAAOB inspectors and the JICPA reviewer regarding outstanding issues found through monitoring.

In PY2020, the CPAAOB and the JICPA held discussions about outstanding

issues related to the quality control review system and audit firms found through monitoring, and exchanged opinions on policies to improve the effectiveness of quality control reviews.

2.5.3 Cooperation with the Financial Instruments Exchanges

For sharing mutual understanding, the CPAAOB cooperated with Financial Instrument Exchanges and self-regulatory organizations for listed companies, by exchanging opinions concerning issues identified through monitoring that are common to all listed companies such as the problems of internal-control and changes in auditors.

2.5.4 Cooperation with the Japan Audit & Supervisory Board Members Association

The CPAAOB places importance on cooperation with audit and supervisory board members who play an important role in corporate governance in light of proper disclosure of financial information. Therefore, the CPAAOB has checked the framework associated with communication between audit and supervisory boards, as well as auditors in its inspections. In addition, the roles of audit and supervisory boards have become increasingly important due to the revised Companies Act and the Corporate Governance Code.

Given the increasing importance of roles and responsibilities assumed by audit and supervisory boards, the CPAAOB and the JASBA discussed issues such as overall rating of the operation of audit firms and communication between audit and supervisory board members and auditors and measures to cope with KAM (Key Audit Matter) in October 2020. The CPAAOB also provided observations on deficiencies identified in inspections, as well as problems at audit firms to audit and supervisory board members through the JASBA lecture meetings, etc.

2.6 Achievement in PY2020 agenda

2.6.1 Inspections of Business Management System Such as Governance

In order to continuously improve audit quality, the CPAAOB performed inspections on the awareness of the management level, including the tone at the top, and if that is reflected in specific measures, etc.

The CPAAOB checked the large-sized and mid-tier audit firms which have adopted the Audit Firm Governance Code, evaluating how the effectiveness of their governance has been strengthened based on the Code in terms of improving audit quality; sharing information and cooperating with the relevant divisions of the FSA; and performing inspections on whether the oversight/assessment body

composed of independent third parties adequately demonstrated its function. As a result, on an overall level at large-sized and mid-tier audit firms, the CPAAOB found that there has been progress with efforts to make use of the expertise of independent third parties, such as requesting opinions from independent third parties upon providing the necessary information to them.

2.6.2 Monitoring Based on Trends Related to Audits

(i) Group audits including auditing of overseas subsidiaries

A large number of accounting problems are being found at overseas subsidiaries of listed companies. The CPAAOB therefore intensively inspected the correspondence of not only engagement teams but also audit firms regarding group audits, including the auditing conducted at overseas subsidiaries.

As a result, the CPAAOB found that many audit firms have developed audit instruction formats and manuals. On the other hand, the CPAAOB found some cases in which necessary audit procedures were not carried out, such as the absence of deliberations on overseas subsidiaries' business activities and fraud risks with audit firms of overseas subsidiaries, inadequate involvement in risk assessments by overseas subsidiaries' audit firms and the absence of reports on procedures of responding to risks in need of special examinations conducted by audit firms of overseas subsidiaries and their results.

(ii) Acceptance of audit engagements

Recently, many listed companies are changing their auditors from large-sized audit firms to mid-tier/small and medium-sized audit firms. The CPAAOB inspected whether audit firms assess risk appropriately, and whether they formulate engagement teams based on risk assessment when accepting new engagements from large-scale listed companies and listed firms deemed to have high audit risk.

As a result, regarding companies with high audit risk, the CPAAOB found some cases in which audit firms, though aware of unusually material deals, accepted new engagements without fully assessing the sincerity of the management and the operational rationality of the deals.

2.6.3 Strengthening of Off-site Monitoring

The CPAAOB works to strengthen off-site monitoring in order to implement efficient, effective monitoring. Based on recent trends, the CPAAOB has periodic dialogues with the management level of large-sized and mid-tier audit firms,

including the top, regarding how to deal with an increase in the risk of overlooking fraud under the influence of COVID-19 infections, and the policy of acceptance of new audit engagements for companies making their IPOs. Also, the CPAAOB exchanges opinions in a timely manner with the relevant divisions of the FSA, financial instruments exchanges, the JASBA, and others, and, in addition, collects reports from the aforementioned audit firms (see the “2.3.3 Collection of Reports from Audit Firms” on page 20). The CPAAOB makes effective use of the collected information and the results of its analysis in ways such as grasping industry trends and selecting points to focus on when implementing inspections.

2.6.4 Verifications of the JICPA’s Quality Control Reviews as well as Cooperation with the JICPA

The CPAAOB reviews the effectiveness of the JICPA’s quality control reviews through inspections of audit firms and shares information on issues identified with the JICPA for encouraging further improvements of quality control reviews.

Since PY2015, the CPAAOB and the JICPA have continued to carry out the working level review meeting for discussing problems of quality control reviews. Based on the discussions at the review meeting, the JICPA makes flexible use of the review plan and selects individual audit engagements based on the risks. Further, awareness has grown strong regarding connecting the findings identified in individual audit engagements to deficiencies identified in the system of quality control.

Still, the CPAAOB and the JICPA have discussed proper demarcation between CPAAOB’s inspection and JICPA’s quality control review centering on the desirable quality control systems of large-sized audit firms and enhancement of the instruction/supervise function of the authority to small and medium-sized audit firms.

2.6.5 Monitoring of Technology Use and Cybersecurity at Audit Firms

In recent auditing, the use of IT is becoming necessary in order to implement efficient, effective audits in response to the growing complexity, diversification, and sophistication of corporate activities. Therefore, large-sized audit firms and some mid-tier audit firms are further promoting the use of IT in auditing for the purpose of ensuring and improving audit quality.

As a result of the monitoring of large-sized audit firms, it was found that those firms are using IT-based audit tools developed by the global network and undertaking R&D for inventing audit tools. The firms are also actively employing

IT specialists and investing in IT-related human resource developments such as providing IT training. Also, the CPAAOB found efforts to improve audit quality by enabling CPAs to concentrate on the duties necessary to making high-level judgements by the proactive introduction of AI for risk assessments that include comprehending the business of audited companies and detecting abnormal journal entries as well as RPA (a form of automation technology for business processes) in standardized audit procedures and the accompanying operations. The spread of COVID-19 infections has prompted many audit firms to carry out “remote audits” from home and office.

Regarding cybersecurity, large-sized audit firms have experts and specialized departments in place, and are cooperating with the global network. Large-sized audit firms and some mid-tier audit firms are making efforts with cybersecurity, such as by participating in the FSA-sponsored “Financial Industry-wide Cybersecurity Exercise (Delta Wall IV)” in October 2020 and strengthening responses to the outbreak of large-scale incidents.

2.6.6 Strengthening Dissemination of Information

The 2020 Monitoring Report includes the results of monitoring carried out by the CPAAOB, in addition to data provided by audit firms, so as to contribute to deepening the understanding of audits by market participants. The CPAAOB revised its content to increase the comprehension of accounting auditing not only by market participants but also for a wide range of general readers. In addition, the CPAAOB worked to actively disseminate information in ways such as holding lectures and briefings, as well as issuing articles via the relevant journals.

2.6.7 Enhancement of the Monitoring Environment

In order for the monitoring of the CPAAOB to properly respond to the above-mentioned issues surrounding audit firms and the internationalization of accounting practices, it is important to carry out thorough monitoring by, for example, securing human resources and strengthening collection/analysis of information. In PY2020, the CPAAOB actively utilizes personnel capable of accommodating efficient and effective monitoring instructions and promoted the nurture of personnel through their active participation in international conferences, etc.

2.6.8 Review of monitoring method

Taking the spread of COVID-19 infections as an opportunity and the viewpoint of proactively introducing a new way of work into consideration, the CPAAOB decided to review its method of monitoring audit firms to make it more efficient

and effective to both the CPAAOB and audit firms. Specifically, the CPAAOB examined and performed the inspection of large-sized and mid-tier audit firms, etc. via remote and other means in PY2020. The CPAAOB will continue to work on reviewing the method of monitoring.

3 Implementation of CPA Examination

3.1. Outline

3.1.1 Outline of CPA Examination

The CPA examination is held in the forms of multiple-choice and essay examinations (Article 5 of CPA Act) to determine whether applicants to become CPAs have necessary knowledge and skills. The CPAAOB holds the examination at least once every year (Article 13, Paragraphs 1 and 2 of the CPA Act).

The current examination format started with the 2006 examination following major amendments added to the CPA Act in 2003 to enable a huge variety of people, including those in the workforce, to take the examination while maintaining the quality of the examination.

Principal changes through amendments to the CPA Act in 2003

- (i) Simplification of the examination system
- (ii) Change of examination subjects
- (iii) Expansion of exemption from examination subjects for applicants, such as those with work experience, who meet set requirements and who have completed education at graduate school specializing in accounting.
- (iv) Introduction of a system to exempt successful applicants in a multiple-choice examination from another multiple-choice examination for two years after the announcement date of their pass.
- (v) Introduction of a system to exempt successful applicants in one or more of examination subjects in an essay examination from a subject or subjects in question for two years after the announcement day of their pass if their performances are deemed eligible for the exemption.

While the CPAAOB engages in clerical work for the CPA examination, each local finance bureau director general, etc. is commissioned to serve as an examination proctor (Article 49-4, Paragraph 5 of the CPA Act and Article 36 of the Enforcement Order of the CPA Act).

The CPAAOB has examination commissioners for the preparation of examination questions and grading of answers. Examination commissioners are appointed by the Prime Minister, based on the CPAAOB's recommendation every year when the examination is held (Article 38, Paragraph 1, 2 of the CPA Act) .

3.1.2 Outline of Current Examination

The CPA examination consists of a multiple-choice examination (choice from multiple answers) and an essay examination. It is held at venues in the

jurisdictions of finance bureaus across the country.

a. Multiple-choice examinations

- Number and date of examination

Twice a year (early December and late May)

- Examination subjects

Four mandatory subjects: Financial accounting, management accounting, auditing and business law

- Qualifying standard

The qualifying standard is a rate of scores deemed appropriate by the CPAAOB, based on 70% of total points. Starting with the 2021 examination, however, applicants may fail if they fall short of 40% of full marks in one of subjects and of scores earned by applicants belonging to 33% of the lowest scorers among those submitting examination sheets.

(Note) In examinations through 2020, applicants could fail if they did not earn 40% of full marks in a subject even if their total scores met the qualifying standard.

Past passing point rates

2016		2017		2018		2019		2020	
1st	2nd	1st	2nd	1st	2nd	1st	2nd	1st	2nd
67%	66%	71%	64%	70%	64%	63%	63%	57%	64%

(Note) Applicants with scores short of 40% of full marks in a subject failed, except for the second examination in 2017, second in 2019 and first in 2020.

- Full or partial exemption from multiple-choice examination

Applicants who have served as professors, etc. in commerce or law at university, etc. for three years or more, who hold doctoral degrees on those subjects, or who have passed the bar examination can be exempted from multiple-choice examinations if they apply. Successful applicants in a multiple-choice examination, if they apply, can be exempted from another multiple-choice examination until the end of two years after the announcement day of their pass.

In addition, applicants such as those who hold a certified public tax accountant license and who graduated from graduate school specializing in accounting can be partially exempted from examination subjects if they apply.

Number of exemptions in FY2020

Full exemption	University professors, etc. in commerce or law or holders of doctoral degrees	6
	Applicants who have passed the bar examination	97
	Successful applicants in multiple-choice examination (examinations only in 2018 and 2019)	1,669
Partial exemption	Holders of certified public tax accountant licenses	67
	Graduates from graduate school specializing in accounting	143
	Applicants with work experience related to accounting and auditing	7

b. Essay examination

- Number and date of examinations
Once per year (mid to late August)
- Examination subjects
Four mandatory subjects: Accounting, auditing, business law and tax law
Optional subjects: One of business administration, economics, civil code and statistics
- Qualifying standard
The qualifying standard is a rate of scores deemed appropriate by the CPAAOB, based on 52% of total points. But applicants may fail if they fall short of 40% of full marks in one of the subjects.
Each applicant's paper is graded by a number of examination commissioners, and disparities in their grading are adjusted by standard deviation.

Past passing points

2016	2017	2018	2019	2020
52.0%	52.0%	52.0%	52.0%	51.8%

(Note) Applicants with scores short of 40% of full marks in a subject failed.

Changes in number of successful applicants, etc.

	2016	2017	2018	2019	2020
No. of people submitting applications	10,256	11,032	11,742	12,532	13,231
No. of successful applicants in essay examination	1,108	1,231	1,305	1,337	1,335
Final pass rate	10.8%	11.2%	11.1%	10.7%	10.1%

(Note) The number of people submitting applications was tallied through name-based aggregation of applicants who submitted applications for both the first and second examinations.

▪ Partial exemption from essay examination

Applicants who have served as professors, etc. in commerce or law at university, etc. for three years or more, who hold doctoral degrees on those subjects, or who have passed the bar examination can be exempted from part of the examination subjects if they apply.

Applicants who made a showing, deemed eligible by the CPAAOB, in some essay examinations, can be exempted, if they apply, from the essay examination in question until the end of two years after the announcement day of their pass in the said essay examination.^(Note)

(Note) Based on an average of scores marked by applicants on part of subject in the same essay examination, those who post a score higher than a rate of scores deemed adequate by the CPAAOB are accredited as eligible for partial exemption from another essay examination.

Number of exemptions in FY2020

University professors, etc. or holders of doctoral degrees in commerce, law or economics	6
Applicants who have passed the bar examination	89
Applicants who have passed real estate appraiser examination	2
Holders of certified public tax accountant license	17
Applicants eligible for partial exemption from essay examination (examinations only in 2018 and 2019)	513

3.1.3 Internet-based Acceptance of Examination Applications, etc.

To enhance convenience for applicants, the submission of CPA examination applications, etc. are accepted via the internet, starting with the first multiple-choice examination in 2017.

More than 80% of applications for the examinations in 2021 were accepted via

the internet.

Use of internet-based acceptance service

		No. of applications accepted (a)	No. of applications accepted via internet (b)	Ratio of utilization (b/a)
2017	1st	7,818	3,470	44.4%
	2nd	8,214	3,700	45.0%
2018	1st	8,373	5,157	61.6%
	2nd	8,793	5,313	60.4%
2019	1st	8,515	6,280	73.8%
	2nd	9,531	6,787	71.2%
2020	1st	9,393	7,313	77.9%
	2nd	10,191	7,707	75.6%
2021	—	14,192	11,868	83.6%

3.2. Implementation of CPA Examinations

3.2.1 Changes in Dates of CPA Examinations

In light of the nationwide spread of COVID-19 infections, the CPAAOB changed the dates of CPA examinations after taking into account such issues as the legal requirement ^(Note 1) and the need for securing opportunities for applicants to take the examination in a comprehensive fashion while paying heed to the safety of applicants.

Specifically, the second multiple-choice examination in the 2020 CPA examination was held in August 2020 instead of May, and the essay examination in November instead of August, while the number of examination days was shortened from three to two. ^(Note 2)

As a result of the changed dates of the 2020 CPA examination, the CPAAOB, which used to hold two multiple-choice examinations each year, decided to combine them for a single examination in May 2021 for the 2021 CPA examination. ^(Note 3)

For the 2022 CPA examination, however, the CPAAOB plans to hold two multiple-choice examinations and one essay examination as in the past.

(Note 1) Article 13, Paragraph 2 of the CPA Act stipulates that the CPA examination shall be held once or more each year.

(Note 2) The examination was held for two days on Saturday and Sunday in light of possible difficulties for applicants to take weekdays off in November in comparison to August, the month of summer vacations.

(Note 3) For the 2021 CPA examination in which multiple-choice examination were unified into

one, the CPAAOB decided to apply its qualifying standard more flexibly from the viewpoint of securing as many applicants for the essay examination as in the past.

3.2.2 CPA Examination in 2020

The entire schedule of the 2020 CPA examination, following changes in the implementation dates, was set as follows.

Schedule of 2020 CPA examination

Category	Start of Accepting applications	Deadline for accepting applications	Date of examination	Announcement of successful applicants
1st multiple-choice examination	August 30, 2019	Application via internet September 9, 2019	December 8, 2019	January 17, 2020
		Application in writing September 13, 2019		
2nd multiple-choice examination	February 7, 2020	Application via internet February 27, 2020	August 23, 2020 (initially slated for May 24, 2020)	September 18, 2020
		Application in writing February 21, 2020		
Essay examination	—		November 14 and 15, 2020 (initially slated for August 21 to 23, 2020)	February 16, 2021

To applicants unable to take the examination due to the changed schedule, the CPAAOB refunded examination fees based on their advance application.

For the implementation of examination following the changed schedule, the CPAAOB asked applicants in poor health condition (including those with fever) to refrain from taking the examination. While measuring the temperature of applicants before entering examination venues, furthermore, the CPAAOB adopted such measures inside as having them wear facemasks and avoid becoming physically close to each other, as well as promoting ventilation.

Outline of examination results

Category	2020 examination	2019 examination
No. of people submitting applications (a)	13,231	12,532
No. of applicants for multiple-choice examination	11,598	10,563
No. of applicants passing multiple-choice examination	1,861	1,806
No. of applicants for essay examination	3,719	3,792
No. of final successful applicants (b)	1,335	1,337
Pass rate (b/a)	10.1%	10.7%

*There were 1,931 applicants who were exempted from the multiple-choice examination in the 2020 examination.

a. People submitting applications

For the 2020 CPA examination, 13,231 people submitted applications, an increase of 699 or 5.6% from the previous year's 12,532.

b. Applicants who passed multiple-choice examination

- No. of applicants for multiple-choice examination
11,598^(Note) (9,393 for 1st examination and 7,452 for 2nd examination)
- No. of applicants who passed multiple-choice examination
1,861 (1,139 for 1st examination and 722 for 2nd examination)

(Note) The number of applicants for the multiple-choice examination was tallied by the name-based aggregation of people who took both the first and second examinations

c. Applicants who passed essay examination (final successful applicants)

- No. of applicants taking essay examination: 3,719
Including: 1,861 who passed multiple-choice examination in 2020
1,858 who were exempted from multiple-choice examination
- No. of final successful applicants: 1,335
Pass rate: 10.1%
(No. of final successful applicant/No. of people submitting applications)
Pass rate for essay examination: 35.9%
(No. of final successful applicants/No. of applicants taking essay examination)

For reference, 463 applicants (name-based) were partially exempted from the essay examination ^(Note).

By age, applicants aged under 30 accounted for 82.9% of all successful applicants. The average age of successful applicants was 25.5 years old (the oldest and youngest were 61 and 18, respectively).

By occupation, “students” and “people taking courses at advanced vocational schools and miscellaneous schools” accounted for 893 (66.9%) of successful applicants, while 95 “company employees” (7.1%) passed the examination.

There also were 328 women who passed the examination (the ratio was 24.6%, the highest under the current examination format).

(Note) The rate of scores deemed appropriate by the CPAAOB to qualify for partial exemption from subjects in the essay examination was 55.9%.

3.2.3 Schedule of 2021 CPA Examination

Following is the schedule of the 2021 CPA examination.

Schedule of 2021 CPA examination

Category	Start of accepting applications	Deadline of accepting applications	Examination date	Announcement of successful applicants
Multiple-choice examination	February 5, 2021	February 25, 2021	May 23, 2021	June 18, 2021
Essay examination	—		August 20 to 22, 2021	November 19, 2021

To implement the 2021 CPA examination, the CPAAOB plans to adopt measures to prevent COVID-19 infections as in the 2020 CPA examination.

(State of applications for 2021 CPA examination)

- No. of people submitting applications: 14,192

3.3 Dissemination of Information on CPA Examination, etc.

The CPAAOB is promoting public relations activities aimed at university and high school students in line with the “JFSA priorities for July 2020-June 2021”, stating that “public relations activities to expand the base of applicants for the CPA examination, such as lectures for university and high school students, will be implemented in cooperation with the JICPA when necessary.”

Specifically, the Chairperson and fulltime Commissioners provide lectures at universities and high schools across Japan under such themes as the social role of CPAs, expansion of their activities, and significance of auditing. Amid restrictions on face-to-face lectures because of COVID-19 infections, lectures, including those online, were conducted at 16 universities and two high schools in FY 2020. In addition, inspectors and other working-level officials of the CPAAOB offered lectures to enable university students, etc. to imagine the practical work of CPAs in specific terms. The CPAAOB, furthermore, discussed with board of education and others the holding of lectures for high school students in order to expand the base of applicants for the CPA examination.

To enhance the dissemination of information, the CPAAOB publishes an examination pamphlet every year, mentioning such information as CPAs' work and a summary of the examination for the year concerned. The pamphlet was distributed at the above-mentioned lectures, etc. and posted on the CPAAOB's website.

To maintain the transparency and reliability of the examination, the CPAAOB continues to release information on details of the examination results, including the number of applicants and of successful applicants and the score layer distribution, in addition to examination questions.

3.4 Next Challenges

As basic tasks for the management and implementation of CPA examinations, the CPAAOB will carry them out fairly and smoothly and encourage diverse people, including promising young people who will play important roles in the future of this country's economy, to take on the challenge of the examination.

3.4.1 Fair and Smooth Management of CPA Examination

As the CPA examination should be held fairly and smoothly, meticulous attention and thorough preparedness are needed for a series of measures to carry out the examination, such as the Executive Bureau's support in selecting examination commissioners responsible for the preparation of examination questions and grading of answers and in preparing questions and in having the examination implemented by local finance bureaus, etc.

Given the nationwide spread of COVID-19 infections, furthermore, the CPAAOB should secure opportunities for applicants to safely take examinations.

To maintain the transparency and reliability of the CPA examination, the CPAAOB also needs to continue to proactively provide information, such as announcing the judgment standard of passing and the allocation of points, and

informing applicants of their performance.

3.4.2 Efforts to Increase Applicants for CPA Examination

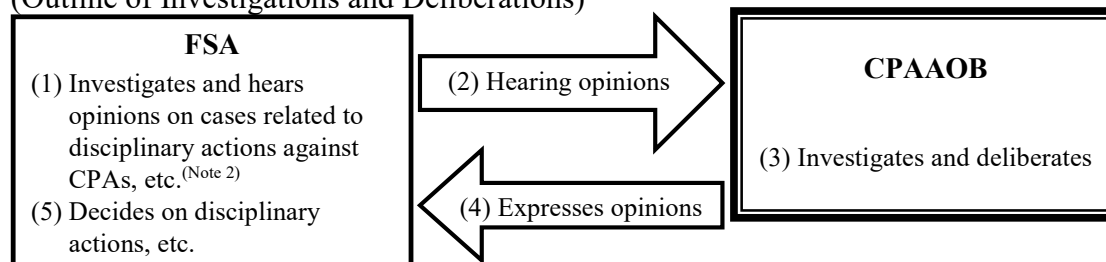
To maintain the uptrend in the number of people submitting applications for the CPA examination and encourage more people to take the examination, the CPAAOB needs to continue enhancing public relations activities, such as holding lectures at universities, high schools and so forth across Japan about the attractiveness of work as CPAs, including the importance of accounting and auditing in the capital market, the mission of CPAs and the expansion of their activities beyond auditing services.

4 Deliberation of Disciplinary Actions, etc. Against CPAs, etc.

4.1. Outline

When the Commissioner of the FSA takes disciplinary actions, etc.^(Note 1) against CPAs and audit firms (excluding cases in which disciplinary actions, etc. are taken based on recommendations by the CPAAOB, or in which audit firms are ordered to pay administrative monetary penalties), the Commissioner listens to opinions from the CPAAOB after holding hearings (Article 32, Paragraph 5 of the CPA Act). Specifically, the CPAAOB deliberates on issues related to, among others, facts subject to disciplinary actions, applicable laws and ordinances, content of hearings and severity of disciplinary actions, and it expresses opinions about whether the Commissioner's judgement is appropriate or not.

(Outline of Investigations and Deliberations)



(Note 1) Disciplinary actions, etc. are taken in such cases as when CPAs or audit firms make false or inappropriate verifications and when CPAs, etc. violate laws, etc. or executed his/her services in a manner that was found to be grossly inappropriate.

(Note 2) Investigations into issues related to disciplinary actions, etc. (such as ordering the persons concerned with the case or witness to take interviews or to collect opinions or reports from those persons, etc., and ordering the owner of books, documents or any other objects to produce said objects) are conducted by the Commissioner of the FSA.

4.2 Outline of Case Concerned

The CPAAOB investigated and deliberated one case in FY2020 as it was asked for opinions by the FSA. Following is an outline of the case.

(Deliberation)

Deliberation by CPAAOB	Disciplined subjects
398th deliberation (November 5, 2020)	Otemon Audit Corporation and 2 CPAs

The CPAAOB conducted investigations and deliberations concerning a decision

to take disciplinary actions against Otemon Audit Corporation and two of the audit firm's CPAs for audit and attestation services provided by them for Nihon Form Service (hereinafter referred to as "Nihon Form") for the business years ended in September 2017 and September 2018, and expressed an opinion that the judgement by the Commissioner of the FSA was appropriate.

Following the opinion, the Commissioner of the FSA took disciplinary actions, etc. against the audit firm and CPAs on November 27, 2020.

(Reference) Summary of disciplinary actions (from reference material released by the FSA)

(1) Otemon Audit Corporation

(The audit firm was dissolved on October 27, 2020, and has been transitioned to a liquidated corporation.)

a. Disciplinary action

- Suspension of business for 5 months (excluding liquidation process)
(From November 30, 2020, till April 29, 2021)

b. Reasons for disciplinary action

- (a) In audits conducted for the business years ended in September 2017 and September 2018, the below-mentioned two CPAs of Otemon Audit Corporation intentionally attested Nihon Form's financial documents containing misstatements as if they contained no misstatements and in negligence of due care, attested those with material misstatements as if they contained no misstatements.
- (b) The audit firm's operation was determined as extremely inappropriate.

(2) Two CPAs

a. Disciplinary actions

- One CPA Deregistration
- One CPA
Suspension of work for 2 years (From November 30, 2020, till November 29, 2022)

b. Reasons for disciplinary actions

The above-mentioned two CPAs deliberately attested Nihon Form's financial documents containing misstatements as if they contained no misstatements and in negligence of due care, attested those with material misstatements as if they contained no misstatements in audits they conducted for the business years ended in September 2017 and September 2018.

5 Cooperation with Relevant Organizations in Other Jurisdictions

5.1 Activities of the International Forum of Independent Audit Regulators (IFIAR)

5.1.1 Background

Triggered by accounting scandals such as those at U.S. companies Enron and WorldCom, the need to ensure and improve audit quality was recognized. Since 2002, audit regulators which are independent from the accounting profession have been established in jurisdictions throughout the world.

Amid such circumstances, the first unofficial meeting of audit regulators was held in Washington, D.C., in September 2004, organized by the Financial Stability Forum (FSF) (now the Financial Stability Board (FSB)), for the purpose of sharing information among respective members' jurisdictions. The meeting was attended by nine jurisdictions: Japan, the U.S.A., the U.K., Germany, France, Italy, Canada, Australia, and Singapore. Subsequently, a series of further informal meetings were held. Momentum was gathered for the establishment of a permanent international forum, and at the fifth meeting of audit regulators held in Paris in September 2006, formal approval was given for the establishment of the International Forum of Independent Audit Regulators (IFIAR). Its first Plenary Meeting was held in Tokyo in March 2007, hosted by the CPAAOB, and was attended by the audit regulators of 22 jurisdictions.

According to the Charter adopted at the 4th Plenary Meeting, which was held in Cape Town in September 2008, the purpose of the IFIAR is to engage in activities i.-iii. below. Later, at the 13th Plenary Meeting held in Noordwijk in April 2013, the Charter was revised with the addition of iv. below.

- i. Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity with a focus on inspections of auditors and audit firms;
- ii. Promoting collaboration and consistency in regulatory activity;
- iii. Initiating and leading dialogue with other policy-makers and organizations that have an interest in audit quality; and
- iv. Forming common and consistent views or positions on matters of importance to its Members, taking into account the legal mandates and missions of individual members.

In January 2015, the CPAAOB and the FSA made a bid to host the IFIAR secretariat in Tokyo with the aim of contributing to improving audit quality globally through IFIAR, enhancing Japan's influence in international financial regulatory activities including auditing, and establishing Tokyo's presence as an international financial center. As a result of bid campaigns in collaboration with industry, government, and academia, the establishment of the IFIAR Secretariat in

Tokyo was approved at the 16th Plenary Meeting in London in April 2016, and the secretariat was opened in April 2017.

5.1.2 Organization

The IFIAR comprises the independent audit regulators from 54 jurisdictions as of the end of March 2021.

Key decisions are made at a plenary meeting attended by representatives of all member jurisdictions. While 19 plenary meetings had been convened, the last one was held in Greece in April 2019. The session that was slated to be held in Switzerland in April 2020, was cancelled due to the global spread of COVID-19 infections.

The posts of Chair and Vice Chair are assigned to elected individuals to enable the IFIAR to efficiently conduct activities. As of the end of March 2021, a U.S. citizen is serving as Acting Chair as a result of the Chair's sudden death during his term of office.

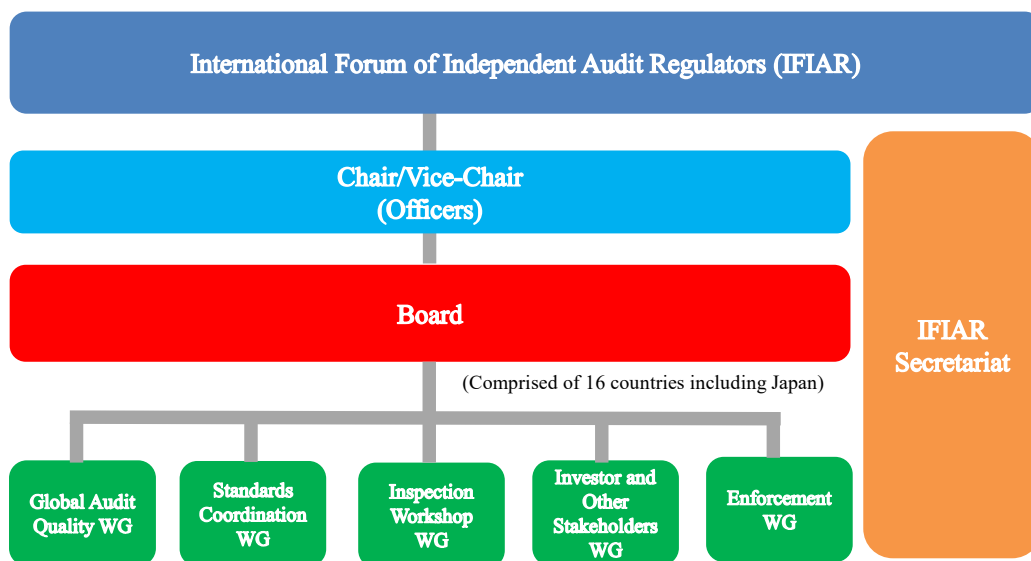
In April 2017, the IFIAR Board was established, together with the above-mentioned secretariat, as the new governing body comprised of 15 members including Japan. The board held its first meeting in Tokyo.

In addition, the IFIAR has five Working Groups (WGs)^(Note) as of the end of March 2021. The objective and activities of each WG are described in (i)(b) below.

(Note) The International Cooperation Working Group (ICWG) was already dissolved at the end of April 2020.

IFIAR organization chart

(As of the end of March 2021)



IFIAR Members 54 Jurisdictions

Europe (32)

Ireland (IAASA)
Albania (POB)
United Kingdom (FRC)
Italy (CONSOB)
Ukraine (APOB)
Austria (ASA)
The Netherlands (AFM)
Cyprus (CyPAOB)
Greece (HAASOB)
Croatia (APOC)
Gibraltar (FSC)
Georgia (SARAS)
Switzerland (FAOA)
Sweden (SBPA)
Slovak Republic (AOA)
Slovenia (APOA)
Spain (ICAC)
Czech Republic (RVDA)
Denmark (DBA)
Germany (AOB)
Norway (FSA)
Hungary (APOA)
Finland (AB3C)
France (H3C)
Bulgaria (CPOSA)
Belgium (CRME)
Poland (AOC)
Portugal (CMVM)
Lithuania (AAA)
Romania (ASPAAS)
Luxembourg (CSSF)
Russia (MOF/FSFB)

Asia (11)

Indonesia (FPSC)
Korea (FSC/FSS)
Singapore (ACRA)
Sri Lanka (SLAASMB)
Thailand (SEC)
Taiwan (FSC)
Japan (CPAAOB/FSA)
Philippines (SEC)
Malaysia (AOB)
Australia (ASIC)
New Zealand (FMA)

Middle East (4)

Abu Dhabi (ADAA)
Saudi Arabia (CMA)
Dubai (DFSA)
Turkey (POA/CMB)

Africa (3)

Botswana (BAOA)
South Africa (IRBA)
Mauritius (FRC)

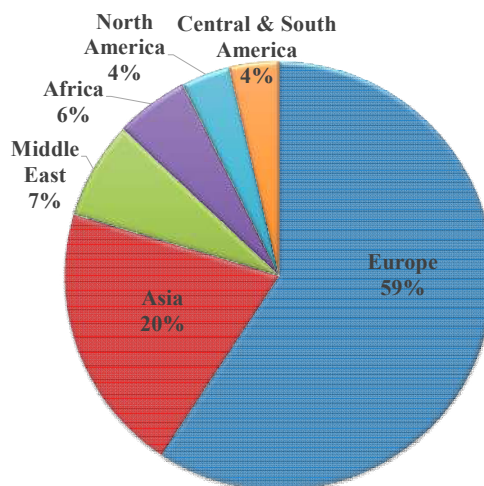
North America (2)

United States (PCAOB)
Canada (CPAB)

Central & South America (2)

Cayman Islands (AOA)
Brazil (CVM)

As of the end of March 2021



* The 23 jurisdictions that are underlined are signatories of the IFIAR Multilateral Memorandum of Understanding Concerning Co-operation in the Exchange of Information for Audit Oversight (MMOU).

5.1.3 Activities

(i) Activities of the Plenary Meeting

(a) Plenary Meeting (including sessions with CEOs of six largest global audit firm networks ^(Note))

As the Plenary Meeting, slated to be held in Switzerland in April 2020, was cancelled due to the global spread of COVID-19 infections, as an alternative method, resolutions in writing were passed for scheduled agendas.

As a result of the cancellation, scheduled sessions with the CEOs of the six largest networks were held online between August and September 2020. With regard to audits, deliberations to fundamentally review the auditing system are underway as big accounting scandals in certain countries, including Britain and Germany, have shaken trust in auditors and regulators. In addition, the COVID-19 pandemic is gravely affecting the procedure and quality of audits. Now that the importance of ensuring high-quality audits is further increasing, the sessions with the CEOs discussed issues of how audits should be in the future, such as the six largest networks' risk recognition, governance, quality control, use of technology and so forth, while spending much time on measures to cope with the pandemic.

(Note) Six largest global audit firm networks: Deloitte Touche Tohmatsu, Ernst & Young, KPMG, PricewaterhouseCoopers, BDO, and Grant Thornton

(b) Board

In 2015, IFIAR's governance structure, which had hitherto been led by the Chair and the Vice-Chair, was overhauled in order to improve the IFIAR function as an international body. The members agreed to establish a governance structure based on a council system led by the member countries (board structure). As a result of these governance reforms, IFIAR established the Board in April 2017, and the Advisory Council, which had served as an advisory body to the Chair and Vice-Chair was replaced by the Board. The Board is a decision-making body comprising up to 16 members including 8 nominated members and up to 8 elected members. Japan was officially appointed as a four-year term nominated member in accordance with the selection procedures (points system) prescribed in the IFIAR Charter at the IFIAR Plenary Meeting held in April 2017.

The Board is holding talks on the IFIAR's strategic plans, operation and management, etc. In FY2020, the Board held meetings online on April 16 and 23, June 25 and November 24, 2020, and January 21 and February 17 and 18, 2021.

(c) Inspection Findings Survey

Since 2012, the IFIAR has been publishing "Inspection Findings Survey" to provide information broadly on features of the results of inspections performed by member regulators on the member firms of the six largest global audit firm networks. In this survey, inspection results are aggregated in the two categories; quality control systems and individual audit engagements, and the inspection findings rate is calculated in each of the categories.

50 IFIAR members participated in the ninth survey in 2020. (The total number of IFIAR members is 54 as of the end of March 2021). The inspection findings rate of all members related to individual audit engagements of listed companies was 34%. The rate was 47% when aggregation started in the 2014 survey, indicating a continuing overall decline.

(Changes in the inspection findings rate by member regulators)

2014	2015	2016	2017	2018	2019	2020
47%	43%	42%	40%	37%	33%	34%

(d) Publication of “Information Paper on Facilitating Oversight of Global Audit Firm Networks”

In September 2020, the IFIAR published an “Information Paper on Facilitating Oversight of Global Audit Firm Networks” with the aim of deepening understanding of the roles of audits and audit oversight among the FSB and other international organizations concerned and stakeholders. The paper explains roles played by financial reports, audits and audit oversight for international financial stabilization, the overview of the global audit firm networks and its member firms, and the role and efforts of the IFIAR

(e) Release of IFIAR Chair’s letter on COVID-19

The IFIAR released its Chair’s letter related to COVID-19 in May 2020 to update its position for stakeholders. In the letter, the chair said the IFIAR will disseminate information-related to COVID-19, collaborate with the six largest global audit firm networks and international organizations, and provide information on the members’ activities, etc. in order to live up to its mission of “serving the public interests, including investors, by enhancing audit oversight globally” including new activity developed in light of the COVID-19 situation.

(ii) Activities of each working group

(a) Global Audit Quality (GAQ) Working Group

The CPAAOB is exchanging opinions with the six largest global audit firm networks to improve audit quality globally. From the beginning, the CPAAOB has continuously held dialogues with each network on such themes as “programs to improve the quality management of global audit networks” and heard about improvements in quality management and each network’s systematic development.

The CPAAOB is implementing a program to decrease the inspection findings rate of member firms of the six largest networks by 25% by 2023 from the base figure of 32% in 2019 (target rate: lower than 24%) .When the program was practiced between 2015 and 2019, 10 members of the WG participated. In a new program that started in 2019, however, half of all IFIAR members have taken part.

In addition, Risk Call teleconferences are regularly held to discuss a wide range of risks that auditors are facing and those that will possibly affect audits in the future, such as macroeconomic environments. Starting with the sixth conference in November 2018, Japan has replaced the U.S. as the chair of the meeting. At the eighth Risk Call in December 2020, themes were

divided into two categories -- (1) audit related risks arising from the COVID-19 pandemic and (2) other imminent audit related risks . Specifically, theme (1) discussed impairment losses, measures to deal with fiscal year-end audits under remote environments and fraud risks, and (2) discussed the LIBOR transition, Brexit and other issues.

In FY2020, GAQ WG meetings were held in the form of a videoconference for six days between September 28 and October 23, 2020, and for eight days between March 1 and 18, 2021, to discuss issues such as programs to decrease the inspection finding rate and develop complementary indicators related to audit quality, an outline of the quality monitoring process for each network, responses to the spread of COVID-19 and preparations for the application of ISQM1.

(b) Standards Coordination Working Group

The aims of this WG include the exchange of views on the setting of international standards at the International Auditing and Assurance Standards Board (IAASB) and International Ethics Standards Board for Accountants (IESBA) and the preparation of comment letters in response to exposure drafts published by these standard-setting bodies.

(c) Inspection Workshop Working Group

This WG plans, coordinates and holds the IFIAR inspection workshop every year for the purpose of improving inspectors' skills and sharing inspection methods and experiences. Behind the move is an agreement at the first Plenary Meeting of the IFIAR in Tokyo in 2007 to hold an inspection workshop, led by inspectors of the IFIAR members for the purpose of sharing information on the inspection methods of audit regulators and improving inspectors' skills. In addition, the ex-post evaluation of inspection workshops, etc. is also conducted.

The 15th inspection workshop was held online from March 23 to 25, 2021. A total of 303 inspectors and others participated from 51 jurisdictions, including Japan. A Deputy Director from the CPAAOB participating as a panelist made a presentation on group audit together with a U.S. participant.

(d) Investor and Other Stakeholders (IOS) Working Group

The aim of this WG is to engage in dialogue with investors and other stakeholders as users of audit reports on various issues such as the audit quality and what audit reports should be. The WG also plans and coordinates the exchange of views with investor representatives at the IFIAR Plenary

Meeting.

Also, the IFIAR has established within IOSWG an Advisory Group which consists of investors and other stakeholders. A lawyer, Mr. KIYOHARA Ken (CMA Partners, Kiyohara International Law Office) is the member of the group from Japan.

(e) Enforcement Working Group

The aim of this WG is to promote cooperation between audit regulators in the area of enforcement, including investigations, and facilitate the exchange of information on enforcement regime development in member jurisdictions in order to enhance investor protection and improve audit quality. To live up to the aim, the WG engages in activities centered on enforcement workshops and surveys.

The WG carries out an enforcement survey every four years (the last one was conducted in 2018). To complement the survey, the WG implemented an interim survey of IFIAR members in the current fiscal year, focusing on “challenges for enforcement during the COVID-19 pandemic” and “obtaining audit documentation” (50 members participated). Summarizing the interim survey’s results, an information paper is planned to be released around April 2021.

5.1.4 Japan IFIAR Network

The IFIAR is the first international organization of financial institutions to have a secretariat in Japan. To enhance Japan’s/Tokyo’s international position as an international financial center, support from industry, government, and academia was needed. Against this backdrop, in December 2016, the Japan IFIAR Network was established, which aimed to build a stakeholder network in Japan, strengthen relationships between the stakeholders and IFIAR, support the activities of the IFIAR secretariat, raise awareness of audit quality in Japan, and contribute to the IFIAR’s goal of improving audit quality globally.

The Japan IFIAR Network contributes to the domestic networking of the secretariat and works on sharing discussions on audits in Japan with the secretariat and introducing IFIAR’s activities through seminars and publications by the officers from IFIAR or CPAAOB/FSA officials of audit oversight division.

At the fourth general meeting held in June 2020, network members presented reports on programs by each stakeholder to ensure and improve audit quality. The CPAAOB and the FSA introduced programs to cope with COVID-19.

5.2 Bilateral Cooperation

In light of the globalization of corporate activities, ensuring cross-border cooperation in audit procedures has become globally more important than ever before, such as using the audit results of overseas audit firms in the audit of consolidated financial statements. Moreover, enhancing cooperation with foreign audit regulators has become indispensable for establishing a global audit oversight system. In addition to participation in the activities at IFIAR, for the purpose of sharing information on issues related to audits and inspections, and on internationally-operating audit firms, the CPAAOB has been striving to build and enhance its bilateral cooperative relationships with foreign audit regulators by constantly exchanging views with those regulators, performing equivalency assessments, and mutual reliance concerning the audit system and the audit supervision system in order to facilitate the establishment of the framework for exchanging information on audit oversight activities^(Note) as well as audit examination and inspection activities.

(Note) Foreign audit regulators which have a framework for exchanging information on audit oversight activities with the CPAAOB and FSA

- U.S. Public Company Accounting Oversight Board (PCAOB)
- Canadian Public Accountability Board (CPAB)
- Audit Oversight Board of Malaysia (AOB)
- Netherlands Authority for the Financial Markets (AFM)*
- Commission de Surveillance du Secteur Financier (CSSF)
- U.K. Financial Reporting Council (FRC)
- Haut Conseil du Commissariat aux Comptes (H3C)
- Chinese Ministry of Finance

* Includes mutual reliance of supervisory activities such as inspections.

5.3 Next Challenges

As the globalization of corporate activities has also led to the advance of cross-border audit services, ensuring and improving global audit quality has become challenging. Amid such a development, audit regulators are sharing information on issues of audit firms stemming from accounting fraud cases that have occurred in various countries and awareness of problems about the due form of audits in the future with the progress of innovation and measures to cope with COVID-19. Furthermore, some countries are making progress with fundamental audit reforms, including organizational changes at audit regulators.

Under such circumstances, the CPAAOB needs to further strengthen cooperation with foreign audit regulators so as to accurately collect information about deliberations on audits, including measures to deal with the effects of COVID-19 at international organizations and in foreign countries, and analyze the effects on audit

firms and the CPAAOB. When necessary, the CPAAOB also needs to take appropriate countermeasures, such as reflecting findings by the analysis on its monitoring work.

Concerning activities by the IFIAR, NAGAOKA Takashi, Deputy Commissioner for International Affairs of the FSA and Director for Office of Japanese Delegation for IFIAR, was elected IFIAR Vice Chair at its 21st Plenary Meeting held online in April 2021. Mr. Nagaoka became the first Asian person to assume the post of IFIAR Vice Chair since its foundation in 2006. Japan, as the Vice Chair country, will actively contribute to the management of the IFIAR and step up following efforts to further support the IFIAR's activities.

- To actively contribute to the IFIAR's activities, such as various kinds of conferences, and strengthen multilateral networks of cooperation to improve the global audit quality
- To provide support for smooth management of the IFIAR secretariat
- To pass deliberations at the IFIAR on to Japan through the Japan IFIAR Network
- To ask members of the Japan IFIAR Network to create opportunities for the IFIAR to present its activities at international conferences, etc. hosted by members of the Network as support for the IFIAR's outreach to Asian countries.

In addition, Japan will make steady efforts to cultivate and secure globally-minded human resources capable of contributing to such activities.

**List of Members of
Certified Public Accountants and Auditing Oversight Board
(CPAAOB)
(As of March 31, 2021)**

Chairperson (full-time)	SAKURAI Hisakatsu	Professor Emeritus, Kobe University Former Professor School & Graduate School of Business Administration, Kwansei Gakuin University
Commissioner (full-time)	MATSUI Takayuki	Former Professor Graduate School of Professional Accountancy, Aoyama Gakuin University
Commissioner (part-time)	KATSUO Yuko	Graduate Program Chair and Professor, Graduate School of Management, Gakushuin University Professor, Faculty of Economics, Gakushuin University Outside auditor, DAIKEN CORPORATION Auditor, Ibaraki University (part-time)
	SATO Yoshiko	Executive Managing Director and Chief Research Fellow, Japan Investor Relations Association
	TAMAI Yuko	Partner, Nagashima Ohno & Tsunematsu Outside Director, Mitsui Sugar Co., Ltd. Outside Corporate Auditor, Japan Bank for International Cooperation
	TOKUGA Yoshihiro	Vice-President and Professor, Kyoto University
	MIZUGUCHI Keiko	Counselor, Japan Credit Rating Agency, Ltd.
	MINAKAWA Kunihiro	Outside Director, Santen Pharmaceutical Co., Ltd. Outside Director, Nippon Sheet Glass Co., Ltd.
	YAMADA Tatsumi	Specially Appointed Professor Faculty of Commerce, Chuo University Statutory Auditor NOMURA Co.,Ltd. Outside Director, Mitsubishi Chemical Holdings Corporation
	YOSHIDA Keita	Partner, Deloitte Touche Tohmatsu LLC