

# **Annual Report**

**May, 2022**

**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 FY2021 (April 1, 2021 to March 31, 2022).

For the convenience of readers, a portion of this Report will also mention information on activities taken before and after FY2021.

FY2021 and the current fiscal year shall refer to the period from April 1, 2021 to March 31, 2022. PY2021 and the current program year shall refer to the period from July 1, 2021 to June 30, 2022.

#### ○ 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. 2436)

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## **Preface**

The Certified Public Accountants and Auditing Oversight Board (CPAAOB) 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 CPAAOB 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 Program Year**

With regard to the examination, inspection, etc. (monitoring) of audit firms, the CPAAOB 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 Basic Plan for Monitoring Audit Firms in Program Year 2021, published in July 2021. In the current program year, the CPAAOB continues monitoring in a flexible manner from the viewpoint of dealing with the spread of COVID-19 infections, etc. At the same time, it is conducting inspections with an emphasis on matters such as the awareness of audit firms' management, the effectiveness of the governance system, group audits including overseas subsidiaries audits, and the decision-making process concerning key audit matters (KAMs). The CPAAOB is also preparing “2021 Monitoring Report” and the “2022 Case Report from Audit Firm Inspections (Program Year 2022),” which is a collection of cases identified during the inspection of audit firms, in order to inform not only the parties concerned but also the general public of the results of its monitoring and enhance interest in and awareness of auditing. The reports are scheduled to be published around this July.

The 2021 CPA Examination was successfully held after taking measures to ensure the safety of applicants in light of the spread of COVID-19 infections. The number of people who submitted applications increased for the sixth consecutive year since the 2016 examination. The rise in the number of applicants is due to heightened interest in the examination, especially among young people, due to efforts to provide more information related to the examination. It is also considered to be 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, through activities by the International Forum of Independent Audit Regulators (IFIAR), which has 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. At the 21st Plenary Meeting of IFIAR, which was held in April 2021, the Deputy Commissioner for International Affairs of the FSA, who concurrently served as Director, Office of Japanese Delegation for IFIAR, was elected as the IFIAR Vice Chair, becoming the first Asian official to be elected to that post. The CPAAOB, as the regulator of the Vice Chair country (Japan), actively participated in discussions on issues of auditing in light of the current state of affairs at the Plenary Meeting, at sessions with the CEOs of the six largest global accounting networks, and at the Global Audit Quality (GAQ) Working Group. In addition, in bilateral cooperative relations, the CPAAOB enhanced its examination and inspection activities by sharing information on internationally active audit firms through information exchange frameworks, etc. concluded with foreign countries and strengthened its cooperation with foreign audit regulators.

## **2. Review of the Sixth Term**

The current fiscal year is the final year of the CPAAOB's sixth term (from April 2019 to March 2022). Let us review the CPAAOB's activities during the three years of the sixth term.

First, regarding monitoring activity, in order to further improve the effectiveness of audits, the CPAAOB monitored audit firms based on the "Basic Policy for Monitoring Audit Firms - Aiming To Further Enhance Audit Effectiveness," published on May 17, 2019. In addition, the CPAAOB actively exchanged opinions and engaged in cooperation with the Japanese Institute of Certified Public Accountants, the Japan Exchange Regulation, and Japan Audit & Supervisory Board Members Association, among other organizations.

Since around March 2020, in light of the effects of the rapid spread of COVID-19 infections, the CPAAOB has reviewed the method of monitoring, which was previously conducted based on face-to-face meetings in principle, and decided to conduct inspection in a flexible manner, including online format. Regarding follow-up inspection, which is usually conducted on large audit firms in the year following the year of regular inspection, the CPAAOB took into consideration the burden on audit firms and other factors and decided not to conduct inspections of individual audit engagements in principle in order to improve efficiency and effectiveness.

With regard to the monitoring results, the CPAAOB has strived to enhance the provision of information to audit firms, audit and supervisory board members, market participants, and to wider society. For example, every year, it has expanded the contents of the "Case Report from Audit Firm Inspection Results" and the "Monitoring Report." The CPAAOB

includes a five-grade overall rating in the “Matters for Particular Attention” section of the inspection results in order to accurately convey its evaluation to inspected audit firms and audit and supervisory board members of audited companies. In addition, starting with inspections commenced in PY2021, the CPAAOB revised the descriptions of the classifications of this five-grade overall rating system in order to better clarify the ratings.

Regarding the CPA examination, since when the number of applications was on a downtrend following the introduction of the new examination system, CPAAOB have delivered speeches at universities and high schools in order to raise wide social awareness about the attractiveness of CPAs qualification and profession. The CPAAOB has also strived to improve the quality of tests so that applicants’ knowledge and abilities can be more appropriately evaluated. As a result of those efforts, combined with the effects of improved economic conditions, enlightenment activity by the Japanese Institute of Certified Public Accountants, and the improvement of audit firms’ operation of services, the number of applications started increasing in 2016. The total number of lectures given during the sixth term was 53, including 50 at universities and three at high schools. Meanwhile, in light of the increasing frequency and severity of natural disasters in recent years, the CPAAOB conducted studies and made preparations assuming cases in which it is difficult to implement the examination as scheduled.

Finally, with regard to international operations, the CPAAOB, as the regulator of the Vice Chair country, continuously supported the management of IFIAR. As a member of the IFIAR Board, the CPAAOB also contributed to IFIAR’s activities by actively participating in discussions related to the response to COVID-19 and the development of IFIAR’s five-year Strategic Plan and by taking part in multiple working groups. From the viewpoint of increasing awareness about audit quality in Japan, the CPAAOB disseminated information on IFIAR’s activities widely to stakeholders by holding a general meeting and planning committee meetings of the Japan IFIAR Network, which is comprised of various stakeholders and also by participating in symposiums for members of the network.

As described above, while the response to COVID-19 accounted for a large portion of the CPAAOB’s activities during the sixth term, we were able to contribute to improving audit quality and securing reliability through those activities.

We hope that the seventh-term CPAAOB, which will be launched this April, will continue to contribute to an increase in investors’ trust in the capital market and, by extension, to the sound development of the Japanese and global economies, by actively addressing the

abovementioned challenges.

March 2022

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.

- In response to the spread of COVID-19 infections, the CPAAOB developed an online conference environment so its meetings can be held in a non-face-to-face format, and part-time commissioners are taking active use of this format. At the same time, the CPAAOB implemented basic infection prevention measures, including imposing restrictions on entry into and exit from conference rooms, maintaining physical distance, and installing acrylic dividers.

### 2. Review of Monitoring Method

- The CPAAOB continued to consider revising the monitoring method in order to improve efficiency and effectiveness of monitoring for the sake of both the CPAAOB and audit firms. In PY2021, the CPAAOB used the online format for the inspection of not only large-sized and mid-tier audit firms but also small and medium-sized audit firms. It will continue to review and revise the specifics and method of monitoring (See 2.6.8 Review of Monitoring Method (page 32)).

### 3. Implementation and Management of CPA Examination

#### (1) CPA Examination in 2021

- In 2021, the multiple-choice examination, which had previously been held twice each year, was held only once, in May, as a result of a change in the schedule of the CPA examination in 2020 (See 3.2.2 CPA Examination in 2021 (page 39)).

#### (2) Implementation of the CPA Examination

- At the time of the examination, the CPAAOB asked applicants in poor health conditions, including those having a fever, to refrain from taking the examination. It also took other measures, including measuring body temperature at the entrance of examination venues, requiring applicants to wear face masks at the venues, and ensuring that close contact between applicants could be avoided and good

ventilation could be maintained there (See 3.2.1 Measures to Prevent COVID-19 Infections at the Time of the Examination (page 38)).

#### 4. Implementation of Online Dialogue and Lectures

- Amid restrictions on conventional face-to-face lectures, the CPAAOB held periodic dialogue with managers of large-sized and mid-tier audit firms, including top managers, using the online format as well (See 2.6.4 Strengthening of Monitoring Activities Other than Inspection (page 30)).

- SAKURAI Hisakatsu, Chairperson of the CPAAOB, MATSUI Takayuki, fulltime Commissioner, and others conducted lectures, mainly online, on such themes as the social role of CPAs at 15 universities (See 3.3 Dissemination of Information on CPA Examination, etc. (page 41)).

#### 5. Cooperation with International Organizations

- In light of the global spread of COVID-19 infections, the CPAAOB supported and cooperated for holding various meetings of the International Forum of Independent Audit Regulators (IFIAR) by online format, including the Plenary Session and meetings of the Board, Working Groups, and Task Forces.

- IFIAR's Working Groups, etc. discussed issues related to COVID-19. 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 audit-related risks arising from COVID-19 and emerging risks in a post-COVID economy (See 5.1.3 Activities (page 49)).

## 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,<sup>(Note)</sup> 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).

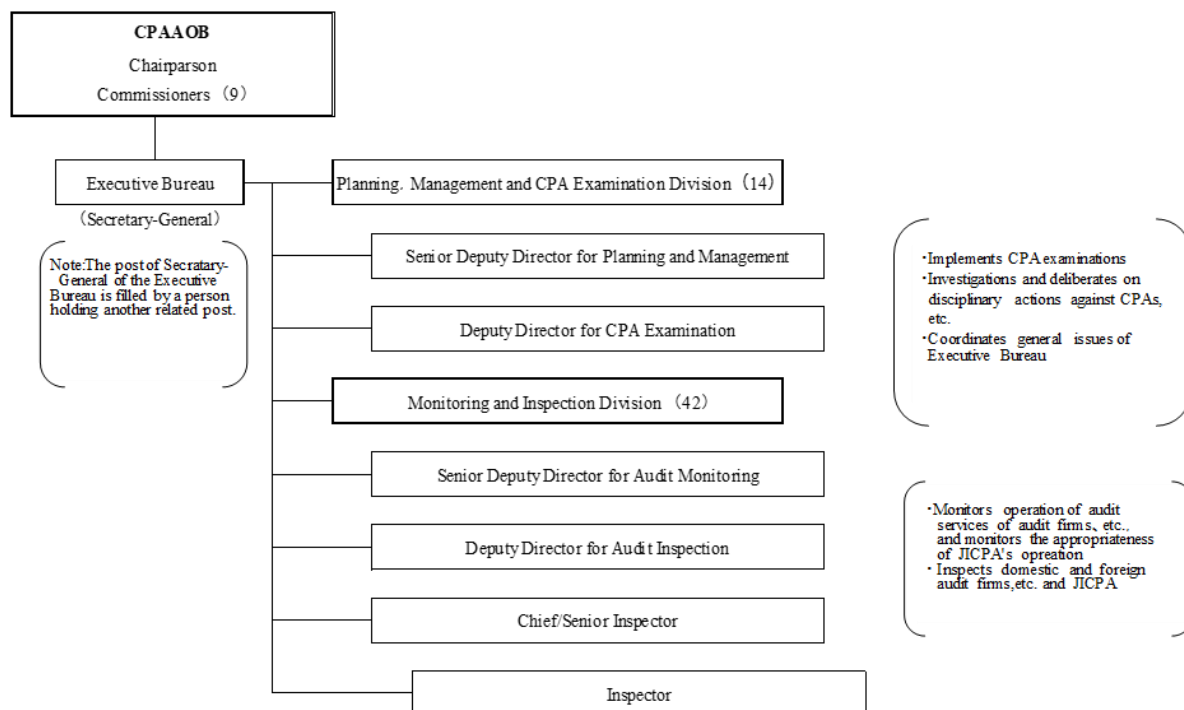
The Executive Bureau is comprised of the Planning, Management and CPA Examination Division and the Monitoring and Inspection Division led by the Secretary-General of the Executive Bureau. The Planning, Management and CPA Examination Division is in charge of implementing the CPA examinations, conducting investigations and deliberations regarding disciplinary actions against CPAs, etc., and doing overall coordination work across the whole of the Executive Bureau. The Monitoring and Inspection Division is in charge of monitoring audit and assurance services provided by audit firms, etc. and the administrative operations of the JICPA, and inspecting domestic and foreign audit firms, etc. and the JICPA.

The Executive Bureau had 40 staff members when it was established in April 2004. Its staff was steadily increased thereafter to a total of 56 staff members, with 14 at the Planning, Management and CPA Examination Division and to 42 at the Monitoring and Inspection Division, as of the end of FY2021.

Staffing of the Executive Bureau (Fiscal year-end basis)

FY	2004	2005	2006	2007	2008	2009	2010	2011	2014 - 2015	2016 - 2017	2018 - 2019	2020 - 2021
Planning, Management and CPA Examination Division	11	12	12	12	12	14	14	14	14	14	14	14
Monitoring and Inspection Division	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
Total	40	41	43	47	51	55	58	57	56	56	57	56

## Organization Chart of the CPAAOB



(Note 1) Figures in parentheses denote the number of personnel at the end of FY2021

(Note 2) Effective on April 1, 2021, the Planning, Management and CPA Examination Office and the Monitoring and Inspection Office were upgraded to divisions.

## 2 Examination and Inspection of Audit Firms

### 2.1 Outline

*To ensure fairness and transparency as well as investors' trust in the capital market, the Japanese Institute of Certified Public Accountants (JICPA)'s quality control reviews (see Note) of audit firms, which had been conducted as self-regulation, have become statutory since the revision of the CPA Act in June 2003, for the purpose of strengthening oversight of audit firms. Under the revised Act, 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.*

*Due to the June 2007 revision of the CPA Act, for the purpose of ensuring the soundness of Japan's financial and capital markets, foreign audit firms that engage in audits of foreign companies which 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, 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

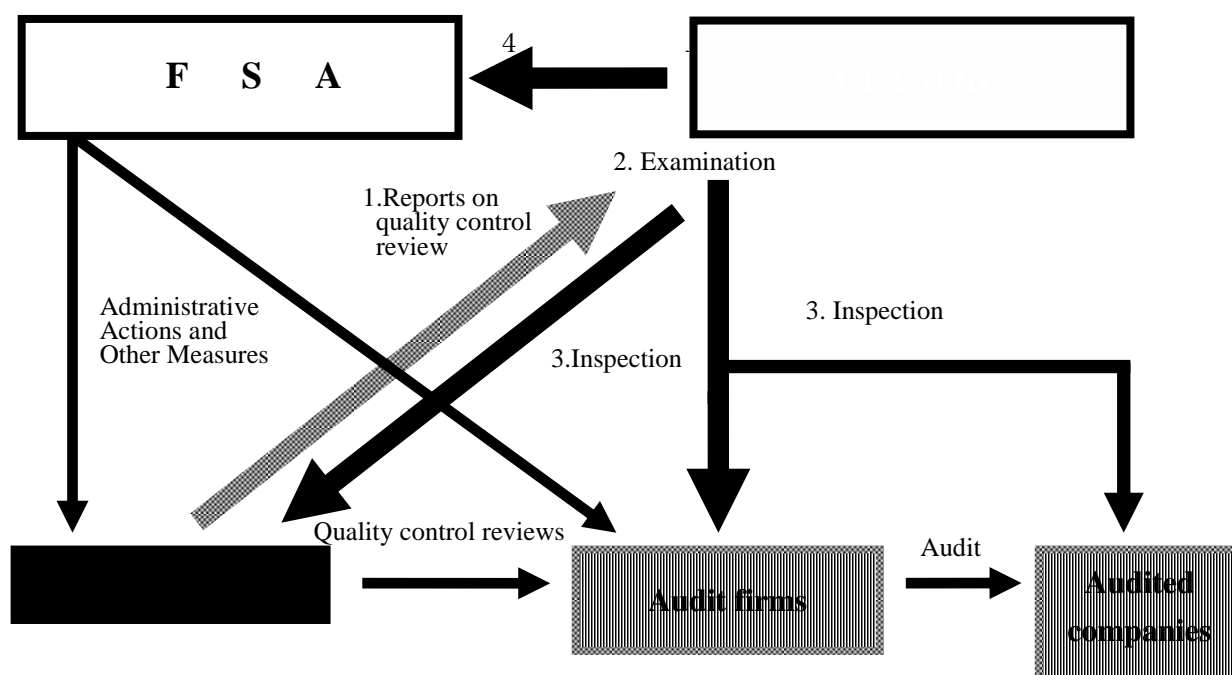
inspections (Article 41-2 of the CPA Act).

(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 *appropriately* maintaining and improving *the* level of audit quality when providing audit service as well as maintaining and enhancing social confidence in *audits*.

### 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 *audited companies etc. related to audit*

*services provided 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 *examination or 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 25).

## 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 as referred to in the Basic Policy 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 9, 2021.

#### < Outline of the Basic Plan >

##### (i) Basic Plan Pertaining to Monitoring Activity Other than Inspection

(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. The CPAAOB will also identify the actual situation of the audit system and engagement quality control review system for listed financial institutions, the audit of which requires sophisticated expertise and understanding of IT. In addition, it will identify the status of audit implementation with respect to “KAMs (Key Audit Matters),” which audit reports have been required to describe, starting with the audit of financial statements related to the fiscal year that ended March 31, 2021.

(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 need for particularly urgent improvement has been recognized as a result of inspection, 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 become more conscious of risks in

recent years. However, among audit firms for which the quality control review did not result in a qualified conclusion, there are still cases in which the operation of services is considered to be highly inappropriate as a result of the CPAAOB inspection. Going forward, the CPAAOB will verify the effectiveness and impact of measures implemented by the JICPA.

Furthermore, regarding the appropriate demarcation between the CPAAOB inspection and the JICPA quality control review, the CPAAOB and the JICPA have engaged in discussions, mainly with regard to the nature of quality control reviews for large-sized audit firms, ways of improving and expanding *instructive* and supervisory functions that the JICPA performs on small and medium-sized audit firms and how to review the operational management system. From the viewpoint of ensuring that the CPAAOB inspection and the JICPA quality control review as a whole deliver maximum benefits, the CPAAOB will hold concrete and substantive discussions with the JIPCA.

(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. The CPAAOB will use such dialogue and discussions as opportunities to identify the status of preparations for and response to the revisions of the quality control standards, etc.

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 *relevant divisions of the FSA*, the JICPA, financial instruments exchanges, and the Japan Audit & Supervisory Board Members Association. Furthermore, the CPAAOB will endeavor to *improve* 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 exercise professional skepticism based on their understanding of the purposes and details of the audit standards and other *guidelines*.

Regarding the above-mentioned points, the CPAAOB inspects audit firms in consideration of their scalability and nature as listed below ((a)~(c)).

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

(a) Large-sized audit firms

In light of the important role of large-sized audit firms in the capital markets, the CPAAOB inspects them every year (alternating between regular inspection and follow-up inspection) in principle. In follow-up inspections, it inspects the remediation measures to the deficiencies identified during regular inspections, and does not inspect individual audit engagements.

In the current program year, in addition to examining the recognition of managers, including top managers, and the business management and operational management systems, the CPAAOB will focus on the operation of the governance system, the status of group audits, including audits of overseas subsidiaries, and the process of determining KAMs and procedures related to the descriptions of KAMs, among other items. The CPAAOB will also check the status of response to the revisions of the quality control standards, etc.

(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, the CPAAOB will inspect the operation of the governance system and also examine the business management and operational management and other matters, including the organizational integrity of audit firms, including regional audit offices.

(c) Small and medium-sized audit firms

The CPAAOB will not only inspect the conformity of audit firms' quality control systems and individual audit engagements to the audit standards, etc. but also check whether audit firms understand the levels of quality control and audit procedures required under the current audit standards. It will also inspect the awareness and involvement of top management and the operational management system, which affect the understanding of those matters.

In the current program year, in addition to inspecting audit firms' operational management system and other matters, including organizational integrity, the CPAAOB will examine the appropriateness of risk assessment at the time of conclusion of new audit contracts with listed companies, etc. with high audit risk and the audit practice system, among other matters.

## 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 FY2021, the number of registered certified public accountants totals 33,215, of which the number of CPAs belonging to large-sized audit firms is 10,201 or approximately 30.7% of the total. The number of audit firms totals 273.

(Reference)

	End of FY2017	End of FY2018	End of FY2019	End of FY2020	End of FY2021
Number of registered certified public accountants	30,350	31,189	31,793	32,478	33,215
Large-sized audit firms	11,016	10,912	10,659	10,523	10,201
Number of audit firms	229	236	246	258	273

### 2.3.1 Quality Control Reviews by the JICPA

#### (i) FY2020

In FY2020, the JICPA performed 56 quality control reviews (39 audit firms (including two large-sized audit firms and one mid-tier audit firm) and 17 CPAs). The review results are presented in the following table.

The Results of Reviews (FY2020)					(Number of audit firms)		
Category	Important deficiency(ies) not identified		Important deficiency(ies) identified		Extremely important deficiency (ies) identified		Total
	(a)	a/e	(b)	b/e	(c)	c/e	
Audit firm	39	100.0%	—	—	—	—	39
CPA	13	76.4%	2	11.8%	2	11.8%	17
Total	52	92.8%	2	3.6%	2	3.6%	56

(Note) 56 out of 55 cases include recommendations for improvement.

#### (ii) FY2021

In FY2021, the JICPA performed 76 quality control reviews (57 audit firms (including two large-sized audit firms, two mid-tier audit firms and two partnerships) and 19 CPAs), as the table below shows.

#### Status of Implementation of Quality Control Reviews

Quality control reviews Month and year conducted	2021						2022		Total
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	
Quality control reviews Number of audit firms reviewed	5	11	3	15	14	9	18	1	76

Of the quality control reviews conducted in FY2021, 43 cases, the details of which had been approved by the Quality Control Committee, had been reported to the CPAAOB as of March 31, 2022. The conclusions of those reports were as follows.

- Cases in which important deficiencies were identified as a result of the quality control review: One audit firm

## 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 checks the implementation of quality control reviews and *instructions* for audit firms on remediation and analyzes the findings of quality control reviews (the presence or absence of an "extremely important deficiency" or an "important deficiency" identified as a result of quality control reviews and the specifics of deficiencies pointed out in the quality control reviews) as well as the 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 28 "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 FY2020 quality control reviews

*As it did in the previous PY*, the CPAAOB found the *improved quality of quality control reviews* through the examination of the FY2020 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.
- In line with an increase in the number of individual audit engagements selected for review, the number of days of onsite review and the number of reviewers were increased compared with the previous review.
- The review period was extended in accordance with the risk information identified during the review
- 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 PY2021, the CPAAOB collected reports from all large-sized and mid-tier audit firms in July and September 2021 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 actions 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 PY2021 Basic Plan for Monitoring Audit Firms, the CPAAOB collected reports from 43 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 2021.

History of collection of reports from small and medium-sized audit firms

	PY2020		PY2021	
	No. of firms undergoing report collection	No. of firms undergoing QC reviews in FY2019	No. of firms undergoing report collection	No. of firms undergoing QC reviews in FY2020
Audit firms	65	80	43	55
Audit firms (Note)	43	54	34	38
Solo practitioners	22	26	9	17

(Note) Including partnerships.

Among the small and medium-sized audit firms which received the results of quality control reviews in FY2020, 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 PY2021, the CPAAOB collected reports from one audit firm which was

inspected in PY2020 in order to confirm improvements made in response to deficiencies identified during the inspections. In addition, the CPAAOB informed one audit firm, 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 PY2021, 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 two follow-up inspection of firms in PY2021.

With regard to mid-tier audit firms, inspections are generally performed once every three years in principle. The CPAAOB conducted inspections of one firm in PY2021.

With regard to small and medium-sized audit firms, inspections are performed as necessary. The CPAAOB conducted inspections of four firms in PY2021.

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, 2022)

PY (July to next June)	2017	2018	2019	2020	2021
Large-sized audit firms	4	4	4	34	4
Second-tier audit firms	2	1	2	2	1
Small and medium-sized audit firms	3	5	3	34	4
Foreign audit firms	0	0	1	0	0
Total	9	10	10	810	9

(Note) For PY2021 inspections, those started before or on March 31, 2022, were included in the total.

#### 2.3.5 Inspections Results

Starting with inspections in PY2016, the CPAAOB has included in the inspection results notification an overall rating assigned under the five-grade rating system based on the status of the operational management and quality

control systems and individual audit engagements (except in the case of inspection of foreign audit firms or follow-up inspection). For the details of the overall rating system, see the Monitoring Report.

Starting with inspections commenced in PY2021, the CPAAOB has revised as follows the descriptions of the rating classifications of the five-grade overall rating system in order to better clarify the ratings.

#### Clarification of the ratings of the overall rating system

Classification	Before revision	After revision
1	<p><b>“Considered to be <u>generally satisfactory</u>”</b></p> <p>Cases in which the operation of services is considered to be generally appropriate. Examples include when few deficiencies are recognized with respect to the quality control system and individual audit engagements.</p>	<p><b>“Considered to be appropriate (<u>overall rating:1</u>)”</b></p> <p>Cases in which the operation of services is considered to be appropriate. Examples include when few deficiencies are recognized with respect to the operational management system, the quality control system, or the status of individual audit engagements.</p>
2	<p><b>“Satisfactory with minor deficiencies”</b></p> <p>Cases in which the operation of services is considered to be generally appropriate despite the presence of some deficiencies requiring improvement. Examples include when no important problem has been recognized although there are some deficiencies with respect to the operational management system, the quality control system, or the status of individual audit engagements.</p>	<p><b>“Considered <u>to be generally appropriate despite the presence of some points requiring improvement (overall rating: 2)</u>”</b></p> <p>Cases in which the operation of services is considered to be generally appropriate despite the presence of some points requiring improvement. Examples include when no important problem has been recognized despite the presence of some deficiencies with respect to the operational management system, the quality control system, or the status of individual audit engagements.</p>
3	<p><b>“Considered to be <u>unsatisfactory</u>”</b></p> <p>Cases in which the operation of services is <u>considered to be not appropriate</u>. Examples include when an important problem that needs to be remedied has</p>	<p><b>“Not considered to be appropriate due to the presence of important deficiencies requiring improvement (overall rating: 3)”</b></p> <p>Cases in which the operation of services <u>is not considered to be appropriate</u>.</p>

	been recognized with respect to the operational management system, the quality control system, or the status of individual audit engagements.	Examples include when an important problem has been recognized with respect to the operational management system, the quality control system, or the status of individual audit engagements.
4	<p><b>“Considered to <u>be unsatisfactory</u> and in need of immediate remediation”</b></p> <p>Cases in which the operation of services is considered to be not appropriate and in which particularly urgent improvement is required.</p>	<p><b>“Considered to <u>be inappropriate</u> and require urgent improvement with respect to the operational management system, etc. <u>(overall rating 4)</u>”</b></p> <p>(No change from the description on the left)</p>
5	<p><b>“Considered to be extremely unsatisfactory”</b></p> <p>Cases in which an important deficiency has been recognized with respect to the quality management system and the status of individual audit engagements and in which voluntary improvement is not expected.</p>	<p><b>“Considered to be extremely inappropriate <u>(overall rating: 5)</u>”</b></p> <p>(No change from the description on the left)</p>

(Note) The above revisions are merely changes in the wording of the ratings and do not represent any alteration of the rating standards.

#### Overall ratings assigned as a result of inspections in PY2016 – 2021

(As of March 31, 2022)

Classification	Large-sized audit firms, mid-tier audit firms	Small and medium-sized audit firms
1	-	-
2	12	3
3	8	6
4	0	6
5	0	6

(Note) Regarding inspections in PY2021, those for which inspection results notifications were issued before or on March 31, 2022, were included. The above data is scheduled to be updated in the 2022 Monitoring Report.

### 2.3.6 Recommendations to the Commissioner of the FSA

The CPAAOB found that operation of Jinchi Audit Corporation 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 the firm on January 21, 2022.

### 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, 2022)

	Number of countries/regions	Number of foreign audit firms
North America	2	9
Central & South America	1	1
Europe	15	56
Asia & Pacific	10	27
Middle East	1	1
Total	29	94

#### (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 the “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 35 foreign audit firms, etc. in 14 countries and regions in PY2021.

(Note) See “5.2 Bilateral Cooperation” on page 53 for details of the information exchange framework.

## 2.4 Dissemination of Information relating to Examination and Inspection

### 2.4.1 Publication of “2021 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 2021 Monitoring Report, released on July 9, 2021, is available at

(<https://www.fsa.go.jp/cpaaob/shinsakensa/kouhyou/20210709/20210709-2.html>)

The English version, released in March 2022, is available at

(<https://www.fsa.go.jp/cpaaob/english/oversight/20220318/20220318-1.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 2021 Case Report from Audit Firm Inspection Results, released on July 9, 2021, is available at

(<https://www.fsa.go.jp/cpaaob/shinsakensa/kouhyou/20210709/20210709-3.html>)

The English version, released in March 2022, is available at

(<https://www.fsa.go.jp/cpaaob/english/oversight/20220318/20220318-2.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 PY2021, CPAAOB inspectors provided lectures at the JICPA's headquarters and six regional offices across Japan in order to encourage audit firms to make voluntary efforts to maintain 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. Therefore, regarding the disclosures and audits of listed companies, the CPAAOB shared information and exchanged opinions with the relevant divisions of the FSA and the Securities and Exchange Surveillance Commission and also used the information thus obtained for its monitoring activity. 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 PY2021, the CPAAOB exchanged opinions with the JICPA about outstanding issues related to the quality control review system and audit firms that had been identified through monitoring, measures to improve the effectiveness of quality control reviews, and the operation of the new quality control review system, which has been applied since July 2020.

#### 2.5.3 Cooperation with the Financial Instruments Exchanges

The CPAAOB strived to share perspectives on outstanding issues by exchanging opinions with financial instruments exchanges, which perform the self-regulatory function with respect to listed companies, about matters that had been identified through monitoring, such as the status of communication between auditors and audited companies and changes in auditors.

#### 2.5.4 Cooperation with the Japan Audit & Supervisory Board Members Association

he 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 communication between audit and supervisory board members and 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 2021. 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 PY2021 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.

At the same time, regarding large-sized and mid-tier audit firms, all of which adopt the Audit Firm Governance Code, the CPAAOB examined the activities of an oversight/assessment body composed of independent third parties in relation to the effectiveness of their governance systems, which had been developed based on the Code.

As a result, the CPAAOB found that large-sized and mid-tier audit firms had made progress in the use of the expertise of independent third parties, with an oversight/assessment body comprising independent third-party persons giving advice and instructions to the firms with respect to necessary actions, for example.

### 2.6.2 Monitoring and Examination Based on Trends Related to Audits

#### (i) Group audits including auditing of overseas subsidiaries

Regarding group audits, including audits of overseas subsidiaries, the CPAAOB inspected the status of engagement teams' evaluation of internal controls, including the system of managing overseas businesses, their communication with overseas subsidiaries' engagement teams, and institutional measures taken by audit firms.

As a result, the CPAAOB found cases in which auditors had not adequately evaluated the appropriateness of the risk response procedures implemented by auditors of overseas subsidiaries, in which the involvement of auditors of overseas subsidiaries in risk assessment was inadequate, or in which instructions regarding detailed procedures were not given due to inadequate communication with auditors of overseas subsidiaries.

#### (ii) Conclusion of new audit contracts

Recently, many listed companies have switched audit contracts from large-sized audit firms to mid-tier or small and medium-sized audit firms. Therefore, in the case of audit firms that concluded new audit contracts with large, listed companies or listed companies presumed to pose high audit risk, the CPAAOB examined the appropriateness of risk assessment regarding those audit contracts, the background to the conclusion of the contracts, and the impact of the contracts on the audit quality of the entire audit firms.

As a result, the CPAAOB found cases in which auditors failed to adequately evaluate the integrity of managers despite recognizing the presence of high audit risk, or in which auditors did not take into consideration information received from the previous auditors when considering concluding new audit contracts.

(iii) IT-Based Audit and Cybersecurity Measures

Because of the growing complexity, diversification and sophistication of corporate activities as well as working style reforms at auditing firms, information technology (IT) has been increasingly used in order to conduct efficient and effective audits. In response to the spread of COVID-19 infections, many audit firms introduced “remote audits,” which means audit services are conducted from homes and offices.

In addition, as the risk of information leakage due to cyberattacks is growing, cybersecurity has become important for audit firms as well.

The CPAAOB identified the status of cybersecurity efforts at audit firms through monitoring. For the details of those efforts, see the Monitoring Report.

2.6.3 Response to the Revisions of the Quality Control Standards, etc.

The Business Accounting Council has conducted studies on the Japanese quality control standards in light of the revisions of international quality control standards (ISQM1, ISQM2, and ISA220). On November 16, 2021, the “Quality Control Standards for Audits” was revised. The CPAAOB examined the status of audit firms’ preparations and response to the revisions and found that some audit firms had established project teams and were conducting studies on the development of necessary institutional systems.

In addition, in light of the effects of the revisions on audit firms’ quality control, the CPAAOB started considering revisions to the specifics and methods of monitoring.

2.6.4 Strengthening of Monitoring Activities Other than Inspection

The CPAAOB held periodic dialogue with managers of large-sized and mid-tier audit firms, including top management, in order to implement efficient and effective monitoring. 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 21). The CPAAOB also made effective use of the collected information and the results of its analysis. For example, the information and the results were used as a

reference when the CPAAOB understood industry trends and adopted viewpoints of inspection.

#### 2.6.5 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 hold working-level meetings to discuss problems related to quality control reviews. Based on the discussions at those meetings, the JICPA has flexibly implemented review plans and selected individual audit engagements while taking risks into consideration.

In PY2021, the CPAAOB and the JICPA discussed the operation of the new quality control review system, which has been applied since July 2020, at their working level meetings.

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 reviews of large-sized audit firms and enhancement of the instruction/supervise function of the *JICPA* to small and medium-sized audit firms. The CPAAOB is discussing with the JICPA further so that CPAAOB's inspections and JICPA's quality control reviews totally realize maximum effectiveness.

#### 2.6.6 Strengthening Dissemination of Information

In addition to the results of monitoring conducted by the CPAAOB and the situations of audit firms, the impact of, and audit firms' response to, the spread of COVID-19 infections, and the handling of KAMs were covered by the 2021 Monitoring Report. In addition, the CPAAOB revised the contents of the Monitoring Report so as to deepen the understanding of accounting audits not only among market-related persons but also among the wider general public. And the CPAAOB also actively disseminated information, for example by holding lectures and briefings and by contributing articles to relevant journals.

#### 2.6.7 Enhancement of the Monitoring Implement System

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 enhance the monitoring implementation system by, for example, securing human resources and strengthening

collection/analysis of information. In PY2021, the CPAAOB continued to promote human resource development by having employees actively participate in international conferences and implemented training programs intended to help acquire the professional knowledge necessary for monitoring.

#### 2.6.8 Review of monitoring method

The CPAAOB continued to review the method of monitoring audit firms in order to improve monitoring efficiency and effectiveness for the sake of both the CPAAOB and audit firms. In PY2020, the CPAAOB was already using the online format, holding hearings using a web conferencing system in the inspection of large-sized and mid-tier audit firms and viewing audit documents prepared by some audit firms online, for example. In PY2021, the web-conferencing system was also used for hearings with small and medium-sized audit firms. Going forward, the CPAAOB will continue to review and revise the specifics and 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 delegated 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, paragraphs (1) and (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 (in early or mid-December and in late May in usual years)
- 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. 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)

(Note) In examinations conducted in the period through 2020, applicants could be disqualified if their score in any single subject fell short of 40% of the full marks even if their total scores met the qualifying standard.

Past passing point rates

2017		2018		2019		2020		2021	2022
1st	2nd	1st	2nd	1st	2nd	1st	2nd	—	1st
71%	64%	70%	64%	63%	63%	57%	64%	62%	68%

(Note) Applicants with scores short of 40% of the full marks in any single subject were disqualified in the first examination in 2017, the first and second examinations in 2018 and the second examination in 2020. In the first examination in each of 2021 and 2022, applicants were disqualified if their score fell short of 40% of the full marks in any single subject and also short of the scores of the 33rd percentile among those who submitted examination sheets.

- 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 FY2021

Full exemption	University professors, etc. in commerce or law or holders of doctoral degrees	13
	Applicants who have passed the bar examination	87
	Successful applicants in multiple-choice examination (examinations only in 2019 and 2020)	1,647
Partial exemption	Holders of certified public tax accountant licenses	69
	Graduates from graduate school specializing in accounting	152
	Applicants with work experience related to accounting and auditing	20

b. Essay examination

- Number and date of examinations

Once per year (mid to late August in usual years)

- 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.

The ratios of applicants who attained the passing mark

2017	2018	2019	2020	2021
52.0 %	52.0 %	52.0 %	51.8 %	51.5 %

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

Changes in number of successful applicants, etc.

	2017	2018	2019	2020	2021
No. of people submitting applications	11,032	11,742	12,532	13,231	14,192
No. of successful applicants in essay examination	1,231	1,305	1,337	1,335	1,360
Final pass rate	11.2 %	11.1 %	10.7 %	10.1 %	9.6 %

(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.<sup>(Note)</sup>

(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 FY2021

University professors, etc. or holders of doctoral degrees in commerce, law or economics	14
Applicants who have passed the bar examination	87
Applicants who have passed real estate appraiser examination	4
Holders of certified public tax accountant license	11
Applicants eligible for partial exemption from essay examination (examinations only in 2019 and 2020)	579

#### 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 %
2022	1st	12,719	11,347	89.2 %
	2nd	14,958	13,462	90.0 %

## 3.2. Implementation of CPA Examinations

### 3.2.1 Measures to Prevent COVID-19 Infections at the Time of the Examination

At the time of the examination, the CPAAOB asked applicants in poor health condition, including those having a fever, to refrain from taking the examination. It also took other measures, including measuring body temperature at the entrance of examination venues, requiring applicants to wear face masks at those venues, and ensuring that close contact between applicants could be avoided and good ventilation could be maintained there.

### 3.2.2 CPA Examination in 2021

The schedule of the 2021 CPA examination was as follows.

Schedule of 2021 CPA examination

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

In 2021, the multiple-choice examination, which had previously been held twice each year, was held only once, in May, as a result of a change in the schedule of the CPA Examination in 2020 (the second multiple-choice examination was moved from May to August and the essay examination was moved from August to November).

Outline of examination results

Category	2021 examination	2020 examination
No. of people submitting applications (a)	14,192	13,231
No. of applicants for multiple-choice examination	12,260	11,598
No. of applicants passing multiple-choice examination (b)	2,060	1,861
No. of applicants exempted from the multiple-choice examination (c)	1,932	1,931
No. of applicants for essay examination (b + c)	3,992	3,719 <sup>※</sup>
No. of final successful applicants (d)	1,360	1,335
Pass rate (d/a)	9.6 %	10.1 %

\*The above numbers exclude the 73 applicants who abstained from the examination because of the change in the examination schedule.

a. People submitting applications

For the 2021 CPA examination, 14,192 people submitted applications, an increase of 961 or 7.3% from the previous year's 13,231.

b. Applicants who passed multiple-choice examination

- No. of applicants for multiple-choice examination

12,260

- No. of applicants who passed multiple-choice examination

2,060

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

- No. of applicants taking essay examination: 3,992

Including: 2,060 who passed multiple-choice examination in 2021

1,932 who were exempted from multiple-choice examination

- No. of final successful applicants: 1,360

Pass rate: 9.6 %

(No. of final successful applicant/No. of people submitting applications)

Pass rate for essay examination: 34.1 %

(No. of final successful applicants/No. of applicants taking essay examination)

By age, applicants aged under 25 accounted for 65.1 % of all successful applicants. The average age of successful applicants was 24.5 years old (the oldest and youngest were 60 and 19, respectively).

By occupation, “students” and “people taking courses at advanced vocational schools and miscellaneous schools” accounted for 924 (67.9 %) of successful applicants, while 111 “company employees” (8.2%) passed the examination.

There also were 297 women who passed the examination (the ratio was 21.8 %).

For reference, 527 applicants (name-based) were partially exempted from the essay examination <sup>(Note)</sup>.

(Note) The rate of scores deemed appropriate by the CPAAOB to qualify for partial exemption from subjects in the essay examination was 56.0 %.

### 3.2.3 Schedule of 2022 CPA Examination

Following is the schedule of the 2022 CPA examination.

### Schedule of 2022 CPA examination

Category	Start of accepting applications	Deadline of accepting applications	Examination date	Announcement of successful applicants
1st multiple-choice examination	August 27, 2021	Application via internet September 16, 2021	December 12, 2021	January 21, 2022
		Application in writing) September 10, 2021		
2nd multiple-choice examination	February 1, 2022	Application via internet February 24, 2022	May 29, 2022	June 24, 2022
		Application in writing February 18, 2022		
Essay examination	—		August 19 to 21, 2022	November 18, 2022

When implementing the 2022 CPA examination, the CPAAOB plans to adopt measures to prevent COVID-19, as it did at the time of the 2020 and 2021 CPA examinations.

<Outline of the first multiple-choice examination in 2022 (implemented in December 12, 2021)>

- No. of people who submitted applications: 12,719
- No. of people who submitted examination sheets 9,949
- No. of people who passed the examination 1,199

<Number of applicants for the second multiple-choice examination in 2022>

- No. of people submitting applications: 14,958

### 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 2021-June 2022”, 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 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, lectures, including those online, were conducted at 15 universities in FY 2021. 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.

When implementing CPA examinations, it is necessary to make thorough preparations for a series of examination-related processes, including the development of examination questions, grading of answers and appropriate management of examination sites.

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.

The measures to address concrete challenges that have been developed in light of the recent circumstances are as follows.

#### 3.4.1 Managing Examinations Considering Natural Disasters

In light of the recent increasing frequency and severity of natural disasters, the CPAAOB conducted studies and made preparations assuming cases in which it will be difficult to implement the examination as scheduled due to the effects of disasters.

#### 3.4.2 Improving Convenience of Online Acceptance of Examination Applications

In order to improve convenience for people taking the examination, the CPAAOB plans to expand the online implementation of various paperwork procedures related to the online acceptance of applications, starting with the first multiple-choice examination in 2025.

### 3.4.3 Efforts to Increase Applicants for CPA Examination

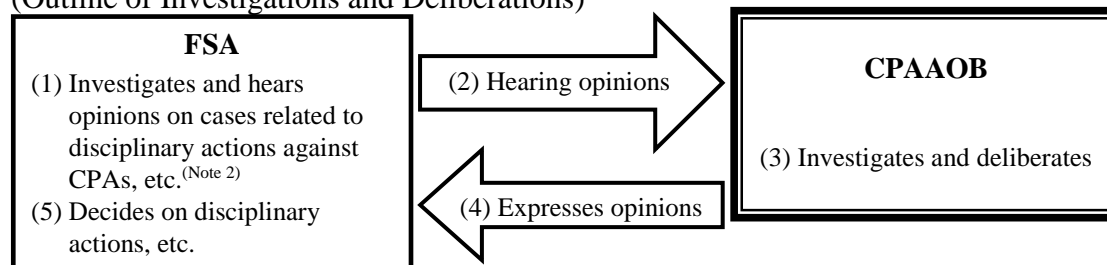
To maintain the uptrend in the number of people submitting applications for the CPA examination and encourage more people to take the examination, the CPAAOB needs to continue enhancing public relations activities, such as holding lectures at universities, high schools and so forth across Japan about 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.<sup>(Note 1)</sup> 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 two cases in FY2021 as it was asked for opinions by the FSA. Following is an outline of the case.

(Deliberation)

Deliberation by CPAAOB		Disciplined subjects
Case 1	413th deliberation (June 24, 2021)	5 CPAs
Case 2	430th deliberation (March 24, 2022)	4 CPAs



## Case 1

The CPAAOB conducted investigations and deliberations on a case of disciplinary action against five CPAs suspended from tax accounting work based on the provisions of the Licensed Tax Accountants Act and expressed the opinion that the FSA Commissioner's judgment was appropriate.

Following the CPAOBB's expression of the opinion, the FSA Commissioner implemented disciplinary actions against those CPAs on July 2, 2021.

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

### 1. Disciplined subjects and specific disciplinary actions

- CPA A

Suspension from work for four months (from July 6, 2021, to November 5, 2021)

- CPA B

Suspension from work for three months (from July 6, 2021, to October 5, 2021)

- CPA C

Suspension from work for two months (from July 6, 2021, to September 5, 2021)

- CPA D

Suspension from work for one month (from July 6, 2021, to August 5, 2021)

- CPA E

Suspension from work for one month (from July 6, 2021, to August 5, 2021)

### 2. Reasons for the disciplinary actions

The above five CPAs were suspended from tax accounting work (an eight-month suspension for CPA A, a six-month suspension for CPA B, a four-month suspension for CPA C, a three-month suspension for CPA D, and a two-month suspension for CPA E) as a disciplinary action taken by the Minister of Finance based on the provisions of the Licensed Tax Accountant Act (Act No. 237 of 1951).

The facts in question were determined to constitute a violation of the prohibition of discreditable acts prescribed under Article 26 of the Certified Public Accountants Act.

## Case 2

The CPAAOB conducted investigations and deliberations on a case of disciplinary action against four CPAs suspended from tax accounting work based on the provisions of the Licensed Tax Accountant Act and expressed the opinion that the FSA Commissioner's judgment was appropriate.

Following the CPAOBB's expression of the opinion, the FSA Commissioner implemented the disciplinary actions against those CPAs on March 31, 2022.

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

1. Disciplined subjects and specific disciplinary actions

- CPA A

Suspension from work for three months (from July 1, 2022, to September 30, 2022)

- CPA B

Suspension from work for one month (from July 1, 2022, to July 31, 2022)

- CPA C

Suspension from work for three months (from July 1, 2022, to September 30, 2022)

- CPA D

Suspension from work for one month (from April 4, 2022, to May 3, 2022)

2. Reasons for the disciplinary actions

The above four CPAs were suspended from tax accounting work (a seven-month suspension for CPA A, a six-month suspension for CPAB, a three-month suspension for CPA C, and a six-month suspension for CPA D) as a disciplinary taken action by the Minister of Finance based on the provisions of the Licensed Tax Accountant Act (Act No. 237 of 1951).

The facts in question were determined to constitute a violation of the prohibition of discreditable acts prescribed under Article 26 of the Certified Public Accountants Act.

## **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 had attendees from nine jurisdictions: Japan, the U.S., the U.K., Germany, France, Italy, Canada, Australia, and Singapore. Subsequently, a series of further informal meetings were held. The time became ripe 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). In March 2007, its first Plenary Meeting was held in Tokyo, hosted by the CPAAOB, and had the audit regulators of 22 jurisdictions attend.

According to the Charter adopted at the 4th Plenary Meeting, which was held in Cape Town in September 2008, the purpose of IFIAR is to engage in activities i-iii below. 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 legislative requirements 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

IFIAR comprises the independent audit regulators from 54 jurisdictions as of the end of March 2022.

Key decisions are made at Plenary Meeting attended by representatives of all member jurisdictions. By April 2021, 21 Plenary Meetings were convened. The 21st Plenary Meeting in April 2021 was held online due to COVID-19.

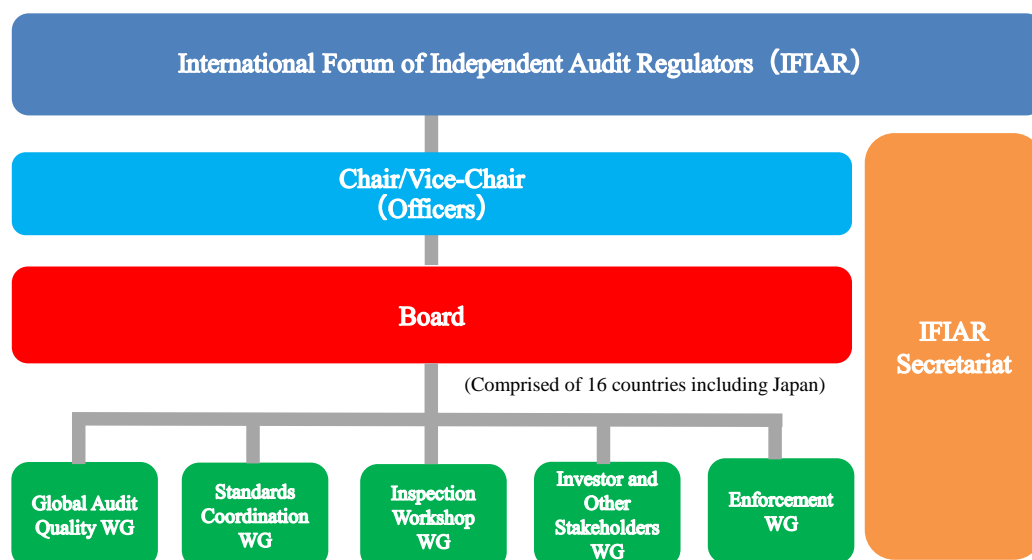
The posts of Chair and Vice Chair are assigned to elected individuals to enable IFIAR to efficiently conduct activities. As of the end of March 2022, the United States served as the Chair country and Japan as the Vice Chair country (to be explained later).

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, IFIAR has five Working Groups (WGs) as of the end of March 2022. The objective and activities of each WG are described in 5.1.3(ii) below.

**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)

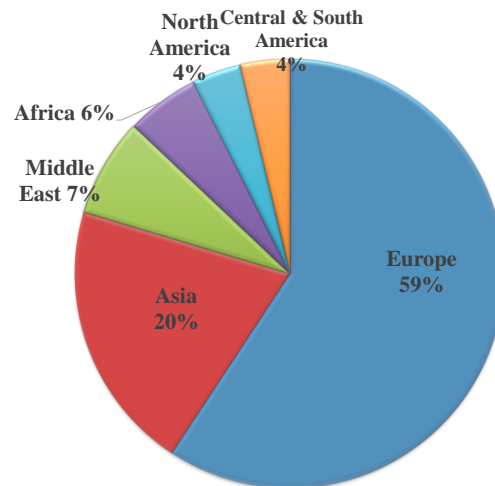
### North America (2)

United States (PCAOB)  
Canada (CPAB)

### Central & South America (2)

Cayman Islands (AOA)  
Brazil (CVM)

As of the end of March 2022



\* 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) 21st Plenary Meeting (online format)

Due to COVID-19, the 21st Plenary Meeting was held in an online format on April 19-21, 2021.

At the meeting, IFIAR Chair and Vice Chair were elected and a new five-year strategic plan that replaced the previous three-year plan was approved. In addition, discussions were held on the response to the impact of COVID-19, measures to promote sustainable improvement of audit quality and response of regulatory oversight for the implementation of new International Standard on Quality Management (ISQM1).

Sessions with the CEOs of the six largest accounting networks<sup>(Note)</sup> were held online separately from September to October 2021 (usually held as part of the Plenary Meeting). The topics of the discussion were each network's response to post COVID-19 economy, the progress in preparations for the implementation of ISQM1, etc., and priority strategic issues.

(Note) Six largest accounting networks: Deloitte Touche Tohmatsu, Ernst & Young,

(b) Election of an FSA official as IFIAR Vice Chair

As a result of an election at the Plenary Meeting in April 2021, the Deputy Commissioner of International Affairs, who concurrently served as Director of the Office of Japanese Delegation for IFIAR, was elected as Vice Chair. The term of office is around two years from April 21, 2021, till the 23rd Plenary Meeting. This was the first time for an Asian official to be elected as IFIAR Vice Chair since its founding. Japan, as the Vice Chair country, has increased its involvement in the management of IFIAR.

(c) Board

As a result of the governance reform, IFIAR established the Board in April 2017. 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 nominated member based on the selection procedures (points system) prescribed in the IFIAR Charter at the IFIAR Plenary Meeting held in April 2017. At the Plenary Meeting in April 2021, when its term of office expired, Japan was re-appointed as a nominated member (for a four-year term).

The Board holds discussions on the IFIAR's strategic plans, operation and management, etc. In this year, meetings of the Board were held online in April, June, September and December 2021 and February 2022.

(d) Inspection Findings Survey

Since 2012, IFIAR has been publishing "Inspection Findings Survey" to provide information on features of the results of inspections performed by regulators on the quality control systems and individual audit engagements of the member firms of the six largest global networks.

A total of 52 IFIAR members participated in the 10th survey in 2021.

The inspection findings rate among all member regulators on individual audit engagements of listed companies has been on a downtrend since it reached 47% in 2014, the first year of the survey, and came to 30% in the 2021 survey.

Changes in the inspection findings rate by all member regulators

2014	2015	2016	2017	2018	2019	2020	2021
47%	43%	42%	40%	37%	33%	34%	30%

(e) Publication of “Internationally Relevant Developments in Audit Markets”

In May 2019, in response to a growing mood for audit reform in Europe, the Internationally Relevant Developments in the Audit Market Task Force (IRDAM TF) was established in order to identify the trends on reform in IFIAR member jurisdictions. In July 2021, for the purpose of sharing knowledge and information on audit systems reforms in those jurisdictions, the IRDAM TF published a report titled “Internationally Relevant Developments in Audit Markets,” which described developments related to the audit markets and regulations of member regulators. The report summarized member regulators’ activities in the following five areas based on survey results: (i) auditor appointment and tenure, (ii) joint audits, (iii) combination of audit and non-audit services, (iv) transparency of audit related information and (v) audit firms’ governance and culture. Japan played the leading role in the project concerning transparency of audit related information.

(ii) Activities of each Working Group (WG)

(a) Global Audit Quality (GAQ) Working Group

This WG promotes exchanges of opinions between regulators and engages in continuous dialogue with the six largest networks in order to improve audit quality globally.

In this year, the WG held two meetings online for eight days from October 26 to November 22, 2021, and for another eight days from March 15 to April 13, 2022. At the meetings, discussions were held on such matters as programs to decrease the inspection findings rate and develop complementary indicators related to audit quality, and preparations for the implementation of ISQM1 and ISQM2 and a follow-up review of the response to COVID-19.

The WG is striving to decrease the inspection findings rate. With the participation of around half of all IFIAR members, it aims to lower the inspection findings rate by 25% over the four years to 2023 from 32% in 2019 to 24% or lower in 2023. In 2015 to 2019, the 10 members of the WG alone implemented a program to reduce the inspection findings rate, and since 2019, a new program involving more participating jurisdictions has been underway, with the inspection findings rate in 2021 reduced to 29%.

In addition, since September 2015, Risk Call teleconferences have been held to discuss a wide range of risks that auditors are facing and risk factors that may affect audits in the future, including the macroeconomic

environment. Starting with the sixth conference (in November 2018), Japan has replaced the United States as the conference chair. At the ninth conference (in December 2021), discussions were held on audit risks arising from COVID-19 and emerging risks in the post COVID-19 economy.

(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 does planning and operating IFIAR inspection workshop every year for the purpose of improving the skills of IFIAR member regulators and sharing inspection methods, experiences and challenges. In addition, it conducts an ex-post evaluation of inspection workshops, among other activities.

The 16th inspection workshop was held online on March 22-24, 2022, with the participation of a total of around 380 inspectors and other officials from 50 jurisdictions. From Japan, the Chief Inspector of the CPAAOB contributed as a panelist with other inspectors from six other countries, including the United States, and made a presentation on the impact of the COVID-19 on audits.

(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 matters related to the improvement of audit quality. The WG also does planning and coordination work for the exchange of views with investors' and other stakeholders' representatives at the IFIAR Plenary Meeting.

In addition, the WG has an Advisory Group comprised of investors and other stakeholders. Mr. KIYOHARA Ken (CMA Partners, Kiyohara International Law Office), a lawyer, serves as a member of the Group.

(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.

#### 5.1.4 Japan Network for IFIAR

The Japan Network for IFIAR was established in December 2016 with the aim of contributing to IFIAR's mission (to serve the public interest, including investors, by enhancing audit oversight globally). Specifically, it builds a stakeholder network in Japan, supports the activities of the IFIAR Secretariat, and raises awareness of audit quality in Japan.

The Japan Network for IFIAR contributes to support for the domestic networking of the IFIAR Secretariat, provides the IFIAR Secretariat with discussions on auditing in Japan, and introduces to the Network members IFIAR's activities through seminars and articles contributed to journals and other publications by IFIAR Officers or the CPAAOB/FSA staff members in charge of audit oversight.

At the fifth general meeting held in June 2021, network members presented reports on stakeholders' programs to maintain and improve audit quality. The CPAAOB and the FSA reported on their recent activities and the election of a Japanese official as IFIAR Vice Chair. In addition, discussions were held on ways of further improving the functions of the Japan Network for IFIAR. At the IFIAR Symposium, which was held in May to October 2021 for on-demand delivery to the Network members, the CPAAOB and the FSA invited the IFIAR Chair to make a keynote speech and participated in the panel session regarding high quality audits in order to communicate on IFIAR's activities widely to various stakeholders.

#### 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<sup>(Note)</sup> 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, Luxembourg)
- U.K. Financial Reporting Council (FRC)
- Haut Conseil du Commissariat aux Comptes (H3C, France)
- Chinese Ministry of Finance
- Federal Audit Oversight Authority (FAOA, Switzerland) \*

\* 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. Meanwhile, audit regulators are sharing information on challenges faced by audit firms in relation to accounting fraud cases that have occurred in various countries, perspectives on the future of audits in relation to the progress of innovation and climate change risks, and the response to a new environment in post COVID-19. Furthermore, some countries are making progress in fundamental audit reforms, including organizational changes at audit regulators.

Under those circumstances, the CPAAOB needs to further strengthen cooperation with foreign audit regulators so as to accurately collect information on deliberations on audits at the abovementioned international organizations and in foreign regulators, and analyze the impact on the operations of audit firms and the CPAAOB. When necessary, the CPAAOB should take appropriate measures, such as reflecting the findings of the analysis in its monitoring work.

With regard to IFIAR related matters, as the IFIAR Vice Chair country, Japan will actively contribute to the management of IFIAR. In addition, in order to further support IFIAR's activities, Japan needs to step up the following:

- To actively contribute to 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 operation of the IFIAR Secretariat
- To bring back deliberations at IFIAR to Japan and enhance communication on IFIAR's activities through the Japan Network for IFIAR.
- To encourage members of the Japan Network for IFIAR to create opportunities

for IFIAR to present its activities at international conferences, etc. hosted by the Network members as support for 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 July 1, 2022)**

Chairperson (full-time)	MATSUI Takayuki	Former Professor Graduate School of Professional Accountancy, Aoyama Gakuin University
Commissioner (full-time)	AOKI Masaaki	Professor Emeritus, Tohoku University  Former Professor Graduate School of Economics and Management, Tohoku University Accounting School
Commissioner (part-time)	ASAMI Yuko	Graduate Program Chair and Professor, Graduate School of Management, Gakushuin University  Professor, Faculty of Economics, Gakushuin University  Outside Director, DAIKEN CORPORATION  Auditor (part-time), Ibaraki University
	UEDA Ryoko	Senior Research Fellow, Japan Investor Relations and Investor Support, Inc.  Professor, SBI Graduate School  Visiting associate Professor, Graduate School of Management, Kyoto University  External Director, Money Forward, Inc.  Outside Director, Hirata Corporation
	KOBU Kaoru	Head of ESG, Japanese Equity Investment, Invesco Asset Management JAPAN Ltd
	TAMAI Yuko	Partner, Nagashima Ohno & Tsunematsu  Outside Corporate Auditor, MITSUI & CO., LTD.
	CHIBA Michiko	Certified public accountant  Outside Director, Audit & Supervisory Committee Member, CASIO COMPUTER CO.,LTD.  Outside Audit & Supervisory Board Member, DIC Corporation  Outside Audit & Supervisory Board Member, TDK Corporation  Outside Member of the Board of Directors, Audit & Supervisory Committee Member, NTT DOCOMO, INC.
	TOKUGA Yoshihiro	Dean of Faculty of Economics and Business Administration and Director, Kyoto University of Advanced Science  Professor Emeritus, Kyoto University  Visiting Professor, Graduate School of Management, Kyoto University
	MINAKAWA Kunihiro	Outside Director, Santen Pharmaceutical Co., Ltd.  Outside Director, Nippon Sheet Glass Company, Ltd
	YOSHIDA Keita	Partner, Deloitte Touche Tohmatsu LLC