

(Provisional Translation)

Annual Report

(excerpted version)

August 2008

Certified Public Accountants and Auditing
Oversight Board

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Terms

Throughout the annual report, the following terms are used.

Audit firms : audit corporations and sole practitioners

Large audit corporations : audit corporations who audit 100 or more listed companies in the total number of listed securities issuers, etc. in the firms' most recent fiscal year.

Sole practitioners : CPA firms

Small and medium sized audit firms : medium sized audit corporations, small sized audit corporations and sole practitioners

Summary

1. Examinations of the “Quality Control Review” and Inspections

The CPAAOB examined reports of quality control reviews conducted by the JICPA during the fiscal years 2006 and 2007. It conducted inspections to 11 audit corporations; and based on the inspection results, the CPAAOB made recommendations concerning five audit corporations to the Commissioner of the FSA on administrative sanctions and other measures.

In February 2008, the CPAAOB published *List of Examples of Issues on Audit Quality Control Identified through Inspections*. The publication, which contains helpful materials selected and compiled from the identified issues in the inspections conducted since its establishment, was prepared to help audit firms improve their quality control.

2. Implementation of CPA Examinations

The CPAAOB conducted the 2007 essay tests and the 2008 multiple-choice tests. In addition, the CPA examination study group deliberated on measures for improvements in implementation of the CPA examinations. Based on the results of deliberations, the CPAAOB published the “Report on Improvements in the Modalities of the CPA Examination” in October 2007.

Improvement measures are being implemented, including the shortening dates of the multiple-choice tests from two days to one, as well as widening the subjects for the essay test using the provided booklets on laws and standards from two to five subjects, in the 2008 CPA examinations.

3. Deliberation of Disciplinary Actions against CPAs and Audit Firms

The CPAAOB deliberated on the following two cases and expressed its opinions concerning the decisions of the Commissioner of the FSA.

101st CPAAOB Meeting (November 20, 2007)	BA Tokyo & Co., and two CPAs
111th CPAAOB Meeting (April 4, 2008)	one CPA

4. Cooperation with Relevant Organizations in Other Countries

The International Forum of Independent Audit Regulators (IFIAR) was established in March 2007 for the purpose of information exchange, etc. among audit regulators in various countries. The second meeting was held in Toronto, Canada in September 2007, and the third meeting held in Oslo, Norway in April 2008. The CPAAOB was represented by its Chairperson Akira Kaneko, Commissioner Yoshikazu Wakita and other members.

Chapter 1: Certified Public Accountants and Auditing Oversight Board

1. Background of Establishment

In the environment where accounting and auditing are becoming increasingly complicated, diversified and internationalized, the world witnessed many incidents that damaged public trust in auditing, which strongly called for the restoration of fairness and reliability. To that end, in Japan, aiming to enhance and strengthen the CPA auditing system, the Certified Public Accountants Act (CPA Act) was amended in May 2003, and the Certified Public Accountants and Auditing Oversight Board was established in April 2004 .

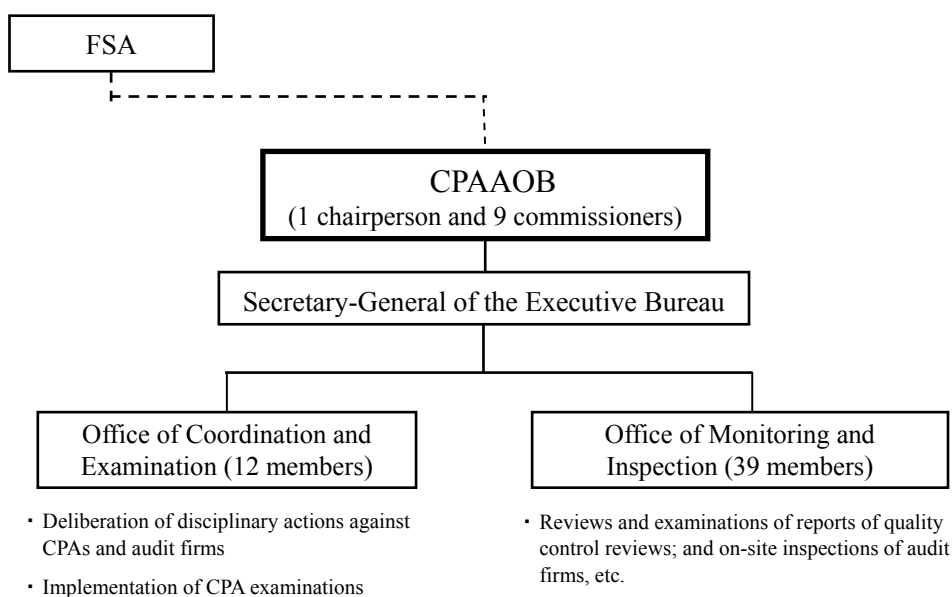
2. Organization

The Certified Public Accountants and Auditing Oversight Board (CPAAOB) consisting of one chairperson and nine commissioners is an administrative agency that operates a collegiate system .

A chairperson and commissioners are selected from those who possess understanding and knowledge about matters related to the CPA profession, and appointed by the Prime Minister with the consent of both Houses of the Diet. In principle, they may not be dismissed from office against their will and exercise their powers independently. The tenure of chairperson and commissioners is three years. In April 2007, some commissioners were replaced.

The CPAAOB has an executive bureau to handle its administrative duties. The Executive Bureau consists of two divisions. The “Office of Coordination and Examination” is responsible for deliberation of disciplinary actions against CPAs and audit firms; and implementation of CPA examinations. The “Office of Monitoring and Inspection” reviews and examines reports of quality control reviews by the Japanese Institute of Certified Public Accountants (JICPA) (hereinafter referred to as “quality control review”) and conducts on-site inspections of audit corporations, etc. The CPAAOB had 40 staff members when it was established. With the addition of new inspectors, etc., the total number of staff members has increased to 51, of which 12 are members of the Office of Coordination and Examination and 39 are members of the Office of Monitoring and Inspection (as of fiscal 2008).

Organization Chart of the CPAAOB (staff members as of fiscal 2008)



3. Outline of Responsibilities

The CPAAOB has three responsibilities: examines of the “Quality Control Review” by the JICPA and inspections; implementation of CPA Examinations; and deliberation of disciplinary actions against CPAs and audit firms. By fulfilling these responsibilities, the CPAAOB aims to secure the credibility and improve the quality of auditing in Japan, which in turn ensures the fairness and reliability of the Japanese capital market.

From April 2004 through June 2008, the CPAAOB held 116 meetings of which 25 were held during the business year 2007 .

(1) Examinations of the “Quality Control Review” and Inspections

Based on the provisions of the CPA Act, the CPAAOB examines reports of quality control reviews by the JICPA and, if deemed necessary, conducts on-site inspections of the JICPA, audit firms, etc.

Reference: Quality Control Review

The JICPA conducts reviews of quality control practices of CPA sole practitioners/audit corporations, provides recommendations for improvement to audit firms as deemed necessary, and receives reports on progress against improvement plans. Although the JICPA’s quality control review had been conducted as a self-regulatory mechanism of the audit profession since April 1999, it was formally incorporated into the CPA Act in the 2003 revision.

Specifically, the JICPA, once every three years in principle (or every other year, when the JICPA regards it as necessary) conducts ex-post reviews to evaluate compliance with the CPA Act and other laws and regulations; auditing standards; the JICPA’s rules and regulations; and audit firms’ internal rules, etc.

(a) Examination

The CPAAOB examines reports of quality control reviews by the JICPA to determine whether the quality control review system is being appropriately operated by the JICPA; and whether audits are being appropriately performed by audit firms.

If the CPAAOB considers it to be necessary for examinations, it demands submission of reports or other documentation from the JICPA/audit firms based on the CPA Act.

(b) Inspection

Based on the examination results, if the CPAAOB believes it necessary for securing appropriate administrative operations of the JICPA; and necessary and appropriate for the public interest or the investor protection, it conducts inspections of the JICPA, audit firms and related parties (such as audited companies) based on the CPA Act.

After the inspection and the subsequent deliberations, the CPAAOB provides the inspected party a report summarizing the results of the inspection.

(c) Recommendation

Based on the examination/inspection results, if that is considered necessary, the CPAAOB makes recommendations to the Commissioner of the FSA on administrative sanctions and other measures that are necessary to secure appropriate implementation of audits by audit firms as well as appropriate administrative operations of the JICPA, based on the CPA Act.

(d) Foreign audit firms, etc.

Under the revised CPA Act, which was passed by the Diet in June 2007 and took effect on April 1, 2008, those foreign audit firms, etc. that produce audit reports for foreign issuers whose securities are publicly traded in the Japanese market, are required to submit notification documents to the FSA; and the CPAAOB requires them to submit reports and conducts inspections of foreign audit firms, when deemed necessary.

Reference: Legal basis

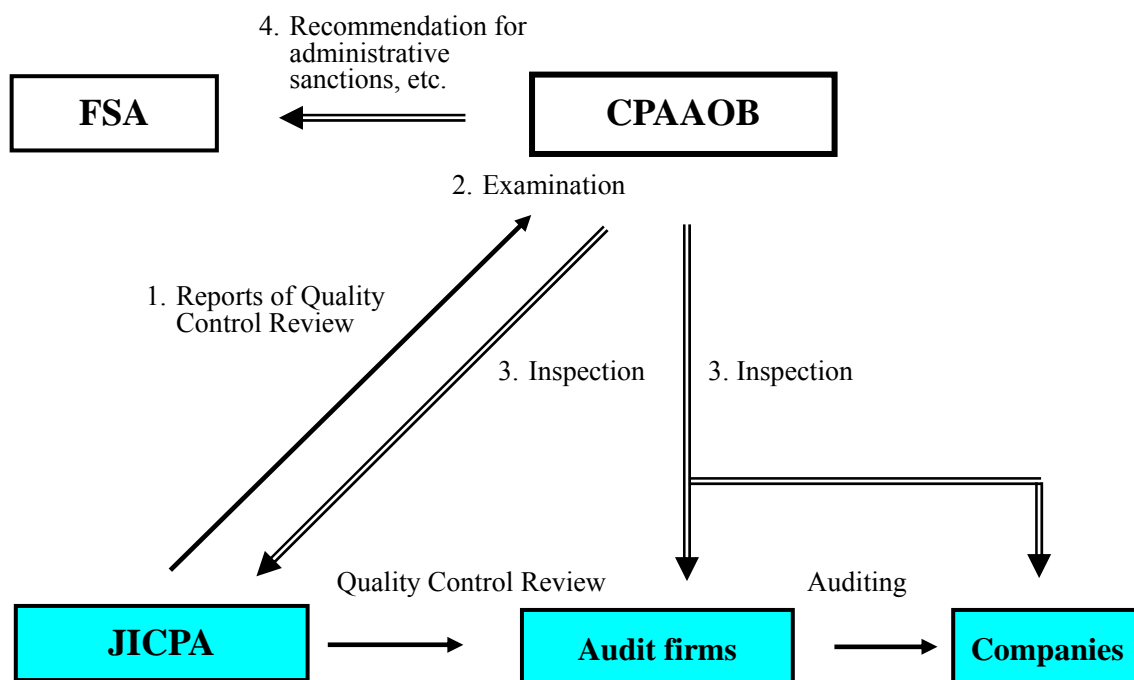
The legal basis for the JICPA's review of quality control practices, and the CPAAOB's examinations and inspections is as follows.

1. The JICPA's implementation and report of the review of the status of the operation of auditing services
 - (i) Implementation of the review of the status of the operation of auditing services CPA Act Article 46-9-2 Paragraph 1
 - (ii) Report of the review results to the CPAAOB CPA Act Article 46-9-2 Paragraph 2
2. Requirement to submit reports
 - (i) to the JICPA CPA Act Article 46-12 Paragraph 1
 - (ii) to audit firms CPA Act Article 49-3 Paragraph 1

- (ii) to foreign audit firms, etc. CPA Act Article 49-3-2 Paragraph 1
- 3. Inspection
 - (ii) to the JICPA CPA Act Article 46-12 Paragraph 1
 - (ii) to audit firms CPA Act Article 49-3 Paragraph 2
 - (iii) to audited companies, etc. CPA Act Article 49-3 Paragraph 2
 - (iv) to foreign audit firms, etc. CPA Act Article 49-3-2 Paragraph 2
- 4. Recommendations to the Commissioner of the FSA CPA Act Article 41-2

The above mentioned authorities stipulated under the CPA Act are delegated to the CPAAOB by the Commissioner of the FSA according to the provisions of the Article 49-4 Paragraph 2, 3 of the same Act. However, the authorities over the JICPA and audit firms, etc. are limited to those exercised in relation to the reports of quality control reviews by the JICPA and the status of the operation of services (if not receiving a quality control review).

Quality Control Review and Oversight of the CPAAOB



(2) Implementation of CPA Examinations

Based on the CPA Act, the CPAAOB implements CPA examinations every year for the purpose of determining whether a person has the necessary knowledge and applied skills to become a CPA.

Examinations are performed in 11 prefectures in Japan. The administration of examinations, including supervision, is provided by the local finance bureaus, etc.

Note: To engage in the services of a CPA, a person must be qualified as a CPA. The main requirement to be qualified as a CPA is to pass the CPA Examination.

A person who is qualified as a CPA becomes a CPA when he/she registers on the CPA roster at the JICPA. A CPA is allowed to provide audit and other services such as compilation of financial documents using the title of CPA.

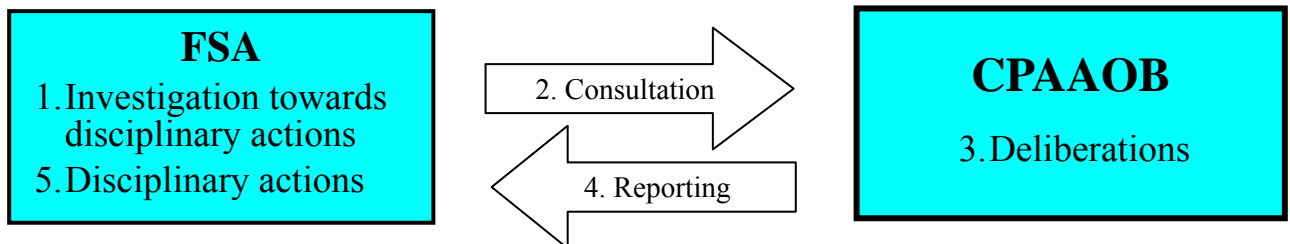
(3) Deliberation of Disciplinary Actions against CPAs and Audit Firms.

When the Commissioner of the FSA consults with the CPAAOB on the disciplinary actions against CPAs and audit firms., the CPAAOB conducts deliberation. To be specific, it examines the validity, severity, etc. of said sanctions pursuant to the applicable laws and regulations; and presents its opinions to the Commissioner of the FSA.

Note 1: Disciplinary action will be imposed in the case where a CPA or an audit corporation has made a false or unjust attestation; violated the CPA Act or other regulations; or executed services in a manner that is found to be grossly inappropriate in his/her/its auditing services.

Note 2: The Commissioner of the FSA carries out the investigation concerning the case involving disciplinary actions, etc. (e.g., conduct a hearing, or collect opinions or reports from the persons concerned in the case; order the persons concerned to submit books, documents or any other objects). When a disciplinary action is imposed based on the recommendation by the CPAAOB or in cases of the order for payment of a surcharge against audit corporations, deliberation at the CPAAOB is not required.

Outline of Deliberation Process



(4) Cooperation with Relevant Organizations in Other Countries

With the globalization of corporate and investment activities, accounting and auditing are becoming increasingly internationalized. In this environment, independent audit regulators in each country are working together to secure and improve the quality of international auditing.

To that end, the International Forum of Independent Audit Regulators (IFIAR) was established to share knowledge of the audit market environment and practical experience of independent audit regulatory activity. The first meeting was held in Tokyo, Japan in March 2007, the second in Toronto, Canada in September 2007, the third in Oslo, Norway in April 2008. Future meetings are planned to be held every six months.

In addition, the CPAAOB is making efforts to develop and enhance cooperative relationships with regulators in other countries to improve the quality of international auditing. For example, it has held separate meetings with the individual independent audit regulators from different countries

Chapter 2: Examinations of the “Quality Control Review” and Inspections

1. Examination

(1) Basic Policy on Examination

Based on the “Basic Policy on Examination, etc.—for further improvement of audit quality” (hereinafter referred to as “Basic Policy on Examination, etc.”) established in June 2007, the CPAAOB will continue to examine reports of quality control reviews by the JICPA, ensuring that previously identified issues are constantly addressed until they are fully resolved. It will also make it a basic principle to conduct examinations with special attention to the new developments.

(2) Implementation Status of Examinations

(a) Target of Examination

Quality control reviews conducted by the JICPA during fiscal 2006 and 2007 were subject to the Business Year 2007 examinations.

Reference: Main content of the quality control review report (monthly report)

- Quality control review report
- Recommendation report
- Response to recommendation report
- Quality control review documents (a set of documents collected and prepared to create quality control review reports and recommendation reports)

Status of submission of reports on quality control review conducted in fiscal 2007 is as follows (based on the number of target audit firms reviewed in the reports).

Status of submission of reports to the CPAAOB

Date of report submission (month and year)	2007		2008					Total
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	
Number of target audit firms in the reports	8	15	26	37	15	29	1	131

(b) Quality Control Reviews Conducted by the JICPA

The JICPA is required to conduct quality control reviews for audit firms that provide audit services to large companies, etc. at least once every three years, in principle. In fiscal 2007, it conducted quality control reviews for 131 audit firms (55 audit corporations, 76 sole practitioners).

The following table shows the breakdown of quality control review reports and

recommendation reports that have been issued based on the results of the quality control reviews listed above.

Quality control review reports (fiscal 2007)		(Number of audit firms)					
	Unqualified opinion		Qualified opinion		Negative opinion		Total
Audit corporation	40	72.7%	15	27.3%	0	-	55
Sole practitioner	58	76.3%	15	19.7%	3	3.9%	76
Total	98	74.8%	30	22.9%	3	2.3%	131

Note 1: A qualified opinion is issued when a certain concern for either of the following circumstances exists:

Circumstance 1: Deficiencies have been identified in the quality control system employed by the audit firm, which has inhibited realization of the purposes of audit quality control specified in the quality control standards; and therefore, significant violations of professional standards, laws and regulations incurred in the audit services provided by the audit firm.

Circumstance 2: Situations have been observed where auditors and other staff at the audit firm do not properly operate under the quality control system employed by the audit firm or where they do not follow the specific audit quality control procedures required in the quality control standards; and therefore, significant violations of professional standards, laws and regulations incurred in the audit services provided by the audit firm.

Note 2: Issuance of a negative opinion is considered when a major concern for at least one of the circumstances required for the “qualified opinion” mentioned above exists; and when, as a result of quality control reviews of individual audits, very significant violations of professional standards, laws and regulations are identified in the audit services provided by audit the audit firm.

Recommendation of improvement reports (fiscal 2007)		(Number of audit firms)			
	Deficiencies to be improved:				Total
	No	Yes			
Audit corporation	-	-	55	100.0%	55
Sole practitioner	-	-	76	100.0%	76
Total	-	-	131	100.0%	131

The table above shows that all audit firms received recommendation reports and were pointed out the deficiencies which need to be improved . The CPAAOB has requested the JIPCA to undertake organizational measures to strengthen functions to follow up on recommended issues; and the JICPA agreed to aggressively work toward enhancing its quality control review system.

Reference: Follow-up reviews

Since the introduction of the registration system for listed company audit firms in 2007, the JICPA has been conducting either a quality control review or a follow-up review (a on-site review to ascertain whether recommendation issues pointed out in the previous quality control review have been addressed) for all audit firms registered with Center for Listed Company Audit Firms. In fiscal 2007, the JICPA conducted follow-up reviews for 104 audit firms (72 audit corporations, 32 sole practitioners). The JICPA found no remaining issues for improvement with 49 audit firms (34 audit corporations, 15 sole practitioners); and found improvements are inadequate with 55 audit firms (38 audit corporations, 17 sole practitioners).

(c) Implementation Status of Examinations at the CPAAOB

i) Perspective of Examination

The CPAAOB analyzes quality control review reports by the JICPA, and requires JICPA or audit firms to submit reports as needed. After verifying their contents, it conducts examinations. Perspective of examination is as shown below.

- Is the JICPA conducting quality control reviews according to rules such as quality control review procedures?
- Is the audit firm properly equipped with a quality control system to rationally ensure audit quality?
- Are engagements performed in accordance with the quality control system employed by the audit firm?

ii) Requirement to submit Reports

In the examination process, the CPAAOB asks the JICPA questions as necessary, and furthermore, requires audit firms to submit reports if needed. The following table shows the status of report submission from those 137 audit firms which were subject to quality control reviews in fiscal 2006.

Status of Submission of Reports (As of June 30, 2008)

	Number of audit firms subject to quality control review (A)	Number of audit firms from which reports were submitted (B)	% (B/A)
Report submission from audit firms	137	57	41.6%
Audit corporation	31	25	80.6%
Sole practitioner	106	32	30.2%

Note: An audit firm from which multiple reports were submitted is counted as one audit firm.

iii) Items of Focus in Examinations

The items of focus in examinations specified in the CPAAOB’s “Basic Plan on Examinations, Business year 2007” are: development of quality control system;

acceptance and continuance of audit engagements; and engagement quality control review .

Based on that plan, the CPAAOB collected reports on each item from across multiple audit firms.

a. Submission of Report on Quality Control System Development

In relation to audit quality control, it is required to apply new standards*¹ to audits for fiscal years starting on or after April 1, 2006. In May 2007, in order to properly understand the status of quality control system*² development, the CPAAOB required 24 audit corporations*³ to submit reports on quality control system development.

Note 1: For the purpose of improving the quality of audits performed by CPAs, the Business Accounting Council established Standards on Quality Control for Audits on October 28, 2005. In response, the JICPA issued practical guidelines such as Quality Control Standards Committee Statement No. 1, “Quality Control for Firms That Perform Audits” and Auditing Standards Committee Statement No. 32, “Quality Control for Audits” both dated March 30, 2006.

Note 2: Standards on Quality Control for Audits specify that “in order to rationally ensure audit quality, audit firms must properly establish and implement quality control system covering from acceptance and continuance of audit engagements; development of audit plans; performance of audit engagements; and issuance of audit reports.” Accordingly, auditing firms are required to have a quality control system consisting of at least the following policies and procedures.

- Responsibility of quality control
- Professional ethics and independence
- Acceptance and continuance of audit engagements
- Education, training, evaluation and assignment of auditors and other personnel engaged in audits
- Performance of audit engagements
- Monitoring of the quality control system

Note 3: Of 31 audit corporations that were subject to quality control review in fiscal 2006, three audit corporations received inspection; four audit corporations were dissolved; and 24 small and medium-sized audit corporations received request for report.

Status of Submission of Reports on Development of Quality Control System (As of June 30, 2008)

	Number of audit firms subject to quality control review (A)	Number of audit firms from which reports were submitted (B)	% (B/A)
Report submission from audit firms	137	24	17.5%
Audit corporation	31	24	77.4%
Sole practitioner	106	-	-

Major Issues Identified in the Submitted Reports

Although most audit firms have developed quality control manuals, the following issues were identified.

- Review manual and other materials have not been developed; or some parts of quality control manuals have not been revised, due to such factors as insufficient manpower.
- Many audit firms are using the Audit Tools for Small- and Medium-Sized Practitioners (issued by the JICPA Committee for Small- and Medium-Sized Practitioners, Report No. 1; publicized by the JICPA) as reference, although it does not match their situations.

b. Submission of Report on Acceptance and Continuance of Audit Engagements

The JICPA pointed out the issue of acceptance and continuance of audit engagements in many audit firms' quality control reviews. Therefore, in November 2007, the CPAAOB requested seven audit firms*¹ (two small and medium-sized audit corporations and five sole practitioners) to submit a report on procedures for acceptance and continuance of audit engagements*².

Note 1: Of 8 audit firms that received a second caution on the issue of acceptance and continuance of audit engagements from the JICPA in the fiscal 2006 quality control review reports; and two audit firms that received a third caution, two audit firm received inspection; one audit firm was dissolved; and seven audit firms received request for report.

Note 2: Standards on Quality Control for Audits specify that "audit firms must develop policy and procedures for reaching a decision on acceptance and continuance of audit engagements; and decide whether audit engagements are performed properly taking into consideration of the size and organization of the audit firm; feasibility of securing auditors who have required skills and experience to perform the relevant audit; matters that have significant impact on the decision concerning the acceptance and continuance of audit engagements." Detailed information on the acceptance and continuance of audit engagements is specified in the JICPA's practical guidelines (Quality Control Standards Committee Statement No. 1, "Quality Control for Firms That Perform Audits" and Auditing Standards Committee Statement No. 32, "Quality Control for Audits").

Status of Submission of Reports on Acceptance and Continuance of Audit Engagements
(As of June 30, 2008)

	Number of audit firms subject to quality control review (A)	Number of audit firms from which reports were submitted (B)	% (B/A)
Report submission from audit firms	137	7	5.1%
Audit corporation	31	2	6.5%

Sole practitioner	106	5	4.7%
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Major Issues Identified in the Submitted Reports

Although there were no significant defects found in relation to the acceptance and continuance of audit engagements, there were following issues identified with sole practitioners.

- Even though the Audit Tools for Small- and Medium-Sized Practitioners does not match their particular situation, they continuously use them as their quality control manuals; or have not developed manuals.
- They indicate “not being aware” and the like as the reasons for a lack of documentation, revealing their low recognition.

c. Submission of Report on Engagement Quality Control Review

In the business year 2006, examinations were conducted with particular focus on engagement quality control review; and issues were identified in relation to the implementation of review. To follow up on those issues, in November 2007, the CPAAOB requested 32 audit firms*¹ (six small and medium-sized audit corporations and 26 sole practitioners) to submit a report on engagement quality control review*².

Note 1: Of 25 audit firms to which qualified opinions were issued in relation to engagement quality control review in the fiscal 2006 quality control review reports; seven audit firms that received a second caution; and six audit firms that received a third caution, five audit firms already received inspection; one audit firm was dissolved; and 32 audit firms received request for report.

Note 2: The auditing standards specify that “prior to expressing an audit opinion, auditors must have the opinion reviewed, to ensure that the opinion was properly formed in accordance with generally accepted auditing standards.” Detailed information on the engagement quality control review is specified in the JICPA’s practical guidelines (Quality Control Standards Committee Statement No. 1, “Quality Control for Firms That Perform Audits” and Auditing Standards Committee Statement No. 32, “Quality Control for Audits”).

Status of Submission of Reports on Engagement Quality Control Review (As of June 30, 2008)

	Number of audit firms subject to quality control review (A)	Number of audit firms from which reports were submitted (B)	% (B/A)
Report submission from audit firms	137	32	23.4%
Audit corporation	31	6	19.4%
Sole practitioner	106	26	24.5%

Major Issues Identified in the Submitted Reports

- Audit corporation
 - Considering that, among audit engagements, inspection and attendance do not involve making judgement, assigned those in inspection/attendance roles in charge of review.
 - Important items and materials to be reviewed in each stage of the audit review process are not specified.
- Sole practitioner
 - Policy and procedures for reviewing have not been developed, giving such reasons as “this firm performs auditing required under the Securities and Exchange Law for just one unlisted company.”
 - Audits other than those for large companies are not reviewed.
 - When problems are found during the auditing process, the firm consults with an outside CPA commissioned to perform the review, as necessary. However, specific procedures for consultation and results of consultation have not been documented.

d. Deliberation

The CPAAOB makes decisions on the following matters.

- i. Undertake inspections of audit firms
- ii. Make recommendations to the Commissioner of the FSA on administrative sanctions and other measures.
- iii. No inspections or recommendations (including requests for improvement to the JICPA, etc.) for now.

The following table shows the status of deliberations concerning those 137 audit firms which were subject to quality control reviews in fiscal 2006; and 131 audit firms in fiscal 2007.

(As of June 30, 2008)

Status of deliberations	Fiscal 2006 quality control review	Fiscal 2007 quality control review
i. Undertook inspections of audit firms	11	1
ii. Based on the result of inspections (above), made recommendations to the Commissioner of the FSA on administrative sanctions and other measures.	6	0
iii. No inspections or recommendations (including requests for improvement to the JICPA, etc.) for now.	126	0
iv. Currently under verification at the Executive Bureau; and scheduled to be sent to the CPAAOB for deliberation	0	130
Number of audit firms subject to deliberations	137	131

2. Inspection

(1) Basic Policy on Inspection

Inspections are conducted when it is deemed necessary and appropriate to check the status, including whether the JICPA's quality control reviews are sufficient; and whether audit firms' operation control systems are functioning effectively, based on the results of reviews on: appropriateness of operations of JICPA's quality control review systems; and appropriateness of development and implementation of audit firms' quality control systems as well as performance of audit engagements.

(2) Implementation Status of Inspections

Based on the Basic Plan on Examination and Inspection, Business Year 2007, the CPAAOB conducted inspections for 11 audit firms in the business year 2007.

3. Recommendations to the Commissioner of the FSA

After reviewing the results of inspections conducted in the business year 2007, it was found that the operations of the following audit firms were significantly inappropriate. Therefore, the CPAAOB made recommendations to the Commissioner of the FSA on administrative sanctions and other actions based on the provision of Article 41-2 of the CPA Act. In addition, based on the recommendations from the CPAAOB, the Commissioner of the FSA issued orders under the provisions of Article 34-21 Paragraph 1 to individual audit firms .

Audit corporation	Date of recommendation	Date of business improvement order, etc.
Nagomi Audit Corporation	October 25, 2007	November 6, 2007
KDA Audit Corporation	February 7, 2008	February 22, 2008
Roppongi Audit Corporation	March 5, 2008	March 18, 2008
Fukuhoku Audit Corporation	March 28, 2008	April 18, 2008 *
Natsume Audit Corporation	April 16, 2008	April 30, 2008 *

Note: To Fukuhoku Audit Corporation and Natsume Audit Corporation, due to their violation of laws and regulations, admonitions were issued in addition to business improvement orders.

4. Publication of List of Examples of Issues on Audit Quality Control Identified through Inspections

Since its establishment in April 2004, the CPAAOB has been disclosing to related parties those results of examinations and inspections that are considered to be beneficial for securing and improving the quality of audits.

In the business year 2007, the CPAAOB published *List of Examples of Issues on Audit Quality Control Identified through Inspections*. The publication, which was released in

February 2008 and contains helpful examples selected and compiled from the identified issues in the past inspections, was prepared to help audit firms improve their quality control in their voluntary efforts.

It is compiled based on the results of 30 inspections conducted from the establishment in April 2004 through February 2008, and covers variety of audit quality control issues regardless of the size of audit firms. Moving forward, the CPAAOB will review the content every business year, and add examples to and/or delete examples from the list as deemed necessary.

In addition, since June 2008, the CPAAOB has been holding briefing sessions for local groups of the JICPA to promote audit firms' understanding regarding those examples, as well as to help them fully comprehend the importance of quality control.

5. Revision of Basic Policy on Examination, etc.

(1) Revision of “Basic Policy on Examination, etc.—for further improvement of audit quality”

In response to the enforcement of the revised CPA Act on April 1, 2008, the CPAAOB undertook a partial revision of the Basic Policy on Examination, etc., including the addition of provisions concerning foreign audit firms, which was announced on June 30, 2008.

(2) Development of “the Basic Plan on Examination and Inspection, Business Year 2008”

Based on the Basic Policy on Examination, etc. mentioned above, the CPAAOB developed “the Basic Plan on Examination and Inspection, Business Year 2008” and announced it on June 30, 2008.

The Basic Plan on Examination places particular focuses on the verification of development status of quality control systems at sole practitioners and of the monitoring of the quality control system at audit corporations; as well as on the verification of the status of operation of the JICPA's registration system for listed company audit firms, etc.

Under the Basic Plan on Inspection, inspections of large audit corporations, etc., and small and medium-sized audit firms are conducted as deemed necessary.

(3) Revision of “Basic Guideline on Inspection conducted by the Certified Public Accountants and Auditing Oversight Board”

The revised CPA Act, which was enforced on April 1, 2008, allowed the CPAAOB to conduct inspections of audit firms to which a quality control review reports have not been issued due to such reasons as that they have not received a quality control review or that they refuse to cooperate. In response to this revision, the CPAAOB made necessary changes to the “Basic Guideline on Inspection conducted by the Certified

Public Accountants and Auditing Oversight Board” published on June 29, 2007.

The revised basic guideline has been implemented since June 2, 2008 and applied to inspections for which notifications were made on that day or later (in cases of inspections without prior notification, those which were conducted).

A different inspection policy for foreign audit firms, etc. is under consideration as mentioned in the section (4) below.

(4) Inspections of Foreign Audit Firms, etc.

Under the revised CPA Act, which took effect on April 1, 2008, those foreign audit firms, etc. that produce audit and attestation services for foreign issuers whose securities are publicly traded in the Japanese market, are required to submit notification documents to the FSA; and the FSA and the CPAAOB require them to submit reports and conduct inspections of foreign audit firms, when deemed necessary and appropriate in light of the public interest or investor protection.

The CPAAOB intends to deliberate and then publicize its inspection policy relating to the foreign audit firms within an appropriate timeframe, taking account of the subsequent developments of notification from the subject firms as well as those of international cooperation among audit oversight authorities..

Chapter4: Deliberation of Disciplinary Actions against CPAs and Audit Firms

In the business year 2007, the CPAAOB deliberated on two cases,

Conducted deliberations

101st CPAAOB Meeting (November 20, 2007) BA Tokyo & Co., and two CPAs

111th CPAAOB Meeting (April 4, 2008) one CPA