

Annual Report

May 2019

Certified Public Accountants and Auditing Oversight Board

About this Annual Report

Pursuant to Article 16 of the Certified Public Accountants and Auditing Oversight Board (CPAAOB) Rules of Operation as below, which is stipulated on the basis of Article 2 of the CPAAOB Cabinet Order, this Annual Report publishes the activities of the CPAAOB for FY2018 (from April 1, 2018, to March 31, 2019).

To better meet the needs of readers, the Report also includes information on activities taken before and after FY2018.

Note that FY2018 and this fiscal year refer to the period from April 1, 2018 to March 31, 2019, while PY2018 and this program year refer to the period from July 1, 2018 to June 30, 2019.

○ 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>>

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Contents

1 Overview of the CPAAOB

1.1 Certified Public Accountants and Auditing Oversight Board (CPAAOB)	1
1.2 Executive Bureau	1

2 Examination and Inspection of Audit Firms

2.1 Outline	3
2.2 Basic Policy for Monitoring Audit Firms	6
2.2.1 Basic Policy for Monitoring Audit Firms (Basic Policy for Examination and Inspection)	6
2.2.2 Basic Plan for Monitoring Audit Firms	8
2.3 Monitoring and Inspections of Audit Firms	11
2.3.1 Quality Control Reviews by the JICPA	12
2.3.2 Examination of Quality Control Reviews	13
2.3.3 Collection of Reports from Audit Firms	14
2.3.4 Inspections of Audit Firms	15
2.3.5 Inspections Results	16
2.3.6 Recommendations to the Commissioner of the FSA	16
2.3.7 Inspections and Oversight on Foreign Audit Firms	16
2.4 Dissemination of Information relating to Examination and Inspection	18
2.4.1 Publication of “2018 Monitoring Report”	18
2.4.2 Publication of “Case Report from Audit Firm Inspection Results”	19
2.5 Cooperation with Relevant Organizations	20
2.5.1 Cooperation with Relevant Divisions of the FSA	20
2.5.2 Cooperation with the JICPA	21
2.5.3 Cooperation with the Financial Instruments Exchanges	21
2.5.4 Cooperation with the Japan Audit & Supervisory Board Members Association	21
2.6 Achievement in PY2018 agenda	21
2.6.1 Analysis of Audit Firm's Response to the Audit Firm Governance Code	21
2.6.2 Analysis Based on Trends in Auditing	22
2.6.3 Monitoring of Technology Use and Cybersecurity at Audit Firms	22
2.6.4 Overall Evaluation of the Quality Control Review System of the JICPA	23
2.6.5 Strengthening Publications	23
2.6.6 Enhancing the CPAAOB Monitoring	23

3 Cooperation with Relevant Organizations in Other Jurisdictions

3.1 Activities of the International Forum of Independent Audit Regulators (IFIAR)	24
3.1.1 Background	24
3.1.2 Organization	25
3.1.3 Activities.....	26
3.1.4 Japan IFIAR Network	29
3.2 Bilateral Cooperation	30
3.3 Next challenges	30

Annex: List of Members of Certified Public Accountants and Auditing Oversight Board (CPA AOB)	32
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1 Overview of the CPAAOB

1.1 Certified Public Accountants and Auditing Oversight Board (CPAAOB)

The CPAAOB, government organization which has a council system, was established under the Financial Services Agency (FSA) in April 2004, based on Article 35, Paragraph 1 of the Certified Public Accountants Act (the CPA Act) and on Article 6 of the Act for Establishment of the FSA.

The CPAAOB is comprised of the Chairperson and up to 9 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 and Article 37-3 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 their appointed terms (Articles 35-2 and 37-4 of the CPA Act).

The CPAAOB, comprising 10 members (newly-appointed Chairperson Toshiro Hiromoto, newly-appointed full-time Commissioner Takayuki Matsui, and eight part-time Commissioners, including three who have been newly appointed), was launched for its fifth term (from April 2016 to March 2019) (See Annex, page 32).

The key responsibilities of the CPAAOB are as follows:

- 1) Inspection of CPAs, audit firms, foreign audit firms (Note), and the Japanese Institute of Certified Public Accountants (“JICPA”)
- 2) Implementation of CPA Examinations
- 3) Deliberation of disciplinary actions against CPAs and audit firms

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

1.2 Executive Bureau

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

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

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

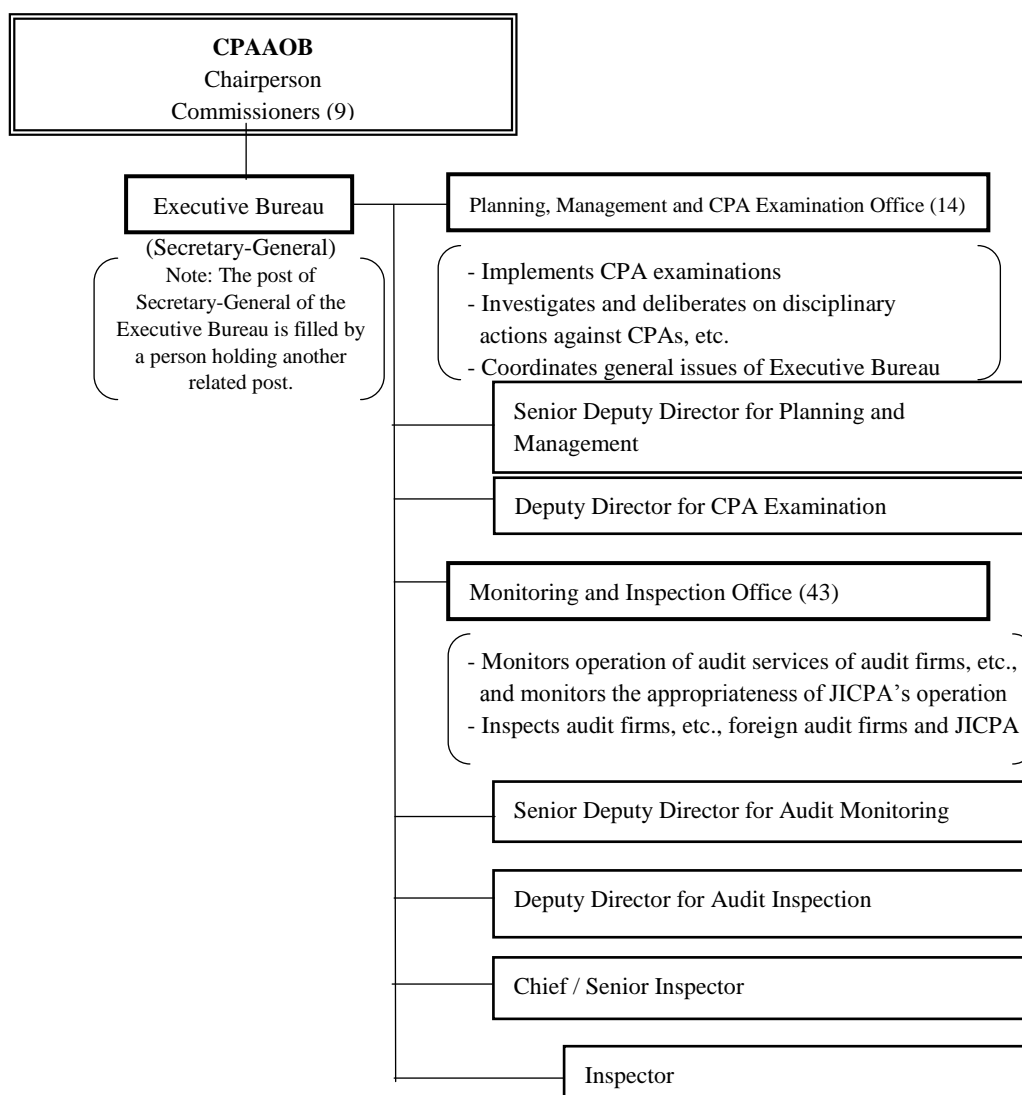
The Executive Bureau had 40 staff members when it was launched in April 2004. Its staff was steadily increased thereafter, to 14 in the Planning, Management and CPA Examination Office, and 43 in the Monitoring and Inspection Office: for a total of 57 staff members on March 31, 2019.

Staffing of the Executive Bureau

(Fiscal year-end basis)

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

Organization Chart of the CPAAOB



(Note) Figures in parentheses denote the number of personnel at the end of FY2018.

2 Examination and Inspection of Audit Firms

2.1 Outline

To earn investor's trust in the capital market, the market should ensure fairness and transparency. Pursuing that goal, the Japanese Institute of Certified Public Accountants (JICPA)'s quality control reviews (see Note) of audit firms, which had been self-regulated, have become statutory since the June 2003 revision of the CPA Act, for the purpose of strengthening oversight of audit firms. Under the revision, the CPAAOB receives reports on the results of these reviews from the JICPA, examines them. If the CPAAOB deems it necessary, the CPAAOB requests that audit firms

submit their information and conducts inspections.

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

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.

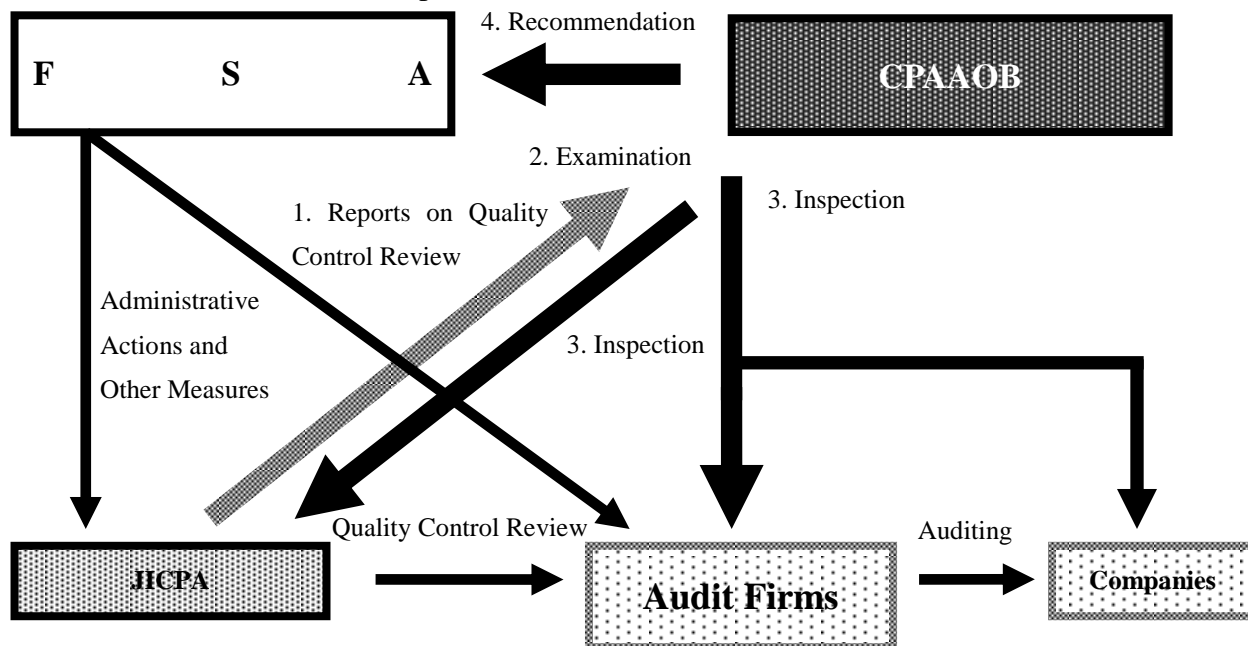
The CPAAOB shall make a recommendation to the Commissioner of the FSA for administrative actions or other measures if necessary, based on the results of inspections (Article 41-2 of the CPA Act).

(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(1) of the CPA Act. (Article 46-9-2 (1) of the CPA Act).

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

Outline of Examination and Inspections



1. Reports on quality control review

Once every three years in principle (or once every two years, if necessary), 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 considers it necessary and appropriate in light of public interest or investor protection, it conducts inspections of audit firms (including entities which are audited by audit firms).

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

4. Recommendation

Based on the results of inspection, the CPAAOB may make a recommendation to the Commissioner of the FSA for administrative actions or any other measures for securing fair operation of audit services by audit firms or that of administrative operations of the JICPA, when the CPAAOB considers 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 17).

2.2 Basic Policy for Monitoring Audit Firms

2.2.1 Basic Policy for Monitoring Audit Firms (Basic Policy for Examination and Inspection)

From the viewpoints of further improving the audit quality and improving the effectiveness of audits conducted by audit firms through examinations and inspections, the CPAAOB published on May 13, 2016, the “Basic Policy for Monitoring of Audit Firms (Basic Policy for Examination and Inspection - To Ensure More Effective Auditing -“ for the fifth term (April 2016 to March 2019), based on the results of examinations and inspections during the first through the fourth terms (April 2004 to March 2016).

<Outline of the basic policies>

(i) Perspectives

The CPAAOB shall conduct effective and efficient monitoring (see Note) while taking account of the current state of the audit firm’s business, and work actively to ensure the credibility of audits by maintaining and enhancing audit quality.

In addition, the CPAAOB shall proactively provide useful information about industry-wide issues that resulted from analyzing information obtained from monitoring to the JICPA, the FSA, as well as the public.

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

(ii) Goals

The basic goal shall be to ensure proper operation of audit firms. In particular, given the fact that audit firms are primarily responsible for maintaining and enhancing audit quality, the CPAAOB shall conduct monitoring that is effective in encouraging audit firms to take action voluntarily.

The CPAAOB shall also focus not only on whether audit firms formally conform to audit standards, but also on whether they substantively serve to maintain and enhance audit quality. For example, it is important for them to have

an appropriate level of professional skepticism designed to find out accounting fraud and so on.

(iii) Basic policy for off-site monitoring

The CPAAOB receives and examines reports on the results of quality control reviews, which are conducted by the JICPA, and then the CPAAOB may collect reports from and conduct interviews with audit firms when deemed necessary. The CPAAOB also endeavors to make the collection and analysis of information more effective and sophisticated by exchanging opinions and cooperating with affiliate.

Furthermore, the CPAAOB conducts effective off-site monitoring that reflects the circumstances of audit firms with the aim of accurately determining the circumstances and risks relating to audit firms and individual audit engagements. This monitoring includes the examination of quality control reviews and implementation of collection of reports.

(iv) Basic policy on inspections

In addition to conducting effective and efficient inspections that reflect the risks and circumstances of audit firms, the CPAAOB endeavors to enhance the effectiveness of inspections by, for example, improving inspection methods. The CPAAOB also strives to integrate inspections with off-site monitoring, and works to maintain and enhance audit quality at audit firms.

Given the importance of their role in capital markets, the CPAAOB conducts periodic inspections of large-sized audit firms (see Note 1) and second-tier audit firms (see Note 2) while referring to the results of quality control reviews.

The CPAAOB also conducts inspections of small and medium-sized audit firms (see Note 3) based on the results of quality control reviews as necessary.

(v) Policy on the provision of monitoring outcomes

The CPAAOB The basic policy is to contribute to maintaining and enhancing audit quality not only by informing audit firms and audited entities of audit quality control issues related to audit firms, but also by providing investors, etc. and other members of the general public with information on the outcomes of monitoring, including inspection results, in the form of reports, etc.

(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 KPMG Azsa LLC, Ernst & Young ShinNihon LLC, Deloitte Touche Tohmatsu

LLC and PricewaterhouseCoopers Aarata LLC.

(Note 2) A second-tier audit firm: An audit firm that has a business scale second only to large-sized audit firms. In this report, this term 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 second-tier audit firm.

2.2.2 Basic Plan for Monitoring Audit Firms

Based on the Basic Policy for Monitoring Audit Firms, the CPAAOB formulates the Basic Plan for Monitoring Audit Firms, to provide a direction for monitoring in each program year.

The Basic Plan for Monitoring Audit Firms in the program year 2018 was formulated based on the circumstances described below and published on July 31, 2018.

- Recently, accounting problems have arisen at the overseas subsidiaries of listed companies indicating problems with internal controls, including management of significant group companies of listed companies. Auditors are now required to have a deep understanding of audited companies' business, including their foreign businesses and the environment surrounding those companies, and are obliged to report their audited companies appropriately if they detect a deficiency in their internal controls.
- Large-sized audit firms or second-tier audit firms are making efforts toward the establishment of governance to enhance audit quality in line with the Principles for Effective Management of Audit Firms (Audit Firm Governance Code) announced by the FSA on March 31, 2017. Their efforts include operation of firm-wide management through an effective management organization.

<Outline of the Basic Plan>

(i) Basic Plan Pertaining to Off-site Monitoring

(a) Collection of reports

- Information collection for small and medium-sized audit firms when the

CPAAOB does not conduct on-site inspections

The CPAAOB will collect reports from audit firms in a timely manner in order to encourage them to achieve the appropriate level of quality control.

Especially for small and medium-sized audit firms, the CPAAOB will intensively examine the development status of the quality control system at the audit firms, the management policies of their leaders, revenue/financial structures, organizational structure and human resources with consideration of each firm's business and characteristics.

- Continuous collection of reports from large-sized audit firms

In terms of large-sized audit firms, the CPAAOB will continue to collect the qualitative and quantitative information necessary to inspect their business management (governance) and operations management environment, and IT-based audit approaches (including cybersecurity measures), etc., for improved audit quality based on the Audit Firm Governance Code. Acquired information will be analyzed and utilized for effective, efficient implementation of inspections. The CPAAOB will also utilize the information to make comparisons among large-sized audit firms and determine problems common across these audit firms. Reports shall be collected efficiently, utilizing information presented in inspections and exchanges of opinions.

- Collection of reports on status of improvement after conducting inspections (follow-up)

After a certain period of time from the date on which inspection results are informed to the inspected audit firms, the CPAAOB will require applicable audit firms to provide reports in a timely manner and check the progress of their efforts to improve quality control.

However, the CPAAOB will consider requiring the audit firm to provide information regarding the development of an improvement plan and the status of implementation immediately upon issuance of the inspection results, without the waiting period cases where the inspected audit firm's business operation is deemed inappropriate and immediate improvement is required.

(b) Overall Verification of Quality Control Reviews of the JICPA

While the quality of the JICPA's quality control review is improving, it remains questionable that the JICPA appropriately and effectively instructs and encourages audit firms to make improvements.

The CPAAOB will continue to examine the JICPA's quality control review through the overall examination based on reports of the quality control review and audit firm inspections.

The CPAAOB and the JICPA exchange views on desirable approaches to the quality control review that will lead to the improvement of audit practices and quality. Based on the results of the overall examination, the CPAAOB will continue to work towards more effective cooperation and discuss appropriate role-sharing with the JICPA, considering the progress of initiatives to improve the effectiveness of the JICPA's quality control review.

(C) Collection and analysis of information on audit firms

The CPAAOB will continue periodic exchanges of views with large-sized and second-tier audit firms, including top management's views on improving audit quality for understanding the latest status of the operations management environment and the challenges facing audit firms and the industry.

Through exchanges of views, cooperation, etc., we will enhance the CPAAOB's information sharing with the IFIAR, foreign audit regulators and global audit networks, in addition to FSA departments, the JICPA and stock exchanges. Further, we will endeavor to upgrade its capabilities for collecting and analyzing information in accordance with the risks facing individual audit firms.

(ii) Basic Inspection Plan

The CPAAOB inspects audit firms in consideration of each firm's characteristics and the following points:

- Whether the operations management environment appropriate in accordance with the size and characteristics of the audit firm.
- Whether appropriate professional skepticism is displayed in carrying out auditing services.
- Whether actions for effective improvements are being taken based on the audit firm's root cause analysis and substantive response.

(a) Large-sized audit firms

Considering their important roles in capital markets, the CPAAOB will inspect large-sized audit firms every two years (regular inspection) based on the results of the JICPA's quality control review.

In the current program year, inspections will be conducted with an emphasis on the business management environment and the operations management environment, including the tone at the top, the effectiveness of the

environment built based on the Audit Firm Governance Code, and the procedures for taking on new audit engagements (especially with major listed companies) and related preparation/arrangement on audit quality, evaluation of internal controls at audited companies including overseas businesses, and the status of group audits including overseas subsidiaries.

Additionally, the CPAAOB performs follow-up inspections in the year following regular inspections to confirm progress is made with improvements.

(b) Second-tier audit firms

Second-tier audit firms, next to large-sized audit firms in size, audit numerous listed companies. Based on their importance in Japan's audit industry, the CPAAOB inspects them every three years in principle, based on the results of the JICPA's quality control review.

In the current program year, in addition to understanding awareness and efforts of the management level, including the tone at the top toward improving audit quality, inspections will be conducted with an emphasis on the effectiveness of systems built to improve audit quality pursuant to the Audit Firm Governance Code and business management and operations management environment, such as the integrity of the organization.

(c) Small and medium-sized audit firms

For small and medium-sized audit firms, the CPAAOB will mainly inspect their operations management, quality control and the conformity of individual audit engagements to audit standards. When selecting inspection targets, the CPAAOB considers a demand for an immediate inspection of the target's quality control environment, in light of the JICPA's quality control review results.

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

2.3 Monitoring and Inspections of Audit Firms

Audit firms may audit or attest financial documents for fees at the request of others (Article 2(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(2) of the CPA Act).

As of the end of FY2018, the number of registered certified public accountants totals 31,189, of which the number of CPAs belonging to large-sized audit firms is 10,912 or approximately 35% of the total. The number of audit firms totals 235.

(Reference)

	End of FY2014	End of FY2015	End of FY2016	End of FY2017	End of FY2018
Number of registered certified public accountants	27,313	28,286	29,367	30,350	31,189
Large-sized audit firms	10,312	10,846	11,002	11,016	10,912
Number of audit firms	219	214	222	229	235

2.3.1 Quality Control Reviews by the JICPA

(i) FY2017

In FY2017, the JICPA performed 96 quality control reviews of audit firms (72 audit firms (including two large-sized and two second-tier audit firms; four partnerships and 24 CPAs). The conclusions are presented in the following table.

The Results of Reviews (FY2017)

(Number of audit firms)

Category	Unqualified conclusion		Qualified conclusion		Disclaimer of Opinion		Adverse Opinion		Total (e)
	(a)	a/e	(b)	b/e	(c)	c/e	(d)	d/e	
Audit firm	67	93.05%	4	5.56%	-	-	1	1.39%	72
CPA	21	87.5%	3	12.5%	-	-	-	-	24
Total	88	91.67%	7	7.29%	-	-	1	1.04%	96

(Note) 91 out of 96 cases include recommendations for improvement.

(ii) FY2018

In FY2018, the JICPA performed 56 quality control reviews of audit firms (46 audit firms (including two large-sized and two second-tier audit firms; five

partnerships and 10 CPAs), as the table below shows.

Status of Implementation of Quality Control Reviews

Date of quality control review	2018							2019			Total
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	
Number of audit firms reviewed	0	3	10	0	13	10	11	7	1	1	56

Of the quality control reviews conducted in FY2018, 21 cases (16 audit firms, five certified public accountants), the details of which had been approved by the Quality Control Committee, had been reported to the CPAAOB as of March 31, 2019. The conclusions of all those reports were unqualified conclusions.

2.3.2 Examination of Quality Control Reviews

(i) Examination

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

More specifically, the CPAAOB confirms the implementation of quality control reviews and guidance for audit firms on necessary improvement measures, and analyzes the findings of quality control reviews (to determine any qualifications applicable to the conclusions of the quality control reviews, or the nature of any deficiencies discovered in the quality control reviews) as well as details of improvement 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. (please refer to p.21, "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 JIPCA, stock exchanges, and the Japan Audit & Supervisory Board Members Association (JASBA).

(ii) Analysis of FY2017 quality control reviews

The CPAAOB found there was a decline in the ratio of findings related to audit documentation (in the audit procedure, facts were recognized as being on the basis of standards, but those facts were not adequately recorded on the audit records). The CPAAOB found that improvements in quality control reviews

caused the JICPA reviewers to not only point out deficiencies in documenting, but also to link them to deficiencies in the quality control environment, and they have also noted that these deficiencies were caused by improper audit procedures.

2.3.3 Collection of Reports from Audit Firms

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

In July 2018 the CPAAOB collected reports from all large-sized and second-tier audit firms for the purpose of monitoring their business management (governance) environment and operations management environment. Acquired information was analyzed and utilized for effective, efficient implementation of inspections. The information was utilized to make comparisons among large-sized audit firms and find problems common across these audit firms. The CPAAOB will continue collecting reports annually.

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

Based on the PY2018 Basic Plan for Monitoring Audit Firms, the CPAAOB collected reports from 53 audit firms for which it was deemed necessary to monitor improvements made by small and medium-sized audit firms in response to quality control reviews and to identify the business management environment, etc. Those reports were collected in August 2018.

History of Collection of Reports

	PY2017		PY2018	
	No. of firms undergoing report collection	No. of firms undergoing QC reviews in FY2016	No. of firms undergoing report collection	No. of firms undergoing QC reviews in FY2017
Total	47	101	53	96
Audit firm and partnerships	43	71	44	72
Solo practitioners	4	30	9	24

The CPAAOB choose the targets based on the severity of the quality control review results when selecting the targets for report collection among the small and medium-sized audit firms which received the results of quality control reviews in FY2017.

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

In PY2018, the CPAAOB collected reports from four audit firms which were inspected in PY2017 (one firm was inspected in PY2016) in order to confirm improvements made in response to deficiencies identified during inspections. Note that two of the four audit firms had problems in their operations and required immediate remediation.

2.3.4 Inspections of Audit Firms

In PY2018 the CPAAOB conducted inspections of large-sized second-tier, and small and medium-sized audit firms based on their characteristics as well as in accordance with the Basic Inspection Plan (see 2.2.2 (ii) above).

With regard to large-sized audit firms, inspections are generally performed once every two years, with a follow-up inspection conducted in the following program year. The CPAAOB conducted regular inspections of two firms and follow-up inspections of two firms in PY2018.

With regard to second-tier audit firms, inspections are generally performed once every three years. The CPAAOB conducted inspections of one firm in PY2018.

With regard to small and medium-sized audit firms, inspections are performed as necessary. The CPAAOB conducted inspections of four firms in PY2018.

The CPAAOB carried out inspections aimed at encouraging the audit firms to make effective improvements based not only on the direct causes of deficiencies but also on the root cause analysis of the deficiencies, and to take fundamental responses.

Status of commencement of inspections in most recent five years (as of March 31, 2019)

FY/PY	2014	2015	2016	2017	2018
Large-sized audit firms	2	2	4	4	4
Second-tier audit firms	1	1	2	2	1
Small- and medium-sized audit firms	11	6	5	3	4
Foreign audit firms	1	0	1	0	0
Total	15	9	12	9	9

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

Note 2. For PY2018 inspections, those started before or on March 31, 2019, were included in the

total.

2.3.5 Inspections Results

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

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

«Overall ratings for inspections in PY2016 - 2018»

(As of March 31, 2019)

Classification	Large-sized audit firms, second-tier audit firms	Small- and medium-sized audit firms
Generally satisfactory	-	-
Satisfactory with minor deficiencies	6	3
Unsatisfactory	2	2
Unsatisfactory and in need of immediate remediation	-	3
Extremely unsatisfactory	-	2

Note: Regarding inspections in PY2018, those for which inspection results notifications were issued before or on March 31, 2019, were included. We plan to update the above data in the 2019 Monitoring Report.

2.3.6 Recommendations to the Commissioner of the FSA

The CPAAOB found that operation of one audit firm, Avantia GP, 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 Avantia GP on May 18, 2018.

2.3.7 Inspections and Oversight on Foreign Audit Firms

(i) Foreign audit firms

Foreign CPAs and audit firms providing 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, 2019)

	Number of countries/regions	Number of foreign audit firms
North America	2	9
Central & South America	2	8
Europe	15	44
Asia & Pacific	10	27
Middle East	1	1
Total	30	89

(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 the “A Framework for Inspection/Supervision of Foreign Audit Firms, etc.” and the “Basic Guidelines on Information Requirements and Inspection of Foreign Audit Firms, etc.”

Under the Framework and Guidelines, 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. Inspections will be conducted for the firms that have been selected based on the analysis.

The CPAAOB will generally rely on oversight by the competent authorities of the firms’ home jurisdictions, 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 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 and Guidelines described in (ii) above, the CPAAOB collected reports from 79 foreign audit firms, etc., in 29 countries or

regions in PY2018. Furthermore, the CPAAOB asked the competent authorities of the particular firms' home jurisdictions to provide information on these firms, in accordance with the information exchange framework with competent authorities in these countries or regions.

(Note) See "3.2 Bilateral Cooperation" on p.30 for details of the information exchange framework.

2.4 Dissemination of Information relating to Examination and Inspection

2.4.1 Publication of "2018 Monitoring Report"

Since 2016, the Certified Public Accountants and Auditing Oversight Board ("CPAAOB") has been annually releasing the Monitoring Report with the aim of providing readily comprehensible information on audit firms not only to auditors and accounting experts, but also to market participants and general users.

Since the role of audits in capital markets is becoming increasingly important, the CPAAOB believes that it is vital to enable as many stakeholders as possible, including enterprises and shareholders, to be able to properly assess the audit quality at audit firms.

The CPAAOB revised the report by renewing data and adding new items in the 2018 edition, in addition to restructuring the contents since the 2017 edition. The revised points are as follows:

- Section I has been renamed "Overview of the Audit Sector," and its content combines part of the 2017 edition's Section I ("Overview of Quality Control at Audit Firms") with Section II ("Overview of the Audit Sector"). The introductory overview of the audit sector at present provides readers with a good general perspective.
- Section II has been renamed "Monitoring by the CPAAOB," making "CPAAOB's Monitoring," an item within Section I ("Overview of Quality Control at Audit Firms") of the 2017 edition, its own section. This will complement the monitoring information included, and make it easier to understand the CPAAOB's activities.
- Section III ("Operation of Audit Firms") focuses on updating the data from the 2017 edition. In view of the importance of the Audit Firm Governance Code and the use of IT and other current approaches being taken by audit firms, information on these points has been added as new items.

The full text of the 2018 version is available at
<https://www.fsa.go.jp/cpaaob/shinsakensa/kouhyou/20180731/20180731.html>

The English version released in December 2018 is available at
<https://www.fsa.go.jp/cpaaob/english/oversight/20181226/20181226.html>

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

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

Since February 2008, the CPAAOB has published cases pointed out in inspections of audit firms as “Case Report of Inspections Related to Quality Management of Audits” (Title changed to “Case Report from Audit Firm Inspection Results” in 2012).

The purpose of this Case Report is to promote voluntary efforts by audit firms to maintain and improve their audit quality by presenting the level of audit quality that the CPAAOB expects. In addition, this Case Report also serves as reference to be provided to the directors/audit & supervisory board members of listed companies, investors, and other market participants.

In the 2018 edition of the Case Report was published on July 31, 2018, in addition to the recent deficiencies, revisions were made to include a description in as much detail as possible to the background in which the deficiency occurred. The revised points are as follows:

•Section I Root Cause Analysis

This Case Report contains more and detailed cases related to the business management (governance) environment and operations management environment. The cases are categorized by size: large-sized; second-tier and small and medium-sized audit firms.

•Section III Audit Engagements

Taking into account the continuing focus on fraudulent financial reporting by listed companies and accounting fraud at overseas subsidiaries, this Case Report includes more about deficiencies related to “Group Audit” and “Fraud in Financial Statement Audit”.

The full text of the Case Report is available at
<https://www.fsa.go.jp/cpaaob/shinsakensa/kouhyou/20180731/20180731-2.html>

The English version released in March 2019 is available at
<https://www.fsa.go.jp/cpaaob/english/oversight/20190311/20190311.html>

(ii) Lectures about the Case Report

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

In PY2018, the CPAAOB gave a total of 12 lectures at the head office of the JICPA and 11 regional chapters across Japan from October 2018 to March 2019 in order to encourage voluntary efforts at audit firms to maintain and improve audit quality.

In addition, the CPAAOB gave lectures for internal auditors twice in November 2018 at the Institute of Internal Auditors–Japan and for audit & supervisory board members twice in December 2018 at the JASBA. The aim of the lectures was 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 made 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 maintain and improve audit quality, it is important not only to monitor audit firms, but also to cooperate with audit-related organizations to share issues and awareness of audit firms.

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

2.5.1 Cooperation with Relevant Divisions of the FSA

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

2.5.2 Cooperation with the JICPA

The CPAAOB is making efforts to build firm cooperation 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 issues found through monitoring.

In PY2018, the CPAAOB and the JICPA held discussions about revision policies for the quality control review system such as review category and frequency, issues related to the quality control review system and audit firms found through monitoring.

2.5.3 Cooperation with the Financial Instruments Exchanges

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

2.5.4 Cooperation with the Japan Audit & Supervisory Board Members Association

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

Therefore, the CPAAOB and the JASBA discussed issues such as overall rating of the operation of audit firms and communication between audit & supervisory boards and auditors in October 2018. The CPAAOB also provided a lecture on deficiencies identified in inspections, as well as problems at audit firms to audit & supervisory board members through the JASBA lecture meetings, etc.

2.6 Achievement in PY2018 agenda

2.6.1 Analysis of Audit Firm's Response to the Audit Firm Governance Code

The FSA published the “Principles for Effective Management of Audit Firms”

(the Audit Firm Governance Code) on March 31, 2017 and some firms including large-sized and second-tier audit firms announced to adopt the Code.

Since PY2017, the CPAAOB has checked the firms which have adopted the Code, evaluating how effectiveness of their governance has been strengthened based on the Code in terms of improving audit quality.

As a result, with regard to efforts to fully utilize the knowledge of independent third parties, it has been observed that large-sized audit firms are applying the Code with an awareness of its effectiveness for improving quality control. However, while supervisory and evaluation organizations have been established for second-tier audit firms, the effectiveness thereof cannot be determined as adequate.

2.6.2 Analysis Based on Trends in Auditing

(i) Group audits including auditing of overseas subsidiaries

Due to a saturated domestic market, listed companies are seeking to increase sales by expanding overseas. Amidst this trend, a great number of fraud cases are being found at overseas subsidiaries. Taking into account this, the CPAAOB inspected the correspondence of not only engagement teams, but also audit firms regarding group audits which includes auditing of overseas subsidiaries.

As a result, the CPAAOB found that many audit firms have developed audit instruction formats and manuals. On the other hand, some audit firms did not implement the necessary audit procedures because communication with component auditors was inadequate.

(ii) Acceptance of audit engagements

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

As a result, some audit firms did not follow the appropriate procedures or conducted inadequate risk assessment when accepting engagements with high audit risk.

2.6.3 Monitoring of Technology Use and Cybersecurity at Audit Firms

Large-sized audit firms and some second-tier audit firms are promoting the use of IT in auditing for the purpose of ensuring and improving audit quality.

As a result of the monitoring of large-sized audit firms, those firms use audit

tools developed by the global accounting network and undertake R&D for inventing audit tools. The firms also actively employ IT specialists and invest in IT-related human resource developments such as providing IT training.

Regarding cybersecurity, large-sized audit firms have experts and specialized departments in place, and are cooperating with the global accounting network. Usage of IT in second-tier audit firms is less advanced compared with that in large-sized audit firms. It may affect that their cybersecurity responses, which are not fully developed.

2.6.4 Overall Evaluation of the Quality Control Review System of the JICPA

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

Since PY2015 the CPAAOB and the JICPA have continued to carry out the working level review meeting for discussing problems of quality control reviews. Based on those discussions, the JICPA sequentially responds to the strengthening and improvement of the quality control review.

Also, in the same review meeting, discussions are also held regarding the appropriate division of roles between the CPAAOB and the JICPA. The JICPA is working to upgrade its guidance and supervisory functions for small and medium-sized audit firms, but the CPAAOB and the JICPA are still in the process of further discussions regarding the how quality control reviews should be in response to the size of audit firms and the degree of audit risk.

2.6.5 Strengthening Publications

The 2018 Monitoring Report includes the results of the latest monitoring carried out by the CPAAOB, in addition to data provided by audit firms that contributes to increasing the comprehension of audits by market participants. The CPAAOB revised its content so as to increase the comprehension of financial auditing not only by market participants but also by a wider range of users. In addition, the CPAAOB worked to actively provide information in ways such as holding lectures and briefings, as well as making contributions to the relevant journals.

2.6.6 Enhancing the CPAAOB Monitoring

In order for the monitoring of the CPAAOB to properly respond to the above-mentioned issues surrounding audit firms and the internationalization of

accounting practices, it is important to carry out thorough monitoring, including securing of human resources and strengthening collection and analysis of information. In PY2018, the CPAAOB endeavored to secure inspectors that excelling at IT or international accounting, and required additional personnel for inspections. In addition the CPAAOB collected and analyzed all kinds of information so as to contribute to effective inspections grounded in a risk-based approach.

3 Cooperation with Relevant Organizations in Other Jurisdictions

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

3.1.1 Background

Triggered by accounting scandals such as at Enron and WorldCom in the United States (the U.S.A.), the need to ensure and improve audit quality was recognized. Since 2002, audit oversight 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 oversight regulators was held in Washington, D.C., in September 2004, organized by the Financial Stability Forum (FSF) (now the Financial Stability Board (FSB)), for the purpose of sharing information among respective members' jurisdictions. The meeting was attended by nine jurisdictions: Japan, the U.S.A., the U.K., Germany, France, Italy, Canada, Australia, and Singapore. Subsequently, a series of further informal meetings were held. Momentum was gathered for the establishment of a permanent international forum, and at the fifth meeting of audit oversight regulators held in Paris in September 2006, formal approval was given for the establishment of the International Forum of Independent Audit Regulators (IFIAR). Its first Plenary Meeting was held in Tokyo in March 2007, hosted by the CPAAOB, and was attended by the audit oversight authorities of 22 jurisdictions.

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

- i Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity with a focus on inspections of auditors and audit firms;

- ii Promoting collaboration and consistency in regulatory activity;
- iii Initiating and leading dialogue with other policy-makers and organizations that have an interest in audit quality; and
- iv Forming common and consistent views or positions on matters of importance to its Members, taking into account the legal mandates and missions of individual members.

In January 2015, the CPAAOB and the FSA made a bid to host the IFIAR secretariat in Tokyo with the aim to contribute 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.

3.1.2 Organization

The IFIAR comprises the audit oversight authorities from 55 jurisdictions including recent members of the Philippines, Romania and Saudi Arabia as of March 2019.

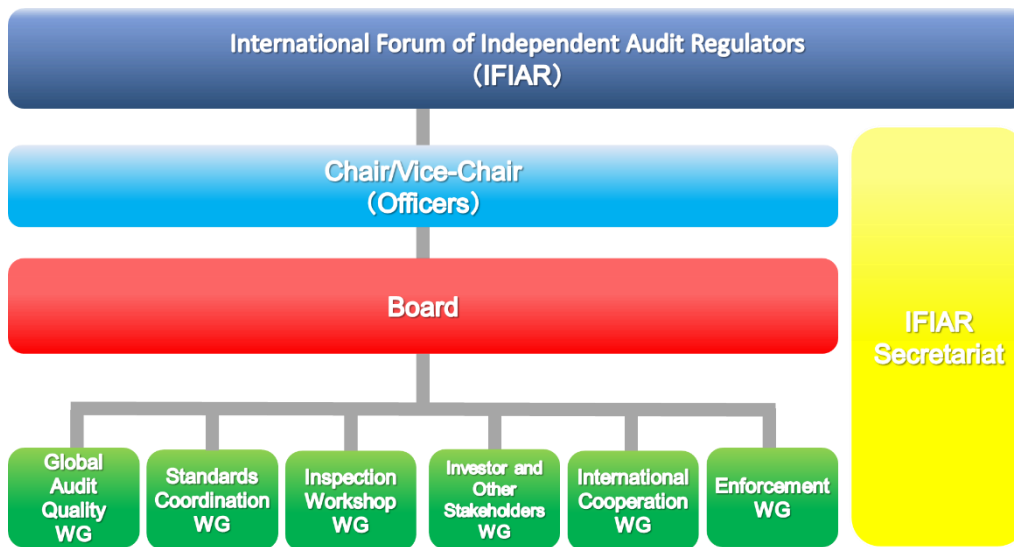
Every year, IFIAR convenes a plenary meeting for all member representatives to make important decisions. The 18th plenary meeting was held in Ottawa in April, 2018.

The post of Chair and Vice Chair are assigned to elected individuals to conduct IFIAR's activities efficiently. As of the end of March 2019, the chair country is Canada, and the vice chair country is Switzerland.

In April 2017, the IFIAR Board, (the new governing body comprised of 15 Board Members including Japan,) was established, and had its first meeting in Tokyo.

Also, the IFIAR has six Working Groups as of the end of March 2019. The objective and activities of each Working Group are described in detail in 3.1.3 (ii).

«IFIAR organization chart (As of the end of March 2019)»



3.1.3 Activities

(i) Activities of the Plenary Meeting

(a) 18th Plenary Meeting in Ottawa

The 18th Plenary Meeting was held in Ottawa from April 17 to 19, 2018, hosted by the Canadian Public Accountability Board (CPAB).

At the meeting, IFIAR's first strategic plan that Japan was involved in developing as one of the Board members, was approved. In addition, the concerns over the credibility in audit firms stemming from the recent accounting fraud cases and the future relevance of audits impacted by innovation progress were shared among IFIAR members. Also, the attendees interacted with the representatives of the International Auditing and Assurance Standards Board (IAASB) and International Ethics Standards Board for Accountants (IESBA), who discussed their global standard setting matters and its impacts on global audit quality. Furthermore, the attendees discussed on audit quality with the CEOs of the six largest global audit networks (Note).

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

(b) Board

In 2015, IFIAR's governance structure, which had hitherto been led by the Chair and the Vice-Chair, was overhauled in order to improve the IFIAR

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

The Board deliberates on IFIAR's Strategic Plan and conducts discussions on the administration of IFIAR's operations. In FY2018, the Board meetings were held in Ottawa on April 20, 2018, in Sydney on September 27 and 28, 2018, and in Tokyo on January 21 and 22, 2019.

(c) Inspection Findings Survey Report

Since 2012, with the aim of providing information on trends discovered during inspections by the member authorities, the IFIAR has compiled the results of inspections performed by member authorities on the six largest global audit networks in the form of an "Inspection Findings Survey Report." This report contains aggregated inspection results in the two categories of quality control systems and individual audit engagements, and calculates the rate at which deficiencies were identified in each of the categories.

The seventh 2018 survey results were released in May 2019.

(ii) Activities of each working group

(a) Global Audit Quality (GAQ) Working Group

The aim of this working group (WG) is to exchange views with the six largest global audit networks on the status of the quality control of global audits. The WG maintains dialogue with each network on such topics as the quality control systems of global audit networks, and shares information between authorities on improvements in quality control and on the organizational expansion of each network.

The WG takes the initiative to decrease the inspection findings rate of the member firms of the six largest global audit networks by 25% in the four years from 2016 to 2019, compared to the rate in 2015.

Also, since September 2015, this WG has been regularly conducting risk calls in order to widely discuss the risks confronting auditors as well as risks

that may impact auditing in the future, such as the macroeconomic environment. Since the November 2018 risk call, Japan replaced the United States as the Chair, managing and leading the conference.

This WG's meetings in fiscal 2018 were held in Sydney from September 24 to 26, and in London from March 11 to 13, 2019. The WG discussed on efforts for the risk management of audit firms and the next steps on the reduction of the inspection findings rate.

(b) Standards Coordination Working Group

The aims of this WG include the exchange of views on the setting of international standards at the IAASB and IESBA and the preparation of comment letters in response to exposure drafts published by these standard-setting bodies.

(c) Inspection Workshop Working Group

This WG plans, coordinates and evaluates the IFIAR inspection workshop. This workshop is held every year for the purpose of skill training for inspectors and to share inspection methods and experiences.

At the first IFIAR Plenary Meeting in Tokyo in 2007, it was agreed to hold the inspection workshop, led by the inspectors of the IFIAR members, for the purpose of sharing information on the inspection methods of audit oversight authorities and on issues related to inspections, as well as providing training for inspectors. Since then, the workshop has been held every year, with planning and coordination by this WG.

The 13th inspection workshop was held between March 6 and 8, 2019, and was hosted by Haut Conseil du Commissariat aux Comptes (H3C) of France. 160 inspectors participated from 47 jurisdictions, including Japan. Two chief inspectors participated as panelists from the CPAAOB.

(d) Investor and Other Stakeholders Working Group

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

Also, the IFIAR has established within IOSWG an Advisory Group which consists of investors and other stakeholders. A lawyer, Mr. Ken Kiyohara is the member from Japan.

(e) International Cooperation Working Group

The aim of this WG is to promote the practical information exchange on regulations and inspections between audit oversight authorities. The WG is performing the assessment of application for the Multilateral Memorandum of Understanding concerning Co-operation in the Exchange of Information for Audit Oversight (MMOU).

The MMOU was signed by audit oversight authorities from 22 jurisdictions, including the CPAAOB and the FSA, at the Tokyo Plenary Meeting in April 2017.

The WG is also considering the utilization of supervisory colleges for audit oversight activities.

(f) Enforcement Working Group

The aim of this WG is to promote cooperation between audit oversight authorities in the area of enforcement, including investigations, and facilitate exchange of information on enforcement regimes and developments in member jurisdictions, in order to enhance investor protection and improve audit quality.

In 2018, the WG conducted its second survey after 2014 on audit enforcement regimes for each IFIAR member (42 participated), and published the Report on Survey of Audit Regulators' Enforcement Regimes.

The report introduced that the 52% of the authorities, which participated in both surveys, were given the additional enforcement authorities on penalties and sanctions.

3.1.4 Japan IFIAR Network

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

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

In May 2018, the second general meeting was held, and the discussion at the

Ottawa Plenary Meeting in April was shared with the network members. The members also reported their efforts to improve audit quality.

3.2 Bilateral Cooperation

In light of the globalization of corporate activities, ensuring the quality of audit procedures that, such as using the audit results of overseas audit firms in the audit of consolidated financial statements, has become globally more important than ever before. Moreover, enhancing cooperation with foreign audit oversight authorities has become indispensable for establishing a global audit oversight system. In addition to the participation in the activities at IFIAR, for the purpose of sharing information on internationally operating audit firms and issues on audits and inspections, the CPAAOB has been striving to build and enhance its bilateral cooperative relationships with foreign audit oversight authorities by constantly exchanging views with those authorities, performing equivalence 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 as well as examination and inspection activities (Note).

Note: Overseas authorities which have a framework for exchanging information on audit supervisory activities with the CPAAOB and FSA

U.S. Public Company Accounting Oversight Board (PCAOB)

Canadian Public Accountability Board (CPAB)

Audit Oversight Board of Malaysia (AOB)

Netherlands Authority for the Financial Markets (AFM) *

Commission de Surveillance du Secteur Financier (CSSF)

U.K. Financial Reporting Council (FRC)

Haut Conseil du Commissariat aux Comptes (H3C)

Chinese Ministry of Finance

* Includes mutual reliance of supervisory activities such as inspections.

3.3 Next challenges

Given that the globalization of corporate activities has also led to the advance of cross-border audit services, ensuring and improving the global audit quality has become challenging. Audit oversight authorities are sharing concerns over the credibility of the audit firms stemming from accounting fraud cases that have occurred in each country, and the relevance of future audits impacted by advances in innovation.

Under such circumstances, it is required for the CPAAOB to strengthen cooperation with foreign audit oversight authorities, and to address the issues related to audit and

audit oversight appropriately by collecting information on international discussion, and analyzing its impact on audit firms and the oversight activities.

As IFIAR established the secretariat in Tokyo, the CPAAOB should provide necessary support with the FSA to ensure the smooth operation of the secretariat, and strengthen multilateral cooperation networks in order to improve audit quality globally through active contribution to IFIAR activities. Also, it is necessary to share the discussions in IFIAR meetings with Japanese stakeholders through the Japan IFIAR Network.

Furthermore, it is also important to develop and acquire global-minded personnel who can respond to these changes in audit and audit oversight.

Annex

**List of Members of
Certified Public Accountants and Auditing Oversight Board
(CPAAOB)
(As of March 31, 2019)**

Chairperson (full-time)	Toshiro Hiromoto	Professor Emeritus, Hitotsubashi University
Commissioner (full-time)	Takayuki Matsui	Former Professor Graduate School of Professional Accountancy, Aoyama Gakuin University
Commissioner (part-time)	Akiko Kimura	Of Counsel, Anderson Mori & Tomotsune Outside Corporate Auditor, Fuji Electric Co., Ltd. Outside Director, Nomura Asset Management Co., Ltd.
	Yoshiko Sato	Executive Managing Director, Japan Investor Relations Association
	Yoshihiro Tokuga	Vice-President and Professor, Kyoto University
	Yasuyuki Fuchita	Senior Fellow, Nomura Institute of Capital Markets Research
	Keiko Mizuguchi	Counselor and Chief Analyst, Japan Credit Rating Agency, Ltd.
	Kazunori Yagi	Advisor, Yokogawa Electric Corporation Audit & Supervisory Board Member, Yokogawa Bridge Holdings Corp. Audit & Supervisory Board Member, Sojitz Corporation Outside Director, TDK Corporation
	Tatsumi Yamada	Specially Appointed Professor Faculty of Commerce, Chuo University
	Keita Yoshida	Partner, Deloitte Touche Tohmatsu LLC