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Closing Remarks at the Working Group on Improving Internal Audits of Financial  
Institutions

Toshinori YASHIKI  
Director-General,  
Strategy Development and Management Bureau,  
Financial Services Agency

On behalf of the Financial Services Agency, I would like to offer a few words at the closing of the Working Group on Improving Internal Audits of Financial Institutions.

First and foremost, I would like to express my sincere appreciation to the financial industry organizations, the Institute of Internal Auditors Japan, and the consulting firms that participated in this Working Group for their valuable insights.

At the Financial Services Agency, we published “Current Situation and Issues for Improving Internal Audit of Financial Institutions” in June 2019 to promote improvement in internal audits. In the report, we proposed a four-phase evaluation of internal audit levels. Since then, we have continued to encourage financial institutions to improve their internal audit functions through inspections and monitoring. To support their voluntary efforts, we published the FSA’s policies and monitoring results as the “Progress Report for “Improving Internal Audits of Financial Institutions” (Interim Report)” (October 2023) and the “Monitoring Report for Improving Internal Audits of Financial Institutions (2024)” (September 2024).

In January of this year, the Global Internal Audit Standards (2024 edition) came into effect. In light of this, we decided that it would be appropriate to revisit the approach to internal audits at financial institutions, taking into account global standards and the perspectives of the broader financial industry and related experts. We have convened the “Working Group on Improving Internal Audits of Financial Institutions.”

Over the course of five sessions, the Working Group has highlighted extremely insightful and valuable opinions and supported lively discussions. Throughout the discussions, it was acknowledged that communication with senior management is indispensable for improving internal audit functions, and that risk-assessments are essential for appropriately identifying risks. It was also confirmed that the audit areas and prioritization of audit topics differ depending on the type of business, and that some sectors face a severe shortage of internal audit personnel.

The outcomes of the Working Group are scheduled to be compiled into a report to be published by the end of June. Based on today's discussions, we will present a draft of the report in a few days and

would very much appreciate your feedback. We understand that the reports published by the FSA to date have also drawn attention from non-financial institutions. We hope that this upcoming report will serve as a useful reference not only for financial institutions, but also for corporations across Japan, and overseas financial regulators.

This Working Group will conclude today. However, the financial and economic landscapes in Japan and across the world continuously change, and international regulations and standards could be revised. Internal audit technologies are expected to advance, including through the use of generative AI. We will continue to pursue initiatives to improve the internal audits of financial institutions, while responding to changes in the surrounding environment.

Once again, I would like to express my sincere appreciation for your cooperation in the discussions of this Working Group. We sincerely hope that the forthcoming report will contribute to the further improvement of internal audit functions in Japan — not only among financial institutions, but also across the broader corporate sector.

End.