



## IFIAR 2017 Member Profile – FSA/CPA AOB

<b>1. Jurisdiction</b>	<b>1.1 Insert the name of the jurisdiction in English:</b>  Japan
<b>2. Member<sup>1</sup></b>	<b>2.1 Insert the name of the Member, both in the local language and in English:</b>  金融庁 Financial Services Agency  公認会計士・監査審査会 Certified Public Accountants and Auditing Oversight Board
	<b>2.2 Include relevant contact information, including postal address, telephone numbers, a link to the website and other relevant information:</b>  Website: <a href="http://www.fsa.go.jp/cpaob/english/index.html">http://www.fsa.go.jp/cpaob/english/index.html</a>  Address: 3-2-1 Kasumigaseki, Chiyoda-ku Tokyo 100-8905 Japan The Central Common Government Offices No. 7  Key Contact: • Tomoko Amaya, Secretary General TEL: (81)3-5251-7267 Email: tomoko.amaya@fsa.go.jp • Junichi Kashiya, Deputy Director TEL: (81)3-5251-7279 Email: junichi.kashiya@fsa.go.jp
	<b>2.3 Include the basis for establishment of the Member, as well as the legislation or regulations which provide the Member the authority/mandate with respect to audit regulation. Please describe with an appropriate level of detail the mission and responsibilities of the Member with respect to audit regulation:</b>  The Certified Public Accountants and Auditing Oversight Board (CPA AOB), an independent regulatory body (Council) established within the Financial Services Agency (FSA), was established for the purpose of enhancing the audit system for the oversight of CPAs and audit firms in April 2004 based



	<p>on Article 35-1 of the CPA Act as amended in 2003.</p> <p>The mission of the CPAAOB is to further enhance the quality and effectiveness of the auditing process, and to ensure the fairness and transparency of the Japanese capital market by fulfilling the following statutory responsibilities, thereby contributing to the enhancement of investor confidence.</p> <ul style="list-style-type: none"> <li>● Responsibilities of the CPAAOB             <ol style="list-style-type: none"> <li>1. Reviews of “Quality Control Review” by the JICPA (the Japanese Institute of Certified Public Accountants), inspections of audit firms, CPAs, and the JICPA, and recommendation of administrative actions and other measures to the FSA.</li> <li>2. Deliberation of disciplinary actions against CPAs and audit firms.</li> <li>3. Implementation of CPA examinations.</li> </ol> </li> </ul> <p><b>2.4 Have there been any major changes to the Member’s organization or to the governing legislation since completing last year’s Member Profile?</b></p> <p><input type="checkbox"/> Yes                      <input checked="" type="checkbox"/> No</p> <p><b>If yes, please describe these changes with an appropriate level of detail:</b></p>
--	---



3. Governing Body Composition and members	3.1 Describe with an appropriate level of detail the current composition of the Member's governing body, including the ratio between Board members who are independent from the audit profession and those who are not. The audit profession includes, for example: audit firms, professional accountancy bodies and bodies or entities associated with the audit profession. <sup>2</sup>		
	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 Corporate Auditor Daiichi Sankyo Co., Ltd. Outside Director Nomura Asset Management Co., Ltd.
	Commissioner (part-time)	Yoshiko Sato	Executive Managing Director Japan Investor Relations Association
	Commissioner (part-time)	Yoshihiro Tokuga	Vice-President and Professor (Graduate School of Management, Graduate School of Economic), Kyoto University
	Commissioner (part-time)	Yasuyuki Fuchita	Executive Fellow Nomura Institute of Capital Markets Research
	Commissioner (part-time)	Keiko Mizuguchi	Chief Analyst & General Manager of Rating Planning Department

<sup>2</sup> For the purpose of this Member Profile, the audit profession does not include an individual who is a CPA, Chartered Accountant, or holder of another equivalent qualification, *as long as this individual is not employed by or affiliated to a registered audit firm, nor employed by or affiliated to of a professional accountancy body, nor employed by or affiliated to bodies or entities associated with the audit profession.*



			Japan Credit Rating Agency, Ltd.
	Commissioner (part-time)	Kazunori Yagi	Advisor Yokogawa Electric Corporation Outside Corporate Auditor Yokogawa Bridge Holdings Corp. Outside Director JSR Corporation Outside Corporate Auditor TDK Corporation Outside Director OYO Corporation
	Commissioner (part-time)	Tatsumi Yamada	Partner KPMG AZSA LLC
	Commissioner (part-time)	Keita Yoshida	Partner Deloitte Touche Tohmatsu LLC
<p><b>3.2 What are the eligibility criteria / requirements and composition requirements for the members of the governing body?</b></p> <p>The CPAAOB is an independent regulatory body (Council) established within the FSA and consists of ten members, i.e. one chairperson, and one full-time and eight part-time commissioners.</p> <p>The members are appointed by the Prime Minister with the consent of both Houses of the Diet based on the viewpoint that the CPAAOB should be comprised of members from a wide range of relevant expertise on a fair and equitable basis in light of eliminating the risk of biased management and ensuring public interest and independence from the professional audit society.</p>			
<p><b>3.3. Is each member of the governing body independent from the audit profession? The audit profession includes, for example: audit firms, professional accountancy bodies and bodies or entities associated with the audit profession.<sup>3</sup></b></p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>			

<sup>3</sup> Ibid.



	<p><b>3.4 If the answer to question 3.3 is “No”, is the majority of the members of the governing body non-practitioner?</b></p> <p><input checked="" type="checkbox"/> Yes                      <input type="checkbox"/> No</p> <hr/> <p><b>3.5 If the answer to question 3.3 is “No”, which safeguards are in place to provide for the Member’s overall independence from the audit profession?</b></p> <p>The members are appointed by the Prime Minister with the consent of both Houses of the Diet based on the viewpoint that the CPAAOB should be comprised of members from a wide range of relevant expertise on a fair and equitable basis in light of eliminating the risk of biased management and ensuring public interest and independence from the professional audit society.</p> <hr/> <p><b>3.6 Is there a restriction or recusal process that is applicable to members of the governing body of the Member who are current or former auditors/practitioners?</b></p> <p><input checked="" type="checkbox"/> Yes                      <input type="checkbox"/> No</p> <p><b>Does this include a “cooling-off” period for former auditors?</b></p> <p><input type="checkbox"/> Yes                      <input checked="" type="checkbox"/> No</p> <p><b>If yes to either of the above, please describe:</b></p> <p>The members are appointed by the Prime Minister with the consent of both Houses of the Diet based on the viewpoint that the CPAAOB should be comprised of members from a wide range of relevant expertise on a fair and equitable basis in light of eliminating the risk of biased management and ensuring public interest and independence from the professional audit society.</p>
	<p><b>3.7 Other than the governing body, are members of the profession involved in the Member’s organization (e.g., in a management or inspection function)?</b></p> <p><input checked="" type="checkbox"/> Yes                      <input type="checkbox"/> No</p> <p><b>If yes, please describe their role with an appropriate level of detail:</b></p> <p>There is no specific requirement with regard to independence from the profession per se. Meanwhile, staff members of the FSA and CPAAOB are segregated from the private sector entities as public servants. As a general rule, all CPAs at the FSA and CPAAOB are hired after leaving audit firms on a full-time basis.</p>



	In addition, the CPAAOB secures prevention of conflicts of interest relating to the inspection activities by composing an inspection team, made up of inspectors who have no interests in inspected firms, when approving its inspection plan of the relevant firms.
<b>4. Funding Arrangements</b>	<p><b>4.1 Describe the main funding arrangements of the Member, including the setting and approval of the budget and the fees, if any:</b></p> <p>The FSA's budget including CPAAOB's expenses is funded by the national budget and is unaffected by any affiliates of the public accounting profession.</p> <p><b>4.2 Is the funding free from undue influence by the profession?</b></p> <p><input checked="" type="checkbox"/> Yes                      <input type="checkbox"/> No</p> <p><b>Please describe with an appropriate level of detail the safeguards in place to prevent undue influence by the profession:</b></p> <p>The FSA's budget including CPAAOB's expenses is funded by the national budget and is unaffected by any affiliates of the public accounting profession.</p>
<b>5. Inspection System</b>	<p><b>5.1 Does the Member have the responsibility for recurring inspections of audit firms undertaking audits of public interest entities (PIEs)?</b></p> <p><input checked="" type="checkbox"/> Yes                      <input type="checkbox"/> No</p> <p><b>5.2 Is this responsibility undertaken directly or through oversight of inspection conducted by another organization?</b></p> <p><input checked="" type="checkbox"/> Directly                      <input checked="" type="checkbox"/> Through Oversight</p> <p><b>If through oversight of another organization, please describe with an appropriate level of detail the other organization, its relation to the Member, its role, and the arrangements for oversight:</b></p> <p>The CPAAOB conducts inspections on audit firms, CPAs and the JICPA. As to inspections on audit firms, the CPAAOB takes into account the results of JICPA's quality control review as explained below. If the results of inspections show that the quality control review was not conducted properly, or CPAs/audit firms did not conform to laws, regulations and standards related to quality control of audits, etc., the Board will recommend that the Commissioner of the FSA take administrative actions and other measures necessary for ensuring the proper operation of audit firms, CPAs and the JICPA.</p>



	<p><b>5.3 Please describe with an appropriate level of detail the requirements and practices regarding the frequency of inspections:</b></p> <p>Since the CPA Act requires the JICPA to review the status of the operation of audit and attestation services provided by its members, the JICPA established its bylaws to conduct its quality control review once every three years in principle. However, JICPA conducts its review on the big audit firms every two years.</p> <p>The JICPA is also required under the CPA Act to report the results of the quality control review to the CPAAOB periodically or as necessary. In practice, CPAAOB obtains monthly reports from the JICPA.</p> <p>The CPAAOB conducts regulatory inspection once every three years in principle. Since mid-2016, CPAAOB has conducted inspection on the big audit firms annually, which is comprised of biannual full-scope inspection and follow-up inspection in the subsequent year.</p>
<p><b>6. Audit and Financial Market</b></p>	<p><b>6.1 Provide the number of audit firms subject to inspections. Include an indication of the number of public interest audits (PIEs) and other audits that fall under the Member's oversight or mandate.</b></p> <p>Public interest audits include those of listed companies (approx. 3,600 as of January 2017) as well as certain large non-public companies and non-public financial institutions and independent administrative institutions. 220 domestic audit firms and auditors undertake audits of public interest entities which are subject to JICPA quality control review.</p> <p>In addition, 4 out of 88 notified foreign audit firms provide audit and attestation services to the companies listed on financial instruments exchange markets in Japan.</p> <p><b>6.2 What are the sizes and market shares of each of the largest audit firms in the Member's jurisdiction?</b></p> <p>The Big Four firms (Deloitte Touche Tohmatsu, KPMG AZSA, EY ShinNihon and PwC Aarata) account for about 73% of the listed companies audit market.</p>





<b>7. Main Other Responsibilities of the Member <u>within</u> the area of Audit Oversight</b>	<b>7.1 Please indicate whether the Member has responsibility for tasks other than Inspections within the area of Audit Oversight:</b>  <input checked="" type="checkbox"/> Registration/Licensing <input checked="" type="checkbox"/> Audit and/or Ethics Standard Setting <input checked="" type="checkbox"/> Permanent Education of Auditors <input checked="" type="checkbox"/> Enforcement <input checked="" type="checkbox"/> Other: <u>CPA examination</u>
	<b>7.2 If the Member has the responsibility for <u>Registration/Licensing</u>, please indicate whether this responsibility is undertaken directly or through oversight of Registration/Licensing conducted by another organization?</b>  <input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Oversight  <p>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession<sup>4</sup> are involved in decision-making). Also give a description of the powers of the other organization and procedure applied, as well as the role of the Member in these procedures.</p> <p>The FSA manages registries of limited liability audit firms and notifications of foreign audit firms.</p>
	<b>7.3 If the Member has the responsibility for <u>Audit and/or Ethics Standard Setting</u>, please indicate whether this responsibility is undertaken directly or through oversight of Audit and/or Ethics Standard Setting conducted by another organization?</b>  <input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Oversight  <p>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession<sup>5</sup> are involved in decision-making). Also give a description of the powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</p> <p>The Business Accounting Council, which is established within the FSA, sets auditing standards.</p>

<sup>4</sup> For the purpose of this Member Profile, the audit profession does not include an individual who is a CPA, Chartered Accountant, or holder of another equivalent qualification, as long as this individual is not employed by or affiliated to a registered audit firm, nor employed by or affiliated to of a professional accountancy body, nor employed by or affiliated to bodies or entities associated with the audit profession.

<sup>5</sup> Ibid.





	<p><b>7.4 If the Member has the responsibility for <u>Permanent Education of Auditors</u>, please indicate whether this responsibility is undertaken directly or through oversight of Permanent Education of Auditors conducted by another organization?</b></p> <p><input type="checkbox"/> Directly                      <input checked="" type="checkbox"/> Through Oversight</p> <p><b>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession<sup>6</sup> are involved in decision-making). Also give a description of the powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</b></p> <p>The CPA Act requires CPAs to take a continuing education and training (CPE: Continuing Professional Education) by the JICPA and to earn certain credits every business year. The JICPA summarizes the implementation status of the CPE and reports it to the FSA.</p>
	<p><b>7.5 If the Member has the responsibility for <u>Enforcement</u>, please indicate whether this responsibility is undertaken directly or through referral to other organization(s)?</b></p> <p><input checked="" type="checkbox"/> Directly                      <input type="checkbox"/> Through Referral</p> <p><b>If through referral, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession<sup>7</sup> are involved in decision-making). Also give a description of the enforcement powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</b></p> <p>The FSA may carry out necessary investigations if the FSA considers that a fact exists that may lead to an enforcement action. The FSA is authorized to take enforcement actions based on the results of investigations and/or the recommendations by the CPAAOB after the inspections.</p>
	<p><b>7.6 If the Member has the responsibility for other tasks within the area of Audit Oversight, please describe with an appropriate level of detail:</b></p> <p><b>CPA Examination</b></p> <p>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.</p>

<sup>6</sup> For the purpose of this Member Profile, the audit profession does not include an individual who is a CPA, Chartered Accountant, or holder of another equivalent qualification, as long as this individual is not employed by or affiliated to a registered audit firm, nor employed by or affiliated to of a professional accountancy body, nor employed by or affiliated to bodies or entities associated with the audit profession.

<sup>7</sup> Ibid.



<b>8. Main Other Responsibilities of the Member <u>outside</u> the area of Audit Oversight</b>	<b>8.1 Please describe with an appropriate level of detail whether the Member has responsibility for tasks outside the area of audit oversight such as Supervision of Financial Reporting or Securities Regulation:</b>
<b>9. Major Events and Activities</b>	<b>9.1 Describe any recent major events and activities:</b>  <p>March 23, 2012 FSA and CPAAOB announced a cooperative agreement with the Canadian Public Accountability Board (CPAB) (#).</p> <p>October 3, 2012 FSA and CPAAOB announced a cooperative agreement with the Audit Oversight Board (AOB) of Malaysia (#).</p> <p>March 14, 2013 FSA published new audit standard “Standard to Address Risks of Fraud in an Audit.” (#)</p> <p>March 29, 2013 FSA and CPAAOB announced a cooperative agreement with the Netherlands Authority for the Financial Markets (AFM) (#).</p> <p>July 11, 2013 FSA and CPAAOB announced to have reached a decision that the audit and public oversight systems for auditors and audit firms of Luxembourg and Netherlands are equivalent to the corresponding systems in Japan.</p> <p>August 6, 2013 FSA and CPAAOB announced a cooperative agreement with the Commission de Surveillance du Secteur Financier (CSSF) of Luxembourg (#).</p> <p>May 26, 2014 FSA and CPAAOB announced a cooperative agreement with the Financial Reporting Council (FRC) of the United Kingdom (#).</p> <p>June 11, 2014 FSA and CPAAOB announced a cooperative agreement with the Netherlands Authority for the Financial Markets (AFM) expressing their intentions to mutually rely on the oversight of foreign audit firms in their home countries (#).</p> <p>March 12, 2015 CPAAOB held the International Conference commemorating its 10<sup>th</sup> anniversary of CPAAOB Japan (#).</p>



	<p>July 21, 2015 CPAAOB published “Case Report from Audit Firm Inspection Results” (#)</p> <p>October 5-9, 2015 FSA and CPAAOB hosted IFIAR Interim Meeting and the working group meetings for GPPC WG (renamed as Global Audit Quality WG) and Standard Coordination WG in Tokyo.</p> <p>March 8, 2016 FSA published the Recommendation of the Advisory Council on the Systems of Accounting and Auditing.</p> <p>April 21, 2016 FSA and CPAAOB announced a cooperative agreement with the Haut Conseil du commissariat aux comptes (H3C) in France (#).</p> <p>May 13, 2016 CPAAOB published “Basic Policy for Monitoring Audit Firms” for Fiscal Year 2016 (#)</p> <p>July 14, 2016 CPAAOB published “Basic Plan for Monitoring Audit Firms in Fiscal 2016” (#)</p> <p>July 29, 2016 CPAAOB published “Case Report from Audit Firm Inspection Results”(##) and “ Monitoring Report in Fiscal 2016”(##)</p> <p>(##) These reports are accessible on our web site.</p>
--	---

