

Ensuring Confidence in Audit

Recommendations
from the “Advisory Council
on the Systems of Accounting and Auditing”

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I. Introduction

Companies need to disclose financial information appropriately in order to ensure the confidence in the capital market and a provision of funds for growth. In addition, it is necessary for such companies to understand their own financial situation correctly and share it with shareholders and investors, in developing business strategies and seeking for the sustainable growth and increased corporate value over the mid- to long-term.

Audit is a highly important infrastructure that becomes a premise to ensure the correct understanding of the financial situation and appropriate disclosure by these companies, support their appropriate and smooth economic activities, and lead to sustainable growth of the Japanese economy.

Therefore, it is stipulated under Article 1 of the Certified Public Accountants Act that “the mission of certified public accountants, as professionals on auditing and accounting, shall be to ensure matters such as the fair business activities of companies, etc., and the protection of investors and creditors by ensuring the reliability of financial documents and any other financial information from an independent standpoint, thereby contributing to the sound development of the national economy.”

There have been successive efforts to improve the systems of audit by the relevant parties. However, public confidence in the systems is now in question anew due to recent cases related to accounting fraud.

Under this situation, the “Advisory Council on the Systems of Accounting and Auditing” (hereinafter referred to as the “Advisory Council”) was established in October 2015, and the initiatives necessary to ensure confidence in audit have been discussed extensively in light of the change of the environment surrounding audit and the causes of the recent cases of accounting fraud.

These recommendations compiled such discussions on initiatives to ensure confidence in audit at the Advisory Council.

II. Initiatives to Ensure Confidence in Audit

Regulations and standards to perform audit have been developed to a respectable degree through successive efforts to improve the systems of audit. However, public confidence in the systems is now in question anew due to recent cases of accounting fraud.

Behind this background, it is thought that there are factors such as the facts that

- These regulations and standards have not been permeated enough in the field of audits;
- Structure that allows these regulations and standards to be permeated has not sufficiently improved in audit firms and companies; and
- A framework, that enables the appropriate check from the outside whether such a structure is developed, is not sufficiently established.

In addition, in responding to issues of accounting fraud, actions focusing on the essence of such issues should be taken with the verification of the costs and benefits instead of unnecessarily strengthening regulations and standards.

From this viewpoint, initiatives to be taken toward ensuring confidence in audit are organized in five pillars below.

- (1) Reinforcing Management of Audit Firms
- (2) Enhancing Provision of Information Regarding Audit to Shareholders and Others
- (3) Strengthening Ability to Detect Corporate Fraud
- (4) Assessing Audit Quality from the “Viewpoints of Third Parties”
- (5) Improving Environment for High-Quality Audit

Contents of the specific measures are described below.

1. Reinforcing Management of Audit Firms

Regarding the recent cases of accounting fraud, an audit quality control system of major audit firms had been improved in a formal manner, but management from a higher perspective to secure audit quality as an organization had not been functioning effectively, and it has been pointed out that this has been raising problems such as the facts that

- Professional skepticism was not being exercised sufficiently in the field of

- audits and at audit firms that support such audits;
- Improvement plans based on matters pointed out by regulatory authorities had not been thoroughly implemented;
 - Personnel allocation and evaluation focusing on securing audit quality had not been conducted.

Moreover, it is also being pointed out, at the time of inspection by regulatory authorities, that the failure of management is a cause giving rise to a problem in securing audit quality in other major audit firms.

An audit firm is established by capital contribution by persons including five or more certified public accountants (CPAs) and is on the basis of securing organizational disciplines by the direct participation in management and the mutual supervision by each Partner who is a capital contributor. On the other hand, in reality, as the increase in scale of audit firms has expanded, responding to the complication and globalization of corporate activities of large listed companies, the number of personnel has exceeded several thousand for major audit firms that assume a large part of audits of large listed companies and their equivalents (hereinafter referred to as “large listed companies, etc.”) and 100 for the subsequent second-tier audit firms.

It is considered that the fact that management of audit firms by executives has not been able to completely respond to this increase of scale, that the complication of organizational operation is one of the major causes giving rise to problems in securing audit quality.

Accordingly, audit firms, especially audit firms that conduct audits of large listed companies, etc., need to develop effective governance that has clear authority and responsibilities for running firms and make management work effectively over the whole firms. In addition, it is necessary to enhance the transparency of the operation of audit firms to ensure that audit firms whose organizational operation is effectively functioning are highly evaluated as well as to enable checking the status of this organizational operation from the outside.

Furthermore, in the audit market in Japan, as the four major audit firms that conduct audits of 90% or more of the listed companies on the basis of market capitalization, it is pointed out that this oligopolization of the audit market is limiting the option of audit firms by companies, especially large listed companies; additionally, there is a concern that this oligopolization is impeding competition for improving quality. Therefore, it is necessary to work on the improvement of an environment to increase the number of audit firms with the ability to conduct audits of large listed companies, etc.

(1) Audit Firm Governance Code

It is considered necessary that the principles to be secured in the operation of these large-scale organizations are confirmed in connection with developing effective governance at audit firms that conduct audits of large listed companies, etc., and promoting initiatives to make management work effectively.

Meanwhile, it is preferable to consider a structure that enables each audit firm to take measures with ingenuity toward the realization of the principles, as it is not appropriate to set a uniform rule for the form of organizational operation to make a response because it is also considered that there would be differences concerning the actual governance and the form of management depending on the scale and characteristics of each firm.

In the United Kingdom and the Netherlands, in light of this viewpoint, the “Audit Firm Governance Code” (hereinafter referred to as the “Code”) on principles basis, but not on rules basis, was introduced, regarding organizational operation of audit firms, and an initiative to ensure its effectiveness by improving disclosure to secure the transparency of organizational operation was undertaken together with ensuring that under the Code each audit firm develops governance and makes management work.

With reference to these examples, we should develop principles for the organizational operation of audit firms in our country and request to each firm for self-motivated and effective response to realize these principles. On this occasion, it is important to ensure the effectiveness and promote an appropriate competition of audit firms by improving the disclosure concerning the status of organizational operation by each firm.

Regarding the specific contents of the Code, for example, stipulating the exercise of leadership by management to promote the exercise of professional skepticism, the development and clarification of the operation and supervision system, and implementation of personnel education, personnel allocation and evaluation should be taken into account in the application to audit firms of over a certain scale that conduct audits of large listed companies, etc. Regarding the details, under the leadership of the Financial Services Agency (FSA), consideration for formulation of the Code should be carried out immediately in reference to a broad range of opinions in light of the environment and issues surrounding audit firms in our country.

(2) Improving Environment for Increasing Number of Audit Firms Conducting Audits of Large Listed Companies

It is considered that checking the implementation status from the outside by market participants and regulatory authorities as well as developing effective governance and making management more effective at audit firms other than major audit firms such as second-tier audit firms by introducing the Code will lead to the enhancement of the audit quality of these audit firms. Accordingly, it is expected that more audit firms will be able to conduct audits of large listed companies, etc.

In addition, it can be considered that holding a forum for continuous dialog between regulatory authorities and major and second-tier audit firms and sharing an awareness regarding issues concerning audit of large listed companies, etc., to enhance the level of audit work will also lead to the improvement of the environment to increase the number of audit firms that can conduct audits of large listed companies, etc.

2. Enhancing Provision of Information Regarding Audit to Shareholders and Others

Shareholders of companies are the ultimate beneficiaries of audit and play a role in finally determining the appointment and dismissal of auditors at the shareholders' meeting.

For this determination of shareholders to be made appropriately, it is a prerequisite that the provision of information necessary to shareholders, including the evaluation of auditors by the *Kansayaku* board, an audit committee, and the Audit and Supervisory Committee¹ (hereinafter referred to as the “*Kansayaku* board, etc.”) should be conducted. As various initiatives are taken in foreign countries from this viewpoint, companies, audit firms, and regulatory authorities respectively should work on improving the provision of information on audit to shareholders and others to seek enhancement of the transparency of audit also in our country.

¹ Listed companies may choose one of three main forms of organizational structure under the Companies Act: a Company with a *Kansayaku* Board, a Company with Three Committees (Nomination, Audit and Remuneration), or a Company with Supervisory Committee. A Company with a *Kansayaku* Board is a system unique to Japan in which an accounting audit function is assumed by *Kansayaku* and the *Kansayaku* board. The latter two forms of organizational structure are similar to companies in other countries where committees are established under the board and assigned accounting audit functions.

It is expected that the evaluation of auditors will be conducted appropriately by shareholders of companies through the enhancement of the transparency of audit, and thus audit firms which provide auditing that is of recognized high-quality, receive recognition and companies begin to request audits based on that evaluation. Therefore, it is desirable that a virtuous cycle leading to sustainable enhancement of audit quality in the entire market will be developed through an increase in incentives of providing higher quality audits, and the improvement of audit fee of audit firms resulting from finding value in such audits by shareholders and companies.

(1) Enhancing Disclosures Regarding Audit by Companies

Firstly, it is necessary to provide information appropriately to shareholders as to what kind of initiatives a company is undertaking with an auditor toward ensuring appropriate audits and as to how the *Kansayaku* board, etc., evaluates the auditor in order to realize a virtuous cycle by improving the transparency of audit. From this viewpoint, the contents of the disclosure concerning audit on annual securities reports and other disclosure documents should be improved.

In addition, for example, in connection with evaluating the independence of the auditor, the period in which the relevant auditor has engaged in audits of the company is important information and the description of this information on annual securities reports and/or other disclosure documents should be considered.

(2) Enhancing Provision of Information Regarding Contents of Audit

Audit firms should actively provide information regarding the management status and individual audit in addition to the provision of information from the company's side in order to improve the transparency of audit. Furthermore, regulatory authorities should work for the improvement of the provision of information.

(i). Disclosure of Governance Information of Audit Firms

It is also necessary for audit firms to appropriately provide information on the management status in order for shareholders and investors to properly evaluate audit firms. In the United Kingdom and the Netherlands, a disclosure of reports is required that provides information to shareholders and investors with information regarding the management status of audit firms. Governance information of audit firms is also required under the Code to be incorporated in the relevant report.

We should also request for audit firms to disclose and explain the status of

governance and initiatives to ensure the quality of audit in order to ensure that audit is evaluated appropriately in our country.

(ii). Increasing in the Transparency of an Auditor's Report

Regarding the current auditor's report, the description of an auditor's opinion other than a representation of whether or not financial statements are recognized as appropriate is limited. On the other hand, the United Kingdom, for example, introduced a system to describe risks of material misstatement, etc., that the auditor noted on an auditor's report together with a representation of the appropriateness of financial statements in order to enhance the transparency of audit. The European Union plans to introduce a similar system from this year, and a consideration toward the introduction is carried forward also in the United States.

Consideration concerning, so to say, "increasing in the transparency of an auditor's report," like this should be carried out also in our country from the viewpoint of improving the provision of information to shareholders and investors.²

(iii). A System of Disclosure on Replacement of Auditors

The reasons and background of the replacement of auditors, for example, whether there was conflict of opinion regarding accounting treatment between a company and an auditor, is very important information to shareholders and investors. Therefore, it is required for companies to disclose the reasons for the replacement of auditors and the opinion of audit firm regarding this replacement on extraordinary report. However, it is pointed out that companies are providing superficial explanations using boiler-plate expressions, and thus they are not being a sufficient reference for shareholders and investors and there is a case that it is hard to express specific opinions by audit firms.

Accordingly, for shareholders and investors, it is necessary to secure the provision of more useful information, regarding the disclosure of reasons of replacement of auditors. Therefore, reconsideration of the body of disclosure and its contents should be conducted; for example, the Japanese Institute of Certified Public Accountants (JICPA) set up a disclosure system in which audit firms express an opinion on reasons for the replacement on a timely basis in

² In addition to this, from the viewpoint of enhancing the transparency of audit, an initiative towards developing the Audit Quality Indicators is also underway primarily in the United States. Regarding these Indicators, while it is expected to enable objective evaluation of audit quality based on the common standards, it is pointed out that there are concerns on the feasibility of such indicators and the formalism in which works are conducted based on indicators. Therefore, firstly following the movement over indicators in foreign countries can be considered.

addition to requesting more improved disclosure on reasons. This initiative is also expected to contribute to securing the independence of auditors.

(iv). **Enhancing Provision of Information Regarding Audit by Regulatory Authorities**

Additionally, it is considered appropriate to compile and disclose the results of the monitoring activities by Certified Public Accountants and Auditing Oversight Board (hereinafter referred to as the “CPAAOB”) in a way that contributes to enhancing the understanding of audit by shareholders and others (“Monitoring Report”).³

3. Strengthening Ability to Detect Corporate Fraud

Regarding the recent cases of accounting fraud, it has been pointed out that the ability to detect corporate fraud had been insufficient at the individual accountant level as well as on an organizational level, for example,

- Although an audit team member recognized an abnormal level at which manufacturing costs became negative, that member did not conduct further investigation or report to a supervisor;
- Despite receiving explanations about an adjustment of a large amount of costs in the manufacturing process from the company’s side, the journal entry of one process was checked, and that of another process to be usually investigated was not checked; and
- In connection with the cases to which the percentage-of-completion method is applied, the audit team did not conduct reviews to be usually conducted regarding the rationale for significant assumptions used by management and estimation uncertainty.

It is a major issue how CPAs with the ability to detect corporate fraud and high spirits for squarely facing management and expressing opinions without flinching when finding the indication of fraud should be cultivated and secured in order to prevent a recurrence of this sort of circumstance. In addition, it is necessary to improve robust audit systems under the effective governance and management that functions effectively as well as enhance the ability of the individual CPAs so that audit firms can appropriately respond to corporate fraud as an organization.

³ It is also considered appropriate to make the similar disclosure of results of the quality control review by the JICPA.

(1) Strengthening Individual CPAs' Ability and Exercising Professional Skepticism as an Organization

It is important to again strengthen on-the-job training in the field of audits through sharing information within an audit team and reviews and instructions of audit documentation by a supervisor in each audit firm in order to enhance the ability of individual CPAs to detect fraud and develop high spirits capable of squarely facing management when finding the indication of fraud.

Furthermore, it is also essential to enhance understanding of the instances of fraud in the past, how the fraud was noticed and what measures were to be done through education and training, to avoid overlooking fraud when individual CPAs face corporate fraud for the first time in their career. In addition to this, a wide range of initiatives to enhance the ability of CPAs, such as encouraging acquisition of the relevant qualifications and dispatch to companies should be considered within each audit firm.

In order to deal with corporate fraud in an appropriate manner in the field of audits, the improvement of an organizational structure to secure the exercise of professional skepticism by CPAs as well as the enhancement of individual CPAs' ability is required. For example, in connection with building audit teams, audit firms need to consider such as appropriately combining ability and experience of individual CPAs considering business models and assumed risks of audit clients as well as developing appropriate engagement quality control review systems.

(2) Conducting Audits Focusing on Risks of Fraud

As mentioned earlier, regulatory requirements and standards to conduct audit, such as the Auditing Standards, the Quality Control Standards in an Audit, and the Standards to Address Risks of Fraud, have been reasonably developed through successive efforts to improve the systems of audit. However, the fact that an audit firm's system to allow these regulatory requirements and standards to be entrenched firmly on the ground to secure appropriate audits responding to risks of fraud has not been sufficiently established is being considered as a problem.

Therefore, it is required for audit firms to thoroughly implement these regulatory requirements and standards by developing effective governance and making management function effectively and to secure the appropriate audit procedures focusing on risks of fraud as well as to pay special attention to fraud.

4. Assessing Audit Quality from Viewpoints of Third Parties

Regarding audit work, checking the process and appropriateness of the results from the outside is hard as it is called “black box” at times since such work is highly specialized and specified and involves dealing with confidential information of companies. As a result, especially in case of a long-term relationship of a company and an auditor, the independence of the auditor may be compromised and the exercise of professional skepticism may become insufficient, resulting in a risk of being incapable of securing appropriate audit.

With regard to the recent cases of accounting fraud, it is also pointed out that the long-term relationship is part of the reason why accounting fraud was overlooked. The auditor’s review of explanations from the company’s side and submitted evidence based on professional skepticism could not be conducted sufficiently because a person in charge of audits of the company and its subsidiaries for a lengthy period had been playing a central role in the audit team.

In order to promote the exercise of appropriate professional skepticism and secure the quality and confidence in audit, it is essential to thoroughly ensure the independence of auditors and improve the effectiveness of assessing audit quality from the viewpoints of independent “third parties” such as regulatory authorities and the JICPA.

(1) Ensuring Independence of Audit Firms

From the viewpoint of thoroughly ensuring the independence of audit firms, introduction of a rotation system that mandatorily rotates an audit firm periodically has been determined in the European Union⁴, and it can be considered as one of the effective options also in our country.

On the other hand, it has also been pointed out regarding the audit firm rotation system that there is a risk that the interruption of accumulation of knowledge and experience of auditors may bring down the audit quality, or that smooth introduction and implementation of the relevant system is difficult at the moment in light of the current situation of the audit market in which the number

⁴ The European Union’s regulation (Regulation) which requires public-interest entities such as listed companies to periodically rotate audit firms took effect in June 2014 and is scheduled to be applied from June 2016. The period of audits of public-interest entities by the same audit firms shall be up to 10 years, and a longer period of audits is permitted in the case of performing an open tender and a joint audit. An interval of four years is required in order for an audit firm which rotated once to be an auditor again.

of large audit firms is limited.

Consequently, in connection with the advantages and disadvantages associated with the introduction of an audit firm rotation system in our country and measures to secure the effectiveness when introducing the system, in-depth investigations and analysis should be also conducted within the FSA considering the recent trends in foreign countries.

Also, there is a discussion that a rotation of entire audit teams should be required to secure the independence of audit firms. This needs to be taken into consideration, reflecting that there is a viewpoint that raises questions about how much the implementation of rotation within the same audit firm brings about effects as well as that it is pointed out that accumulation of knowledge and experience of auditors will be interrupted and there will be a risk of bringing down the audit quality in the same way as an audit firm rotation.

(2) Enhancing Inspection/Oversight by Regulatory Authorities

(i). Inspection

It has been noted that agile inspections and necessary follow-ups have not been implemented by the CPAAOB since the frequency of inspections of major audit firms is once every two years at the moment.

Actually, there are some cases where audit firms, particularly major ones, do not ensure their implementation of improvement measures based on findings by the CPAAOB broadly across the front line of audits due to problems in governance and management, and they receive similar findings repeatedly. Therefore, the CPAAOB should enhance the timeliness and effectiveness of its inspection by increasing the frequency of the inspection of major audit firms and strengthening the follow-ups including reviews of governance and management that are root causes based on the implementation status of the Code. In that regard, the CPAAOB should improve the effectiveness of checking audit quality on the whole while seeking an appropriate division of roles with the JICPA.

(ii). Oversight

Considering the fact that the governance and management of major audit firms are raised as issues, the FSA should seek to improve the effectiveness of oversight of major audit firms not only by conducting oversight for ensuring the integrity of traditional specific audit attestations but also by conducting oversight focusing more on root causes underlying accounting fraud. The oversight focusing on root causes would be, for example, a check as to whether there exists effective governance for ensuring appropriate audit and a check as to whether management is effectively functioning. From this viewpoint, the FSA should consider the oversight framework and reform it as necessary.

(3) Enhancing Self-regulatory Function of Japanese Institute of Certified Public Accountants (JICPA)

CPAs have an exclusive position of conducting audit of financial statements of companies as a professional with high expertise. To ensure the general public's confidence in audit, it is essential for the CPAs to behave in a disciplined manner to secure appropriate audit. In that respect, the JICPA's role as a self-regulatory organization is vitally important, and thus the JICPA should address the strengthening of the self-regulatory function in a serious manner considering the occurrence of the recent cases of accounting fraud.

Firstly, in regard to audit quality checks under the JICPA's quality control review, it is pointed out that it is likely that the check is just conducted in a formal manner and that the appropriate allocation of resources based on risks at audit firms is not carried out. Therefore, re-examination should be conducted, for example, making such reviews more in-depth based on the risks of each firm. In addition, efforts for strict management regarding the Registration System for Listed Company Audit Firms should also be made so that it will be assured that audit firms have sufficient ability and systems to perform audits of listed companies.

In addition to this, re-examination that focuses further on detection and prevention of corporate fraud and the improvement of ability regarding dialog with companies should be conducted in regard to education and training by the JICPA.

5. Improving Environment for High-Quality Audit

With regard to the recent case of accounting fraud, it is pointed out that governance and internal control of the listed company had been established in a formal manner, but internal control did not function and the Audit Committee could also not exercise its audit function while the bottom-liner top management pressed the staff to meet the budget and inflate the profit estimate.

The responsibility for appropriately improving internal control regarding the financial reporting and preparing appropriate financial statements rests with companies. As a result, it is essential to strengthen corporate governance of companies regarding audit and develop the effective internal control in order to ensure appropriate audit. In addition, working toward utilizing information technology (IT) is necessary to conduct high-quality audit.

(1) Strengthening Corporate Governance of Companies Regarding Audit

Regarding the recent case of accounting fraud, other than the fact that the former Chief Financial Officer, who was involved with the accounting fraud, had assumed the position of the chairman of the Audit Committee, it is raised as one of the major reasons why accounting fraud could not be detected that the Audit Committee could not secure the independence and objectivity and exercise audit functions appropriately since there was no Audit Committee member who had appropriate expertise on finance and accounting. In addition, the fact that the company did not establish a support structure to provide auditors with sufficient information and that the whistleblowing system did not work were also pointed out as reasons why accounting fraud could not be detected.

In order to detect any indication of accounting fraud at an early point and prevent it, each listed company needs to improve the independence, objectivity, and effectiveness of the *Kansayaku* Board, etc., by taking measures such as appointing an outside *Kansayaku* who has the appropriate expertise in finance and accounting. In regard to this point, there was an opinion that an adoption of the Company with Supervisory Committee is one of the effective responses from the viewpoint of improving the independence of the *Kansayaku* Board, etc.

Furthermore, the *Kansayaku* Board, etc., and the Board of Directors should establish an appropriate structure to ensure adequate time for audit, access to senior management from an auditor, adequate coordination between the auditor and the company and so on.

Regarding a whistleblowing system, companies should widely disseminate the existence of the contact point for whistleblowing. In addition, companies should take initiative such as designating an outside director and an outside *Kansayaku* as a reporting line for whistleblowing in order to enable an information provider to feel safe to give an opinion.

Moreover, while the Companies Act stipulates that the audit fee are determined at the Board of Directors under the consent of the *Kansayaku* Board etc., it is preferable that how audit fee should be determined is considered continuously from a wide range of viewpoints in light of securing the independence of auditors.

(2) Ensuring Effective Internal Controls in Companies

With regard to the recent case of accounting fraud, it is pointed out that internal control of the company had been malfunctioning due to management override. Regarding the internal control report systems in our country, ensuring

the effectiveness of internal control has been promoted while taking measures to prevent the cost burden for implementing such systems from becoming too large.

While we believe that such a way of thinking should continue to be maintained, it is necessary to ensure the effectiveness of the operation of the internal control system by conducting the necessary verification of operations of the internal control report system, for example, a verification of whether thorough implementation of specific evaluations of the tone at the top and governance function of the Board of Directors based on the actual situation.

(3) Utilizing IT in Audit

As corporate activities get globalized and complicated, research and study regarding auditing methodologies utilizing IT are carried out mainly by audit firms in each country, in order to extensively check transactions, etc., and detect problems more effectively. Research on the trend of audits utilizing IT has also been carried out at the JICPA.⁵

Utilizing IT in the field of audits is expected to lead to the increased efficiency of work and in-depth audits. In addition, the sophistication and streamlining of inspection and engagement quality control review are also expected through effectively utilizing electronic audit documentation.

It is expected that the JICPA play an active role and advance an initiative toward the effective utilization of IT in audits so that the increased number of audit firms can carry forward considerations of the effective utilization of IT and conduct more in-depth audit based on risks.

(4) Others

It is also important to conduct study continuously on the systems of CPA qualification examination systems and the Professional Accountancy Education Programs in addition to continue to work for enhancing the attractiveness of CPA qualifications, from the viewpoint of cultivating and securing CPAs with appropriate quality and ability.

⁵ In addition to this, for instance, the International Auditing and Assurance Standards Board (IAASB) set up the working group on utilization of IT in an audit last year, and is carrying out research on the specific instances of utilization and on impact on audit procedures.

III. Conclusion

Recommendations on responses toward ensuring confidence in audit by the Advisory Council are explained above. It is expected that the relevant parties involved with audit will work toward the realization of these recommendations, leading to a virtuous cycle as follows:

- Audit firms make management work effectively under the effective governance and implement high-quality and transparent audit along with companies;
- Companies and their shareholders appropriately evaluate audit quality and begin to request to audit firms for audits based on such evaluation; and
- This trend leads to the increase of incentives to provide audits with higher quality and the improvement of audit fee of audit firms resulting from finding value in high quality audit by shareholders and companies.

It is desired that the development of this virtuous cycle will lead to the continuous improvement of audit quality in the market as a whole.

Furthermore, it is also expected that as audit firms conducting audits of large listed companies, etc., increase, with this improvement of the quality and transparency of audits, large listed companies, etc., and their shareholders will be able to select audit firms among a wider range of options based on the appropriate evaluation.

We expect that the relevant parties will promptly carry forward work for the implementation for recommendations that are able to be conducted immediately, and we will follow the progress. In addition, we request that the relevant parties will promptly carry out survey on recommendations that require further research and analysis. We will conduct further study as necessary considering the results of research and analysis.

Various discussions over the systems of audit are now being held. We expect that the relevant parties will continuously make positive discussions, and we will keep a close watch on these discussions and add further consideration on the systems of audit as necessary, from the viewpoint that audit will appropriately play a role as essential infrastructure for the capital market.