

Self-regulation Report 2024 — Quality Control Review System —



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Part 1 Overview of the Quality Control Review

1. Overview of the Quality Control Review System

(1) Quality Control Review System

The Japanese Institute of Certified Public Accountants ("JICPA") has implemented the "Quality Control Review System" as part of its self-regulatory activities since FY1999 with an aim to maintain and enhance an appropriate quality level of audit engagements and to ensure social confidence in those services.

In accordance with Article 77 of the JICPA Constitution and the intent of Article 46-9-2 of the Certified Public Accountants Act ("CPA Act"), the Quality Control Committee established in JICPA conducts quality control reviews to assess the design and operation status of the quality control systems of audit firms, notify them of the results, issue recommendations for improvement, and impose appropriate measures as necessary. Quality control reviews are focused on instructing and supervising audit firms (including taking supervisory measures). They are not intended to expose or penalize audit firms or interfere with audit opinions issued by audit firms.

In addition, due to the amendment of the CPA Act in May 2022, JICPA has been operating the Registration System for Auditors that Engage in Audits of Listed Companies and Similar Companies since April 2023. In this system, JICPA confirms the eligibility of auditors that engage in audits of listed companies and similar companies through the Quality Control Review System.

As part of the same amendment to the CPA Act, JICPA newly established "reviews for the examination of registration" to confirm the eligibility of audit firms which have applied for registration on the official roster of auditors that engage in audits of listed companies and similar companies, as well as registered auditors which have not engaged in audits subject to regular review yet. In these reviews for the examination of registration, JICPA assesses the design and implementation status of their quality control systems and confirms whether they have established operational control systems to audit listed companies and similar companies fairly and appropriately.

Quality Control Review for Confirmation of Eligibility

	When applying for registration	After registration (Registered auditors that engage in audits of listed companies and similar companies)	
		Audit engagements subject to regular reviews: None	Audit engagements subject to regular reviews: Yes
Timing of confirmation of eligibility	When applying for registration	When deemed necessary by the Review Board for Registration of Auditors that Engage in Audits of Listed Companies and Similar Companies	When conducting regular reviews
Quality control review for confirmation of eligibility	Review for the examination of registration	Review for the examination of registration	Regular review (including confirmation of the status of operational control systems stipulated by laws and regulations)

(2) Quality Control Systems of Audit Firms

In accordance with the Quality Control Review Procedures, quality control reviews are conducted to assess whether or not audit firms have appropriately designed and operated a quality control system for the following matters:

- (i) Audit firms as well as all partners and professional staff belonging to audit firms (collectively, “professional personnel”) comply with professional standards as well as applicable laws and regulations.
- (ii) Audit firms or engagement partners issue audit reports appropriately.

The quality control system of an audit firm mainly consists of the following policies and procedures. An audit firm is responsible for designing these policies and procedures, whereas engagement partners are responsible for conducting individual audit engagements (“individual engagements”) in accordance with the quality control system designed by the audit firm.

Quality control systems of audit firms

Responsibility for quality control	<ul style="list-style-type: none"> • Cultivate a culture that emphasizes the quality of audit engagement
Professional ethics and independence	<ul style="list-style-type: none"> • Maintain independence from audit clients
Acceptance and continuance of engagements	<ul style="list-style-type: none"> • Assess the size, complexity and integrity of audit clients as well as the acceptance capability of the audit firm (including resource management of professional personnel), and determine whether the audit firm has the ability to conduct an audit appropriately
Hiring, education/training, evaluation and assignment of professional personnel	<ul style="list-style-type: none"> • Develop and maintain appropriate competence and capabilities required for professional personnel
Engagement performance	<ul style="list-style-type: none"> • Build up information and techniques required for audits (e.g., audit manuals and guidance, audit practice tools) • Instruct, supervise and review by engagement partners • Prepare audit work papers in an appropriate and timely manner
Engagement quality control review	<ul style="list-style-type: none"> • Ensure adequate knowledge, experience and capability of reviewers as well as objectivity from the audit engagement are maintained • Conduct a thorough engagement quality control review
Monitoring quality control systems	<ul style="list-style-type: none"> • Evaluate impacts of deficiencies identified through the process of ongoing monitoring and periodic inspections, and communicate and remediate the identified deficiencies
Documentation of quality control systems	<ul style="list-style-type: none"> • Appropriately record and retain the design and operation status of quality control systems

* Prepared by JICPA based on "Quality Control Standards Report 1: Quality Control at Audit Firms"

Action on the Revision to the Standards on Quality Control, etc.

In response to the revision to the Standards on Audit Quality Control and Quality Control Standards Committee Report, JICPA has started to assess the design and operation status of quality control systems of audit firms, including risk assessment processes, so that quality control reviews covering the first accounting period of audited companies beginning after July 1, 2023 are able to confirm whether the risk approaches by audit firms are appropriate or not.

(3) Types of Quality Control Reviews and Audit Firms Subject to Review

Quality control reviews consist of regular reviews, special reviews and reviews for the examination of registration.

The Quality Control Committee gathers the latest information relating to audit firms, mainly through off-site monitoring. The committee selects audit firms subject to regular and special reviews each year based on the information and develops an annual quality control review plan, which is revised as needed through ongoing information gathering.

Type of quality control reviews

	Regular review	Special review	Review for the examination of registration
Purpose	To assess the design and operation status of an audit firm's quality control system	To assess the design and operation status of an audit firm's quality control system in certain audit areas or certain audit engagements	<ul style="list-style-type: none"> To assess the design and implementation status of an audit firm's quality control system To assess the operational control systems established by an audit firm for auditing the financial statements of listed companies and similar companies fairly and appropriately
Frequency	In principle, the review is conducted every three years. Based on the judgment of the Quality Control Committee, the frequency may be increased or decreased (however, the review is conducted at least once every five years)	When the Quality Control Committee deems it necessary, the review is conducted in a timely manner in order to mainly assess the following matters: <ul style="list-style-type: none"> - Quality control system of an audit firm - Implementation status of audit engagements - Specific matters 	If any of the following cases apply, the review is conducted based on a request from the Review Board for Registration of Auditors that Engage in Audits of Listed Companies and Similar Companies to the Quality Control Committee. <ul style="list-style-type: none"> When applying for registration When deemed necessary for the confirmation of eligibility of Auditors that Engage in Audits of Listed Companies and Similar Companies Other necessary cases

	Regular review	Special review	Review for the examination of registration
Audit firms subject to review	Audit firms subject to regular reviews	All audit firms that provide audit engagements	(i) Audit firms which have applied for registration on the official roster of auditors that engage in audits of listed companies and similar companies (ii) Registered auditors which have not engaged in audits subject to regular reviews
Procedures	Site visit	Site visit, inquiry or in writing	Site visit

Audit firms subject to regular reviews

(As of March 31, 2024)

	Audit Firms	CPAs ^(*)	Total
Audit firms subject to regular reviews	156	63	219
Of the above, (deemed) registered auditors that engage in audits of listed companies and similar companies	130	3	133

(*) For CPA joint offices (the "Joint Offices") in which multiple CPAs jointly conduct audits and other services, quality control reviews are conducted on a joint office basis. The number of Joint Offices is included in the number of CPAs.

(4) Process of Quality Control Reviews

In accordance with quality control review standards and procedures based on the JICPA Constitution, JICPA effectively and efficiently conducts quality control reviews, establishing formats for them.

(i) Regular review

In order to assess the status of audit quality controls on a firm-wide basis, regular reviews are conducted mainly through the following procedures. As illustrated below, quality controls on a firm-wide basis and quality controls in audit engagements are interrelated.

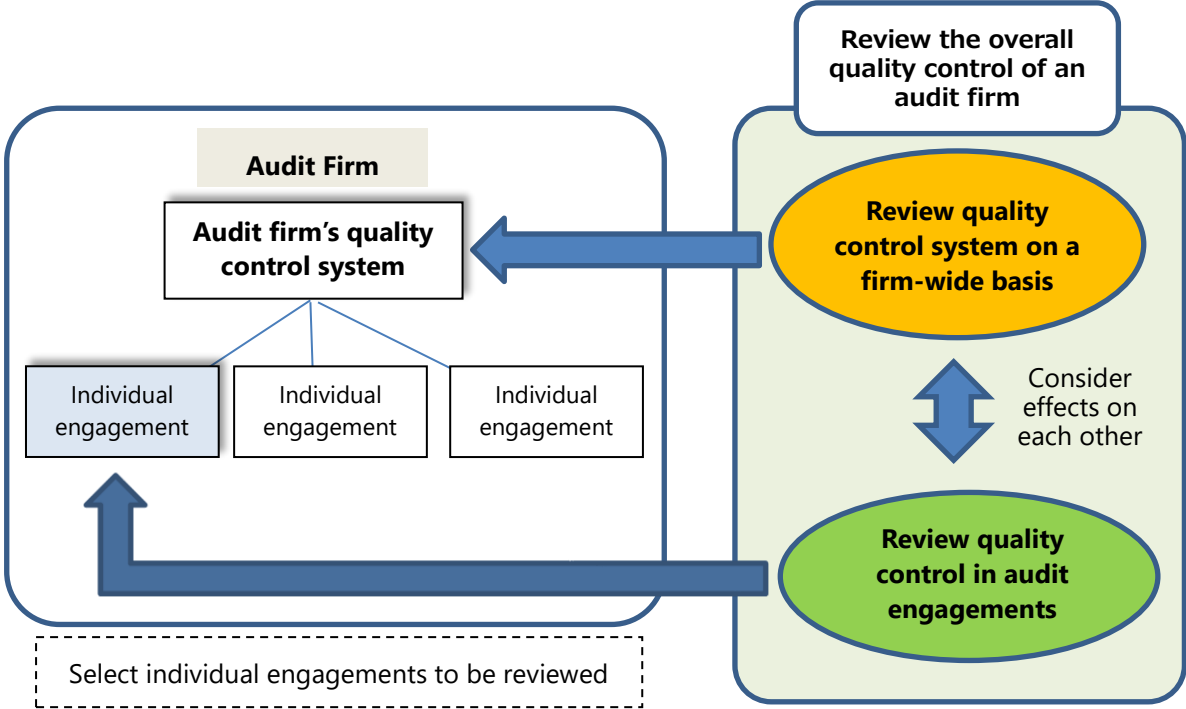
- Review quality control system on a firm-wide basis
 - Review whether an audit firm designs and operates the system of audit quality control appropriately.
- Review quality control in audit engagements
 - Review whether the quality control system of an audit firm is appropriately applied to individual engagements.

By considering the environment surrounding an audit firm, the level of individual engagement risks, the nature of audit engagements and other factors, individual engagements are carefully selected

for a review so that the audit firm’s overall quality control can be examined.

Also, when significant or a large number of findings are identified in the review of individual engagements, the impact on the quality control system on a firm-wide basis is assessed.

Areas reviewed in a regular review and their relationship



* JICPA confirms the eligibility of registered auditors that engage in audits of listed companies and similar companies, which are subject to regular review, by assessing their design of operational control systems as stipulated by laws and regulations, etc. when conducting regular reviews.

(ii) Special review

Audit firms subject to a special review are selected when an annual quality control review plan is developed. Also, whenever it is deemed necessary to conduct a special review immediately, audit firms are selected for such review even during the middle of the fiscal year.

In accordance with the purpose of a special review, the review scope for selected audit firms is determined by considering certain areas of concern or specific audit engagements.

(iii) Review for the examination of registration

In order to confirm the eligibility of audit firms which have applied for registration on the official roster of auditors that engage in audits of listed companies and similar companies and registered

auditors which have not engaged in audits subject to regular review, JICPA mainly assesses the design and implementation status of an audit firm's quality control system.

Detailed procedures for quality control reviews

In principle, the procedures for quality control reviews are as follows:

Procedures

		Review teams	CEQC*1	QCC*2
Developing an annual review plan	Develop an annual review plan to determine which audit firms will be subject to quality control reviews.	●		
Examination /Deliberation and approval	The Quality Control Committee is responsible for the deliberation and approval of an annual review plan.			●
Planning a review	A quality control review plan is developed to review an audit firm and audit engagements, considering risk areas and focusing on priority issues. If necessary, the Review Team consults with the Center for Examination of Quality Control in advance.	●	●	
Conducting a review	Visit the audit firm, interview the representative of the firm as well as those responsible for the quality control and engagement teams, and examine audit work papers.	●		
Examination /Deliberation and approval	The Center for Examination of Quality Control examines review reports drafted by the Review Team, namely quality control review reports, recommendation for improvement reports, and remedial actions, if applicable. The Quality Control Committee is responsible for the deliberation and approval of those review reports.	●	●	●
Reporting review result	Issue the finalized quality control review report to the audit firm, which describes assessments and results of the review. (For more details, please refer to “(5) Results of Quality Control Reviews.”)			●
Recommending improvements	If certain areas are identified for improvement, issue the finalized recommendation for improvement report to the audit firm. (For more details, please refer to “(6) Recommendations for Improvement.”)			●
Receiving an improvement plan	If there are “significant deficiencies” or “extremely significant deficiencies” (collectively, “Significant Deficiencies”), the audit firm is required to prepare and submit a response to the Recommendation Report, called the “Improvement Plan.”			●
Examination /Deliberation and approval	On top of quality control review reports, recommendation for improvement reports and notification of measures, the Center for Examination of Quality Control examines the Improvement Plan. The Quality Control Committee is responsible for the deliberation and approval of all these reports.		●	●
Notifying measures	Notify the audit firm regarding measures to be taken based on the review results. (For more details, please refer to “(9) Measures Taken under the Quality Control Review System.”)	JICPA notifies audit firms after approval by the Quality Control Committee		

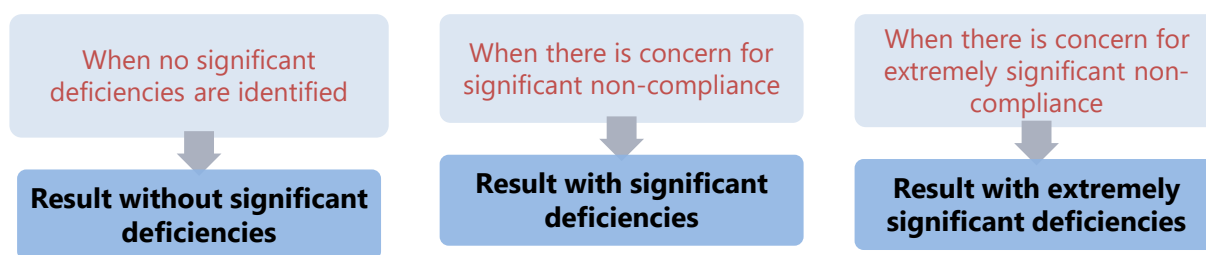
*1: Center for Examination of Quality Control *2: Quality Control Committee

- * In parallel with the above, the Quality Control Review Team also confirms remedial actions taken by an audit firm in response to improvement recommendations pointed out in previous years. In certain cases, the Quality Control Review Team may need to change the review plan for the year and visit an audit firm to confirm its improvement status. (For more details, please refer to “(8) Confirmation of Remedial Actions.”)

(5) Results of Quality Control Reviews

JICPA issues quality control review reports to audit firms, which contain the result of the quality control review for the audit firm.

Quality control review results are classified into the following three types based on whether or not Significant Deficiencies are identified for non-compliance with professional standards or applicable laws and regulations in the design and operation status of the quality control systems of audit firms.



- * The results of special reviews provide an opinion as to whether or not there are significant deficiencies for non-compliance with quality control standards or quality control systems from the viewpoint of the design and operation status of a quality control system for certain areas of concern or specific audit engagements, depending on issues subject to the special review.
- * The results of reviews for the examination of registration provide an opinion as to whether or not there are significant deficiencies for non-compliance with quality control standards or a failure to comply with matters prescribed by laws and regulations as a system for auditing the financial statements of listed companies and similar companies fairly and appropriately.

Results with significant deficiencies are given to audit firms under certain circumstances, including the following:

- when the design or operation of the quality control system is significantly inappropriate or insufficient
- when there is concern that material misstatements may have been overlooked in key accounting areas (e.g., accounting estimates, revenue recognition)
- when an audit firm has not obtained appropriate and sufficient evidence to reduce audit risks to an acceptable low level for those key accounting areas

When a reasonable basis cannot be obtained to form results for a quality control review report because major review procedures cannot be conducted on important components of items subject to the quality control review, no result is given in the report (i.e., “no result”).

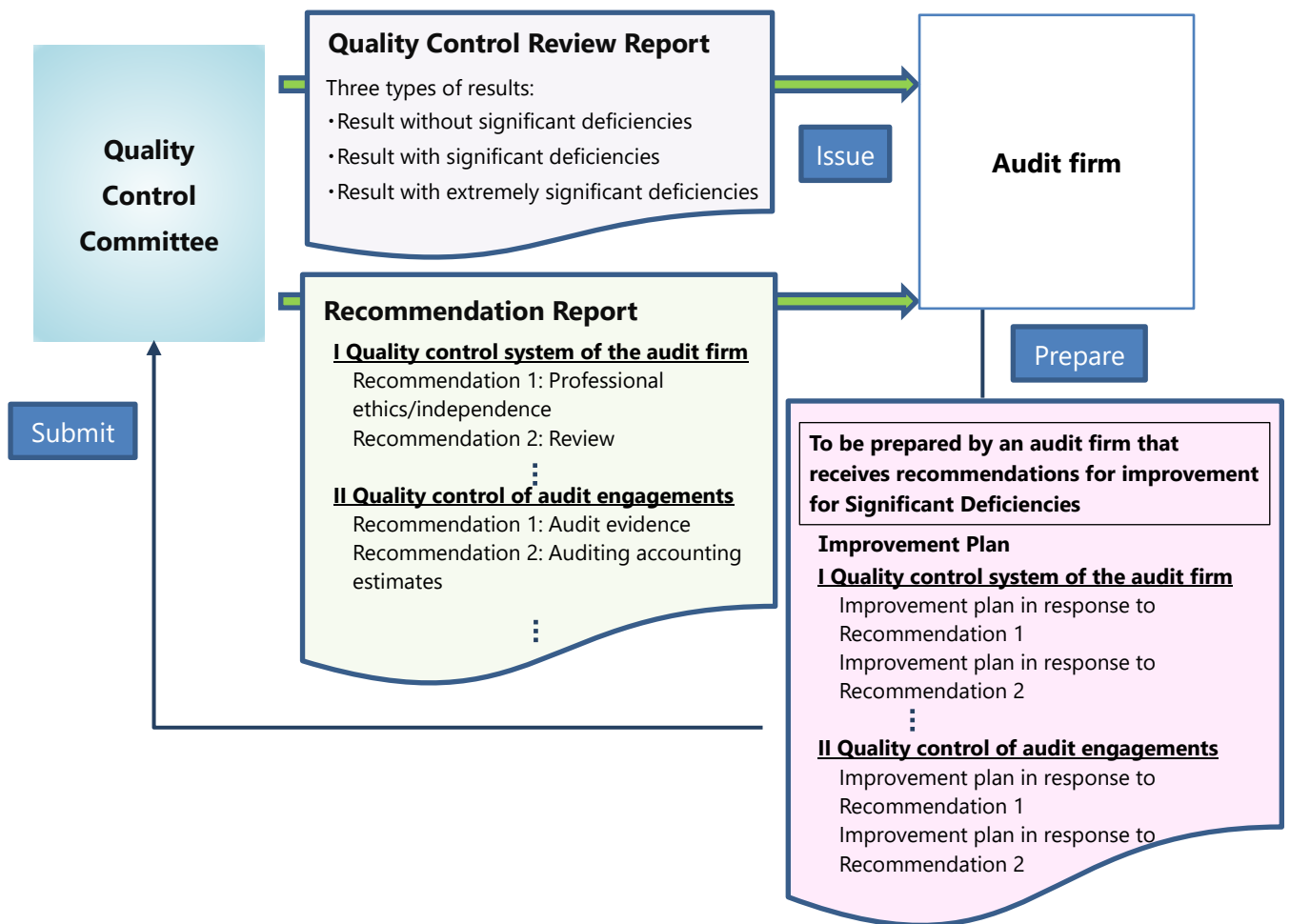
(6) Recommendations for Improvement

Regardless of the result of a quality control review, if recommendations for improvement are identified, a Recommendation Report which describes such recommendations for improvement will be prepared and issued to an audit firm together with the quality control review report. Recommendations for improvement are divided into two categories under the Recommendation Report, namely recommendations for the quality control system on a firm-wide basis and recommendations for quality control in audit engagements. Recommendations for improvement consist of three types, which are extremely significant deficiencies, significant deficiencies, and deficiencies.

Further, if an audit firm receives recommendations for improvement for Significant Deficiencies, it is required to prepare and submit an Improvement Plan in response to the recommendations by describing remedial actions against the Significant Deficiencies.

Regardless of whether or not an Improvement Plan is issued, it is necessary for audit firms to voluntarily improve all items for which improvement recommendations were made. The Quality Control Review Team will not only provide necessary instructions to them to encourage improvement but also review Improvement Status Reports prepared by audit firms in the following fiscal year. (For more details, please refer to “(8) Confirmation of Remedial Actions.”)

Recommendation Report and Improvement Plan



(7) Causes of Deficiencies (Root Cause Analysis)

In order to develop and implement more effective and appropriate remedial actions, it is essential for audit firms to identify where deficiencies are coming from. Therefore, when an audit firm receives a result with Significant Deficiencies, it shall describe the causes that led to deficiencies in its Improvement Plan.

In many cases, causes include not only direct causes but also root causes. Poor audit culture and weak management of audit firms are often found as the common root causes. Therefore, when an audit firm receives a result with Significant Deficiencies, it is required to describe in the improvement plan both the causes and root causes that led to deficiencies after careful deliberation between its chief executive officer and the Quality Control Review Team.

Even when an audit firm ends up receiving a result without significant deficiencies, if there appear to be concerns about the audit firm's voluntary improvement, the Quality Control Review Team

will explicitly state root causes at the beginning of the recommendation report, as needed, after communicating with the audit firm as described above.

(8) Confirmation of Remedial Actions

In the fiscal year following a quality control review, all audit firms that received recommendations for improvement as a result of the quality control review are required to submit an Improvement Status Report describing the remedial actions taken to the Quality Control Committee. The Quality Control Review Team confirms the remedial actions as follows:

- Audit firms that receive a result with Significant Deficiencies:

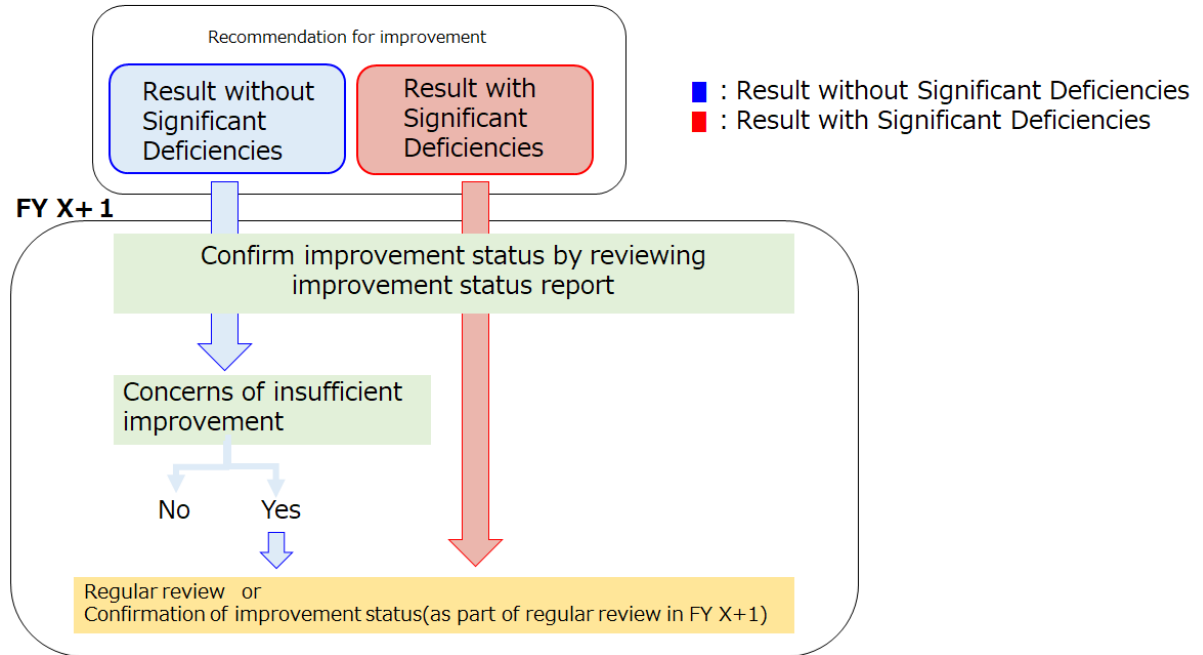
After confirming an audit firm's remedial actions through their Improvement Status Report in the following fiscal year, the audit firm is subject to another regular review or confirmation of improvement status with a site visit to physically confirm remedial actions.

- Audit firms that receive a result without significant deficiencies:

After confirming an audit firm's remedial actions through their Improvement Status Report in the following fiscal year, if improvements seem to be insufficient, the audit firm is subject to regular review or confirmation of improvement status with a site visit to physically confirm remedial actions.

When performing the confirmation of the improvement status, the Quality Control Committee issues a Confirmation Result Report of the Improvement Status describing the status of improvement to an audit firm.

FY X Regular review



- * When an audit firm receives recommendations for improvement for deficiencies as a result of a special review, it is subject to confirmation of improvement status in the fiscal year following the special review. This is because special reviews are conducted when the Quality Control Committee has deemed it necessary for timely confirmation of quality control systems, etc., of audit firms.

(9) Measures Taken under the Quality Control Review System

Measures to be taken against audit firms that need encouragement to implement voluntary improvement due to an insufficient level of quality controls and must be monitored on their improvement status are determined based on the results of quality control reviews.

[Types of measures]

- Warning
- Severe warning
- Recommendation to withdraw (entire or specific audit engagements conducted by an audit firm)

In general, measures determined by the Quality Control Committee based on recommendations for improvement identified through quality control reviews, including confirmation of improvement status, are as follows: recommendation to withdraw (for entire or specific audit engagements conducted by an audit firm) when extremely significant deficiencies are identified; severe warning when significant deficiencies are identified; and warning when deficiencies are identified. However,

when recommendations for improvement from previous quality control reviews remain unresolved and are recognized again as recommendations for improvement in the current fiscal year, the Quality Control Committee may toughen measures on top of the general measures described above.

If an audit firm unreasonably refuses or does not cooperate with quality control reviews, the Quality Control Committee issues a recommendation to withdraw from audit engagements regardless of the frequency of quality control reviews.

Furthermore, when an audit firm refuses or does not cooperate with a quality control review, or when an audit firm fails to improve previous recommendations for improvement, the Chairperson of the Quality Control Committee, upon receiving such a report, will report such facts to the Chairman of the Audit Practice Review and Investigatory Committee when the Quality Control Committee deems it necessary.

In addition, when a recommendation to withdraw from audit engagements is issued to a registered auditor that engages in audits of listed companies and similar companies, their registration on the official roster of auditors that engage in audits of listed companies and similar companies may be revoked.

Measures taken under the Quality Control Review System

Findings	Quality control review 1st time	Quality control review 2nd time	Quality control review 3rd and beyond
Extremely significant deficiencies	Recommendation to withdraw ^(*)	Recommendation to withdraw	Recommendation to withdraw
Significant deficiencies	Severe warning ^(*)	Recommendation to withdraw ^(*)	Recommendation to withdraw
Deficiencies	None	Warning	Severe warning

(*) Mitigated measures can be taken based on individual circumstances, such as the size of the audit firm, history of audit engagements with listed companies, frequency of quality control reviews, and results of previous reviews.

(10) Collaboration with the System for Individual Case Review

The Quality Control Committee under the Quality Control Review System collaborates as necessary with the Audit Practice Review and Investigatory Committee under the System for Individual Case Review to improve the quality of audit work. When significant issues are identified as a result of examinations and reviews under each system, necessary measures are taken by sharing information in a timely manner as needed. For example, if any doubts arise through quality control reviews about the appropriateness of audit opinions expressed by an

audit firm or compliance with the constitution or regulations of JICPA, such concerns will be reported to the Chairman of the Audit Practice Review and Investigatory Committee.

(11) Disclosure of Quality Control Review Results to Third Parties

In principle, audit firms are not allowed to disclose quality control review reports, Recommendation Reports, Improvement Plans, or the Confirmation Result Report of the Improvement Status to third parties. However, audit firms are allowed to disclose the outline of the latest quality control review results to third parties in their own reports, such as Audit Quality Reports.

(12) Communication with Company Auditors regarding Quality Control Review Results

Company auditors (or the Board of company auditors), Audit and Supervisory Committees or Audit Committees (collectively, "Company Auditors") are responsible for understanding the overall design and operation status of an audit firm's quality control system when they assess appropriateness of the audit method and results of audit procedures conducted by the audit firm, as well as when entering into new audit engagements.

Therefore, if any of the following kinds of audits are conducted, audit firms are required to communicate to the Company Auditors in writing or in the form of electromagnetic records about quality control review results and associated measures to be taken in response to the results. Such information may include whether or not recommendations for improvement were issued for quality controls of individual engagements and also their issue areas as well as general trends. Audit firms should communicate such information on or after receiving the Quality Control Review Reports, etc.

- Audits of large companies, etc. under the CPA Act
- Audits of companies with accounting auditors
- Audits of Shinkin banks, credit cooperatives and labor banks

2. Our Organization

Quality control reviews are managed mainly by the Quality Control Committee. Its subordinate organizations are the Center for Examination of Quality Control, the Working Group on Revision of Quality Control Review Standards, etc., and the Quality Control Review Team. The main roles and members of each organization managing quality control reviews are as shown in the table below.

(As of March 31, 2024)

Subordinate organizations	Main roles	Members
Quality Control Committee	Deliberates on and approves the following matters: <ul style="list-style-type: none"> ● Results of quality control reviews and measures based on those results^(*) ● Other matters necessary for the operation of the quality control review system, etc.^(*) 	<ul style="list-style-type: none"> ● Chairperson (the Vice President of JICPA) ● 10 members (7 are members of JICPA; the other 3 are academic experts who are not members of JICPA. 5 out of 7 are members of the Center for Examination of Quality Control.)
Center for Examination of Quality Control	Examines the implementation status and results of quality control reviews, as well as measures based on those results, and reports the results of the examination to the Quality Control Committee.	Composed of 6 parts, each having 5 members (including 1 head of each) who are members of JICPA.
Working Group on Revision of Quality Control Review Standards, etc.	Develops standards and procedures for the quality control reviews, as well as matters related to the revision or abolition of quality control review tools, and reports to the Quality Control Committee.	<ul style="list-style-type: none"> ● Chairperson (a member of the Quality Control Committee) ● 11 members (all are members of JICPA)
Quality Control Review Team	Investigates the status of quality control at audit firms and reports the findings to the Center for Examination of Quality Control.	<ul style="list-style-type: none"> ● Chief executive reviewer ● 6 Deputy chief executive reviewers ● 19 Chief reviewers ● 15 Staff reviewers

(*) Other than the above, the Quality Control Committee develops standards and procedures for quality control reviews and gives opinions to the Chairperson of JICPA on common issues related to audit firms or audit standards that have been identified through quality control reviews, as well as opinions on the Quality Control System and its operation.

3. Relationship with the CPAAOB

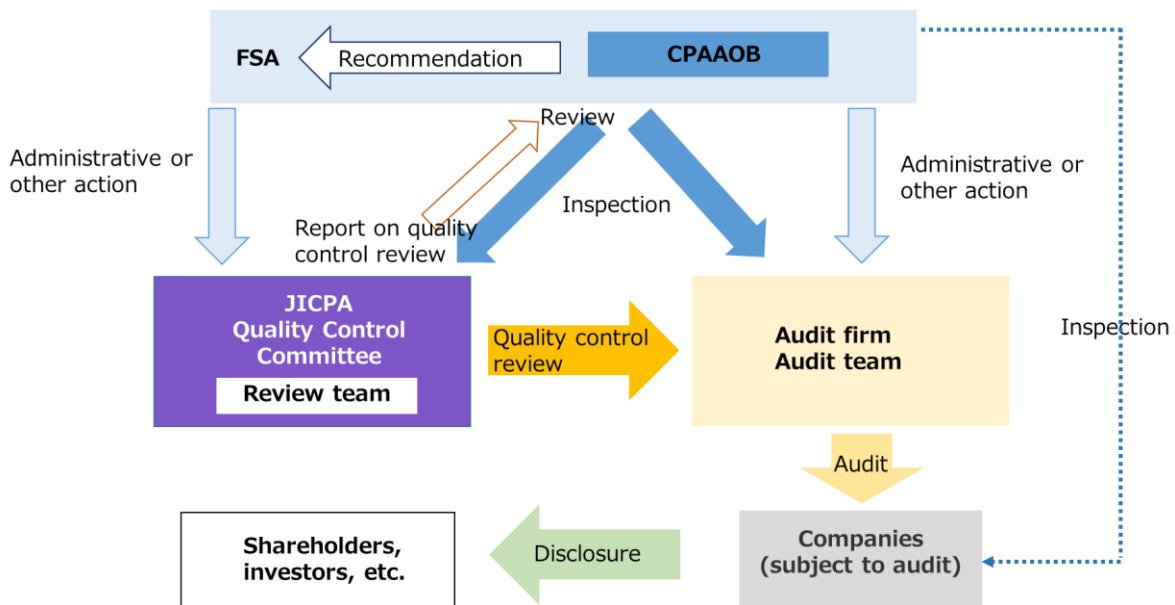
(1) Monitoring by the CPAAOB

In accordance with the CPA Act 46-9-2, Paragraph 2, JICPA is monitored by the Certified Public Accountants and Auditing Oversight Board (“CPAAOB”), which is an administrative body serving as a council that was established within the Financial Services Agency (“FSA”).

CPAAOB confirms whether a quality control review is appropriately conducted as well as whether audit firms appropriately conduct audits.

When CPAAOB deems it necessary, it recommends to the FSA the administrative dispositions or other measures necessary to ensure proper business operations.

The relationship between the FSA, the CPAAOB, audit firms and JICPA



(2) Cooperation with the CPAAOB

In order to enhance the effectiveness of the Quality Control Review System, JICPA holds staff meetings with the CPAAOB several times throughout the year. Through analyses of specific cases with CPAAOB, issues and associated measures for quality control reviews are summarized to be reflected in quality control reviews in the following fiscal years.

JICPA took the following actions in FY2023:

- JICPA reviewers and CPAAOB inspectors sat together and used individual cases to analyze various conclusions derived from quality control reviews and CPAAOB inspections. Improvement areas and issues identified through the analyses were communicated to JICPA reviewers through announcements and training for the purpose of enhancing quality control reviews.
- JICPA reviewers and CPAAOB inspectors exchanged views on the approach for FY2023 based on the three-year Quality Control Review Basic Policy (FY2023–FY2025), the 2023 Quality Control Review Policy, and issues in FY2024 and beyond, focusing on approaches to issues related to small and medium-sized audit firms that engage in audits of listed companies and similar companies.

In addition, JICPA reviewers and CPAAOB inspectors have worked together in a timely manner to discuss matters that could have significant impact on existing frameworks and perspectives, such as the Eligibility Confirmation Guidelines and the Revision to the Standards on Quality Control.

Furthermore, CPAAOB held a workshop for JICPA reviewers where participants discussed the current state and issues of the quality control review and solutions for them. CPAAOB also communicated their expectations for the quality control review at the workshop.

Going forward, JICPA will expand efforts to have a closer and more effective collaborative relationship with the CPAAOB in order to build a better Quality Control Review System and respond flexibly to the ever-changing environment.

Part 2 Implementation Status and Results

1. Implementation Status and Results of Quality Control Reviews

(1) Initiatives in FY2023 Based on the Quality Control Review Policy

In response to the introduction of the Registration System for Auditors that Engage in Audits of Listed Companies and Similar Companies and the application of the Revision to the Standards on Quality Control, JICPA developed and announced the three-year Quality Control Review Basic Policy (FY2023–FY2025) that includes actions and response policies for the three years from FY2023, focusing on the response to the change of frameworks, strengthening the Quality Review Control System to respond environmental changes and enhancement of instruction and oversight of small and medium-sized audit firms that engage in audits of listed companies and similar companies in June 2023. JICPA also developed and announced the 2023 Quality Control Review Policy that included focus areas in FY2023 simultaneously with the three-year Quality Control Review Basic Policy (FY2023–FY2025). JICPA has been working to ensure that the Quality Control Review System plays its role in accordance with these policies to maintain trust in relation to financial statement audits, and its status in FY2023 is outlined below.

Responding to reformed systems and revised standards
<p>The Registration System for Auditors that Engage in Audits of Listed Companies and Similar Companies</p> <p>JICPA developed the “Eligibility Confirmation Guidelines”, which clarified viewpoints and criteria to confirm the eligibility of auditors that engage in audits of listed companies and similar companies, surveyed the current states of deemed registered auditors that engage in audits of listed companies and similar companies, and provided instructions for audit firms that applied for registration to improve the design and implementation status of their operational control systems as necessary.</p> <p>Furthermore, JICPA conducted surveys in writing or reviews for the examination of registration to confirm the eligibility of audit firms that filed an application to be registered as an audit firm that engages in audits of listed companies and similar companies.</p> <p>(For more details, please refer to "(3) Confirmation of Eligibility under the Quality Control Review System.")</p>
<p>Revision to the Standards on Quality Control</p> <p>The audit firms subject to a regular review in FY2023 among those applied the Revision to the Standards on Quality Control, JICPA conducted regular reviews using it as criteria.</p>
Enhancing risk approach
<p>JICPA allocated resources efficiently and intensively to small and medium-sized audit firms that engage in audits of listed companies and similar companies by decreasing the frequency of regular reviews of audit firms that do not engage in audits of listed companies and similar companies.</p>

In addition, JICPA determined focus areas in FY2023, considering previous recommendations for improvement and recent trends in quality control reviews, and checked them thoroughly. Furthermore, JICPA has started to assess the "operational control systems of auditors that engage in audits of listed companies and similar companies" in FY2023 in addition to the "design and operation status of the quality control systems of audit firms" and "audit engagements."

Understanding and assessment of operational control systems

JICPA mainly checked the below points to confirm whether deemed registered auditors that engage in audits of listed companies and similar companies have established operational control systems to audit listed companies and similar companies fairly and appropriately.

- The status of the establishment of a dedicated department for quality control or the appointment of a certified public accountant to be primarily involved in quality control, clarification of responsibilities through appropriate division of duties, and the status of ensuring sufficient time for those responsible for the quality control to carry out quality control activities
- In cases when those responsible for the quality control are involved in audit engagements as an engagement partner, the number of audit engagements involved in as an engagement partner and the reasons for his/her involvement
- The design and implementation status of systems that enable members of audit firms to fully engage in capacity development

Further improving audit quality of small and medium-sized deemed registered auditors that engage in audits of listed companies and similar companies

Enhancing instruction on digitizing audit work papers / Strict measures against forging audit work papers

JICPA referred small and medium-sized audit firms to a specific process to introduce an electronic audit documentation system, and it set up a consulting service in its small and medium-sized audit firms support division.

Regarding inappropriate corrections of audit work papers, including forgeries, JICPA has taken strict actions such as obtaining a declaration regarding the "wrap-up of audit files and management and retention of audit work papers" and raising awareness that inappropriate corrections of audit work papers will be treated as a significant deficiency if identified.

Enhancing initiatives related to IT

For audit firms that were deemed to require instruction from a reviewer with IT expertise based on their IT environments, JICPA provided individual instruction on information security, including cybersecurity, in accordance with the Eligibility Confirmation Guidelines, considering the firm's size and the technology used.

In addition, the Quality Control Review Team and the small and medium-sized audit firms support division of JICPA shared information and exchanged views on information security instruction.

Strengthening instruction capability

Of the audit firms that underwent regular reviews in FY2023, for some of the deemed registered auditors that engage in audits of listed companies and similar companies, JICPA confirmed whether their measures for improvement were feasible and effective enough to address root causes (including their operational control systems) and strived to provide instruction by requiring these audit firms to reassess such measures for improvement as necessary at the end

of on-site reviews and after on-site reviews.

Furthermore, in preparation for the application to be registered, JICPA gathered the latest information relating to deemed registered auditors that engage in audits of listed companies and similar companies which were not subject to quality control reviews in FY2023, mainly through off-site monitoring, confirmed their deficiencies and improvement status and provided instruction.

Quality control review practices

Review procedures in response to digitizing audit work papers

For one audit firm subject to a regular review in FY2023, JICPA conducted some review procedures, including the examination of digitized audit work papers of individual engagements, at JICPA's office while taking thorough measures to ensure information security and management of the PC borrowed from the audit firm.

This improved the efficiency of the examination of audit work papers for individual engagements to an extent.

Clarification of quality control review reports

JICPA has been considering adding a section to the quality control review report for regular reviews so that involved parties can understand the Quality Control Review System.

Furthermore, from FY2024 onwards, JICPA will consider whether the quality control review report needs other revisions as a whole, taking into account discussions with relevant parties.

Strengthening the Quality Control Review System

With the introduction of the Registration System for Auditors that Engage in Audits of Listed Companies and Similar Companies, JICPA expanded the number of reviewers in the Quality Control Review Team in order to conduct reviews for the examination of registration, confirm the design and implementation status of audit firms' quality control systems and provide instruction in accordance with the Eligibility Confirmation Guidelines.

Furthermore, JICPA appointed senior personnel with extensive knowledge of the Quality Control Review System and its practices for the purpose of coaching reviewers as well as providing instructions to deemed registered auditors that engage in audits of listed companies and similar companies.

Relationship with the CPAAOB

Refer to "3. Relationship with the CPAAOB" in Part 1.

Enhancement of disclosure regarding quality control reviews

JICPA publicly released the "Overview of the Quality Control Review" and the "Collection of Commentary on Recommendations for Improvement Made in the Quality Control Review," and gave a lecture at a seminar hosted by the Japan Audit & Supervisory Board Members Association as part of its efforts to raise awareness of the Quality Control Review System.

Furthermore, in preparing this report to replace the previous "Overview of the Quality Control Review", JICPA responded to the needs of readers by including summary information at the beginning, eliminating duplication of disclosure content with publications related to other self-regulatory systems, and unifying the format.

Focus areas in FY2023

Under the FY2023 Quality Control Review Policy, reviewers were required to check the following focus areas determined by the Quality Control Committee when conducting regular reviews, based on previous recommendations for improvement and recent trends in quality control reviews.

JICPA added "operational control systems of auditors that engage in audits of listed companies and similar companies" in FY2023 to confirm the eligibility of such auditors.

- Design and operation of the quality control systems of audit firms
 - Culture that emphasizes the quality of audit engagement, governance and management of audit firms
 - Education/training of professional personnel
 - Professional ethics and independence
 - Acceptance of new engagements
 - Wrap-up of audit files and management and retention of audit work papers

- Audit engagements
 - Auditing accounting estimates
 - Identifying, assessing and addressing the risk of material misstatements including fraud risk
 - Evaluation of internal control in financial statement audit and internal control audit
 - Procedures for group audits
 - Key Audit Matters

- Operational control systems of auditors that engage in audits of listed companies and similar companies
 - Systems for conducting auditing work fairly and appropriately
 - Areas and items of causes of significant deficiencies in the design and implementation status of quality control systems

(2) Quality Control Reviews in FY2023

The following table shows the result of regular reviews and confirmations of improvement status in FY2023:

	Number of audit firms reviewed	Number of audit firms receiving review reports	Number of carried-over audit firms ^(*2)
Regular reviews	81 (92)	86 ^(*3) (89) ^(*4)	0 (5)
Confirmation of improvement status	9 (11)	10 ^(*5) (12) ^(*6)	0 (1)
Total	90 (103)	96 (101)	0 (6)
Number of audit firms subject to a regular review ^(*7)	222 (216)		
Percentage of audit firms reviewed under regular review	36% (43%)		
Percentage of audit firms reviewed	41% (48%)		

(*1) FY2022 numbers are shown in parentheses.

(*2) The audit firms were subject to a regular review and confirmation of improvement status in FY2022; however, the deliberation and approval of quality control review reports and Confirmation Result Reports of the Improvement Status were carried over to the next fiscal year (hereinafter referred to as "carried-over audit firms").

(*3) The number includes five audit firms carried over from FY2022.

(*4) The number includes two audit firms carried over from FY2021 and excludes five audit firms carried over to FY2023.

(*5) The number includes one audit firm carried over from FY2022.

(*6) The number includes two audit firms carried over from FY2021 and excludes one audit firm carried over to FY2023.

(*7) The number represents audit firms subject to regular review as of April 1, 2023 (the number in parentheses is as of April 1, 2022).

In principle, regular reviews are conducted every three years. The Quality Control Committee can decide to increase or decrease the frequency of regular reviews considering the improvement of the effectiveness and efficiency of a quality control review. However, even when decreasing the frequency of a regular review, it is conducted at least once every five years based on the JICPA Constitution. The number of audit firms in each fiscal year that went through a regular review less than three years from the previous review, as well as the number of audit firms for whom more than three years have passed but whose regular review schedule is extended, are presented below.

	FY2021	FY2022	FY2023
Number of audit firms with shorter review interval	10	10	17
Number of audit firms with extended review interval	12 ^(*)	14 ^(*)	5

(*) All firms underwent regular reviews in the following fiscal year, except for those that were no longer subject to regular reviews due to reasons such as the dissolution of the audit firm or the termination of all audit engagements with the company subject to regular reviews.

The breakdown of audit firms by size for those subject to regular reviews as well as those that underwent regular reviews or confirmation of improvement status is as follows:

Breakdown of audit firms by size

		Number of audit firms subject to regular review	Number of audit firms that underwent:			
			Regular review		Confirmation of improvement status	
Deemed registered auditors that engage in audits of listed companies and similar companies	Large-sized/ second-tier	9 (9)	2 (3)	–	(–)	
	Audit firms by the number of listed company audits	Over 10 companies	29 (24)	7 (10)	4 (4)	
		5–9 companies	30 (28)	14 (12)	1 (1)	
		2–4 companies	44 (49)	17 (21)	1 (4)	
		Less than 2 companies	21 (32)	11 (17)	– (1)	
	Sub-total ^(*2)	133 (142)	51 (63)	6 (10)		
Other audit firms ^(*3)	89 (74)	30 (29)	3 (1)			
Total		222 (216)	81 (92)	9 (11)		

(*1) The number of audit firms in FY2021 is shown in parentheses.

(*2) The number of audit firms in FY2023 in the "deemed registered auditors that engage in audits of listed companies and similar companies" row represents the number of audit firms after the period for submitting notifications to be subject to the statutory transitional measures, and the number of audit firms in FY2022 represents the number of firms registered under the Registration System for Audit Firms that Engage in Audits of Listed Companies (hereinafter referred to as the "Old System"), which was abolished on March 31, 2023. Note that there are differences from the figures for FY2022 because there are several audit firms that decided not to audit listed companies and similar companies after the application period of the statutory transitional measures, and audit firms that were audit firms that had undergone quality control reviews under the old system are no longer eligible to submit notifications to be subject to the statutory transitional measures.

(*3) Registered audit firms under the old system that are not eligible to submit notifications to be subject to the transitional measures under the statutes were included.

(3) Confirmation of Eligibility under the Quality Control Review System

Based on the amendment of the CPA Act in May 2022, JICPA has started to confirm the eligibility of auditors that engage in audits of listed companies and similar companies.

JICPA took the following actions in FY2023 related to eligibility confirmation:

(i) Development of the Eligibility Confirmation Guidelines

JICPA developed the Eligibility Confirmation Guidelines which clarified viewpoints and criteria to confirm whether auditors that engage in audits of listed companies and similar companies have established operational control systems to audit listed companies and similar companies fairly and appropriately, as stipulated by the CPA Act and its Enforcement Regulations.

(ii) Conducting surveys and providing instructions to the deemed registered auditors that engage in audits of listed companies and similar companies

The Quality Control Committee conducted a survey to determine whether the operational control systems of the 133 deemed registered auditors that engage in audits of listed companies and similar companies (as of June 30, 2023) meet the requirements of the Eligibility Confirmation Guidelines, using a questionnaire.

The Quality Control Committee also provided instructions to those auditors by collaborating with the Small and Medium-sized Audit Firms Group, which supports small- and medium-sized audit firms.

Furthermore, the Quality Control Committee assigned reviewers to all 133 deemed auditors that engage in audits of listed companies and similar companies, and each assigned reviewer confirmed its eligibility and provided individual instruction as necessary.

(iii) Regular reviews in preparation for application to be registered

Of the audit firms subject to regular reviews in FY2023, 50 deemed registered auditors that engage in audits of listed companies and similar companies, who were scheduled to apply for registration on the official roster of auditors that engage in audits of listed companies and similar companies, have undergone regular reviews in accordance with the Eligibility Confirmation Guidelines.

As a result of regular reviews in FY2023, the number of recommendations for improvement related to the quality control systems of audit firms increased significantly compared to previous regular reviews because some findings that were not considered deficiencies in FY2022 or earlier were considered deficiencies in FY2023 to further improve the quality of audits of listed companies and similar companies.

This increase in the number of recommendations for improvement is the result of encouraging

audit firms that audit listed companies and similar companies to improve their quality controls in accordance with the intent of the revised CPA Act, which aims to further improve the quality of audits of listed companies and similar companies before application to be registered on the official roster of auditors that engage in audits of listed companies and similar companies. It does not indicate that audit quality has deteriorated. (Details are provided in “(ii) Focus areas and review results” under “(4) Results of Regular Reviews”)

In addition, JICPA assigned two reviewers to each audit firm subject to a regular review in FY2023 to assess the audit firms’ quality control systems. The two reviewers conducted review procedures together which had previously been conducted by one reviewer.

* In FY2023, when conducting regular reviews of deemed registered auditors that engage in audits of listed companies and similar companies, JICPA pointed out as deficiencies any situations that fall under the examples of the Quality Control Review Procedures, Paragraph 590-7, etc., which are described in the Eligibility Confirmation Guidelines.

(iv) Status of confirmation of eligibility in quality control reviews in FY2023

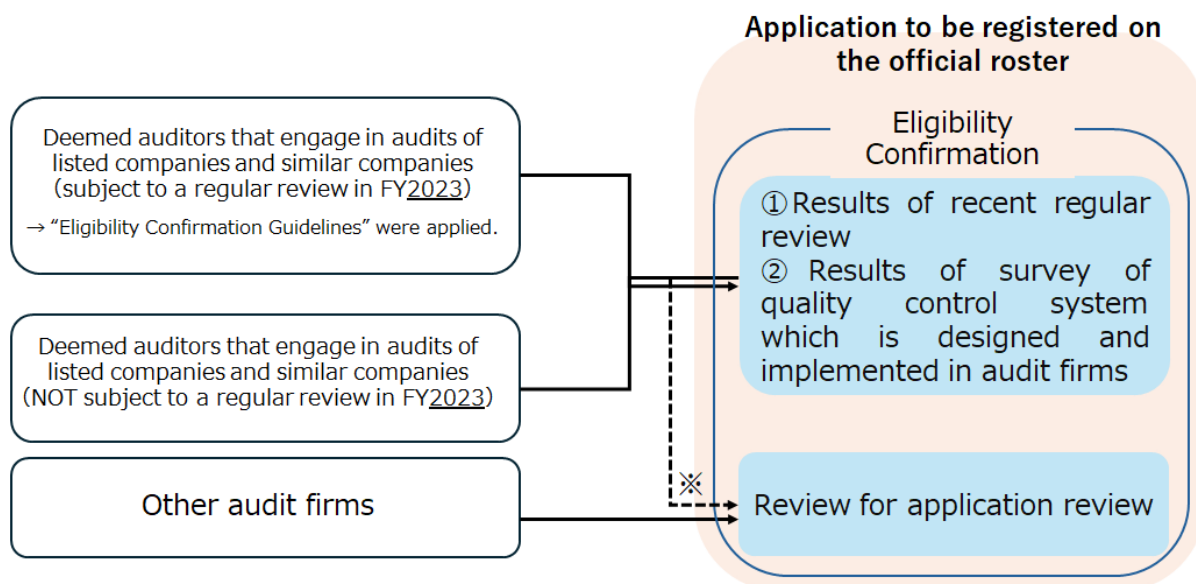
Based on the revised Supplementary Provision, Article 3, Paragraph 1, out of the 133 deemed registered auditors that engage in audits of listed companies and similar companies, those that continue to audit listed companies and similar companies in the future must apply to be registered on the official roster of auditors that engage in audits of listed companies and similar companies by September 30, 2024, when the transitional period ends.

Status of the eligibility confirmation of the audit firms which have applied for registration on the official roster of auditors that engage in audits of listed companies and similar companies are as follows:

- For deemed registered auditors that engage in audits of listed companies and similar companies and which meet certain conditions, a review for the examination of registration is not required. Instead, the Review Board for Registration of Auditors that Engage in Audits of Listed Companies and Similar Companies conducts review for the examination of registration based on (a) the results of regular reviews conducted within the past three fiscal years and (b) the results of a survey of quality control systems which are designed and implemented in audit firms.
- The Quality Control Committee conducted a survey of the 32 deemed registered auditors that engage in audits of listed companies and similar companies and which had applied to be registered on the official roster and confirmed that those auditors have established quality control systems by confirming the following items in writing through a survey form.

- Matters described in the Quality Control Review Procedures, Paragraph 590-7
- Operational control system stipulated in Article 34-13 of the CPA Act
- Quality control system to ensure that audits of listed companies and similar companies are conducted fairly and appropriately, as stipulated in Article 87-2 of the Enforcement Regulations of the Certified Public Accountant Act

- In FY2023, the first year of implementation, reviews for the examination of registration were conducted for four firms at the request of the Review Board for Registration of Auditors that Engage in Audits of Listed Companies and Similar Companies to the Quality Control Committee. (Details are provided in "(6) Status and Results of Reviews for the Registration Examination.")



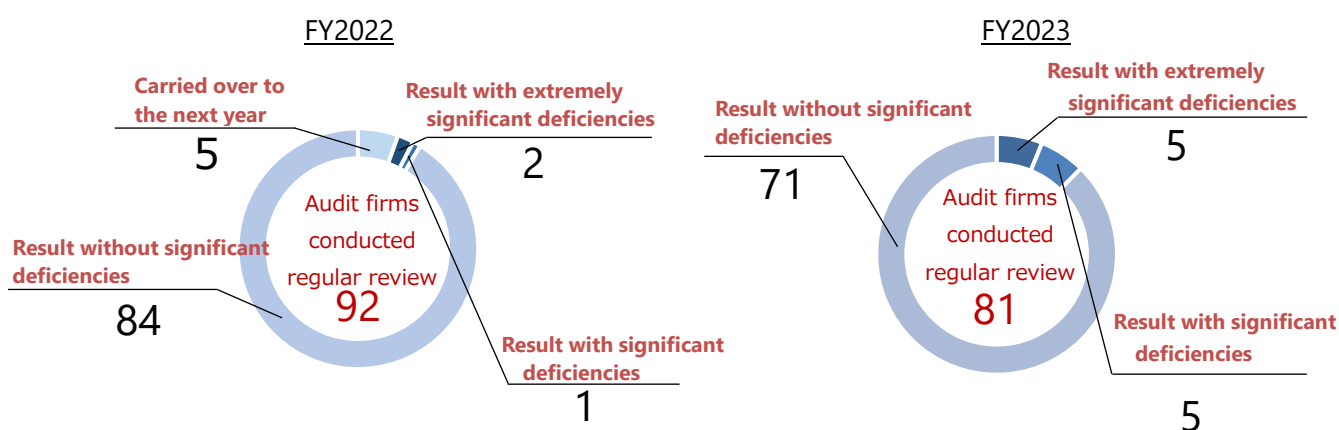
- * When the Review Board for Registration of Auditors that Engage in Audits of Listed Companies and Similar Companies deems it necessary, JICPA conducts a review for the examination of registration.

(4) Results of Regular Reviews

FY2023 results of quality control reviews and associated measures represent those deliberated and approved by the Quality Control Committee during the period from May 2023 to April 2024.

(i) Results of regular reviews

Regular reviews were conducted for 81 audit firms in FY2023. Of these, 71 audit firms received a result without significant deficiencies, five received a result with significant deficiencies, and five received a result with extremely significant deficiencies.



The number of audit firms that received a result with Significant Deficiencies was ten (compared to three audit firms that received a result with Significant Deficiencies in FY2022 and underwent a regular review in FY2023).

Out of five audit firms that underwent regular review in FY2022 whose quality control review report issuance was carried over to FY2023, two ended up receiving a result without significant deficiencies, two ended up receiving a result with extremely significant deficiencies, and one audit firm ended up no result. Of the five carried-over audit firms, two of the firms underwent a regular review or a confirmation of improvement status in FY2023 and received a quality control review report or a Confirmation Result Report of the Improvement Status.

The ten firms that were identified for their Significant Deficiencies in FY2023 seem to have the following common root causes: little appreciation for a culture that emphasizes the quality of audit engagement; lack of understanding of the current audit quality requirements; and the chief executive officer's lack of understanding relating to the necessity of organizing the firm to conduct systemic audits. These root causes typically result in deficiencies in the quality control system of an audit firm, such as engagement partners failing to give proper instruction and supervision,

insufficient review of audit work papers, and poor engagement quality control reviews and periodical inspections.

As a result of the above, a number of recommendations for improvement in focus areas for individual engagements were also made, including auditing accounting estimates and identifying, assessing and testing fraud risks and other risks of material misstatements.

The following table shows the breakdown of audit firms receiving quality control review reports for regular reviews, categorized by size of audit firm and type of review results:

Breakdown by size of audit firms

(Unit: Number of audit firms)

		Breakdown of review report type						
		Result without significant deficiencies	Result with significant deficiencies	Result with extremely significant deficiencies	No result	Carried-over audit firms	Total	
Deemed registered auditors that engage in audits of listed companies and similar companies	Large-sized/second-tier	2 (3)	– (–)	– (–)	– (–)	– (–)	2 (3)	
	Audit firms by the number of listed company audits	Over 10 companies	8 ^(*) (9)	– (–)	– (–)	– (–)	– (1)	8 (10)
		5–9 companies	13 (12)	1 (–)	– (–)	– (–)	– (–)	14 (12)
		2–4 companies	18 ^(*) (19)	– (1) ^(*)	– (–)	1 ^(*) (–)	– (2)	19 (22)
		Less than 2 companies	11 (17)	– (–)	– (–)	– (–)	– (–)	11 (17)
	Sub-total	52 (60)	1 (1)	– (–)	1 (–)	– (3)	54 (64)	
Other audit firms		21 (24)	4 (1)	7 ^(*) (3) ^(*)	– (–)	– (2)	32 (30)	
Total		73 (84)	5 (2)	7 (3)	1 (–)	– (5)	86 (94)	

- (*) FY2022 numbers are shown in parentheses.
- (*) Of the five audit firms that conducted regular reviews in FY2022 whose quality control review report issuance was carried over to FY2023, two audit firms are included in “Result without significant deficiencies,” two audit firms are included in “Result with extremely significant deficiencies,” and one audit firm is included in “No result.”
- (*) Of the two audit firms that conducted regular reviews in FY2021 whose quality control review report issuance was carried over to FY2022, one audit firm is included in “Result with significant deficiencies,” and the other is included in “Result with extremely significant deficiencies.”

! “Result with Significant Deficiencies” is expressed when it is concluded based on regular reviews that there is a concern for significant non-compliance with professional standards or applicable laws and regulations in the design and operation status of the quality control system of an audit firm. It does not automatically mean there is a significant compliance violation in auditing engagements or a doubt in the reasonableness of audit opinions.

(ii) Focus areas and review results

Reviewers are required to check focus areas for regular reviews when conducting site visits to provide instruction to audit firms as necessary and enhance their understanding.

a. Design and operation status of the quality control systems of audit firms

The following items regarding the design and operation status of the quality control systems of audit firms were assessed for their appropriateness and effectiveness. As a result, the number of audit firms that received recommendations for improvement is shown in the table below.

In addition, considering the intent of the May 2022 revision to the CPA Act, for the deemed registered auditors that engage in audits of listed companies and similar companies, JICPA conducted quality control reviews in FY2023 in accordance with the Eligibility Confirmation Guidelines with an aim to clarify the areas that need to be improved before applying for registration. It also treated some findings that were not considered deficiencies in FY2022 or earlier as deficiencies in FY2023 to further improve the quality of audits of listed companies and similar companies.

(Unit: Number of audit firms)

Focus areas	FY2021	FY2022	FY2023
1. Culture that emphasizes the quality of audit engagement, governance and management of audit firms	4	5	50
2. Hiring, education/training, evaluation and assignment of professional personnel	5	6	33
3. Professional ethics and independence	1	2	10
4. Acceptance of new engagements	(*3)	7	26
5. Wrap-up of audit files and management and retention of audit work papers	11	21	54

(*1) Some audit firms received multiple recommendations for improvement.

(*2) Only recommendations for improvement related to focus areas are tabulated.

(*3) Not applicable, as these items were not identified as focus areas in FY2021.

Recommendations for improvement related to “1. Culture that emphasizes the quality of audit engagement, governance and management of audit firms” include the following comments:

- The representatives of the audit firms did not review or assess the penetration level of the communication regarding the importance of focusing on the audit quality.
- The representatives of the audit firms did not clarify specific requirements on adequate knowledge, experience and capability of the quality control representative as well as independence and objectivity from the audit engagement.
- The representatives of the audit firms did not record the actual working hours of each

activity of the quality control representative.

Recommendations for improvement related to "2. Hiring, education/training, evaluation and assignment of professional personnel" include the following comments:

- The representatives of the audit firms did not specify the training that should be taken by members of the audit firms.
- The representatives of the audit firms did not establish specific policies and procedures regarding education and training to reasonably ensure a sufficient number of professional personnel with the necessary aptitude, ability and experience as well as the required professional ethics for audit engagements.

Recommendations for improvement related to "3. Professional ethics and independence" include the following comments:

- The representatives of the audit firms did not establish specific policies and procedures regarding the long-term involvement of engagement partners and engagement quality control reviewers.
- The policies and procedures regarding the long-term involvement of engagement partners and engagement quality control reviewer were not approved by the board of partners.

Recommendations for improvement related to "4. Acceptance of new engagements" include the following comment:

- The representatives of the audit firms did not establish specific policies and procedures regarding acceptance and continuance of engagements.

Recommendations for improvement related to "5. Wrap-up of audit files and management and retention of audit work papers" include the following comment:

- The representatives of the audit firms did not develop adequate procedures to prevent inappropriate amendments or additions to audit work papers.

b. Individual engagements

The following items were identified as focus areas for individual engagements. The number of audit firms that received recommendations for improvement by each focus area is presented below.

(Unit: Number of audit firms)

Focus areas	FY2021	FY2022	FY2023
1. Key Audit Matters	–	11	10
2. Auditing accounting estimates	47	51	55
3. Identifying, assessing and addressing the risk of material misstatements due to fraud	5	–	–
• Professional skepticism			
• Revenue recognition	32	28	56
• Risk of management's override of internal controls	27	35	46
4. Procedures for group audits	3	5	6
5. Evaluation of internal control in financial statement audit and internal control audit	2	–	3

(*1) Some audit firms received multiple recommendations for improvement.

(*2) Only recommendations for improvement related to focus areas are tabulated.

As in FY2022, recommendations for improvement were mainly related to the following areas:

Regarding "2. Auditing accounting estimates," recommendations were mainly related to impairment accounting of fixed assets, as well as accounting estimates, including allowance for doubtful accounts and valuation of shares and inventories. For example, comments included a lack of understanding and consideration of the company and its environment, the applicable financial reporting framework and the company's internal control system, which were related to accounting estimates, as well as a lack of consideration of audit procedures to examine significant assumptions used by management in developing accounting estimates.

In "revenue recognition," which is included in "3. Identifying, assessing and addressing the risk of material misstatements due to fraud," there were many issues. For example, audit teams did not perform audit procedures to address fraud risks or sufficiently consider fraud risk scenarios and reasonable reasons for not identifying significant risk.

Regarding the "risk of management's override of internal controls," there were many issues. For example, audit teams did not sufficiently consider the conditions for extracting journal entries in response to fraud risk scenarios and did not perform audit procedures to examine extracted journal entries.

The Quality Control Review Team provides instructions to audit firms to improve these recommendations and confirm remedial actions taken by the firms.

- c. Operational control systems of auditors that engage in audits of listed companies and similar companies

Regarding operational control systems of auditors that engage in audits of listed companies and similar companies, JICPA confirmed about the areas and items of causes of significant deficiencies in (a) the systems for auditing fairly and appropriately and (b) the design and implementation status of quality control systems.

As a result, the number of audit firms that received recommendations for improvement is as stated above in "a. Design and operation status of the quality control systems of audit firms."

(5) Implementation Status and Results of Special Reviews

JICPA did not conduct any special reviews in FY2023.

The implementation status and results of the special reviews, including the number of audit firms, are as follows:

	FY2021	FY2022	FY2023
Themes	Audit of amended annual securities report for previous fiscal years	Audit of amended annual securities report for previous fiscal years	–
Number of audit firms	1	1	–
Result	Result without significant deficiencies	Result without significant deficiencies	–

(6) Implementation Status and Results of Reviews for the Examination of Registration

In FY2023, JICPA conducted reviews for the examination of registration in response to requests from the Review Board for Registration of Auditors that Engage in Audits of Listed Companies and Similar Companies to the Quality Control Committee.

JICPA confirmed the design and implementation status of audit firms' quality control systems including compliance with legal requirements to audit the financial statements of listed companies and similar companies fairly and appropriately. As a result of confirmation, there were no significant deficiencies.

When confirming, JICPA fully considered the design and implementation status of audit firms and application status of quality control systems in audit works.

There were 11 audit firms that withdrew their applications for registration due to deficiencies related to operational control systems and quality control systems which were pointed out by quality control reviewers before the review for the examination of registration.

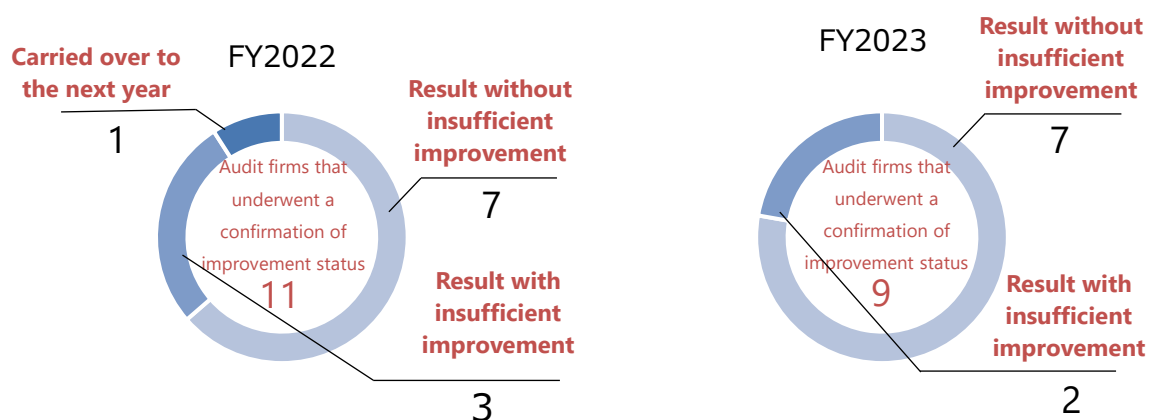
Result	Number of audit firms that underwent review for application review
Result with extremely significant deficiencies	–
Result with significant deficiencies	–
Result without significant deficiencies	4
Total	4

* In addition to the table above, JICPA started to conduct the review procedures for one audit firm that applied for registration in March 2024.

(7) Confirmation of Remedial Actions

(i) Confirmation of improvement status

Results for the 9 audit firms that underwent a confirmation of improvement status in FY2023 are as follows:



According to the confirmation of improvement status in FY2023, out of the seven audit firms without insufficient improvement, one audit firm showed improvement in all of the recommendations for improvement identified in the previous fiscal year's quality control review but different new recommendations for improvement were identified in associated areas. There were two audit firms that received a "result with insufficient improvement" in FY2023. Out of the three audit firms that received a "result with insufficient improvement" in FY2022, based on the individual circumstances of each, one firm underwent a regular review in FY2023 by shortening its review cycle, and one firm went through another confirmation of improvement status in FY2023. The last one was not subject to a regular review or confirmation of improvement status because it was dissolved. The one audit firm that went through a confirmation of improvement status in FY2022 but whose issuance of the Confirmation Result Report of the Improvement Status was carried over to FY2023 ended up receiving a "result without insufficient improvement" but underwent a regular review in FY2023 because different new recommendations for improvement in associated areas were identified when confirming the improvement status.

The following represents a breakdown by the size of audit firms whose improvement status was confirmed.

Breakdown by the size of audit firms

(Unit : Number of audit firms)

		Confirmation results								
		Result without insufficient improvement	Result with insufficient improvement	Carried-over audit firms	Total					
Deemed registered auditors that engage in audits of listed companies and similar companies	Large-sized/ second-tier	-	(-)	-	(-)	-	(-)			
	Audit firms by the number of listed company audits	Over 10 companies	5 ^(*2)	(3)	-	(-)	-	(1)	5	(4)
		5-9 companies	-	(1)	1	(-)	-	(-)	1	(1)
		2-4 companies	-	(3)	1	(-)	-	(-)	1	(3)
		Less than 2 companies	-	(-)	-	(1)	-	(-)	-	(1)
Sub-total		5	(7)	2	(1)	-	(1)	7	(9)	
Other audit firms		3	(1) ^(*3)	-	(3) ^(*3)	-	(-)	3	(4)	
Total		8	(8)	2	(4)	-	(1)	10	(13)	

(*1) FY2022 numbers are shown in parentheses.

(*2) The one audit firm that went through a confirmation of improvement status in FY2022 but whose issuance of the Confirmation Result Report of the Improvement Status was carried over to FY2023 is included.

(*3) The two audit firms that went through a confirmation of improvement status in FY2021 but whose issuance of the Confirmation Result Report of the Improvement Status was carried over to FY2022 are included individually in each category.

(ii) Confirmation of remedial actions in writing

In the fiscal year following a quality control review, all audit firms that received recommendations for improvement as a result of a quality control review are required to submit an Improvement Status Report to the Quality Control Committee. The Quality Control Review Team confirms the implementation status of remedial actions.

Improvement Status Reports submitted by audit firms showed the following results:

(Unit : Number of audit firms)

		FY2021	FY2022	FY2023
Number of audit firms that are subject to the review of Improvement Status Reports		46 ^(*1)	56	76
Number of audit firms with concerns of insufficient improvement	With concern	1 ^(*2)	-	-
	No concern	44	56	76

(*1) Includes one audit firm that could not be confirmed for its status of whether or not remedial actions were appropriately implemented based on a review of its Improvement Status Report. Thus, no conclusion could be made in FY2021 as to whether it had concerns of insufficient improvement. A regular review was conducted for the audit firm in FY2022, which ended up receiving a "result without significant deficiencies."

(*2) JICPA changed the review plan in FY2021 and conducted confirmation of improvement status for one firm. As a result, a Confirmation Result Report of the Improvement Status with a result with insufficient improvement was issued to the audit firm in FY2022.

(8) Measures Taken as a Result of Quality Control Reviews

(i) Determination of measures

The following table shows measures taken as a result of regular reviews.

(Unit: Number of audit firms)

Results of quality control reviews	Measures ^(*3)	FY2021	FY2022	FY2023
Results with extremely significant deficiencies	Recommendation to withdraw from audit engagements	1	1	4
	Recommendation to withdraw from audit engagements (Insufficient improvement)	–	2	2
	Severe warning	–	–	1
	Sub-total	1	3	7
Results with significant deficiencies	Recommendation to withdraw from audit engagements (Insufficient improvement)	–	1	–
	Severe warning	3	1	2
	Severe warning (Insufficient improvement)	1	–	–
	Warning	1	–	1
	Warning (Insufficient improvement)	–	–	2
	Sub-total	5	2	5
Results without significant deficiencies but with recommendations for improvement	Severe warning (Insufficient improvement)	–	–	1
	Warning (Insufficient improvement)	3	6	7
	Sub-total	3	6	8
No result	Warning (Insufficient improvement)	–	–	1
Total		9	11	21

(*1) More than one measure could be taken against an audit firm as a result of quality control reviews. With that in mind, audit firms are classified in the above table based on the most severe measure taken against them. Therefore, the number of measures in the table above does not correspond to the total number of measures taken against audit firms.

(*2) There were one audit firm in FY2021, two in FY2022, and three in FY2023, which were carried over from previous fiscal years and whose measures were determined in FY2021, FY2022 and FY2023, respectively. The

results of the quality control reviews and measures taken against those audit firms were “Results with extremely significant deficiencies and recommendation to withdraw from audit engagements” in FY2021, “Results with extremely significant deficiencies and recommendation to withdraw from audit engagements (Insufficient improvement)” and “Results with significant deficiencies and recommendation to withdraw from audit engagements (Insufficient improvement)” in FY2022, “Results with extremely significant deficiencies and recommendation to withdraw from audit engagements” and “No Result and warning (Insufficient improvement)” in FY2023.

(*3) “Recommendation to withdraw from audit engagements (Insufficient improvement),” “Severe warning (Insufficient improvement),” and “Warning (Insufficient improvement)” in the “Measures” column are determined based on the confirmation of improvement status as a result of insufficient improvement in their remedial actions.

The following table shows measures taken as a result of refusal of review and confirmation of improvement status.

(Unit: Number of audit firms)

Result of quality control reviews	Measures	FY2021	FY2022	FY2023
Refusal of review	Recommendation to withdraw from audit engagements	1 ^(*2)	–	–
Confirmation results with insufficient improvement	Recommendation to withdraw from audit engagements (Insufficient improvement)	–	1	–
	Warning (Insufficient improvement)	3	3 ^(*3)	2
Total		4	4	2

(*1) More than one measure could be taken against an audit firm as a result of quality control reviews. With that in mind, audit firms are classified in the above table based on the most severe measure taken against them. Therefore, the number of measures in the table above does not correspond to the total number of measures taken against audit firms.

(*2) Review was refused and the confirmation of improvement status was canceled accordingly.

(*3) Includes one audit firm that underwent a confirmation of improvement status in FY2021 and for which the issuance of a Confirmation Result Report of the Improvement Status and determination of measures were carried over to FY2022.

(ii) Reporting to the Chairman of the Audit Practice Review and Investigatory Committee

Through quality control reviews, when a significant doubt arises on the appropriateness of an audit opinion expressed by an audit firm or when a significant doubt arises as to the compliance with the regulation and constitution of JICPA, the issue shall be reported to the Chairman of the Audit Practice Review and Investigatory Committee.

The number of audit firms reported to the Chairman of the Audit Practice Review and Investigatory Committee is as follows:

(Unit: Number of audit firms)

	FY2021	FY2022	FY2023
Refusal of review	1 ^(*)	–	–
Results with extremely significant deficiencies	1	3	6
Results with significant deficiencies	–	1	–

(*) One audit firm refused a review and the confirmation of improvement status was canceled accordingly, which was reported to the Chairman of the Audit Practice Review and Investigatory Committee.

2. Recommendations for Improvement related to Regular Reviews

The following table shows the breakdown of recommendations for improvement made to audit firms as a result of regular reviews, which are classified into those related to the quality control system of the audit firm and the quality control of individual engagements. Recommendations for improvement related to carried-over audit firms from previous fiscal years are also included in the table.

Breakdown of recommendations for improvement

Fiscal year	Number of recommendations for improvement			Number of audit firms that received quality control review reports	Of which, number of audit firms with recommendations for improvement	Individual engagements selected for quality control review
	Quality control system of the audit firm	Quality control of individual engagements	Total			
FY2022	112	577	689	89	89	194
FY2023	460	684	1,144	86	86	176

(*) Two carried-over audit firms from FY2021 are included in the FY2022 row and received recommendations for improvement. The number of those related to the quality control system of the audit firm and the quality control of individual engagements were 19 and 67, respectively. Four individual engagements were selected for quality control review. Likewise, five carried-over audit firms from FY2022 are included in the FY2023 row and received recommendations for improvement. The number of those related to the quality control system of the audit firm and the quality control of individual engagements were 17 and 60, respectively. 10 individual engagements were selected for quality control review.

(1) Recommendations for Improvement Related to the Quality Control System of the Audit Firm

The following table shows the number of recommendations for improvement related to the quality control system of the audit firm.

Considering the intent of the May 2022 revision to the CPA Act, of the audit firms subject to regular reviews in FY2023, for the deemed registered auditors that engage in audits of listed companies and similar companies, JICPA conducted regular reviews in accordance with the Eligibility Confirmation Guidelines with an aim to clarify the areas that need to be improved before applying for registration, and it treated some findings that were not considered deficiencies in FY2022 or earlier as deficiencies in FY2023 to further improve the quality of audits of listed companies and similar companies.

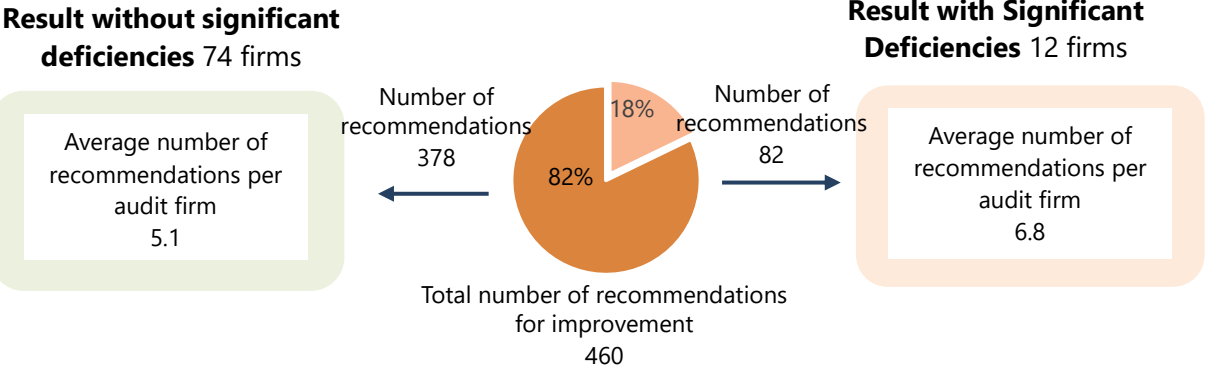
As a result, the number of recommendations for improvement related to the quality control systems of audit firms increased significantly compared to previous regular reviews.

Number of recommendations for improvement related to the quality control system of the audit firm

Result of reviews	Number of recommendations for improvement		Number of audit firms that received quality control review reports		
	(A)	Average per audit firm (A/B)	(B)	Of which, number of audit firms with recommendations for improvement	
Result without significant deficiencies	378 (67)	5.1 (0.8)	74 (84)	66 (30)	89% (36%)
Result with Significant Deficiencies	82 (45) ^(*3)	6.8 (9.0)	12 (5)	12 (5)	100% (100%)
Total	460 (112)	5.3 (1.3)	86 (89)	78 (35)	91% (39%)

(*1) FY2022 figures are in parentheses.
 (*2) The two carried-over audit firms from FY2021 included in the FY2022 figures received results with Significant Deficiencies and 19 recommendations for improvement. Likewise, of the five carried-over audit firms from FY2022, two audit firms included in the FY2023 figures received results with Significant Deficiencies and 10 recommendations for improvement.
 (*3) Out of the total recommendations, 43 (22) led to Significant Deficiencies.

Audit firms that received quality control review reports in FY2023 86 firms



! Recommendations for improvement represent matters with a certain degree of concern for significant non-compliance with professional standards as well as applicable laws and regulations. They are recommendations described in the Recommendation Reports, representing matters requiring improvement for the purpose of enhancing audit quality control.

! Since the number of audit firms that undergo regular reviews varies from year to year, the number of recommendations for improvement cannot simply be compared year-on-year. Still, they should be able to provide some useful information about the trends in recommendations made. Hence, recommendations for information are broken down into those regarding the quality control system of the audit firm and those regarding the quality control of individual engagements.

Most common recommendations for improvement (related to the quality control system of the audit firm)

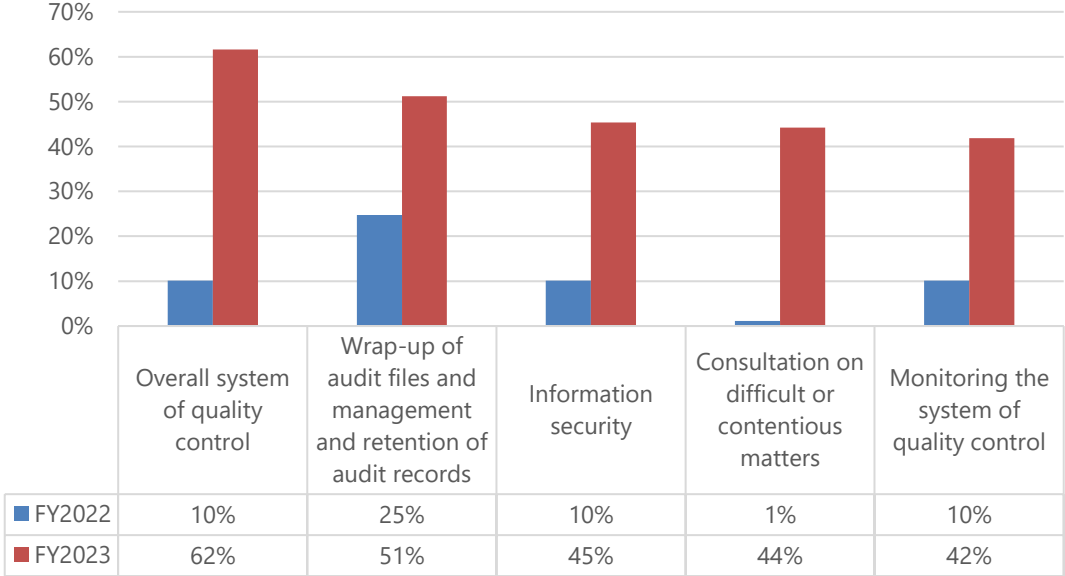
Of the improvement recommendations related to the quality control systems of the audit firm, the occurrence rate has increased for all of the top five most common areas compared to FY2022.

Note that up until FY2022, the number of recommendations for improvement related to information security was included in the category of "overall system of quality control," but from FY2023, it was treated as a separate area. When comparing the two periods, it was extracted from the category of "overall system of quality control (including information security)" in FY2022.

The most common recommendations for improvement are as follows:

Top five recommendations for improvement	Typical example
Overall system of quality control	<ul style="list-style-type: none"> ● The representatives of the audit firms did not review or assess the penetration level of the communication regarding the importance of focusing on the audit quality. ● The representatives of the audit firms did not clarify specific requirements on adequate knowledge, experience and capability of the quality control representative as well as independence and objectivity from the audit engagement. ● The representatives of the audit firms did not record the actual working hours of each activity of the quality control representative.
Wrap-up of audit files and management and retention of audit work papers	The representatives of the audit firms did not develop adequate procedures to prevent inappropriate amendments or additions to audit work papers.
Information security	The representatives of the audit firms did not develop specific regulations regarding overall information security.
Consultation on difficult or contentious matters	<p>The representatives of the audit firms did not clarify the following matters:</p> <ul style="list-style-type: none"> ● Cases which require expert opinion ● Experts whom the audit team can contact ● Specific requirements on adequate knowledge, experience and capability of experts ● Policy for assessing the suitability of experts
Monitoring the system of quality control	The representatives of the audit firms did not put specific procedures in place for accepting information related to fraud risks from inside and outside the office.

Occurrence rate of recommendations for improvement (regarding the quality control system of the audit firm)



(Note) Occurrence rate of recommendations for improvement = $\frac{\text{Number of audit firms provided with recommendations for each item}}{\text{Number of audit firms that received quality control review reports}}$

(2) Recommendations for Improvement Related to the Quality Control of Individual Engagements

The following table shows the number of recommendations for improvement related to the quality control of individual engagements.

Number of recommendations for improvement related to the quality control of individual engagements

Result of reviews	Number of recommendations for improvement (A)		Average per audit engagement (A/B)	Number of audit firms that received quality control review reports	Individual engagements selected for quality control review (B)		
						Of which, number of engagements provided with recommendations for improvement	
Result without significant deficiencies	528	(451)	3.3 (2.4)	74 (84)	162 (186)	137 (147)	85% (79%)
Result with Significant Deficiencies	156	(126) ^(*3)	11.1 (15.8)	12 (5)	14 (8)	14 (8)	100% (100%)
Total	684	(577)	3.9 (3.0)	86 (89)	176 (194)	151 (155)	86% (80%)

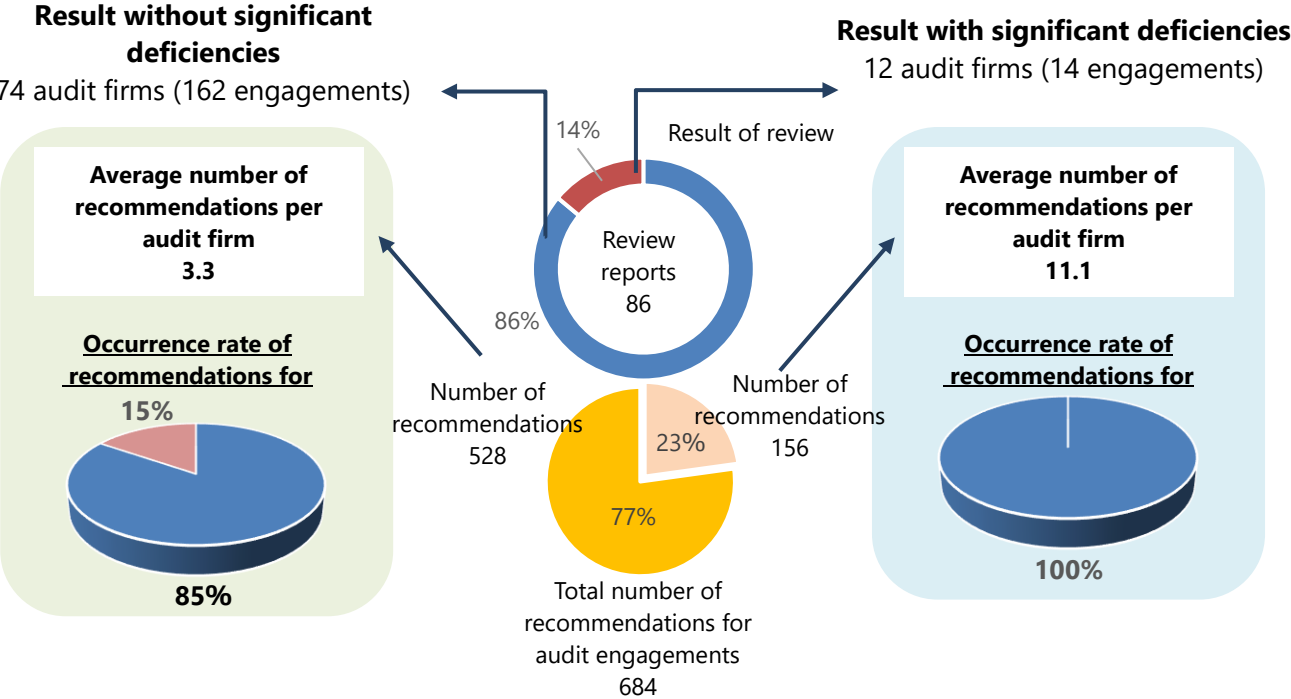
(*1) FY2022 figures are in parentheses.

(*2) The two carried-over audit firms from FY2021 included in the FY2022 figures received results with Significant Deficiencies and 67 recommendations for improvement for four selected engagements. Likewise, of the five carried-over audit firms from FY2022, two audit firms included in the FY2023 figures received results with Significant Deficiencies with 22 recommendations for improvement for two selected engagements.

(*3) Out of the total recommendations, 40 (35) led to Significant Deficiencies.

Audit firms that received quality control review reports in FY2023

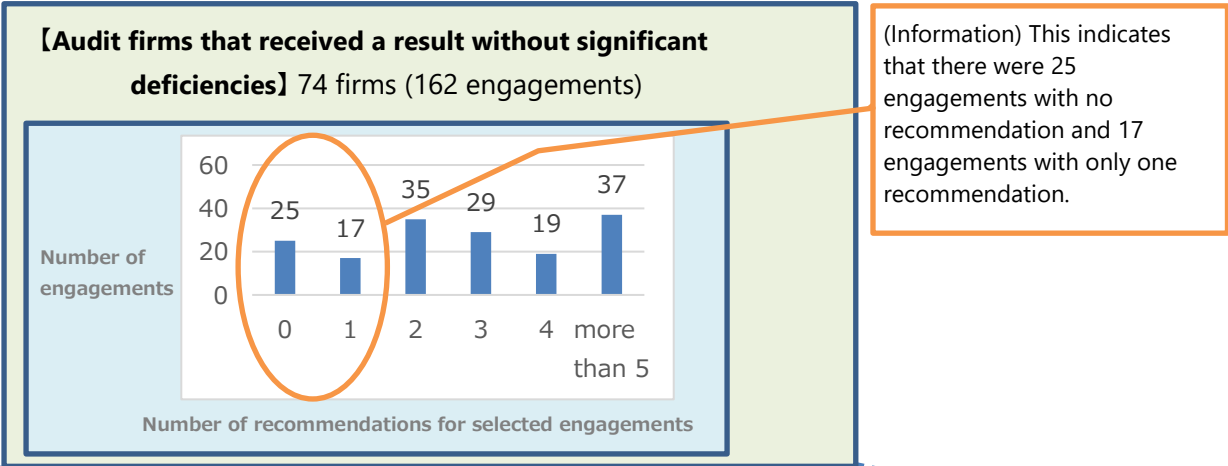
86 audit firms (176 engagements)



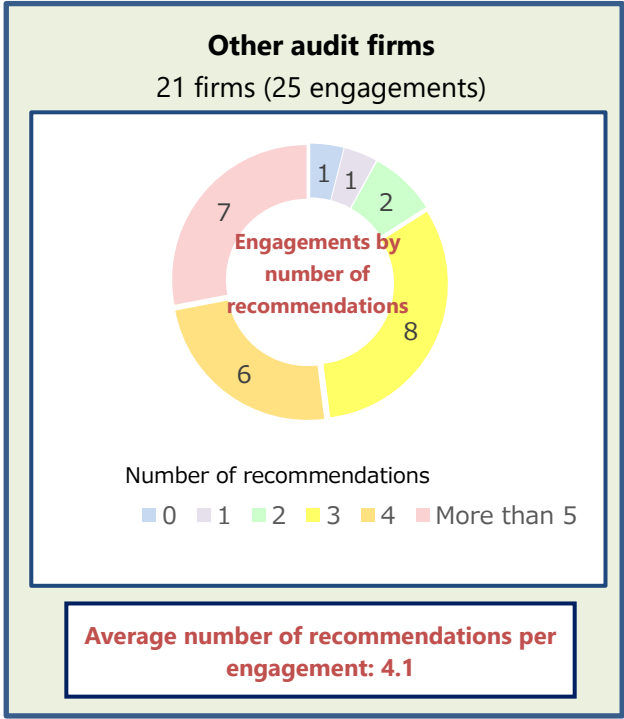
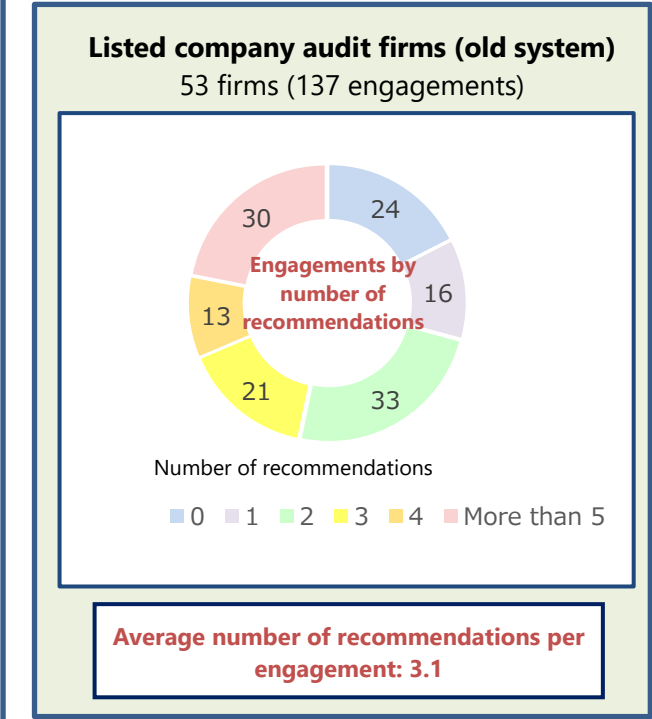
Recommendations for improvement for audit firms that received a result without significant deficiencies

Regarding audit firms that received a result without significant deficiencies, the number of recommendations for selected individual engagements is represented as follows:

Number of recommendations for improvement for selected engagements



Classification by registration status



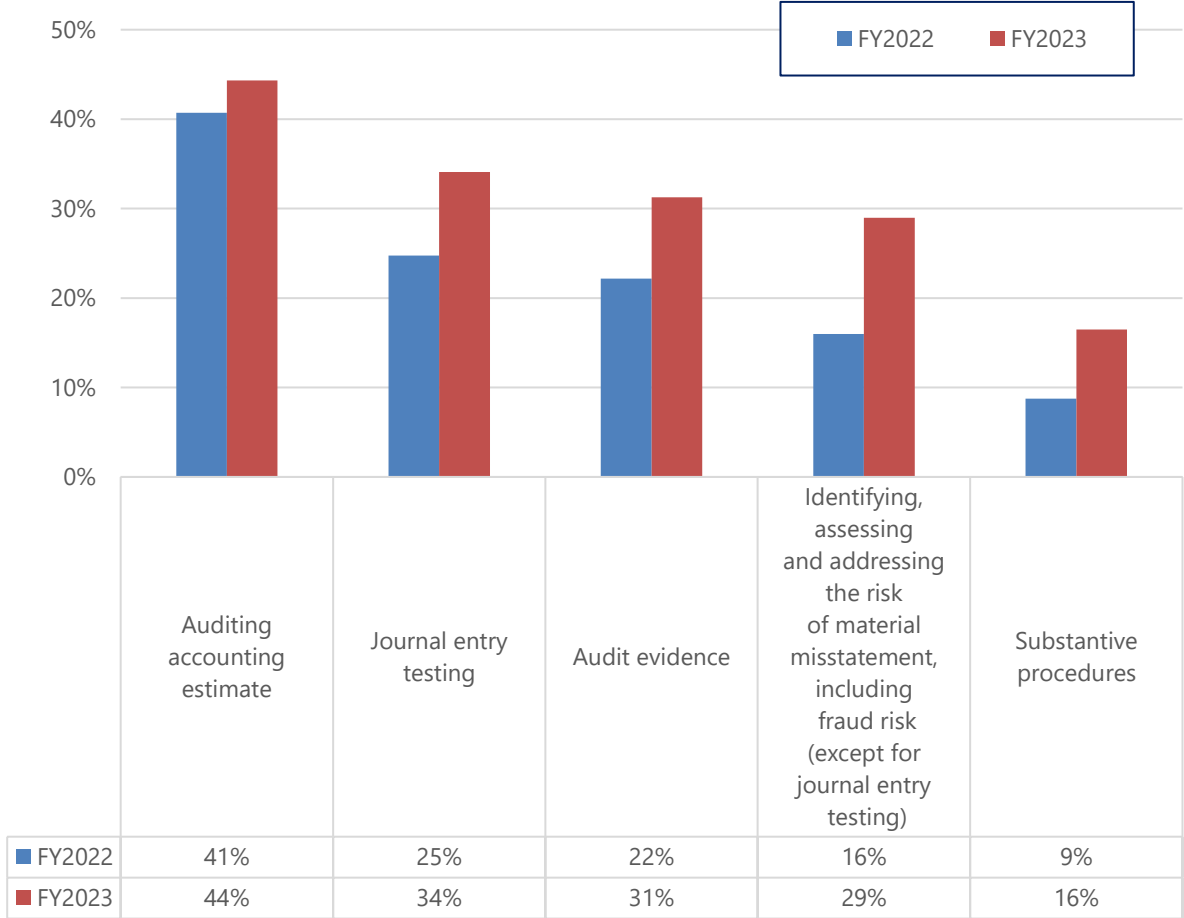
Most common recommendations for improvement (regarding the quality control of individual engagements)

Of the improvement recommendations related to the quality control of individual engagements, the occurrence rate has increased for all of the top five most common areas compared to FY2022.

The most common recommendations for improvement are as follows:

Top five recommendations for improvement	Typical example
Auditing accounting estimates	Recommendations for improvement were mainly related to impairment accounting of fixed assets, as well as accounting estimates, including allowance for doubtful accounts and valuation of shares and inventories. For example, comments included a lack of understanding and consideration of the company and its environment, the applicable financial reporting framework and the company's internal control system, which were related to accounting estimates as well as a lack of consideration of audit procedures to examine significant assumptions used by management in developing accounting estimates.
Journal entry testing	<ul style="list-style-type: none"> ● Audit teams did not sufficiently consider conditions for extracting journal entries in response to fraud risk scenarios ● Audit teams did not perform audit procedures to examine extracted journal entries.
Audit evidence	Audit teams did not acquire evidence on accuracy and completeness of information produced by the entity.
Identifying, assessing and addressing the risk of material misstatements including fraud risk (except for journal entry testing)	<ul style="list-style-type: none"> ● Audit teams did not perform audit procedures to address fraud risks ● Audit teams did not sufficiently consider fraud risk scenarios and reasonable reasons for not identifying significant risks.
Substantive procedures	Audit teams did not design or perform substantive procedures for significant classes of transactions, account balances, or disclosures.

Occurrence rate of recommendations for improvement (regarding the quality control of individual engagements)



(Note) Occurrence rate =
$$\frac{\text{Number of engagements provided with recommendations for each item}}{\text{Number of selected engagements}}$$

