

Self-regulation Report 2025

— Quality Control Review System —



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(*) JICPA's fiscal year begins on April 1 and runs until March 31 of the following year. Accordingly, this report refers to the fiscal year beginning April 1, 2025, as FY2025.

I. Quality Control Review System

1. Overview of the Quality Control Review System

(1) Overview and Purpose of the 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 the aim of maintaining and enhancing an appropriate level of audit quality and maintaining and ensuring social confidence in audits.

In light of the intent of Article 46-9-2 of the Certified Public Accountants Act (hereinafter referred to as the "CPA Act") and pursuant to Article 77 of the JICPA Constitution, the Quality Control Committee established within JICPA conducts quality control reviews of certified public accountants or audit firms (hereinafter referred to as "audit firms") to assess the design and operation status of each audit firm's system of quality management for audits (hereinafter referred to as the "system of quality management"), including its risk assessment process; notifies audit firms of the results; and, as necessary, makes recommendations for improvement and determines appropriate measures.

Quality control reviews are intended to provide guidance and supervision to audit firms (including supervisory measures). They are not intended to identify or discipline misconduct or to interfere with the formation of audit opinions expressed 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 of Listed Companies, etc. since April 2023. In this system, JICPA conducts "Confirmation of Eligibility" to verify whether the registration applicant and registered auditors of listed companies, etc., have the necessary systems in place to perform audits of listed companies, etc., fairly and properly.

All audit firms must establish an operation control structure, including personnel systems. Audit firms that audit listed companies, etc. are required to maintain an operation control structure subject to a higher level of discipline so that they can perform such audit engagements fairly and properly.

Furthermore, Confirmation of Eligibility is contingent on the Quality Control Review System, and registration is reviewed based on the information obtained through these reviews. In addition, even after registration in the roster of auditors of listed companies, etc., JICPA continuously monitors the efforts of each audit firm through quality control reviews.

[Quality Control Review Conducted for Confirmation of Eligibility]

Audit firms subject to review	Timing of review	Type of quality control review	Purpose and matters to be confirmed
Registration applicants	When applying for registration	Review for application review	To confirm the applicant's eligibility as a registered auditor of listed companies, etc., including design status of its system of quality management
Registered auditors of listed companies, etc. (with audit engagements subject to regular review)	When a regular review is conducted	Regular review	To also confirm, during the regular review, whether they comply with the requirements prescribed by laws and regulations concerning their framework for fairly and properly performing audit and attestation services with regard to the financial documents of listed companies, etc., and their other operation control structures
Registered auditors of listed companies, etc. (without audit engagements subject to regular review)	When the Review Board for Registration on Auditors of Listed Companies, etc. deems it necessary	Review for application review	To confirm their eligibility as registered auditors of listed companies, etc., including the status of the design of their systems of quality management
(Reference) The Board of Directors of the International Federation of Accountants (IFAC) has established the Statements of Membership Obligations (SMO) 1-7, IFAC member organizations are required to clearly set out and implement actions to meet the requirements specified in the SMOs. SMO 1 – Quality Assurance sets out requirements for member organizations concerning quality assurance review systems for firms that perform audits and other assurance engagements. As a member of IFAC, JICPA conducts quality control reviews in Japan in accordance with SMO 1.			

(2) The Audit Firm's System of Quality Management

In quality control reviews, JICPA assesses the design and operation of the audit firm's system of quality management based on quality control review standards and procedures based on the JICPA's Constitution since audit firms must properly design and operate a system of quality management covering the following matters:

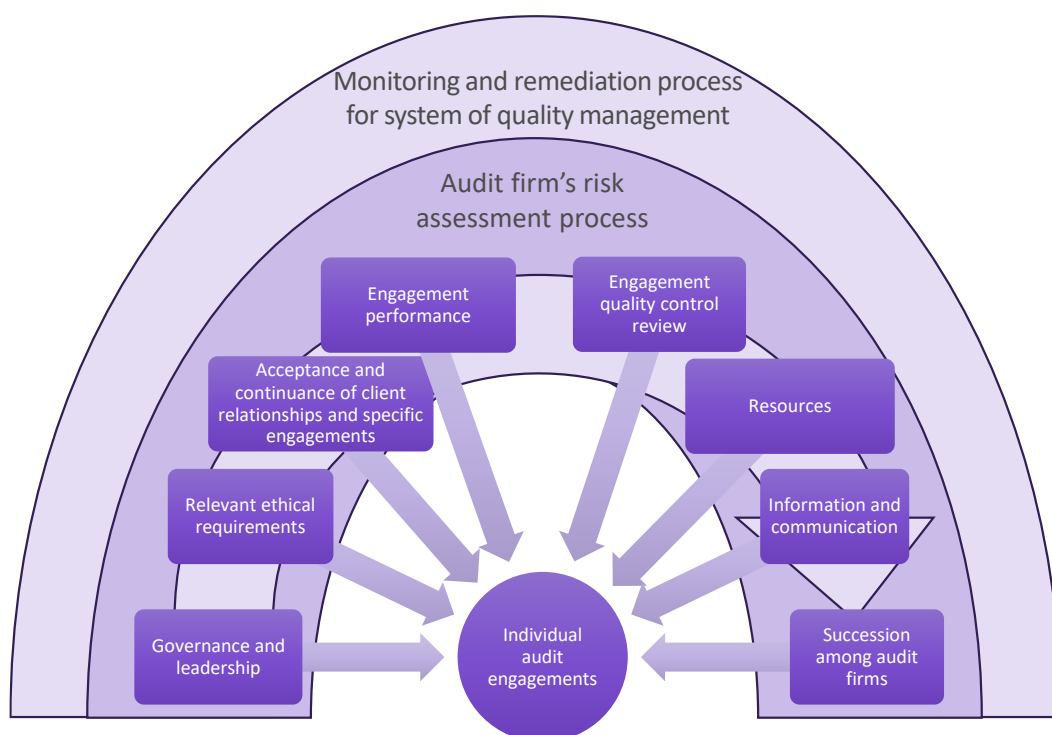
- The audit firm, partners, and the entire professional staff belonging to the audit firm (hereinafter collectively referred to as "professional personnel") shall fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagement in accordance with such standards and requirements.
- Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

A system of quality management operates in a continual and iterative manner and is responsive to changes in the nature and circumstances of the firm and its engagements.

[Components of an audit firm's system of quality management]

"Standard on Quality Management 1: Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" requires the firm to apply a risk-based approach in designing, implementing and operating the components of the system of quality management in an interconnected and coordinated manner such that the firm proactively manages the quality of engagements performed by the firm.

(Note) The above is based on the content of "Standard on Quality Management 1: Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" and "Standard on Quality Management 2: Engagement Quality Reviews" as revised on September 26, 2024.



Audit firm's risk assessment process (Process designed by the audit firms as a part of the system of quality management)	It is a process that audit firms must follow when applying a risk-based approach to quality management. It consists of setting quality objectives, identifying and assessing quality risks, and designing and implementing responses to address those risks.
Governance and leadership (Fundamentals of the operation of the system of quality management)	It covers the audit firms' culture, the responsibilities of leadership related to quality, the firm's organizational structure, assignment of roles and responsibilities, and resource planning and allocation.
Relevant ethical requirements (Specified items that are the basis for the engagement performance)	It covers quality objectives and specified responses related to professional ethics to be observed by audit firms and their professional personnel.
Acceptance and continuance of client relationships and specified engagements (Specified items that are the basis for the engagement performance)	It covers quality objectives and specified responses related to the audit firm's judgment about whether to accept or continue engagements.
Engagement performance (Specified items that are the basis for the engagement performance)	It covers quality objectives and specified responses that support the performance of high-quality audits, including the direction and supervision of engagements, review of audit documentation, exercise of appropriate professional judgment and professional skepticism, consultation on difficult or contentious matters, and resolution of differences of opinion.
Resources (enables operation of other components)	It covers quality objectives relating to the appropriate obtaining, development, use, maintenance, allocation, and assignment of human, technological, and intellectual resources and service providers that enable the operation of the system of quality management.
Information and communication (enables operation of other components)	It covers quality objectives and specified responses relating to obtaining, generating, and using information regarding the system of quality management and communicating information within the audit firm and to external parties on a timely basis.
Monitoring and Remediation Process for the System of Quality Management (A process designed by the audit firms as a part of their system of quality management)	• A process for providing the audit firm with reliable and timely information about the design, implementation and operation of its system of quality management • A process for taking appropriate action to respond to deficiencies and remediate them on a timely basis
Succession among audit firms (Specified items that are the basis for the engagement performance)	It addresses quality objectives regarding the communication of significant audit matters to successor audit firms and inquiries about significant audit matters to predecessor audit firms.
Engagement quality review (Specified items that are the basis for the engagement performance)	It addresses specified responses relating to ensuring that engagement quality reviewers have sufficient time to perform the review and possess the competence, capabilities, independence, and objectivity required for the engagement, and to performing and documenting timely and in-depth reviews.

(*) Prepared by JICPA based on "Standard on Quality Management 1: Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" and "Standard on Quality Management 2: Engagement Quality Reviews."

(3) Types of Quality Control Reviews

Quality control reviews consist of "regular review," "special review," and "review for application review."

[Types of Quality Control Reviews]

	Regular review ^(*1*2)	Special review ^(*2)	Review for application review
Purpose	- To assess the design and operation status of an audit firm's system of quality management - To assess quality management in audit engagements	To assess the design and operation of an audit firm's system of quality management for a specific area or audit engagement	- To assess the design status of an audit firm's system of quality management - To assess the design of an audit firm's system of quality management and its framework and other operation control structures for fairly and properly performing audit and attestation services with regard to the financial documents of listed companies, etc.
Frequency and content	In principle, a regular review is conducted once every three years. The interval between reviews may be shortened or extended based on the judgment of the Quality Control Committee; however, a regular review is conducted at least once every five years.	When the Quality Control Committee deems it necessary, such as in cases involving mergers of audit firms or changes in auditors, the review is conducted in a timely manner to mainly assess the following matters: - The audit firm's system of quality management - Performance of audit engagements - Specific matters	When an application for registration is submitted or in other cases deemed necessary, the review is conducted based on a request from the Review Board for Registration on Auditors of Listed Companies, etc. to the Quality Control Committee.
Audit firms subject to review	Audit firms subject to regular review	All audit firms with audit engagements	- Registration applicants - Registered auditors of listed companies, etc. without audit engagements subject to regular review
Procedures	Site visit	Site visit, interview, or written review	Site visit

(*1) JICPA confirms the eligibility of registered auditors of listed companies, etc. that have audit engagements subject to regular review by assessing whether they comply with the matters stipulated by laws and regulations as personnel systems and other operation control structures sufficient to fairly and properly perform audits of the financial statements of listed companies, etc.

(*2) Audit firms that do not perform audits of large companies, etc. under the Certified Public Accountants Act, other than audits of Shinkin banks, credit cooperatives, and labor banks, will be excluded from the list of audit firms subject to regular reviews from FY2025, in light of revisions to the Code of Ethics, etc., and regular reviews will not be conducted for them. However, monitoring may be conducted (by requesting reports to confirm the design and operation of the audit firm's system of quality management), and special reviews will be conducted if deemed necessary.

(4) Audit Firms Subject to Quality Control Review

The Quality Control Committee collects information on the recent status of audit firms mainly through off-site monitoring, and based on this information, selects audit firms subject to regular and special reviews, and develops an annual quality control review plan. This annual review plan is revised from time to time through ongoing information gathering.

The number of audit firms subject to regular review as of March 31, 2026, is as follows:

[Number of audit firms subject to regular review as of March 31, 2026]

	Audit Firms	CPA Offices ^(*1)	Total
Audit firms subject to regular reviews	147	26	173
Of the above, registered auditors of listed companies, etc. ^(*2)	131	0	131

(*1) For CPA joint offices in which multiple CPAs jointly perform audit engagements and other services (hereinafter referred to as "Joint Offices"), quality control reviews are conducted at the a Joint-Office level, and each Joint Office is counted as one CPA Office.

(*2) Among audit firms whose registration has been refused by the Review Board for Registration on Auditors of Listed Companies, etc., those that perform audits of listed companies are included among registered auditors of listed companies, etc.

(5) 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.

In order to improve the effectiveness of quality control reviews, and based on the results of quality control reviews in the previous fiscal year, responses to the matters set forth in the Basic Policy on Quality Control Reviews (FY2023-FY2025), and findings from inspections by the Certified Public Accountants and Auditing Oversight Board, JICPA revised its quality control review procedures and other related processes in FY2025, including revising the order of items to be included in the quality control review report, verification of measures to prevent falsification of audit documentation during the assembly of the final audit file, expanding the range of audit firms from which copies of audit documentation can be obtained, and clarifying the requirements for what constitutes a "Result with significant deficiencies."

Furthermore, in order to conduct quality control reviews for Confirmation of Eligibility, JICPA has formulated and published the "Eligibility Confirmation Guidelines" to assess whether audit firms that engage in audits of listed companies, etc. have operation control structures that enable them to perform audit certification services fairly and properly in accordance with the Certified Public Accountants Act, etc. The Eligibility Confirmation Guidelines provide points of focus and judgment criteria for quality control reviews and contribute to audit firms' self-assessment and voluntary improvement. In FY2025, JICPA revised the guidelines based on the previous year's performance in quality control reviews, adding judgment criteria for considering the eligibility of those who conduct reviews before an audit opinion is expressed, as a safeguard against remuneration dependence. It also added points of focus and established new judgment criteria regarding measures to prevent falsification during the final compilation period of audit documentation.

(i) Regular review

To assess the status of audit quality management on a firm-wide basis, regular reviews are conducted mainly through the following procedures.

As illustrated below, "audit firm's system of quality management" and "quality management for audit engagement" are interrelated.

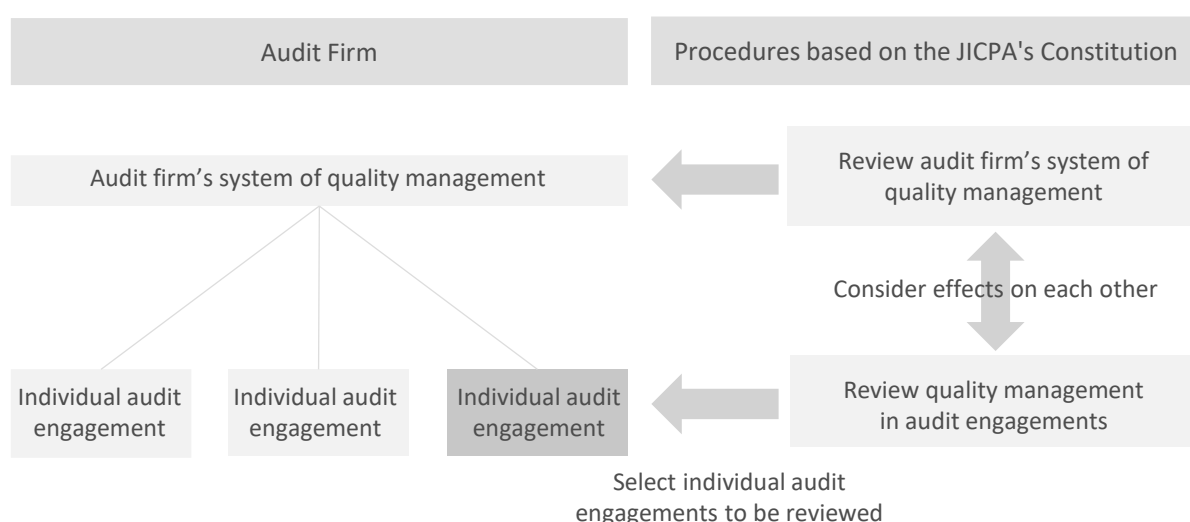
(a) Review audit firm's system of quality management

Review whether an audit firm designs the system of audit quality management appropriately and operates it effectively.

(b) Review quality management for audit engagements

Review whether the audit firm's system of quality management is appropriately applied to individual audit engagements.

Areas Examined in Regular Reviews and Their Relationships



By considering the environment surrounding an audit firm, the level of individual engagement risks, the nature of audit engagements and other factors, individual audit engagements are carefully selected for a review so that the audit firm's overall quality management can be examined.

Also, if significant or a large number of recommendations for improvement are identified in the review of individual audit engagements, the impact on the system of quality management on a firm-wide basis is assessed.

(ii) Special review

Audit firms subject to special review are selected when the annual quality control review plan is developed. If an urgent need for a special review arises during the fiscal year, an audit firm may also be selected at that time.

In accordance with the purpose of a special review, the review scope for selected audit firms is determined by considering specific areas in the audit firm's system of quality management or specific audit engagements.

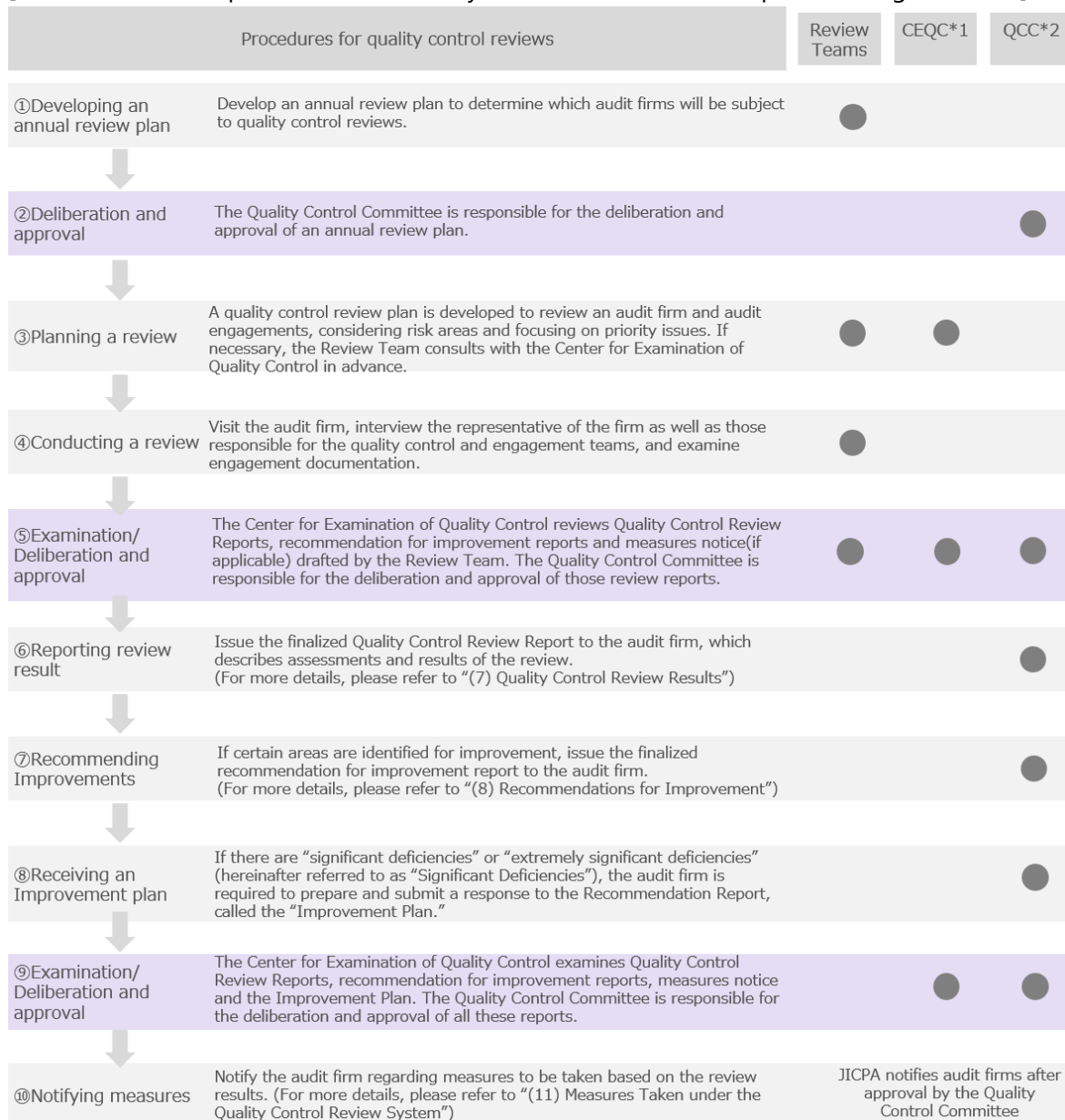
(iii) Review for application review

In order to confirm the eligibility of audit firms which have the registration applicant and registered auditors of listed companies, etc. which have not engaged in audits subject to regular review, JICPA mainly assesses the design and implementation status of an audit firm's system of quality management. When assessing the state of the design of audit firm, JICPA take into full consideration the actual state of the firm's management and the state of implementation to audit engagements.

(6) The flow of review procedures for Quality Control Reviews

The basic flow of review procedures for quality control reviews is as follows:

[The flow of review procedures for Quality Control Reviews and Responsible Organizations]



*1: Center for Examination of Quality Control

*2: Quality Control Committee

(Note) 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 “(10) Confirmation of Remedial Actions.”)

(7) Quality Control Review Results

(i) Types of Quality Control Review Results

JICPA prepares and issues each audit firm a quality control review report setting out the result of the review.

Quality control review results are classified into the following three types according to whether the design and operation of an audit firm's system of quality management give rise to concerns about significant or extremely significant non-compliance with professional standards or applicable laws and regulations.

[Types of Quality Control Review Results]



- (*1) Depending on the issues subject to a special review, the results of the special review provide an opinion as to whether or not there are significant deficiencies in the design and operation of the system of quality management for certain areas of concern or specific audit engagements involving non-conformity with quality management standards or non-compliance with the audit firm's system of quality management.
- (*2) The results of reviews for application review provide an opinion as to whether or not there are significant deficiencies arising from non-compliance with quality management standards or failure to comply with matters prescribed by laws and regulations as systems and other operation control structures for auditing the financial statements of listed companies, etc. fairly and properly.

A Result with Significant Deficiencies is expressed in circumstances including the following:

- when the design or operation of the system of quality management 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 sufficient appropriate audit evidence to reduce audit risk to an acceptably low level in key accounting areas (e.g., accounting estimates and revenue recognition)

(ii) No review results expressed

If a sufficient basis for expressing a review result cannot be obtained because the principal review procedures could not be performed on significant components of the matters subject to the quality control review, no review result is expressed in the quality control review report.

(8) Recommendations for Improvement

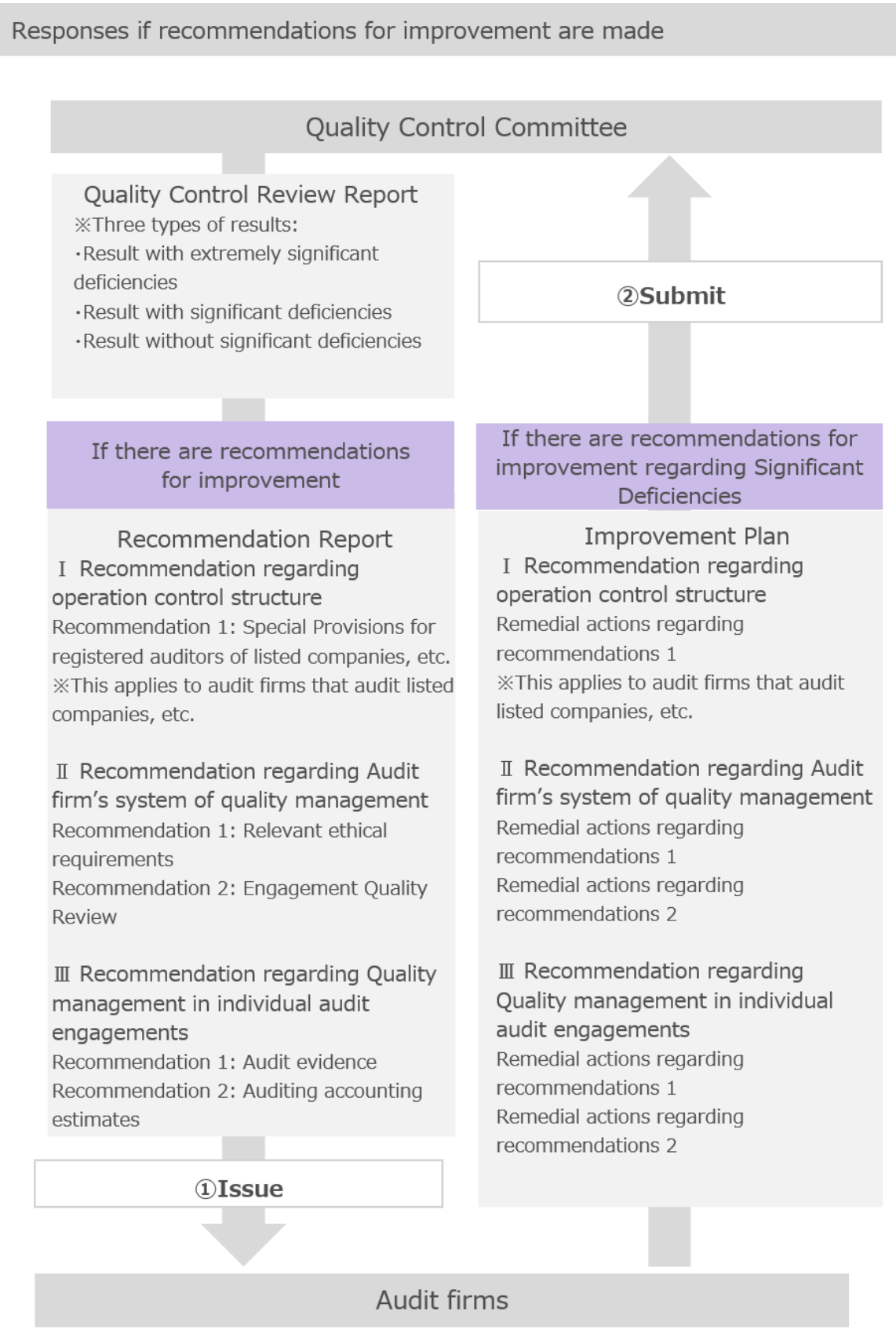
Regardless of the result of a quality control review, if recommendations for improvement are identified, a Recommendation Report which describes such recommendations for improvement will

be prepared and issued to an audit firm together with the quality control review report. Furthermore, recommendations for improvement are divided into three categories: recommendations for an audit firm's system of quality management, recommendations for quality management in audit engagement, and, for audit firms that audit listed companies, etc., recommendations for operation control structures. These recommendations for improvement are classified according to the severity of the deficiencies as extremely significant deficiencies, significant deficiencies, or deficiencies.

Audit firms that have received recommendations for improvement are required to make voluntary improvements, and among these firms, those that have received recommendations for improvement for extremely significant deficiencies and significant deficiencies are required to prepare and submit an Improvement Plan in response to the recommendations by describing remedial actions to address the Significant Deficiencies.

In addition, if any Significant Deficiencies are found in the registered auditors of listed companies, etc., JICPA publishes their overview on its website under "Information on registered auditors of listed companies, etc..

Actions Taken If There are Recommendations for Improvement



(9) Analysis of the Causes (Root Causes) Leading to Recommendations for Improvement

To develop and implement more effective and appropriate remedial actions, it is essential for audit firms to identify the Causes Leading to Recommendation for Improvement. Therefore, if JICPA issues a quality control review report that contains a result with Significant Deficiencies, the Quality Control Review Team describes its request for improvement in the "root cause and necessary action" section of the quality control review report.

The "Causes leading to Recommendations for Improvement" often stem from root causes, and frequently, the root cause is a common situation within the audit firm that gives rise to multiple issues (for example, problems with the audit firm's culture or management approach). Furthermore, the causes of the issues discovered may be interconnected. Therefore, if an audit firm receives a quality control review report with Significant Deficiencies, it is required that the audit firm describe in the Improvement Plan both the causes and root causes that led to deficiencies after discussion 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 describes its request for improvement in the "root cause and necessary action" section of the quality control review report, as needed, after communicating with the audit firm as described above.

(10) 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. The Quality Control Review Team provides the necessary guidance to encourage audit firms to make improvements and confirms the remedial actions as follows:

(i) Audit firms that receive a result with Significant Deficiencies:

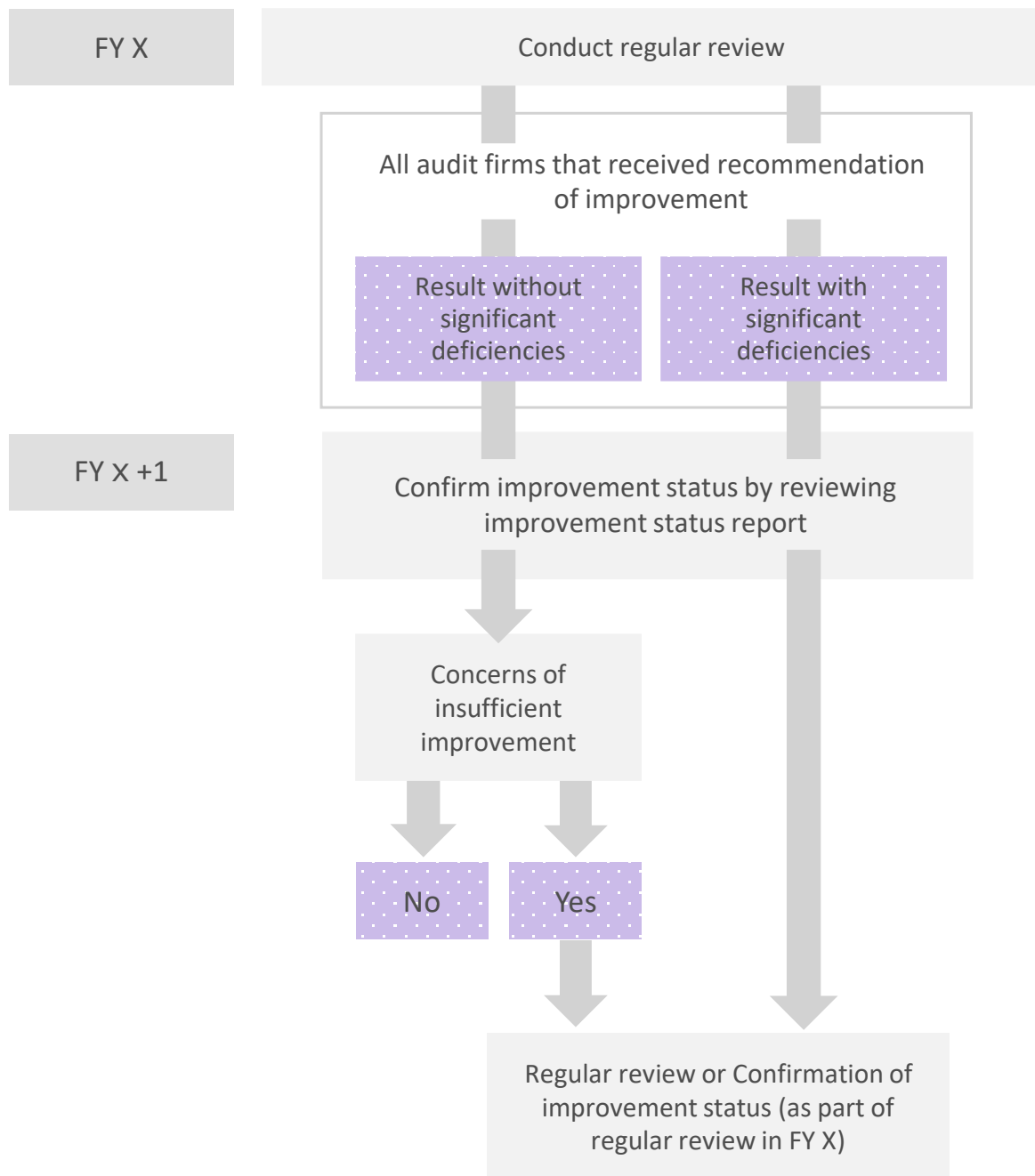
After JICPA confirms an audit firm's remedial actions through its improvement status report in the following fiscal year, the firm undergoes another regular review or a confirmation of improvement status, including a site visit to verify implementation of the remedial actions.

(ii) Audit firms that receive a result without significant deficiencies:

After JICPA confirms an audit firm's remedial actions through its improvement status report in the following fiscal year, the firm undergoes a regular review or confirmation of improvement status, including a site visit to verify implementation of the remedial actions, if concerns remain that the improvements are insufficient.

When confirming improvement status, JICPA prepares and issues the audit firm a confirmation result report of the improvement status stating whether any matters have not been sufficiently improved.

Confirmation of the Status of Remedial Actions Taken by Audit Firms That Received Recommendations for Improvement



(Note) If an audit firm receives a result of deficiencies as a result of a special review (it is conducted based on the Quality Control Committee's judgment), it is in principle subject to confirmation of improvement status in the fiscal year following the special review.

(11) 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 management and must be monitored on their improvement status are determined based on the results of quality control reviews.

Types of Measures under the Quality Control Review System:

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

In principle, the Quality Control Committee determines the following measures based on recommendations for improvement identified through quality control reviews, including confirmations of improvement status: a recommendation to withdraw from all or some audit engagements when extremely significant deficiencies are identified; a severe warning when significant deficiencies are identified; and a warning when deficiencies are identified again. However, if recommendations for improvement from earlier quality control reviews remain unresolved and are again identified in the current fiscal year, the Committee may consider imposing a more severe measure than would ordinarily apply.

[Measures taken under the Quality Control Review System]

Findings	Number of times conducted		
	(1st time)	(2nd time)	(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.

If an audit firm unreasonably refuses or fails to cooperate with a quality control review, the Quality Control Committee issues a recommendation to withdraw from audit engagements regardless of the number of quality control reviews previously conducted. Furthermore, upon receiving a report that an audit firm has refused or failed to cooperate with a quality control review or has failed to make improvements despite recommendations for improvement, the Chairperson of the Quality Control Committee may report the matter to the Chairman of the Audit Practice Review and Investigatory Committee if the Quality Control Committee deems it necessary.

In addition, when a recommendation to withdraw from audit engagement is issued to registered auditors of listed companies, etc., the matter will be subject to a review regarding the revocation of registration by the Review Board for Registration on Auditors of Listed Companies, etc.

(12) 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 engagements. 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, the JICPA Constitution stipulated that the Chairperson of the Quality Control Committee reports such concerns to the Chairman of the Audit Practice Review and Investigatory Committee. In FY2025, the Quality Control Committee exchanged opinions with the Audit Practice Review and Investigatory Committee so that quality control reviews could place greater emphasis on individual audit engagements and provide guidance on audit cases that could potentially lead to disciplinary action proposals by the Audit Practice Review and Investigatory Committee.

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

In principle, audit firms are not allowed to disclose quality control review reports, Recommendation for improvement reports, Improvement Plans, or confirmation result reports of the improvement status (collectively, "Quality Control Review Reports, etc.") to third parties ※. However, audit firms are allowed to disclose to third parties, in their own reports such as a Transparency Report, an outline of the latest quality control review results, including the date of issuance of the quality control review report, the results of the quality control review and the measures taken based on those results, whether or not there are Significant Deficiencies or deficiencies, a summary of the details if such deficiencies exist, and the audit firm's response, etc., in accordance with the operating rules of the Quality Control Committee.

Notwithstanding the above, in the case of registered auditors of listed companies, etc., they may disclose to third parties the following matters as the status of their operational management, etc., as permitted to be made public in accordance with the Registered Auditor Regulations for Listed Companies, etc.: the year in which the quality control review was conducted, the date of issuance of the quality control review report, etc., as published on the JICPA's website, and if any Significant Deficiencies were found in the results, an overview thereof, and if no Significant Deficiencies were found, a statement to that effect.

(Note) Disclosures are exempt from the restrictions on third-party disclosure when the purpose is to respond to inquiries, investigations, inspections, or other quality control requests from the network firm to which the audit firm belongs.

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

Company auditors, boards of company auditors, Audit and Supervisory Committees, and Audit Committees (collectively, "Company Auditors") need to understand the overall design and operation of an audit firm's system of quality management when assessing the appropriateness of

the audit methods and results of audit procedures performed by the audit firm and when entering into a new audit engagement.

Therefore, in accordance with Auditing Standard 260, "Communication with Those Charged with Governance," 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 management of individual audit 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 report.

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

2. Our Organization

(1) Organizations That Manage Quality Control Reviews

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 (as of March 31, 2026) of each organization managing quality control reviews are as shown in the table below.

(i) Quality Control Committee (Held 14 times a year)

[Duties and members of the Quality Control Committee]

Organization	Quality Control Committee
Duties	• Deliberates on the results of quality control reviews and measures based on their results • Develops standards and procedures for quality control reviews • Reports opinions on common issues related to audit firms or audit standards that have been identified through quality control reviews to Chairman and President of JICPA • Reports opinions on the system and operation of quality control reviews to Chairman and President of JICPA • Deliberates on other matters necessary for the operation of the quality control review system, etc.
Members	• Chairperson (1, Deputy President of JICPA) • Committee members (10: seven JICPA members and three external academic experts, including five members who serve as heads of sections within the Center for Examination of Quality Control)

(ii) Subordinate Organizations of the Quality Control Committee

i. Center for Examination of Quality Control (Held 85 times a year)

[Duties and members of the Center for Examination of Quality Control]

Organization	Center for Examination of Quality Control
Duties	• 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
Members	• Composed of six sections • Each section consists of at least five JICPA members, including one section head

ii. Working Group on Revision of Quality Control Review Standards, etc. (Held 9 times a year)
[Duties and members of the Working Group on Revision of Quality Control Review Standards, etc.]

Organizations	Working Group on Revision of Quality Control Review Standards, etc.
Duties	• 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 them to the Quality Control Committee
Members	• Chairperson (a member of the Quality Control Committee) • 11 (all are members of JICPA)

iii. Quality Control Review Team

[Duties and members of the Quality Control Review Team]

Organization	Quality Control Review Team
Duties	• Examines the status of quality management at audit firms and reports the findings to the Center for Examination of Quality Control
Members	• 1 chief executive reviewer • 7 vice chief executive reviewers • 18 chief reviewers • 16 staff reviewers^(*) (including 4 IT expert reviewers)

3. Relationship with the CPAAOB

(1) Monitoring by the CPAAOB

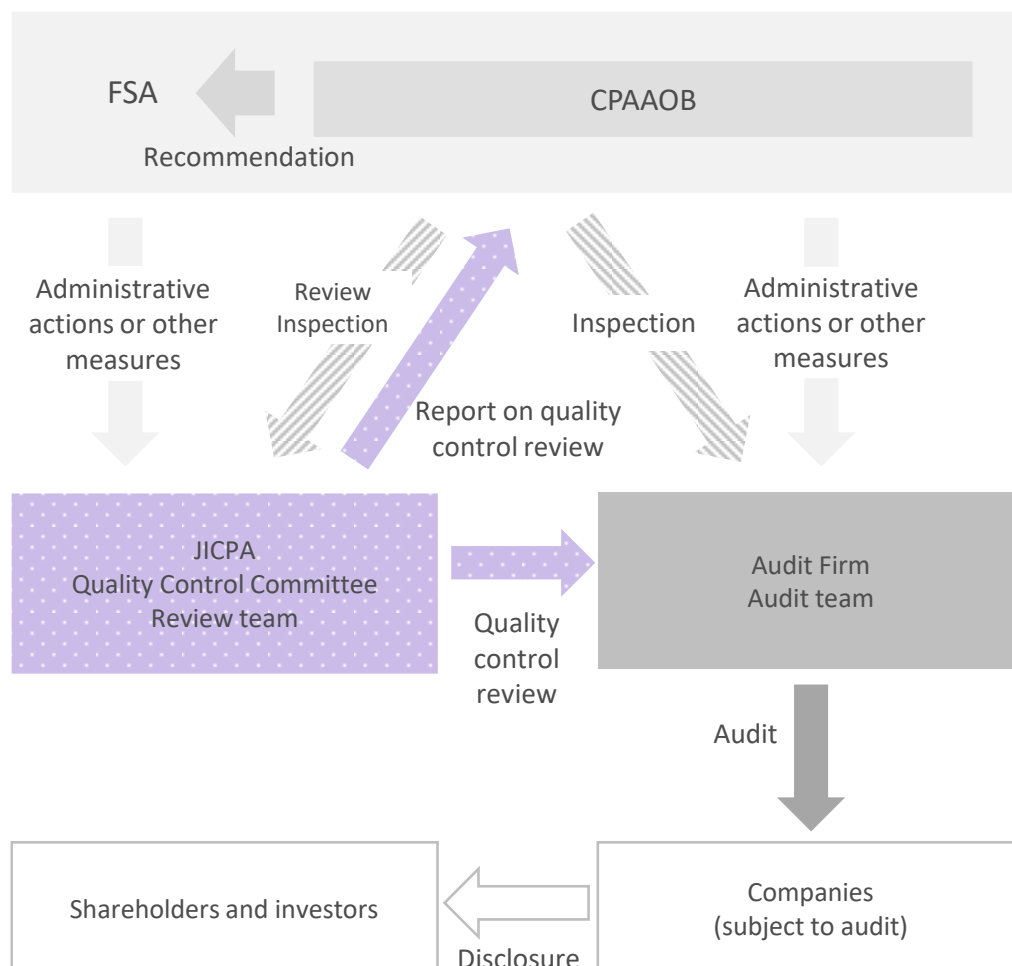
Pursuant to Article 46-9-2, paragraph (2), of the CPA Act, JICPA's quality control review activities are monitored by the Certified Public Accountants and Auditing Oversight Board (CPAAOB), a collegial administrative body established within the Financial Services Agency (FSA).

CPAAOB confirms whether a quality control review is appropriately conducted as well as whether audit firms appropriately conduct audits by examining reports from JICPA and by conducting inspections of audit firms, JICPA, etc. When CPAAOB finds it necessary, it may make recommendations to the Commissioner of FSA concerning an administrative disposition or any other measure to be taken in order to assure proper operations.

(Note) For monitoring information and related materials, see the website of the Certified Public Accountants and Auditing Oversight Board.

URL: <https://www.fsa.go.jp/cpaob/shinsakensa/index.html>

[Relationships among the FSA, the CPAAOB, Audit Firms, and JICPA]



(2) Cooperation with the CPAAOB

In order to improve 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 improve and enhance quality control reviews in the following fiscal years.

In FY2025, JICPA and the CPAAOB exchanged views with a focus on strengthening their cooperation on measures to promote quality management across audit firms, particularly small and medium-sized audit firms whose role as auditors of listed companies is growing, so that inspections and quality control reviews would be as effective as possible overall. In addition, in preparation for the Quality Control Review Basic Policy (FY2026–FY2028), they exchanged views on whether it included the matters and policies necessary for quality control reviews to appropriately fulfill their role.

Since FY2024, the CPAAOB has also conducted discussion-based training for inspectors and reviewers. The training includes messages regarding expectations for quality control reviews and discussions of case studies and measures to address common challenges in inspections and quality control reviews, such as promoting more in-depth audit practices and autonomous quality improvement.

JICPA will continue to strengthen its efforts to promote closer and more effective cooperation with the CPAAOB and further enhance the functioning of the Quality Control Review System.

4. Operation Status of Quality Control Reviews in FY2025

(1) Initiatives Based on the Quality Control Review Policy

Quality Control Review Basic Policy (FY2023–FY2025)

In response to the introduction of the Registration System for Auditors of Listed Companies, etc. and the application of the revised Quality Management Standards, JICPA developed and announced the three-year Quality Control Review Basic Policy (FY2023–FY2025) that includes actions and response policies to be prioritized for the three years from FY2023^(Note). To ensure the reliability of accounting audits, and to enable the quality control review system to properly fulfill its role, JICPA took the following measures in accordance with the said policy from FY2023 to FY2025.

Responding to reformed systems and revised standards (Verification of the proper operation of the registration system for auditors of Listed Companies, etc., and the status of the operation of revised quality management standards.)

Publication of the criteria for addressing deficiencies in Confirmation of Eligibility

In June 2023, JICPA published the “Eligibility Confirmation Guidelines,” which outline the points to focus on and the criteria for judging the qualifications of audit firms. As part of its efforts to ensure high discipline, JICPA conducted quality control reviews from a new perspective. JICPA subsequently revised the Eligibility Confirmation Guidelines annually, taking into account new requirements such as the application of the revised Quality Management Standards and the establishment of legally required information disclosure systems, as well as experience gained through quality control reviews.

Guidance for deemed registered auditors of listed companies, etc. (*)

Based on the Eligibility Confirmation Guidelines, JICPA conducted self-assessment surveys to understand actual conditions and provided ongoing on-site and off-site guidance through the registration application process. As a result, all audit firms intending to audit listed companies, etc. submitted applications by the end of the statutory transition period, and all reviews were completed by July 1, 2025.

(*) "Deemed registered auditors of listed companies, etc." refers to audit firms that, pursuant to transitional measures established upon the amendment of the Certified Public Accountants Act, are permitted to conduct audits of listed companies, etc., despite not being registered on the roster of auditors of listed companies, etc.

Status of quality control review responses at audit firms applying revised Quality Management Standards

During regular reviews of registered auditors of listed companies, etc., JICPA assessed the design and operation of the risk-based systems of quality management established by audit firms applying the revised Quality Management Standards. JICPA also assessed whether the frameworks for fairly and properly performing audits of listed companies, etc. that had been confirmed during the registration application process were operating effectively in practice.

Thoroughly implementing the risk-based approach

Allocated Resources

From FY2024, in light of the extension of review intervals for audit firms that do not audit listed companies, etc. and revisions to the Code of Ethics, JICPA revised its approach to reviews of Shinkin banks, credit cooperatives and labor banks, and allocated human resources with a focus on guiding and supervising small and medium-sized audit firms that audit listed companies, etc.

Developing and Communicating Focus Areas (Annual Quality Control Review Policies)

Taking into account previous recommendations for improvement and recent developments in auditing standards and related requirements, JICPA established focus areas in each fiscal year's Quality Control Review Policy and reviewed those areas. Because audit firms' characteristics and issues differ by size, JICPA establishes focus areas for each size category.

Understanding and assessment of operation control structures

Understanding of operation control structures of registered auditors of listed companies, etc.

During regular reviews of registered auditors of listed companies, etc., JICPA assessed, including their operation, the following matters that it had focused on in regular reviews of and registration examinations for deemed registered auditors of listed companies, etc.

- The development of a dedicated department for quality management or the appointment of a certified public accountant to be primarily involved in quality management, clarification of responsibilities through appropriate division of duties, and the status of ensuring sufficient time for the individual(s) assigned operational responsibility for the firm's system of quality management to carry out quality management activities
- When the individual(s) assigned operational responsibility for the firm's system of quality management are involved in audit engagements as engagement partners, the number of audit engagements in which they are involved and the reasons for their involvement
- The status of systems designed to enable audit firm personnel to devote sufficient effort to professional development

Furthermore, based on the Eligibility Confirmation Guidelines, JICPA confirmed that registered auditors of listed companies, etc. had developed structures for disclosing the status of management control, conducting business in accordance with the "Principles for the Organizational Operation of Audit Firms" (the Audit Firm Governance Code), and disclosing the status of application of the Principles.

Improving audit quality of small and medium-sized audit firms (registered auditors of listed companies, etc.)**Enhancing Guidance on Electronic Audit Documentation / Taking Strict Measures against Falsification of Audit Documentation**

Following instances of inappropriate practices regarding the organization, management, and preservation of audit documentation, JICPA has strengthened its guidance and supervision through quality control reviews. Specifically, JICPA has continuously taken measures to prevent tampering with audit documentation, including obtaining sworn statements during quality control reviews (stating that there are no inappropriate modifications or additions to audit documentation, and that the audit firms understand that any inappropriate modifications or additions found would constitute a significant deficiency), issuing guidelines, and providing guidance towards digitizing paper documents to reduce the risk of falsification.

Enhancing initiatives related to IT

IT expert reviewers gradually expanded the number of audit firms they visited, providing necessary guidance on the state of the audit firms' IT infrastructure (such as measures to prevent data leaks on PCs, the status of information security measures, and the implementation of electronic audit tools). In addition, the Quality Control Review Team and JICPA's small and medium-sized audit firms support division regularly shared information and exchanged views on information security instruction.

Enhancing instruction capability

As an initiative to help audit firms autonomously investigate root causes, JICPA provided e-learning. For audit firms where there were concerns about voluntary improvement, JICPA confirmed after on-site reviews whether their measures for improvement were feasible and sufficiently effective to address root causes (including their operation control structures) and instructed them to reassess such measures as necessary.

JICPA also encouraged audit firms to consult independent third parties (*) regarding root causes and remedial actions, and monitored the status of such consultations, particularly at audit firms where there were concerns about voluntary improvement.

(*) "Independent third parties" is stipulated in Principle 3 of the Audit Firm Governance Code

Quality control review practices
Review procedures in response to electronic audit documentation For one audit firm in each of FY2023 and FY2024, JICPA conducted some review procedures, including the examination of digitized audit documentation of individual audit engagements, at JICPA's office while taking thorough measures to ensure information security and management of the PC borrowed from the audit firm. As a result, the examination of audit documentation for individual audit engagements was made more efficient to some extent. Clarification of quality control review reports To further enhance the usefulness of the quality control review report, JICPA has made the following changes to make the items, structure, and content easier to understand. • Changed the location (order) of the review results in the quality control review report. • The "Root Cause and Required Actions" section has been moved from the Recommendation for Improvement Report to the Quality Control Review Report. • A section has been added to the quality control review report for matters that help users understand the report, including an indication that a matter has been identified repeatedly.
Strengthening the Quality Control Review System
Considering the registration system for auditors of listed companies, etc. and the application of revised Quality Management Standards, the scope of what needs to be checked regarding the development and operation of systems of quality management is expanding. Therefore, from FY2023, JICPA has increased the personnel of its Quality Control Review Teams and appointed senior personnel to guide and train audit firms and Quality Control Review Teams.
Coordinating with the CPAAOB
Through case studies and training organized by the CPAAOB, JICPA and the CPAAOB shared their understanding of challenges in inspections and quality control reviews and exchanged views on responses under the Quality Control Review Basic Policy and future challenges.
Enhancing Disclosure of Information on the Status of Quality Control Reviews and Related Matters
To facilitate an integrated understanding of its self-regulatory system, beginning in FY2024 JICPA published a single annual report covering all of its self-regulatory activities: the Quality Control Review System, the Registration System for Auditors of Listed Companies, etc., the System for Individual Case Review, and monitoring of these systems. As part of its efforts to raise awareness of the Quality Control Review System, JICPA also made the Quality Control Review Case Studies publicly available and delivered a presentation at an event hosted by the Japan Audit & Supervisory Board Members Association.

(Note) The Basic Policy for Quality Control Review (FY2026-FY2028) and the FY2026 Quality Control Review Policy are scheduled to be published in June 2026.

Focus areas in FY2025

Under the FY2025 Quality Control Review Policy, reviewers were required to consider the following focus areas determined by the Quality Control Committee when conducting regular reviews, based on previous recommendations for improvement and recent trends in revisions to auditing standards, etc. in quality control reviews.

- Audit firm's system of quality management
 1. The firm's risk assessment process
 2. Governance and leadership
 3. Relevant ethical requirements
 4. Acceptance and continuance of client relationships and specific engagements
 5. Human resources (education/training of professional personnel)
 6. Monitoring and remediation process of system of quality management
 7. Assembly of final audit files and retention and maintenance of audit documentation

- The quality management for an audit of financial statements
 1. Identifying, assessing and responding the risks of material misstatement including due to fraud
 2. Auditing accounting estimates

- Operation control structures of audit firms that engage in audits of listed companies, etc.
 1. Structures for performing audit certification service fairly and properly
 2. Assessing and disclosing the status of the quality management of its business, etc.
 3. Disclosure of status of operational management
 4. Systematic operation
 5. Areas and items of causes of significant deficiencies in the design and operation status of system of quality management

(2) Quality Control Reviews in FY2025

The following table shows the result of quality control reviews in FY2025.

Audit firms that initiated a regular review or confirmation of improvement status, but whose deliberation of quality control review reports or confirmation result reports of the improvement status was postponed to the following fiscal year (hereinafter referred to as "carried-over audit firms"), are included in the number of firms to which reports were issued in the previous fiscal year, and therefore the figures differ from those published in the previous fiscal year.

Quality Control Reviews in FY2025

	Number of audit firms reviewed	Number of audit firms receiving review reports	Number of carried-over audit firms ^{(*)3}
Regular reviews	56 (56)	47 (56) ^{(*)3}	9
Confirmation of improvement status	6 (15)	4 (15)	2
Total	62 (71)	51 (71)	11
Number of audit firms subject to a regular review ^(*)4-5)	175 (219)		
Percentage of audit firms reviewed under regular review	32% (26%)		
Percentage of audit firms reviewed	35% (32%)		

(*)1 FY2024 numbers are shown in parentheses.

(*)2 The number of audit firms that underwent a special review or review for application review is not included in the table.

(*)3 For the three carried-over audit firms from FY2024, the quality control review reports were issued in FY2025, so the firms were moved from the "Number of carried-over audit firms" column to the "Number of audit firms receiving review reports" column.

(*)4 The number of audit firms subject to regular reviews has decreased compared to the previous year, due to the exclusion of audit firms that do not perform audits of large companies, etc. under the Certified Public Accountants Act, other than audits of Shinkin banks, credit cooperatives and labor banks, from the list of regular reviews in FY2025. (See "1. (3) Types of Quality Control Reviews.")

(*)5 The number represents audit firms subject to regular review as of April 1, 2025 (the number in parentheses is as of April 1, 2024).

In principle, regular reviews are conducted once every three years. To enhance the effectiveness of quality control reviews, however, the Quality Control Committee may shorten the interval between reviews; conversely, the interval may be extended up to a maximum of five years. The table below shows the number of audit firms reviewed less than three years after their previous review and the number for which more than three years had elapsed and the review interval was extended.

Number of Audit Firms with Shortened or Extended Review Intervals

	FY2023	FY2024	FY2025
Number of audit firms with shorter review interval	17	4 ^(*2)	10
Number of audit firms with extended review interval ^(*1)	5	16	13

(*1) All firms undergo regular reviews by the second following fiscal year, except for those that are 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.

(*2) The number of audit firms with shortened regular review intervals decreased from the previous fiscal year because audit firms undergoing reviews for application review were, in principle, subject to confirmation of improvement status instead of a shortened regular review interval.

<Thoroughly implementing the risk-based approach>

For registered auditors of listed companies, etc., the frequency of regular reviews will not be extended, and in principle, a regular review will be conducted once every three years.

Furthermore, the frequency of reviews will be shortened for audit firms where there are concerns about voluntary improvement. On the other hand, for audit firms other than registered auditors of listed companies, etc. (hereinafter referred to as "other audit firms"), the interval between reviews will be extended in consideration of risks and other factors. In addition, by excluding audits for Shinkin banks, credit cooperatives and labor banks from the list of regular reviews and making them subject to special review, JICPA can concentrate more resources on quality control reviews for registered auditors of listed companies, etc.

The breakdown by size of audit firms subject to regular review and audit firms that underwent a regular review 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
Registered auditors of listed companies, etc.	Large-sized/ second-tier		8 (8)	3 (4)	0 (0)
	Audit firms by the number of listed company audits	Over 10 companies	36 (35)	16 (11)	2 (4)
		5–9 companies	35 (32)	18 (6)	4 (4)
		2–4 companies	38 (39)	12 (9)	0 (1)
		0–1 companies	15 (19)	3 (6)	0 (1)
	Subtotal ^{(*)3}		132 (133)	52 (36)	6 (10)
Other audit firms		43 (86)	4 (20)	0 (5)	
Total			175 (219)	56 (56)	6 (15)

(*1) The number of audit firms in FY2024 is shown in parentheses.

(*2) Registered auditors of listed companies, etc. include audit firms that do not audit listed companies (of the audit firms subject to regular reviews, two such firms were included in FY2024 and six in FY2025).

(*3) In the "registered auditors of listed companies, etc." row, the number of audit firms subject to regular review represents the number of audit firms registered in the roster of auditors of listed companies, etc. and deemed registered auditors of listed companies, etc.

(3) Results of Regular Reviews

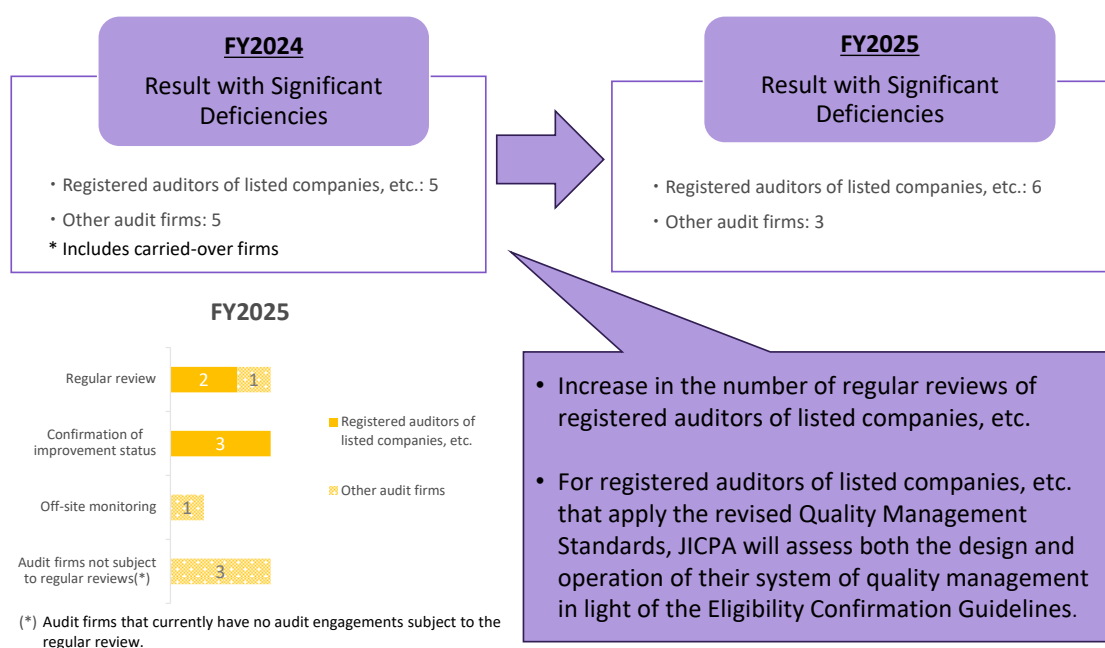
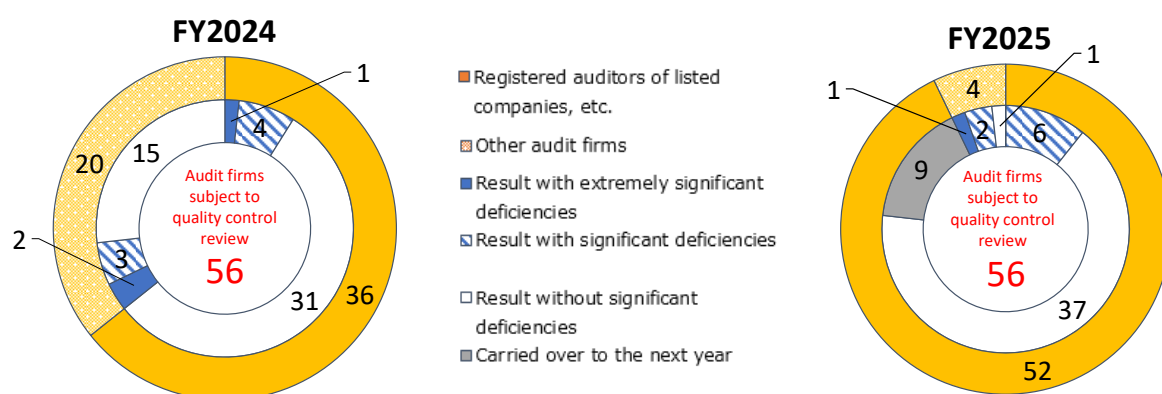
The FY2025 quality control review results and related measures are those approved by the Quality Control Committee between May 2025 and April 2026.

(i) Results of regular reviews

Regular reviews were conducted for 56 audit firms (4 audit firms) in FY2025. Of these, 38 audit firms (1 audit firm) received a Result without significant deficiencies, 8 audit firms (2 audit firms) received a Result with significant deficiencies, 1 audit firm (1 audit firm) received a Result with extremely significant deficiencies, and there was no Disclaimer of result.

Furthermore, in FY2025, due to the emphasis on regular reviews of registered auditors of listed companies, etc. through a thorough risk-based approach, JICPA conducted regular reviews with a new perspective as part of high discipline for registered auditors of listed companies, etc., and the review process also took a certain amount of time, resulting in nine audit firms being carried over to the following fiscal year.

(Note) The numbers in parentheses in the text indicate the breakdown of the number of other audit firms in the pie chart below.



Among registered auditors of listed companies, etc., the six firms that received results with Significant Deficiencies have been identified as having root causes such as failure to cultivate an organizational culture that emphasizes audit quality and failure to fully recognize the need to secure human resources with the necessary competencies and capabilities to maintain and improve audit quality. Based on these root causes, the following deficiencies have been identified: primarily, the audit firm's failure to obtain, allocate, or assign resources in a manner consistent with the audit firm's commitment to quality; deficiencies in the audit partner's direction, supervision, and review of audit documents, which failed to prevent the occurrence of deficiencies; and the lack of specific policies and procedures regarding the final assembly of audit files after the issuance of the audit report. As a result, in individual audit engagements, there are many cases where multiple recommendations for improvement have arisen in important areas, such as auditing accounting estimates and identifying, evaluating, and responding to the risks of material misstatement, including fraud.

Among other audit firms, the three firms that received results with Significant Deficiencies have been identified as having root causes such as not having enough professional personnel to perform audits, not fully recognizing the need to systematically operate their systems of quality management based on the relevant standards, and not being able to foster a culture of quality improvement. Based on these root causes, the following deficiencies have been identified: primarily, deficiencies in the audit partners' direction, supervision, and review of audit documents; failure to conduct inspections of completed engagements in accordance with the frequency stipulated in the audit firms' regulations; and failure to set quality objectives as stipulated in Standard on Quality Management 1. As a result, in individual audit engagements, there are many cases where multiple recommendations for improvement have been made in important areas, such as auditing accounting estimates and identifying, evaluating, and responding to the risks of material misstatement, including fraud.

Regular Reviews of Registered Auditors of Listed Companies, etc. with Audit Engagements Subject to Regular Review (Confirmation of Eligibility)

For 52 registered auditors of listed companies, etc. whose audit engagements are subject to regular review, JICPA conducted Confirmation of Eligibility in conjunction with regular reviews in FY2025. JICPA confirmed whether the audit firms complied with requirements prescribed by laws and regulations concerning the personnel systems and other operation control structures necessary to fairly and properly perform audit certification services for the financial statements of listed companies, etc.

As a result, the following items were identified as areas for improvement: "Overall system of quality management" (e.g., no specific policies and procedures have been developed to prevent misstatements of certified public accountant qualifications), "Risk assessment process of the audit firm" (quality objectives stipulated in Standard on Quality Management 1 have not been set), "Relevant ethical requirements" (policies and procedures regarding communication with company auditors required by the Code of Ethics regarding the provision of non-assurance services have not been specifically defined), "Consultation" (matters have not been specified on which consultation is needed except in a limited number of fields), "Assembly, retention and maintenance of audit documentation" (a mechanism has been developed to prevent changes to audit files after the assembly of the final audit file, but it is not being used), "Engagement quality review" (eligibility

requirements for engagement quality reviewers have been defined, but whether they meet those requirements at the time of appointment has not been considered), and "Resources (human resources)" (the firm's stance of prioritizing the quality of audit engagements is not reflected in the evaluation of partners).

The following table shows the breakdown of audit firms that received quality control review reports for regular reviews, by audit firm size and type of review result:

[Breakdown of audit firms receiving quality control review reports for regular reviews (by size of audit firms)]

(Unit: Number of audit firms)

			Breakdown by Type of Review Result				
			Result without significant deficiencies	Result with significant deficiencies	Result with extremely significant deficiencies	Carried-over audit firms	Total
Registered auditors of listed companies, etc.	Large-sized/ second-tier		2 (4)	0 (0)	0 (0)	1	3 (4)
	Audit firms by the number of listed company audits	Over 10 companies	11 (11) ^(*2)	3 (0)	0 (0)	2	16 (11)
		5–9 companies	13 (2)	2 (3)	0 (1) ^(*2)	3	18 (6)
		2–4 companies	9 (8)	1 (1)	0 (0)	2	12 (9)
		0-1 companies	2 (6)	0 (0)	0 (0)	1	3 (6)
	Sub-total		37 (31)	6 (4)	0 (1)	9	52 (36)
	Other audit firms		1 (15)	2 (3)	1 (2) ^(*2)	0	4 (20)
Total		38 (46)	8 (7)	1 (3)	9	56 (56)	

(*1) FY2024 numbers are shown in parentheses.

(*2) Of the three firms that underwent regular reviews in FY2024 and whose quality control review reports were issued in FY2025, one is included in Result without significant deficiencies and two are 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 system of quality management 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 system of quality management of audit firms

The following items regarding the design and operation status of the system of quality management 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.

The reason for the decrease in FY2024 and FY2025 compared to FY2023 is that the chief reviewers in charge of the audit firms provided guidance in preparation for the review of the registration in the roster of auditors of listed companies, etc. as deemed registered auditors of listed companies, etc., and the audit firms gained a proper understanding of high discipline, which led to improvements in their systems of quality management.

Number of audit firms that received recommendations for improvement in focus area

(Unit: Number of audit firms)

Focus areas	FY2023	FY2024	FY2025
1. The firm's risk assessment process	47	9	9
2. Governance and leadership	4	9	5
3. Relevant ethical requirements	6	1	3
4. Acceptance of client relationships and specific engagements	24	3	2
5. Human resources (education/training of professional personnel)	34	6	2
6. Monitoring and remediation process of the system of quality management	13	5	12
7. Assembly of final audit files and retention and maintenance of audit documentation	50	10	14

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

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

Recommendations for improvement related to "1. The firm's risk assessment process" mainly include the following comments:

- The audit firms did not maintain a record of the process for considering whether or not they should set additional quality objectives that they believe are necessary.
- The audit firms did not set all or part of the quality objectives specified in Standard on Quality Management 1.

Recommendations for improvement related to "2. Governance and leadership" mainly include the following comments:

- The audit firms did not obtain, allocate, or assign resources in a manner consistent with their commitment to quality.
- The representatives of the audit firms did not define specific requirements that form the basis for determining the eligibility of the individual(s) assigned operational responsibility

for the firm's system of quality management.

- The audit firms did not obtain approval for conflict-of-interest transactions from a majority of the partners other than the partner concerned.

Recommendations for improvement related to "3. Relevant ethical requirements" include the following comments:

- The audit firms did not establish specific policies and procedures regarding communication with company auditors, etc. as required by the Code of Ethics in providing non-assurance services.
- The audit firms did not establish specific policies and procedures to prevent incorrect statements of CPA qualifications.

Recommendations for improvement related to "4. Acceptance and continuance of client relationships and specific engagements" mainly include the following comments:

- The audit firms did not establish specific policies and procedures regarding information to be obtained when accepting new audit engagements.
- The audit firms did not maintain a record of the process for considering whether professional personnel possess sufficient knowledge and experience when accepting and continuing client relationships and specific engagements.

Recommendations for improvement related to "5. Human resources (education/training of professional personnel)" mainly include the following comments:

- The audit firms did not develop a plan to recruit professional personnel even though they had identified quality risks arising from a shortage of human resources.

Recommendations for improvement related to "6. Monitoring and remediation process of the system of quality management" mainly include the following comments:

- Although the audit firms inspected completed engagements selected for regular review, they failed to identify numerous findings detected during those reviews.
- The audit firms did not conduct inspections of completed engagements in accordance with the frequency stipulated in their regulations.

Recommendations for improvement related to "7. Assembly of final audit files and retention and maintenance of audit documentation" mainly include the following comments:

- The audit firms did not establish specific policies and procedures regarding the assembly of final audit files after the audit report date.
- The audit firms did not complete assembling the final audit files even after the final deadline.
- The audit firms did not establish monitoring procedures to confirm that electronic data relating to audit engagements stored on PCs were deleted on a timely basis.
- The audit firms did not implement sufficient information security measures when members of affiliated network firms could access the audit firms' office space.

Regarding any of the above focus areas, no recommendations for improvement were identified at large-sized or second-tier audit firms.

The Quality Control Review Team will provide guidance to audit firms on making improvements and will confirm the status of their remedial actions.

b. Individual audit engagements

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

Number of audit firms that received recommendations for improvement in focus area

(Unit: Number of audit firms)

Focus areas	FY2023	FY2024	FY2025
1. Identifying, assessing and responding to the risk of material misstatements due to fraud			
• Revenue recognition	51	32	38
• Risk of management's override of internal controls	41	22	25
2. Auditing accounting estimates	50	30	32

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

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

As in FY2023 and FY2024, recommendations for improvement were mainly related to the following areas:

Recommendations for improvement in "revenue recognition," which is included in "1. Identifying, assessing and responding to the risk of material misstatements including due to fraud," mainly include the following comments:

- Audit teams did not sufficiently consider the reasonable grounds for the presumption that the risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement.
- Audit teams did not sufficiently assess whether the sampling criteria they adopted are responsive to assessed risks of material misstatement due to fraud.
- Audit teams did not sufficiently evaluate the nature of the fraud.
- Audit teams did not obtain audit evidence that was more relevant, more persuasive or more extensive than would have been obtained if no fraud risk had been identified.

Recommendations for improvement in the “risk of management’s override of internal controls” include the following comments:

- Audit teams did not sufficiently consider the possible nature of fraud.
- Audit teams did not perform tests of details on selected journal entries.
- Audit teams did not sufficiently consider the relationship between fraud risk scenarios and the conditions used to select journal entries.

In addition, even among large-sized or second tier audit firms, there were issues about “Compared to situations where the audit team did not identify fraud risks, it has not obtained audit evidence that is more relevant, more persuasive, or more extensive” in “revenue recognition”.

Regarding “2. Auditing accounting estimates,” the largest number of recommendations for improvement related to impairment accounting of long-lived assets. Recommendations also arose from the valuation of inventories, recoverability of deferred tax assets, valuation of receivables, valuation of shares, and revenue recognition (estimating progress toward satisfaction of performance obligations). For example, there was insufficient understanding of how management identified estimation methods, assumptions, or data; insufficient procedures for responding to risks related to significant assumptions used by management in developing accounting estimates; and failure by the audit teams to consider whether the estimation methods adopted by the company were appropriate in the context of the applicable financial reporting framework.

In addition, even among large-sized or second-tier audit firms, insufficient consideration of significant assumptions used by management was a main issue in impairment accounting of long-lived assets and recoverability of deferred tax assets.

The Quality Control Review Team will provide guidance to audit firms on making improvements and will confirm the status of their remedial actions.

c. Operation control structures of audit firms that engage in audits of listed companies, etc. For the operation control structures of audit firms that audit listed companies, etc., JICPA mainly assessed the focus areas described on page 30. No recommendations for improvement were identified for “1. Structures for performing audit certification services fairly and properly” or “5. Areas and items of causes of significant deficiencies in the design and operation status of systems of quality management.” Recommendations were identified for “2. Assessing and Disclosing the status of the quality management of its business, etc.” “3. Disclosure of status of operational management” and “4. Systematic Operations.” For details, see “(3) Results of Regular Reviews—(i) Results of Regular Reviews.”

(4) Implementation Status and Results of Special Reviews

The implementation status and results of the special reviews for FY2025, including the number of audit firms, are as follows.

Reasons for Conducting Special Reviews

	FY2024	FY2025
Reasons for determining that a Special Review was necessary	- JICPA determined that the audit firm needed to verify the design and operation of its framework for continuous improvement of its system of quality management, as well as specific audit engagements. - JICPA determined that, in conducting its review for application review, the audit firm needed to verify the status of the system of quality management for audit engagements as of the date of the application for registration.	JICPA determined that it was necessary to verify the design and operation of the systems of quality management of audit firms serving as financial auditors for Shinkin banks, credit cooperatives and labor banks, based on its risk analysis of these firms and the previous year's quality control reviews.
Number of audit firms	2	3

[Audit Firms to Which Special Review Reports Were Issued]

(Unit: Number of audit firms)

Result	FY2024	FY2025
Result with extremely significant deficiencies	1 ^(*1)	0
Result with significant deficiencies	1 ^(*1)	1 ^(*2)
Result without significant deficiencies	0	1
Total	2	2 ^(*3)

(*1) The table includes the results for two firms that underwent special reviews in FY2024 and whose quality control review reports were issued in FY2025. The firms were found to have widespread deficiencies in their systems of quality management, including ineffective engagement quality reviews and ineffective direction and supervision by engagement partners, and the deficiencies were considered particularly serious.

(*2) Findings included significant deficiencies in the design of the audit firm's system of quality management, particularly in the firm's risk assessment process.

(*3) Of the audit firms subject to the special review for FY2025, there is one firm for which the deliberation and decision on the review results were carried over to the following fiscal year.

(5) Implementation Status and Results of Review for Application

Review

In FY2025, JICPA conducted reviews for application review in response to requests from the Review Board for Registration on Auditors of Listed Companies, etc. to the Quality Control Committee. The number of audit firms to which reports were issued in FY2024 includes not only audit firms that newly applied for registration in the roster of auditors of listed companies, etc., but also the number of cases in which reviews for application review were conducted for certain deemed registered auditors of listed companies, etc. JICPA confirmed the establish status of audit firm's system of quality management including compliance with legal requirements to struct sufficient for enabling the applicant to perform audit and attestation services for financial documents of listed companies, etc. in a fair and accurate manner.

In assessing the design of audit firms' systems of quality management, JICPA also considered actual conditions, including the firms' operations and the application of their systems to audit engagements.

There were 3 audit firms that withdrew their registration applications after sufficient communication with JICPA during the review for application review.

[The implementation status and results of the review for application review]

(Unit: Number of audit firms)

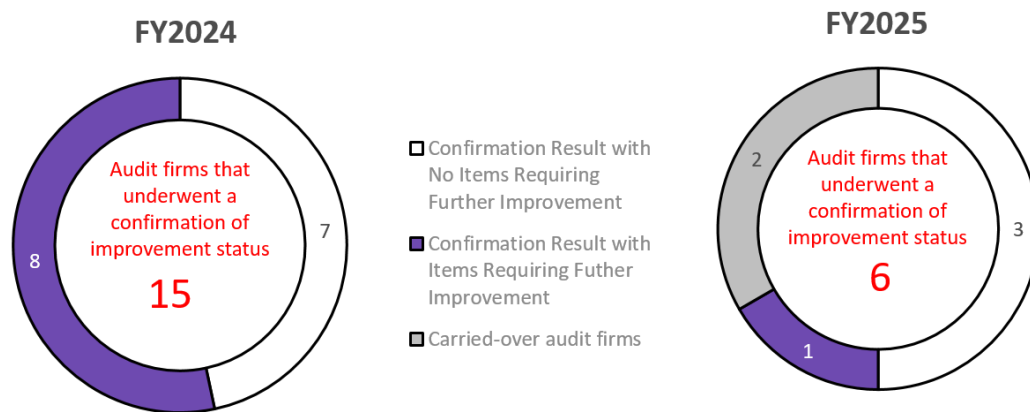
Result	FY2024	FY2025
Result with extremely significant deficiencies	4 ^(*)	0
Result with significant deficiencies	0	0
Result without significant deficiencies	20 ^(*)	4
Total	24	4

* JICPA conducted reviews for application review in FY2024; of the three firms for which the issuance of quality control review reports was deferred to FY2025, one firm was classified as without significant deficiencies, while two firms were classified as with extremely significant deficiencies. It should be noted that these two firms were found to have multiple deficiencies regarding the development of their overall system of quality management, including the lack of specific policies and procedures for engagement quality review, policies and procedures for the acceptance and continuance of client relationships and specific engagements, and policies regarding human resources (education, training, and recruitment).

(6) Confirmation of Remedial Actions

(i) Confirmation of improvement status

Results for the 6 audit firms that underwent a confirmation of improvement status in FY2025 are as follows:



Of the three audit firms that received a confirmation result with no items requiring further improvement in FY2025, two had addressed all recommendations for improvement identified in the previous fiscal year's quality control review but received new recommendations in related areas. One audit firm received a confirmation result with items requiring further improvement.

For the eight audit firms that received confirmation results with items requiring further improvement in FY2024, JICPA shortened the review interval in light of each firm's circumstances and conducted regular reviews of four firms and a special review of one firm in FY2025. The review of one firm was deferred until FY2026 or later, and two firms ceased to be subject to regular review.

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

Breakdown by the size of audit firms

(Unit: Number of audit firms)

			Confirmation results			
			Confirmation Result with No Items Requiring Further Improvement	Confirmation Result with Items Requiring Further Improvement	Carried-over audit firms	Total
Registered auditors of listed companies, etc.	Large-sized/ second-tier		0 (0)	0 (0)	0	0 (0)
	Audit firms by the number of listed company audits	Over 10 companies	1 (1)	0 (3)	1	2 (4)
		5–9 companies	2 (2)	1 (2)	1	4 (4)
		2–4 companies	0 (1)	0 (0)	0	0 (1)
		0–1 companies	0 (1)	0 (0)	0	0 (1)
	Sub-total		3 (5)	1 (5)	2	6 (10)
Other audit firms		0 (2)	0 (3)	0	0 (5)	
Total		3 (7)	1 (8)	2	6 (15)	

(*) FY2024 numbers are shown in parentheses.

(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 (excluding audit firms for which a regular review or confirmation of improvement status was conducted) showed the following results:

Confirmation of remedial actions in writing

(Unit: Number of audit firms)

		FY2023	FY2024	FY2025
Number of audit firms that are subject to the review of improvement status reports		76	64	50
Number of Audit Firms with Concerns about Insufficient Improvement	With concern	0	0	8 ^(*)
	No concern	76	64	42

(*) This includes audit firms whose registration was denied by the Review Board for Registration on Auditors of Listed Companies, etc. JICPA is considering whether to conduct quality control reviews based on the circumstances of each audit firm.

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

(i) Decision on measures

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

Measures Determined Based on Quality Control Review Results

(Unit: Number of audit firms)

Results of quality control reviews	Measures ^(*3)	FY2023	FY2024	FY2025
Result with Extremely Significant Deficiencies	Recommendation to withdraw from audit engagements	2	1	0
	Recommendation to withdraw from audit engagements (Insufficient improvement)	2	6	1
	Severe warning	1	1	0
Result with Significant Deficiencies	Severe warning (Insufficient improvement)	2	7	4
	Severe warning (Insufficient improvement)	0	1	2
	Warning	1	0	3
	Warning (Insufficient improvement)	2	0	0
Result without Significant Deficiencies but with Recommendations for Improvement	Severe warning (Insufficient improvement)	1	0	0
	Warning (Insufficient improvement)	7	7	5
Regular Reviews, Special Reviews, and Reviews for application Review [Total]		18	23	15
Confirmation Result with Items Requiring Further Improvement	Severe warning (Insufficient improvement)	0	4	0
	Warning (Insufficient improvement)	2	4	1
Confirmation of Improvement Status [Total]		2	8	1

(*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 measures 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) The table includes the number of audit firms for which the issuance of quality control review results was carried over to the following fiscal year and for which measures were determined. For FY2024, this includes two audit firms subject to regular reviews, two audit firms subject to special reviews, and two audit firms subject to review for application reviews. The results of quality control reviews and measures are, for regular reviews, "Results with extremely significant deficiencies and Recommendation to withdraw from audit engagements" and "Results with extremely significant deficiencies and Severe warning"; for special reviews, "Results with extremely significant deficiencies and a Recommendation to withdraw from audit engagements (Insufficient improvement)" and "Results with significant deficiencies and a Severe warning (Insufficient improvement)"; and for reviews for application review, "Results with extremely significant deficiencies and Recommendation to withdraw from audit engagements (Insufficient improvement)" (2 audit firms). Furthermore, because the three audit firms carried over from FY2022 to FY2023—two of which received a "Result with extremely significant deficiencies and a Recommendation to withdraw from audit engagements" and one of which received a "No statement of result and Warning (Insufficient improvement)"—have been excluded from the FY2023 column, the figures differ from those in the FY2024 Self-regulation Report.

(*3) "Recommendation to withdraw from audit engagements (Insufficient improvement)," "Severe warning (Insufficient improvement)," and "Warning (Insufficient improvement)" in the "Measures" column are

measures determined based on a quality control review finding that the audit firm's remedial actions were insufficient.

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

If a significant question arises during a quality control review regarding the appropriateness of an audit opinion expressed by an audit firm or the firm's compliance with the JICPA Constitution or regulations, the matter is 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:

Reports to the Chairman of the Audit Practice Review and Investigatory Committee

(Unit: Number of audit firms)

Quality Control Review Results, etc.	FY2023	FY2024	FY2025
Results with extremely significant deficiencies	4 ^(*1)	2 ^(*2)	0

(*1) Of the carried-over audit firms from FY2022, two audit firms that were reported to the Chairman of the Audit Practice Review and Investigatory Committee in FY2023 are excluded.

(*2) One carried-over audit firm from FY2024 that was reported to the Chairman of the Audit Practice Review and Investigatory Committee in FY2025 is included.

5. Recommendations for Improvement related to Regular Reviews in FY2025

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 system of quality management of the audit firm and the quality management of individual audit engagements.

[Breakdown of recommendations for improvement]

Fiscal year	Number of recommendations for improvement			Number of audit firms that received quality control review reports		Individual audit engagements selected for quality control review
	System of quality management of the audit firm	Quality management of individual audit engagements	Total		Of which, number of audit firms with recommendations for improvement	
FY2024	110	355	465	56	54	142
FY2025	140	427	567	47	46	129

(*1) The FY2024 row includes three firms that underwent regular reviews in FY2024 and whose quality control review reports were issued in FY2025. All three received recommendations for improvement: 14 concerning audit firms' systems of quality management and 38 concerning quality management in audit engagement. Nine audit engagements were selected for review.

(1) Recommendations for Improvement Related to the Audit Firm's System of Quality Management

The following table shows the number of recommendations for improvement relating to the systems of quality management of audit firms that received quality control review reports.

Furthermore, in FY2025, as a result of thoroughly implementing a risk-based approach and emphasizing regular reviews of registered auditors of listed companies, etc., the proportion of registered auditors of listed companies, etc. among the audit firms that underwent regular reviews increased compared to before. Consequently, regular reviews are being conducted for these audit firms in accordance with the Eligibility Confirmation Guidelines, and the number of audit firms subject to operational evaluation review increased in FY2025; therefore, the proportion of audit firms that received recommendations for improvement increased compared to FY2024.

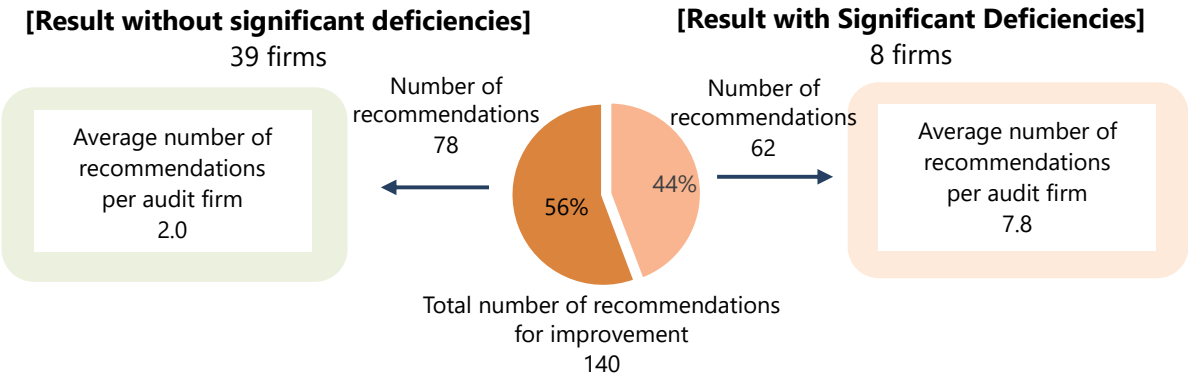
[Number of recommendations for improvement related to the system of quality management of the audit firm]

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	78 (54)	2.0 (1.2)	39 (46)	32 (22)	82% (48%)
Result with significant deficiencies	62 (56)	7.8 (5.6)	8 (10)	8 (10)	100% (100%)
Total	140 (110)	3.0 (2.0)	47 (56)	40 (32)	85% (57%)

(*1) FY2024 figures are in parentheses.

- (*2) Of the three carried-over audit firms whose regular reviews were conducted in FY2024 and whose quality control review reports were issued in FY2025, two audit firms received results with Significant Deficiencies and a total of 11 recommendations for improvement.

Audit firms that received quality control review reports in FY2025: 47 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 quality management for audit.
- ! 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 system of quality management of the audit firm and those regarding the quality management of individual audit engagements.

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

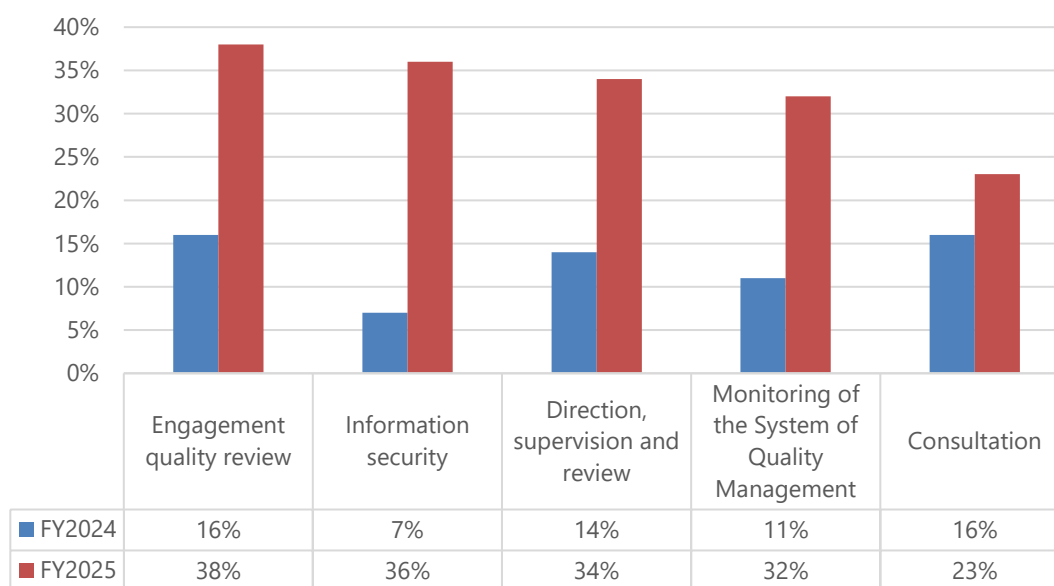
Of the recommendations for improvement related to the audit firm's system of quality management, the occurrence rate has increased for all the top five most common areas compared to FY2024.

The most common recommendations for improvement are as follows:

[Improvement recommendations related to the audit firm's system of quality management]

Top five recommendations for improvement	Typical example
Engagement quality review	• Numerous matters requiring improvement in audit engagements were not identified or prevented through engagement quality reviews.
Information security	• In situations where electronic data are stored on the local disk of a business PC, the method and extent of monitoring of such electronic data are not specifically defined. • The methods and extent of monitoring electronic data have not been evaluated to determine whether they are sufficient to address the risk of information leakage. • Although methods and levels of monitoring for electronic data are stipulated, they are not being operated properly.
Direction, supervision and review	• The engagement partner failed to identify and correct numerous issues during the review.
Monitoring of the System of Quality Management	• The content and implementation status of the necessary policies and procedures that constitute the system of quality management developed by the audit firm are inappropriate or insufficient. • Findings identified by the Quality Control Review Team were not identified during inspections of completed engagements.
Consultation	• The audit firms did not specifically define the matters requiring consultation, the experts to be consulted, or policies and procedures for conducting consultations, including assessing the competence and capabilities of those experts. • Although a matter that the audit firm had identified as requiring consultation arose, no consultation was conducted.

Occurrence rate of recommendations for improvement (regarding the system of quality management 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 Management of Individual Audit Engagements

The following table shows the number of recommendations for improvement related to the “quality management of individual audit engagements” of audit firms that have received quality control review reports.

[Number of recommendations for improvement related to “quality management of individual audit engagements”]

Result of reviews	Number of recommendations for improvement		Number of audit firms that received quality control review reports	Individual audit engagements selected for quality control review		
	(A)	Average per audit engagement (A/B)		(B)	Of which, number of engagements provided with recommendations for improvement	
Result without significant deficiencies	341 (256)	3.0 (2.0)	39 (46)	115 (127)	100 (98)	87% (77%)
Result with significant deficiencies	86 (99)	6.1 (6.6)	8 (10)	14 (15)	14 (15)	100% (100%)
Total	427 (355)	3.3 (2.5)	47 (56)	129 (142)	114 (113)	88% (80%)

(*1) FY2024 figures are in parentheses.

(*2) Of the three carried-over audit firms whose regular reviews were conducted in FY2024 and whose quality control review reports were issued in FY2025, two audit firms received results with Significant Deficiencies and a total of 22 recommendations for improvement for three selected engagements.

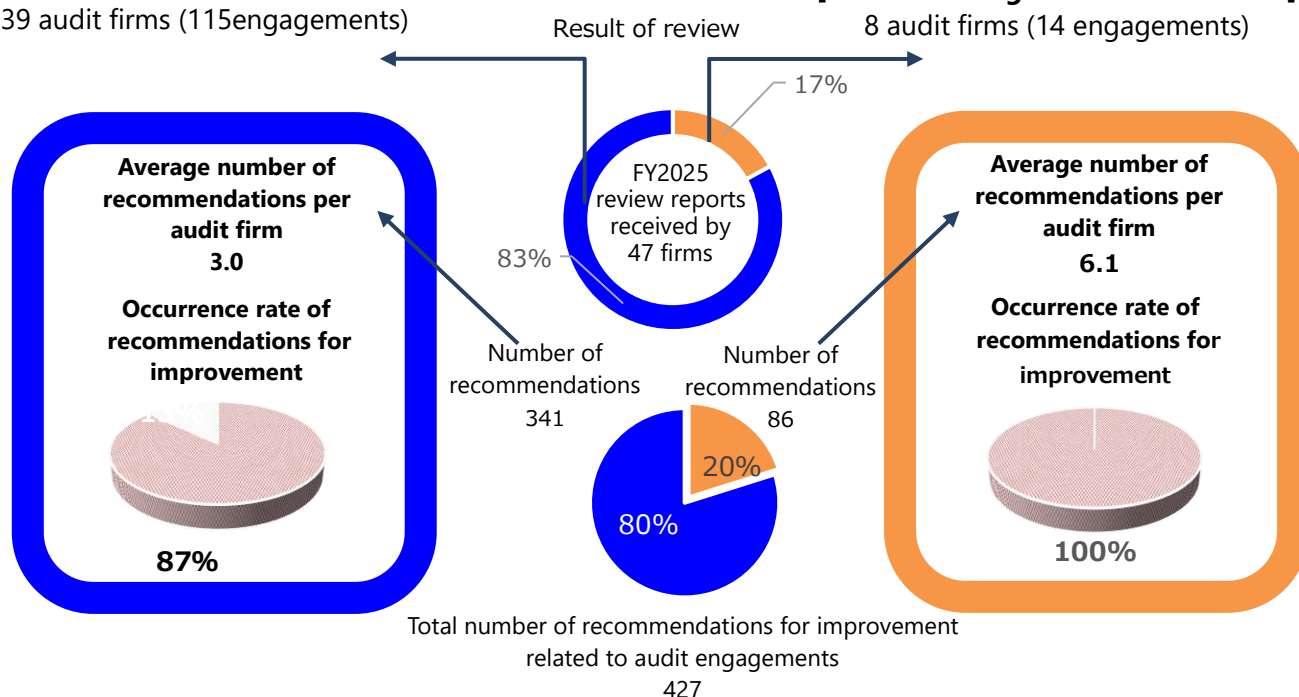
[Audit firms that received quality control review reports in FY2025] 47 audit firms (129 engagements)

[Result without significant deficiencies]

39 audit firms (115engagements)

[Result with Significant Deficiencies]

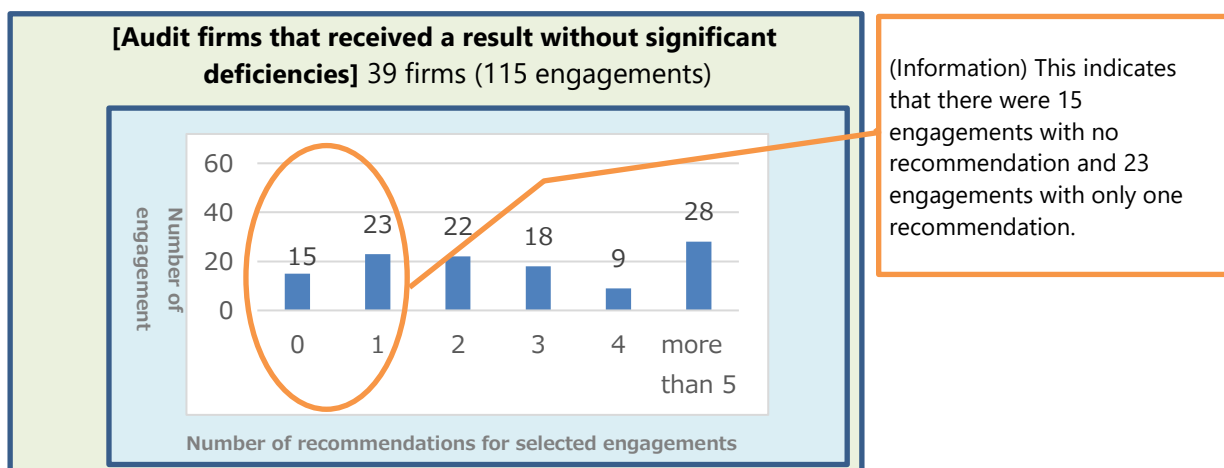
8 audit firms (14 engagements)



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

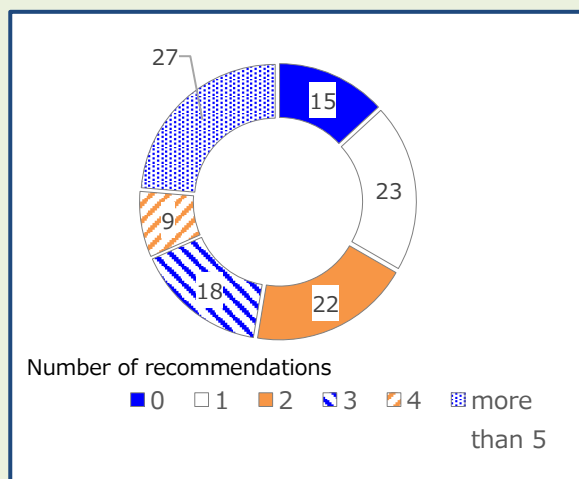
For audit firms that received a Result without Significant Deficiencies, the number of recommendations for improvement for selected individual audit engagements is shown below:

[Number of recommendations for improvement for selected engagements]



Classification by number of registration status

Registered auditors of listed companies, etc. 38 firms (114 engagements)



Average number of recommendations per engagement: 2.9

Other audit firms

1 firm (1 engagement)



Average number of recommendations per engagement: 9.0

Most common recommendations for improvement (regarding quality management of individual audit engagements)

Among recommendations for improvement relating to quality management in individual audit engagements, the occurrence rates for all five of the most common areas increased compared with FY2024.

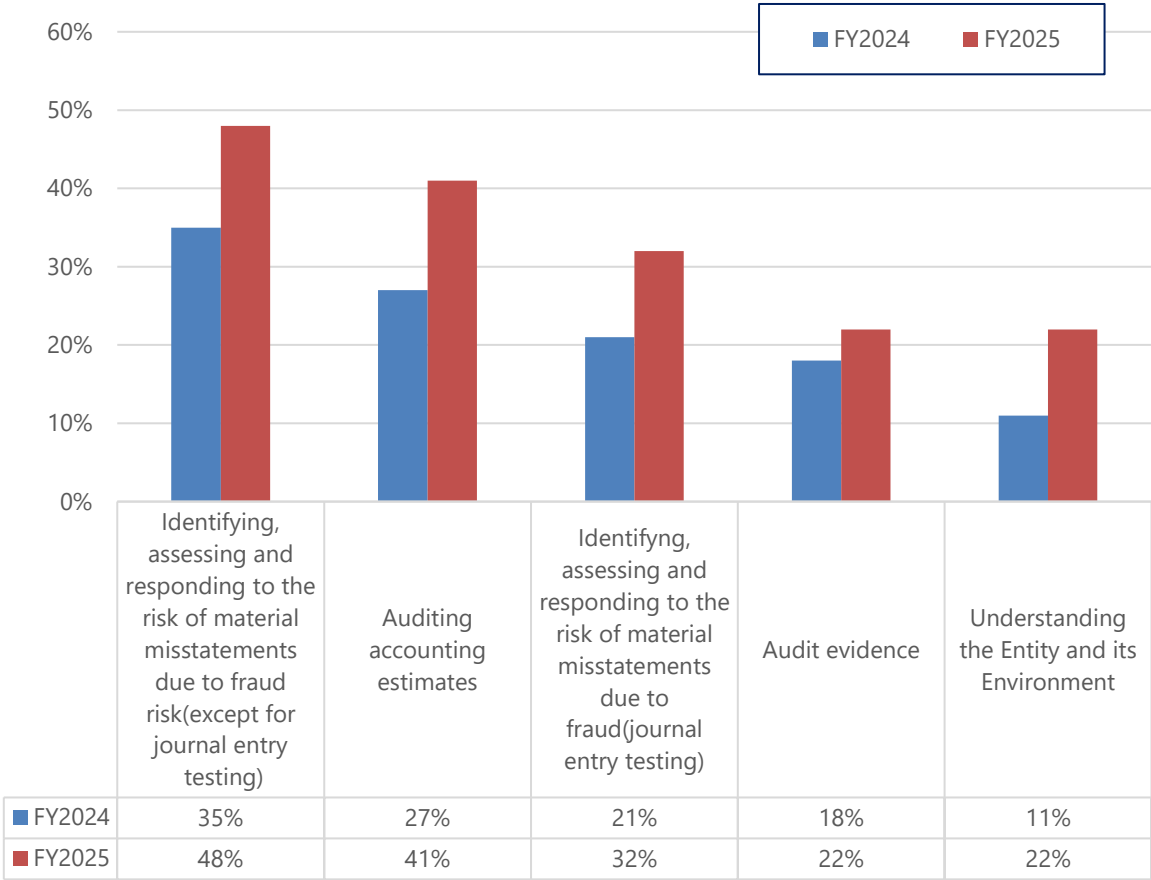
The top five most common recommendations for improvement are as follows:

[Most common recommendations for improvement (regarding quality management of individual audit engagements)]

Top five recommendations for improvement	Typical example
Identifying, assessing and responding to the risk of material misstatements due to fraud (except for journal entry testing)	• Audit teams did not sufficiently consider fraud risk scenarios. • Audit teams did not sufficiently consider the reasonable grounds for the presumption that the risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement. • Audit teams did not sufficiently assess whether the sampling criteria they adopted are responsive to assessed risks of material misstatement due to fraud. • The audit team did not obtain audit evidence that was more relevant, more persuasive, or more extensive than the evidence it would have obtained if it had not identified fraud risks.
Auditing accounting estimates	• The largest number of recommendations for improvement related to impairment accounting of long-lived assets. Recommendations also arose from the valuation of inventories, recoverability of deferred tax assets, valuation of receivables, valuation of shares, and revenue recognition (estimating progress toward satisfaction of performance obligations). • For example, there was insufficient understanding of how management identified estimation methods, assumptions, or data; insufficient procedures for responding to risks related to significant assumptions used by management in developing accounting estimates; and failure by the audit teams to consider whether the estimation methods adopted by the company were appropriate in the context of the applicable financial reporting framework.
Identifying, assessing and responding to the risk of material misstatements due to fraud (journal entry testing)	• Audit teams did not perform tests of details on selected journal entries. • Audit teams did not sufficiently consider the relationship between fraud risk scenarios and the conditions used to select journal entries. • Audit teams did not sufficiently consider the possible nature of fraud.
Audit evidence	• Audit teams did not obtain audit evidence regarding the accuracy and completeness of information produced by the entity. • Audit teams did not evaluate the competence, capabilities, and objectivity of management's expert or sufficiently understand the assumptions and methods used in the evaluation.
Understanding the Entity and Its Environment	• Audit teams lacked an understanding of the IT environment and an adequate consideration of the risks arising from the use of IT. • Audit teams did not sufficiently understand the processes for significant classes of transactions and account balances, from initiation through

Top five recommendations for improvement	Typical example
	recording, processing, correction as necessary, posting to the general ledger, and reporting in the financial statements. • Audit teams did not consider whether the revenue recognition accounting policy is appropriate in the context of the applicable financial reporting framework.

[Most common recommendations for improvement (regarding quality management in audit engagement)]



(Note) Occurrence rate among selected engagements

=

Number of engagements provided with recommendations for each item

Number of selected engagements

