



JICPA



JICPA

The Japanese Institute of Certified Public Accountants

4-4-1,K udan-Minami,C hiyoda-ku,T okyod 0 -8264,J apan
Phone: +81-3-3515-1130
Fax: +81-3-3515-1161
Email: international@sec.jicpa.or.jp
<http://www.hp.jicpa.or.jp/english/index.html>



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PROFILE

Annual Report 2017

CONTENTS

The Japanese Institute of Certified Public Accountants (JICPA) started as a voluntary organization in 1949 and later became a corporation under the CPA Act in 1966. The JICPA has always been committed to remain transparent and independent as a self-regulatory organization for the accountancy profession. In serving the public interest and strengthening the accountancy profession, the JICPA has also been committed to maintaining the quality of services provided by members and upholding the professional ethics, values, and standards.

professional
ethics

standards

values

Message from the Chairman and President	2
Leadership	3
JICPA's Key Responsibilities	4
Membership	5
Key Activities Highlights	6
Key Activities for Fiscal 2017	8
Financial Summary	12

Message from the Chairman and President



Looking back my first year as the Chairman and President, there are solid progresses made as you can see in the respective part of this report, yet still a number of new and longstanding challenges and opportunities ahead, as we continue to address those issues and deliver key strategies for members and the wider community.

Promoting quality audits

Continuing our efforts in promoting quality audits and safeguarding public's trust in CPA audits, we are engaging with our members and firms in ensuring that competences and qualities are kept high and members are up-to-date with the development of practices and technologies in audits. Following the publication of "The principles of effective management of audit firms" (The Audit Firm Governance Code) in March 2017, JICPA has encouraged audit firms to take advantage of this opportunity to improve their governance as it best fits to their own individual circumstances.

JICPA has also continued to lead a discussion on the impact of Artificial Intelligence (AI) on audit practices and how the new technology will transform the work of auditors by inviting IFAC leadership and other experts in the field in March 2017. With innovation, a large part of manual works will most likely be replaced with the increasing demand for the decision-making or professional judgement part of the work, which will present new challenges and opportunities for the profession. We will work closely with members and leading experts going forward.

Adding value to the community

Facing the declining birthrate and an accelerating aging society, the introduction of the audits to social welfare corporations exemplify the amounting recognition from the society that audits can contribute in terms of ensuring sustainability and trust in social welfare system and public financial management. We have seen a continuing increase in the area where professional knowledge and experience are called for, and as part of the initiative to promote better financial management in the public sector, particularly in local governments, JICPA has offered a number of seminars on a regular basis to members which were also open to the public officials and politicians. Supporting small and medium-sized entities (SMEs) that are starting

out as new businesses or needing advice on successions and overseas expansions is another area where the Institute has continued to devote its efforts this year.

With new demand for CPAs in public sector and in SMEs, we will continue to assist members in excelling in each area and strengthening the public's view of trusted advisors for the community and the business.

Global Talents and Attracting Best and Brightest

With ever increasing globalization of economies, mobility of people, and the expansion of communications, one of the challenges our profession face is how we ensure a pool of professionals that are global-minded yet locally responsive to lead the practice both in Japan and abroad. JICPA has launched a number of initiatives this year in strengthening the mechanism where members can develop further understanding of the international standard-setting or regulatory environment in accounting and auditing. In addition, to encourage younger members to aspire for work in global fields, JICPA has conducted a number of interviews and study sessions by inviting members who have experience working in the international organizations or are currently leading the international practices. A number of other efforts were also done throughout the year by being vocal in the dynamic aspects and attractive part of the work of the accounting profession to encourage young students to consider their career in accounting. How we can attract the best and brightest to consider their career in our profession holds an important key to our sustainability and in this respect, we have continued to focus our support to female members.

Overall, a solid foundation has been laid out to continue further efforts in each area.

The coming year will mark the 70th anniversary of the Certified Public Accountants Act that was enacted on July 6, 1948. The Institute has been evolving to fulfill its missions, and with fellow members, I strive even more to accomplish our goals as we look into our 80th, 90th, and 100th anniversaries.

Aiko Sekine
Chairman and President



Leadership

2016.7 - 2019.7

Chief Executive
Tadashi Umino

Deputy President
Shigeru Takahama

Deputy President
Giichi Yanagisawa

Deputy President
Haruhiko Yamada

Chairman and President
Aiko Sekine

Deputy President
Atsushi Takada

Deputy President
Kazutomi Asai

Deputy President
Kiyonobu Takeuchi

Deputy President
Masaji Suzuki

JICPA's Key Responsibilities

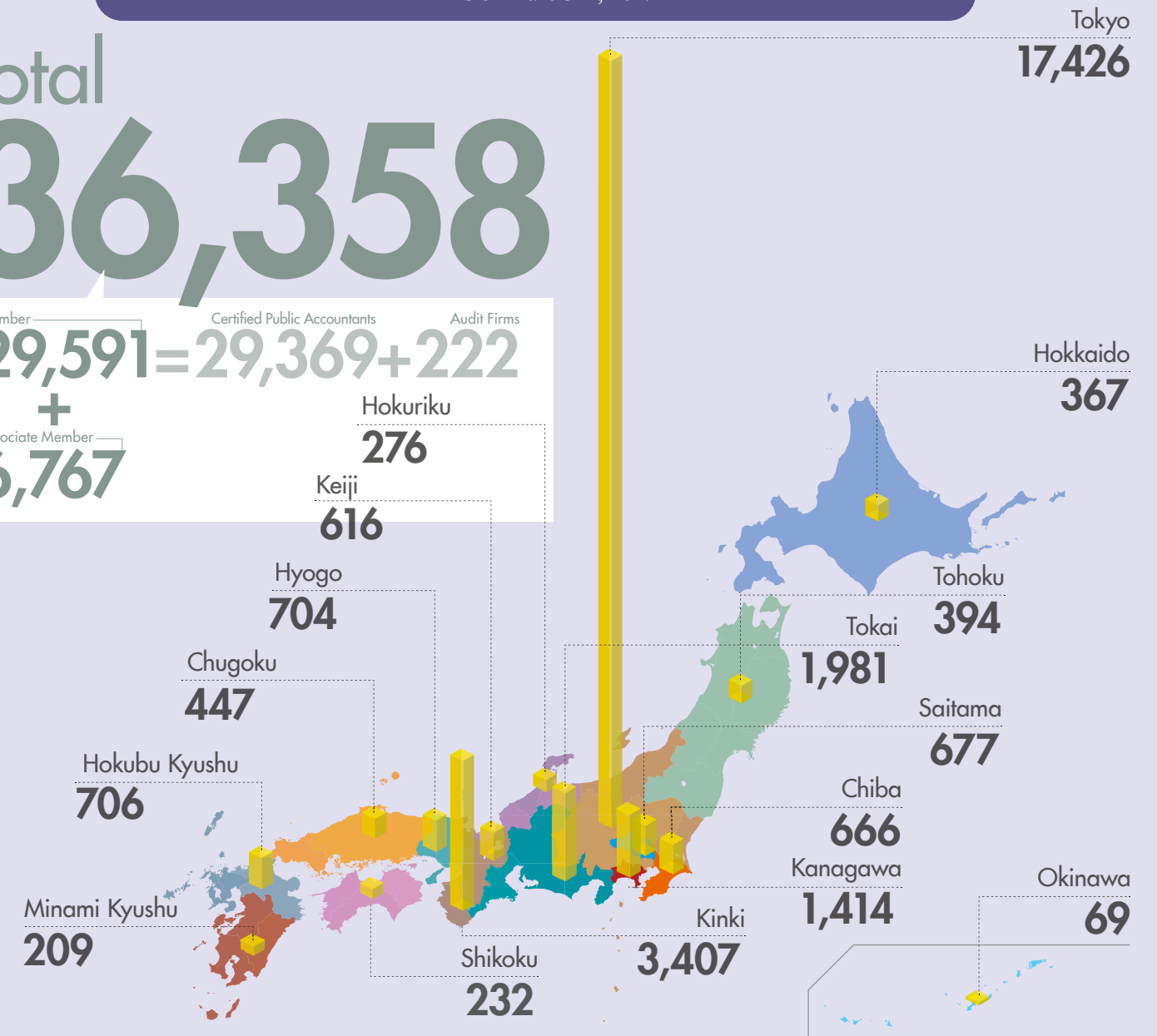
- 1 To **uphold the professional ethics** of members by developing the code of ethics for accountancy profession and promoting compliance with the code
- 2 To design and implement various measures to **improve the quality of services** provided by members through organizing seminars and research projects
- 3 To research on the theories and the **practices of auditing, accounting**, and other related fields of professional services in order to promote the implementation of auditing and accounting standards, and to establish auditing and accounting systems
- 4 To **research on the CPA system** and its services (including tax services), and to issue recommendations to the governmental and regulatory agencies, as appropriate
- 5 To design and implement various measures to **ensure that proper auditing services** are provided by members
- 6 To **support members** by providing assistance through consultation and distribution of necessary materials
- 7 To **resolve disputes** over engagements of members through mediation
- 8 To design and implement relevant measures for the **education and training** of individuals who pass CPA examinations
- 9 To **perform administrative works** for registration of members

Membership

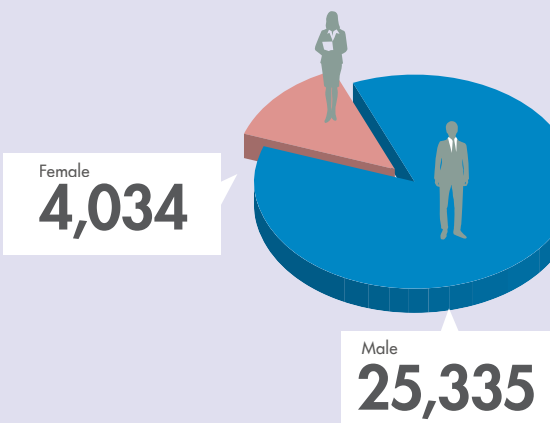
> As of March 31, 2017

Total
36,358

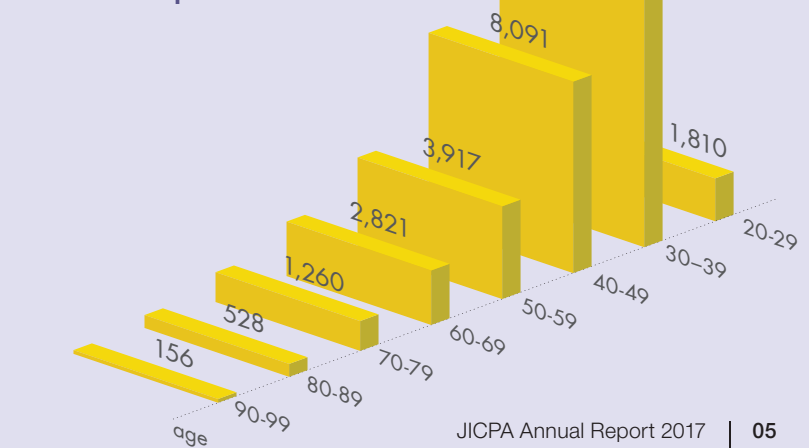
Member 29,591 = 29,369 + 222
 Certified Public Accountants Audit Firms
 + Associate Member 6,767
 Hokuriku 276
 Keiji 616



Certified public accountant male / female ratio



Age distribution of certified public accountants



Key Activities Highlights

May 18, 2016

Exchange Meeting with KICPA

On May 12, 2016, the 23rd Annual Exchange Meeting with the Korean Institute of Certified Public Accountants (KICPA) was held in Korea. This meeting is held annually to discuss matters related to accounting and auditing in both countries and facilitate mutual understanding and cooperation between the two institutions. Topics of the discussion included issues related to auditor reporting, emerging area of audit services, and attractiveness of the profession, among others.



September 23, 2016

Symposium on Women in Leadership; Leveraging Accounting and Finance Skills

On September 23, 2016, JICPA co-sponsored a symposium entitled "Women in Leadership; Leveraging Accounting and Finance Skills." With more than 270 attendees from business communities and academia, including young professionals and university students, the symposium highlighted the advantage of professional expertise in accounting and finance in encouraging and empowering women in society. Aiko Sekine, Chairman and President of JICPA, opened the event with a keynote speech and later participated in a panel discussion on keys to become successful in a career through leveraging skills in accounting and finance. The details of the symposium were reported in Nikkei newspaper.



September 16, 2016

The 37th JICPA Annual Conference

On September 16, 2016, the 37th JICPA Annual Conference was held in Fukushima, with a main theme "Role of CPAs in today's complex audit environment – Moving forward from the Great East Japan Earthquake." The keynote speech was given by Mr. Minoru Kamata, a prominent writer and Director Emeritus of Suwa Central Hospital, followed by the total of 10 concurrent sessions. The conference was attended by over 850 JICPA members and individuals from related fields.



October 26, 2016

Delegation from Jiangxi Provincial Audit Office visits JICPA

On October 26, 2016, delegates from Jiangxi Provincial Audit Office visited JICPA as part of their two-week training in Japan, and exchanged views on CPA system and public sector accounting and auditing in Japan.



February 16, 2017

"Establishment of IFIAR permanent office in Tokyo and Expectations to Auditors"

In relation to the scheduled establishment of a permanent secretariat of the International Forum of Independent Audit Regulators (IFIAR) in Tokyo in April 2017, on February 16, 2017, JICPA, as a member of the Japan Network for the IFIAR, hosted a seminar on the roles of CPAs and audit firms in further enhancing audit quality. During the seminar, Mr. Kiyotaka Sasaki, Director of the office for IFIAR at Financial Services Agency and the Secretary-General of the Securities and Exchange Surveillance Commission, spoke on the significance of the IFIAR permanent secretariat in Tokyo and its future activities. He also addressed on his expectations to the JICPA and its members in playing a key role in achieving high quality audit. In addition, Mr. Kazutoshi Kogure, Executive Board Member of JICPA - Quality Control, introduced the various initiatives of JICPA aimed at promoting members' awareness and understanding for the IFIAR. The seminar was attended by over 150 JICPA members.



March 21, 2017

IFAC President visits Tokyo: Future of the Accounting and Auditing - Key to the Sustainable Growth

From March 21 to 23, 2017, Ms. Rachel Grimes, President, Mr. Fayezul Choudhury, CEO, and Mr. Gary Pflugrath, Director, Public Policy and Regulation of the International Federation of Accountants (IFAC) visited Tokyo for a series of events and outreach activities in Japan. During their visit, IFAC President and CEO were invited to deliver speeches on the future of accounting and auditing at the events organized by JICPA and Nikkei Inc., and also met with JICPA leadership and representatives from various organizations, including the Financial Services Agency (FSA), Certified Public Accountants and Auditing Oversight Board (CPAAOB), Tokyo Stock Exchange, the Securities Analysts Association of Japan, and United Nations Development Programme (UNDP) Representative Office in Tokyo to exchange views on IFAC activities and those of the respective organizations. In particular to their visit to UNDP Representative Office in Tokyo, IFAC leadership shared with Mr. Tetsuo Kondo, Director of the UNDP Representative Office in Tokyo, the accountancy profession's contribution to the United Nation's Sustainable Development Goals (SDGs) outlined in the IFAC's recent publication, "The 2030 Agenda for Sustainable Development – A Snapshot of the Accountancy Profession's Contribution." Alongside this publication, the views were shared that the values such as transparency, trust and integrity that accountancy profession embraces will be key elements in achieving the SDGs, and being an essential driver of strong and sustainable organizations, financial markets, and economies, there is a positive correlation between the size and growth of the profession with the development of economy as well as the UN Human Development Index. JICPA also shared its capacity building and development activities and its visions for playing key roles in enhancing profession's contribution to SDGs in Japan and abroad.



Key Activities for Fiscal 2017



1

Initiatives to Ensure Confidence in Audits

(1) Principles for Effective Management of Audit Firms (“The Audit Firm Governance Code”)

Following the release of the Audit Firm Governance Code by the Financial Services Agency (FSA), JICPA directed its member firms to take this opportunity to reflect on and improve their governance as necessary. JICPA also encouraged firms to further develop organizational culture to maintain and continuously enhance their audit quality, as well as to increase their transparency by using the most suitable means in line with their respective characteristics.

(2) Improving the Transparency of Auditor Reporting

Currently, discussion is ongoing regarding containing key audit matters (KAM) in auditor reporting to provide the information that meets the needs of the users of reporting such as shareholders.

To this end, JICPA has provided the necessary information by posting a page “International Trends on Auditor Reporting; About Key Audit Matters (KAM)” on its website showing related guidance on auditor reporting issued by the International Auditing and Assurance Standards Board (IAASB) and by holding a seminar.

(3) Expanding Corporate Fraud Trainings

In order to further enrich members competence on detecting corporate fraud, JICPA is promoting specific approaches of trainings, including discussion-style interactive trainings and train - the - trainer seminars for developing capable trainers and lecturers for such discussion-style trainings. JICPA is also developing methods to measure how well participants acquired the competence necessary to detect fraud.

(4) Other Efforts to Enhance Audit Quality

To promote efforts for effective use of IT in audit, JICPA has formed the “Sub-committee on the Future of Audit” within the IT Committee, which is undertaking research on innovation in audit with the use of technology from long-term perspectives. In connection with this, on March 22, 2017, JICPA hosted a two-day forum with a focus on recent global trends in accounting and auditing, where deep discussion on “Innovation in Audit Techniques by Using IT” with the rise of artificial intelligence (AI) & Internet of Things (IoT) era was made from various viewpoints.

2

Initiatives to Strengthen Self-regulatory Functions and Full Promotion of Professional Ethics to Ensure Confidence in Audits

(1) Enhancement of Self-regulatory Functions

The quality control review system has been enhanced both qualitatively and quantitatively this year by introducing various measures. For example, the increase of the number of reviewers at JICPA improved collection of information and continuous risk assessment of audit procedures. JICPA also implemented reviews that specifically focus on whether the relevant audit procedures were taken by firms to detect and assess management’s fraud risk based on past fraud cases, and also introduced selection mechanism for engagements that would be reviewed by JICPA with the consideration of the economic situation, risks specific to respective industries and management’s fraud risk.

At the same time, based on the recognition that the quality control review system is the core of the self-regulatory scheme, JICPA engaged in a continuous discussion with experts such as academic researchers, lawyers, and other professionals to improve the current system under the “Study Group on Self-Regulatory Functions with Focuses on Quality Control,” and considered the possibility of a reform in the system where necessary.

With regard to the continuing profession education (CPE) system, as it was pointed out in 1.(3) above, the related rules were

partially revised to require members who are engaged in statutory audits to acquire two credits in accounting fraud topics during the specified reporting period.

(2) Distributing Handy Materials to Understand Professional Ethics

JICPA’s Ethics Committee prepared and distributed to all members the “Professional Ethics Handbook” and the “Must-Know Points on Professional Ethics,” that is an extract version of the former composed of more useful information therein. They were published to help members in deepening their understanding on various rules and regulations on professional ethics, including the Code of Ethics.

3

Efforts to Improve CPA System; Streamlining Regulations and Frameworks for Enhanced CPA Audits

(1) Study on the CPA System

Observing the recent situation where CPAs are required to provide more services in wider business fields, JICPA prepared and released on June 6, 2016, the “Discussion Notes on the Desirable form of the CPA Profession and the CPA system (Interim Report)”. It raises points related to the CPA’s registration system, acquisition of the CPA qualification, the scope of services, and regulatory matters surrounding the CPA profession.

(2) Improving Audit Environment

Following the publication of the “Japan Revitalization Strategy 2016-Toward the Fourth Industrial Revolution-,” on June 2, 2016 by the Cabinet (hereinafter referred to as the “Japan Revitalization Strategy 2016”), the Council on Investments for the Future in the Headquarters for Japan’s Economic Revitalization of the Government of Japan released the “Study on the Unification of Disclosure Require-

ments for Business Reports and Securities Reports.” For this fiscal year, JICPA contributed to this study by offering opinions from the perspectives of auditors. Meanwhile, according to the “Report by the Working Group on Corporate Disclosure – Promoting Constructive Dialogue” issued by the Financial Services Agency (FSA) on April 18, 2016, the Tokyo Stock Exchange revised its Securities Listing Regulations and the Guidelines of Preparation of Financial Result Reports. As a result, it has been clarified that financial result reports are not subject to audit, as JICPA had presented.

4

Initiatives to Enhance Accounting and the Auditing System and Related Standards in Areas of the Public Sector and Non-for-profit Sectors

(1) Introduction of CPA Audits in Social Welfare Organizations

Following the enactment of the Act for Revising Social Welfare Act, etc. on April 1, 2017 regulating that social welfare organizations beyond a certain size must receive a CPA audit for its financial results, JICPA requested its members to improve their ability to respond to the needs of the society and to offer audit services effectively and efficiently in tune with the characteristics of respective welfare organizations.

(2) Recommendation on Accounting Systems, etc. in Non-for-profit Sectors

JICPA edited and issued on September 20, 2016, the “Discussion Notes for the Development of Accounting Standards for Non-for-profit Sectors - Recognition of Earnings without Counter-performance” as the Study Report No. 30 of the Non-for-profit Sector Committee.

In addition, in response to social concerns caused by Japan’s rapidly aging society, including increases in social security costs, JICPA directed its attention to how the

governance should be for private non-profit organizations, which are the main providers of social welfare services, to realize more effective and efficient operations and how the structure thereof contributes in securing sustainability of the social security system. Accordingly, JICPA summarized its recommendations and publicized the “Study on the Governance of Non-for-profit Organization Supporting a Sustainable Social Security System” (Study Report No. 31 of the Non-for-profit Sector Committee) on January 25, 2017.

5

Smooth Implementation of International Financial Reporting Standards (IFRS)

The “Japan Revitalization Strategy 2016” continued to encourage more corporations to voluntarily apply the International Financial Reporting Standards (IFRS) to their accounting. On August 24, 2016, JICPA co-hosted a lecture with the IFRS Foundation entitled “Framework-based understanding of IFRS,” inviting lecturers from International Accounting standards Board (IASB). On March 3, 2017, JICPA hosted a seminar entitled “Disclosure in IFRS Financial Statements - From viewpoints of IASB, Users and Auditors,” calling on those involved in accounting and auditing, including financial analysts. At the seminar, trends of IASB projects on disclosure, users’ point of view, and actual cases of domestic and overseas companies applying IFRS, were presented. As of March 2017, 142 corporations have already applied or decided to apply IFRS to their accounting procedures.

6

Initiatives to Support Members Working in Diverse Fields in Domestic and International Areas

(1) Support to members serving as External Directors/Auditors of Listed Companies

The “Corporate Governance Code,” which has been applied to listed companies since June 2015, regulates that listed companies should appoint “at least two or more independent external directors” and “at least one or more persons who have proper knowledge in finance and accounting as an auditor.” Accordingly,

the number of CPAs who assume the office of external directors/auditors, etc., has increased over the years.

In view of the amounting needs for CPAs as a qualified person for external director/auditor in the future, JICPA has established the “Council on CPAs Serving as External Directors/Auditors” for responding members’ network organizations and training needs.

(2) Activities of the Council on Public Sector Accounting

The “Group for Accounting and Auditing of Local Public Sector,” which was established under the Council on Public Sector Accounting for the purpose of developing talents who can serve local government organizations, has provided the e-learnings for new members and continuous trainings for members who wish to keep their membership in the Group. The continuous training program is composed of 65 subjects which became available to members from February 2017.

(3) Support for Small and Medium-sized Enterprises (SMEs)

Recently, there are increasing expectations from the SMEs seeking CPAs’ support in their overseas business development. JICPA has continued to update a list of members who assist SMEs exploring overseas development in Asian region.

7

Initiatives to further Contribute to Various Social Needs and to Become More Competitive in the International Arena

(1) Development of Global Talents

The “Japan Revitalization Strategy 2016” proposed “to build a human resources bank in collaboration with relevant organizations where those who can actively communicate and express their opinions on IFRS matters in international fields are pooled.” Following this, the “Study Group on International Accounting HR Bank” was formed in the Financial Accounting Standards Foundation (FASF), in which JICPA has participated. At the study group, discussion was extended as to how to develop talents who can play an active role in the international arena, which resulted in the establishment of the “Network for International Accounting Specialists” for the purpose of properly and visibly grasping

those who are qualified for international assignments and to help those who wish to work internationally in leading their career path.

JICPA has been continuously endeavored to develop professionals who have sufficient international knowledge and experience to serve as a representative of Japan in international organizations in the future. As part of this endeavor, the International Affairs Committee hosted a knowledge sharing sessions to increase the number of members who aim to take on this role in the international arena. In addition to this, JICPA has prepared interview articles with a number of members who have experience working in diverse areas in the global arena so that members aiming to expand their career globally would see the attractiveness of works and necessary abilities as relates to working in an international organization.

8

Activities to Increase Public's Awareness of the Importance of Accounting and Auditing in Society and to Raise the Appeal of CPA Profession

In view of as the needs to gain and retain talented personnel for providing CPA services, JICPA has continued to take measures to raise the appeal of CPA profession.

As a measure to gain awareness of young people, seminars on the CPA profession were held at the headquarters and local chapters of JICPA for the total of 99 times this year, of which 32 were for the high school students and 67 were for college/university students, to directly promote the appeal of the CPA profession.

Together with the efforts to promote measures for assisting female members to succeed through the Council for Supporting Female Accountants, JICPA has actively released its opinions and recommendations to support not only female CPAs, but

also all women in playing more active role in society.

JICPA has continued to disseminate basic accounting education for the general public while considering it as part of its mission to contribute to help advance the knowledge and understanding of the accounting which forms an important part of the social infrastructure.

In addition to the above, JICPA has been active in serving the society by issuing its opinions to various matters that concern the civil society in Japan in general. JICPA prepared and released the “Recommendation on Tax System in 2017” (July 25, 2016) on how the tax system and policies should be for fiscal year 2017.

9

Improving Governance and Financial Structures of JICPA

In order to perform self-regulatory measures that suitably support members’ diversifying businesses and to cope with changes in situations surrounding the CPA profession, JICPA has continued to strengthen its staff base, both at the headquarters and regional chapters. Also, JICPA has begun its project to improve its membership system so that members’ information would be well managed and properly utilized for support. While implementing the necessary development to perform its operations more effectively, such as the reinforcement of HQ functions, investment in an IT system that enables the proper management and operation of members’ information, and expansion of facilities in response to growing businesses, JICPA launched discussions on how the financial management of the organization should be by forming a project team to study issues that would influence financial structures of the JICPA and the necessary actions for it.



Financial Summary

Balance Sheet

As of March 31

Yen in thousands

	2017
Assets	
Current assets	5,346,524
Non-current assets	10,129,792
Total assets	15,476,316
Liabilities	
Current liabilities	580,372
Non-current liabilities	2,534,944
Total liabilities	3,115,317
Net Assets	
Restricted net assets	919,278
Unrestricted net assets	11,441,721
Total net assets	12,360,999
Total liabilities and net assets	15,476,316

Statements of Cash Flows

Year ended March 31

Yen in thousands

	2017
Cash flows from operating activities	
Cash receipts from operating activities	6,317,228
Cash payments from operating activities	6,095,817
Net cash generated from operating activities	221,411
Cash flows from investing activities	
Cash receipts from investing activities	1,287,399
Cash payments from investing activities	3,261,470
Net cash used in investing activities	(1,974,070)
Cash flows from financing activities	
Cash proceeds from financing activities	—
Cash payments from financing activities	—
Net cash used in financing activities	—
Net (decrease)/increase in cash and cash equivalents	(1,752,316)
Cash and cash equivalents at beginning of year	4,070,753
Cash and cash equivalents at end of year	2,318,437

Statements of Operations and Other Changes in Net Assets

Year ended March 31

Yen in thousands

	2017
Unrestricted net assets	
Ordinary changes	
Ordinary revenues	6,326,785
Ordinary expenses	6,385,902
Net ordinary changes	(59,166)
Non-ordinary changes	
Non-ordinary revenues	4,499
Non-ordinary expenses	1,061
Net non-ordinary changes	3,437
Total changes of unrestricted net assets	(55,678)
Unrestricted net assets at beginning of year	11,497,400
Unrestricted net assets at end of year	11,441,721
Restricted net assets	
Total changes of restricted net assets	(11,555)
Restricted net assets at beginning of year	930,833
Restricted net assets at end of year	919,278
Total net assets at end of year	12,360,999

Following the practice guideline on accounting standards for public benefit corporations, the information for the preceding year has not been stated in this summary.

This financial summary is prepared based on the audited financial statements for the period ended March 31, 2017.

JICPA's financial statements are prepared in accordance with accounting standards for public benefit corporations in Japan.