



The Japanese Institute of Certified Public Accountants

Overview of the Quality Control Review 2021

Contents

| | |
|-------------------------------------------------------------------------------------------|-----------|
| 【Part 1 Overview of the Quality Control Review】 | 3 |
| 1. The Japanese Institute of Certified Public Accountants | 4 |
| 2. Activities of JICPA as a Self-Regulatory Body | 6 |
| 3. Quality Control Review Systems | 7 |
| 4. Registration System for Audit Firms that Engage in Audits of Listed Companies | 24 |
| 5. Overview of the Official Rosters | 29 |
| 6. Relationship with the CPAAOB | 34 |
| 【Part 2 Implementation Status and Results】 | 36 |
| 1. Implementation status and results of quality control reviews | 37 |
| 2. Recommendations for improvement related to regular reviews in FY2020 .. | 51 |
| 3. Future action plan | 58 |

【Part 1 Overview of the Quality Control Review】

1. The Japanese Institute of Certified Public Accountants

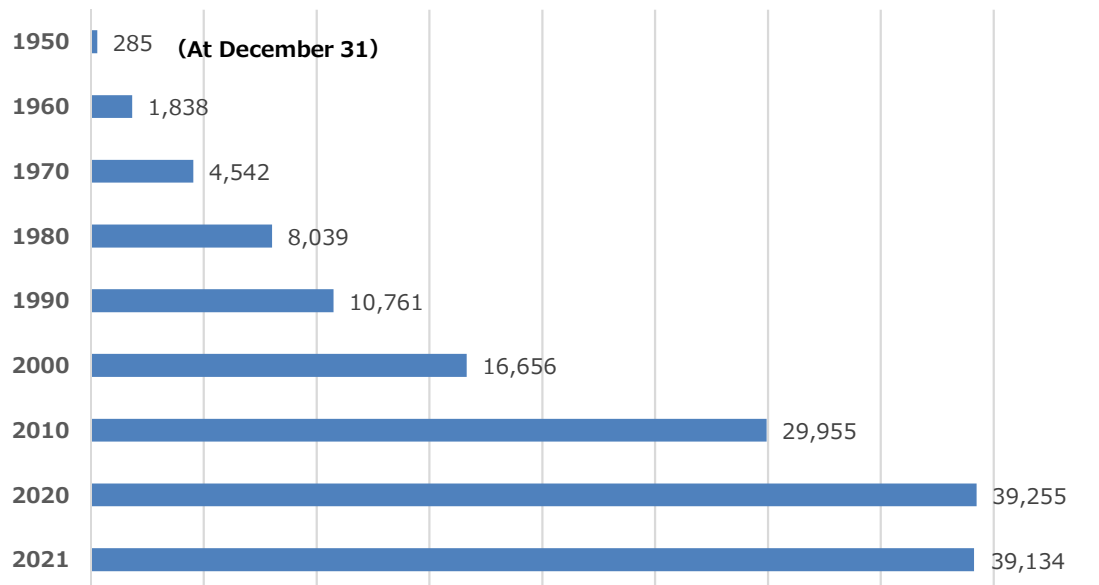
The Japanese Institute of Certified Public Accountants (“JICPA”) is dedicated to provide instruction and oversight of certified public accountants (“CPAs”) to improve their qualifications to fulfill their mission as a CPA.

JICPA is the sole organization for CPAs in Japan. Founded in 1949, JICPA started as a voluntary organization and later became a corporation under the Certified Public Accountants Act (the “CPA Act”) in 1966. Also, JICPA became a special private corporation under a special law in April 2004.

Members of JICPA consist of CPAs of Japan, CPAs of other countries in Japan and audit firms. Associate members of JICPA mainly consist of junior accountants and successful candidates of the CPA examination. As of March 31, 2021, the total number of members, including associate members, stood at 39,134, which consisted of the following: the number of members totaled 32,738, including 32,480 of CPAs of Japan and of other countries in Japan as well as 258 audit firms; and the number of associate members, including junior accountants and successful candidates of the CPA examination, stood at 6,396.

As a self-regulatory body of accounting profession, JICPA is engaged in various activities, including maintaining professional ethics, retaining and improving qualifications of members, and ensuring the quality of their work.

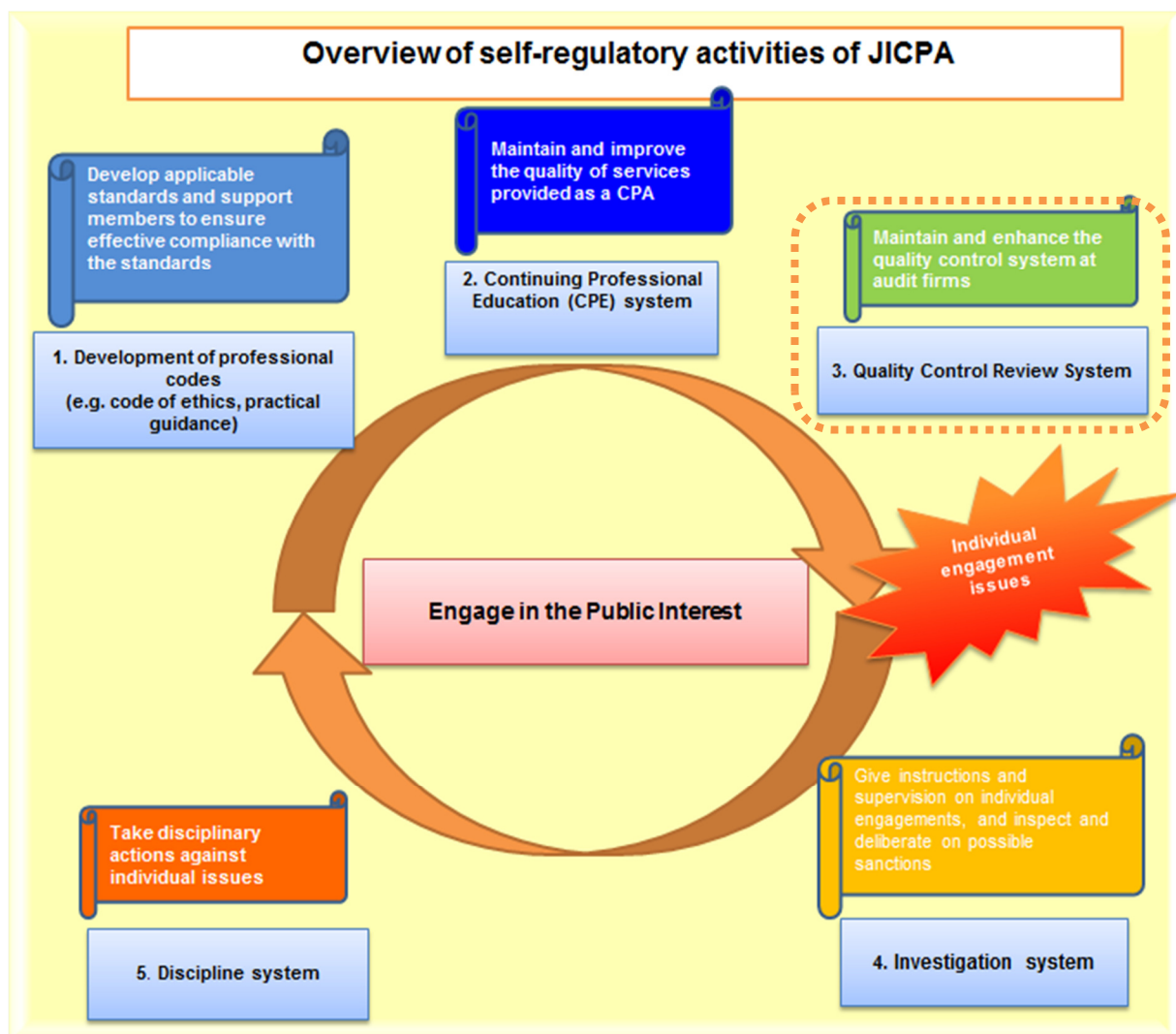
[Number of members (At March 31)]



2. Activities of JICPA as a Self-Regulatory Body

JICPA is a self-regulatory body dedicated to continuously retain the high professional abilities of our members, with an aim to maintain and improve the quality of auditing, accounting and other related fields of professional services and enhance social confidence in those services. Overview of self-regulatory activities of JICPA is summarized in the following diagram.

The “Quality Control Review System” is considered as one of the most significant self-regulatory activities of JICPA.



3. Quality Control Review Systems

(1) Overview of the Quality Control Review System and the Registration System for Audit Firms that Engage in Audits of Listed Companies

① Quality Control Review System

In the light of public nature in services prescribed in article 2-1 of the CPA Act for audit engagements, JICPA has implemented a system for quality control reviews, namely the “Quality Control Review System,” as part of its self-regulatory activities since FY1999 with an aim to maintain and enhance an appropriate quality level of audit engagements, and to ensure social confidence in those services. The Certified Public Accountants and Auditing Oversight Board (the “CPA AOB”) has monitored the Quality Control Review System of JICPA since FY2004.

Based on the JICPA Constitution, the Quality Control Committee established in JICPA conducts quality control reviews in accordance with the quality control review standards and procedures to assess the design and operation status of the quality control system of audit firms and CPAs (collectively as “audit firms”) and, as needed, issue recommendations for improvement and impose appropriate measures. Quality control reviews are focused on instructing and supervising audit firms. They are not intended to badger, penalize audit firms, or to interfere audit opinions issued by audit firms.

Also, JICPA amended the JICPA Constitution in July 2019 to change the Quality Control Review System and relevant rules from the viewpoint of improving effectiveness and transparency. Since July 2020, quality control reviews have been conducted based on the new system. The following table shows the main amendments.

[Main amendments to the Quality Control Review System]

| | |
|-------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Flexibility to the frequency of regular reviews | JICPA does not change the principle rule of conducting regular reviews once in every three years. The new system gives the Quality Control Committee more flexibility to determine the intervals between regular reviews, allowing the following: a review in the following year can be conducted as necessary; and a review can be extended to once in every five years at most. |
|-------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

| | |
|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Relaxation in the requirements for conducting special reviews | Before the amendment, occasions requiring special reviews were extremely limited, given that such special reviews could be conducted only when it fell into a situation that could undermine public confidence in audit services. The requirement has been relaxed and a special review can now be conducted whenever the Quality Control Committee deems it necessary, regardless of whether or not an audit opinion has been expressed, in order to review quality control systems and audit status of an audit firm in a timely manner. |
| Changes in types of result issued for regular reviews | Types of conclusion in a quality control review report for regular reviews have changed. The previous conclusions, namely "Unqualified conclusion," "Qualified conclusion" and "Negative conclusion" are abolished. Instead, under the new system, the quality control review report states whether or not "extremely significant deficiencies" or "significant deficiencies" (collectively as "Significant Deficiencies") were identified in the design and operation of quality control system of audit firms as a result of a quality control review. |
| Optimization of the measures under the Quality Control Review System | When "Result with significant deficiencies" is issued based on a quality control review, stricter measures can be imposed under the new system. On the other hand, the Quality Control Committee can impose lighter measures depending on the individual circumstances of audit firms. |
| Changes in the response to recommendations for improvement | Previously, all audit firms which received recommendations for improvement were required to prepare an Improvement plan. Under the new system in which audit firms' self-improvement is encouraged, audit firms are now required to prepare an Improvement plan only when "Result with significant deficiencies" is issued. |
| Changes in the review process of remedial actions | Follow-up review was abolished and changed to the new system. When a regular review comes out with "Result with significant deficiencies," the new system generally requires that, instead of follow-up reviews, another regular review shall be conducted in the following year or remedial actions shall be confirmed with instructions provided as necessary. On the other hand, when a regular review comes out with "Result without significant deficiencies," improvement status is to be reported in writing as a general rule. When the improvement seems to be insufficient, another regular review or confirmation of improvement status will be conducted. |
| Enhancement of the feedback function from the Quality Control Committee | Under the new system, the Quality Control Committee is allowed to report directly to the Chairman and President of JICPA regarding findings and views on issues relevant to both audit firms and auditing standards identified through quality control reviews in order to improve JICPA's measures as a whole. |

| | |
|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Introduction of consultation system for specialized fields | Subject matter experts (e.g. ethics, accounting, IT) are assigned to the Center for Examination of Quality Control in the Quality Control Committee as members of specialized working groups, which are capable of providing technical insights as necessary while quality control reviews are carried out. |
|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

② Registration System for Audit Firms that Engage in Audits of Listed Companies

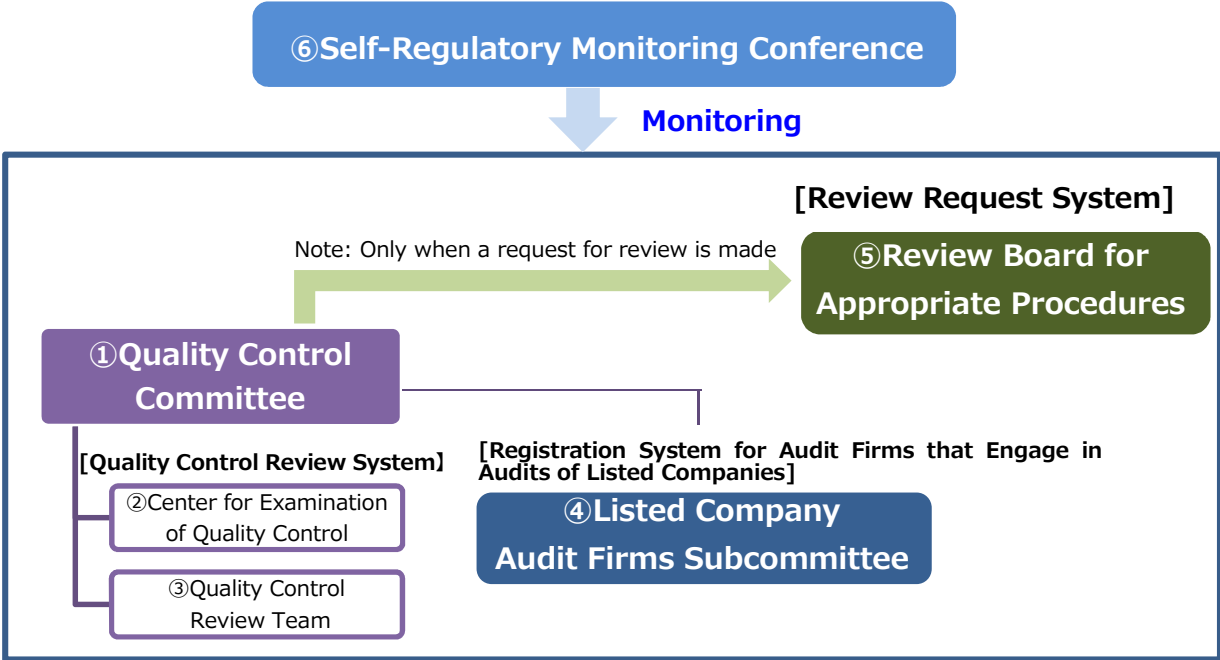
JICPA has introduced the Registration System for Audit Firms that Engage in Audits of Listed Companies in 2007 to further enhance the quality control system of audit firms that have audit engagements with listed companies (the “listed company audit firms”). Under the system, the Listed Company Audit Firms Subcommittee, established within the Quality Control Committee, is responsible for maintaining official rosters of audit firms that engage in audits of listed companies (the "official roster of registered firms") and associate registered audit firms, reflecting registration decisions made and measures taken by the Quality Control Committee in the rosters, and making them available to the public.

The Securities Listing Regulations of stock exchanges require that listed companies should engage auditors that are registered either on the official roster of registered firms or the official roster of associate registered audit firms (collectively as the “Official Rosters”).

For more details and main amendments to the Registration System for Audit Firms that Engage in Audits of Listed Companies, please refer to “4. Registration System for Audit Firms that Engage in Audits of Listed Companies.”

(2) Organization structure of the Quality Control Review Systems

The Quality Control Review System and the Registration System for Audit Firms that Engage in Audits of Listed Companies, collectively represented as the Quality Control Review Systems, are operated mainly by the Quality Control Committee as shown in the figure below. For more details, please refer to a brochure titled “Explanatory Material for the Quality Control Review Systems,” (Japanese only) in chapters “II 3. Operation of the quality control review,” “IV 2. The Registration System for Audit Firms that Engage in Audits of Listed Companies,” and “V 1. Organizational structure related to self-regulation of JICPA.”



① Quality Control Committee

The committee is mainly responsible for the deliberation and decision-making on quality control review results as well as the registration status of the listed company audit firms.

② Center for Examination of Quality Control

The center is responsible for examining the progress and results of quality control reviews.

③ Quality Control Review Team

The team is responsible for conducting quality control reviews and investigating registrations of the listed company audit firms.

④ Listed Company Audit Firms Subcommittee

The subcommittee is mainly responsible for gathering information related to listed companies and the listed company audit firms, and also maintaining the Official Rosters.

⑤ Review Board for Appropriate Procedures

Requests for review from audit firms regarding the registration status on the Official Rosters or measures undertaken for the registration will be looked into by the board.

⑥ Self-Regulatory Monitoring Conference

The conference provides opinions and advice on the operations of the Quality Control Committee based on a broader perspective encompassing capital markets and social impact.

(3) Quality control system of audit firms

Quality control reviews are conducted to assess whether or not audit firms have appropriately designed and operated a quality control system for the following matters.

- ① Audit firms as well as all partners and professional staffs belonging to audit firms (hereinafter referred to as “professional personnel”) comply with the professional standards and applicable laws and regulations.
- ② Audit firms or engagement partners issue appropriate audit reports for the situation.

Audit firms' quality control system mainly consists of the following policies and procedures. Audit firms are responsible for designing and operating these policies and procedures under their quality control system. Engagement partners are responsible for conducting audits in accordance with the quality control system operated by the audit firm.

[Quality control system of audit firms]

Responsibility for quality control

- Cultivate a culture under which quality of audit engagements is emphasized

Professional ethics and independence

- Maintain independence from audit clients

Acceptance and continuance of engagements

- Assess the size, complexity and integrity of audit clients as well as the acceptance capability of the audit firm (including resource management of professional personnel), and determine whether the audit firm has the ability conducting an audit appropriately

Hiring, training and evaluating professional personnel

- Develop and maintain appropriate competence and capabilities required for professional personnel

Engagement performance

- Build up information and techniques for audits (e.g. audit manuals and guidance, audit practice tools)
- Instruction, supervision and review by engagement partners
- Prepare audit work papers in an appropriate and timely manner

Engagement quality control review

- Ensure adequate knowledge, experience and capability of reviewers as well as objectivity from the audit engagement
- Conduct a thorough review

Monitoring the quality control system

- Evaluate impacts of deficiencies identified through the process of ongoing monitoring and periodic inspections. Communicate and remediate the identified deficiencies

Documentation of the quality control system

- Appropriately record and retain the status of design and operation of the quality control system

(4) Types of quality control reviews and audit firms subject to the review

Quality control reviews consist of regular reviews and special reviews.

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

[Type of quality control reviews]

| | Regular review | Special review |
|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purpose | To assess the design and operation of the audit firm's quality control system | To assess the design and operation of the audit firm's quality control system <u>in certain audit areas or certain audit engagements</u> |
| Frequency | In principle, the review is conducted every three years (every two years for large-sized audit firms ^(*1)). Based on the judgment of the Quality Control Committee, the frequency may be shortened or extended (however, the review is conducted at least once every five years) | When the Quality Control Committee deems it necessary, the review is conducted in a timely manner in order to mainly assess the following matters: - Quality control system of audit firms - Status of audit engagements - Specific matters |
| Audit firms subject to review | Audit firms subject to regular reviews ^(*2) | All audit firms that provide audit engagements |
| Procedures | Site visit | Site visit, inquiry or examination |

(*1) Large-sized audit firm is defined as an audit firm engaged in more than 100 listed company audits over a certain review period with more than 1,000 professional personnel working full-time.

(*2) Audit firm subject to regular reviews is defined as an audit firm that audits Public Interest Entities defined under the CPA Act as well as large-sized Credit Associations ("Shinkin Banks") and other financial institutions.

[Audit firms subject to regular reviews]

(As of March 31, 2021)

| | Audit Firms | CPAs ^(*1) | Total |
|--------------------------------------------------------------|-------------|----------------------|-------|
| Audit firms subject to regular reviews | 144 | 65 | 209 |
| Of the above, the listed company audit firms ^(*2) | 128 | 12 | 140 |

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

(*2) For the outline of the Registration System for Audit Firms that Engage in Audits of Listed Companies, please refer to "4. Registration System for Audit Firms that Engage in Audits of Listed Companies."

(5) Process of quality control reviews

① Regular review

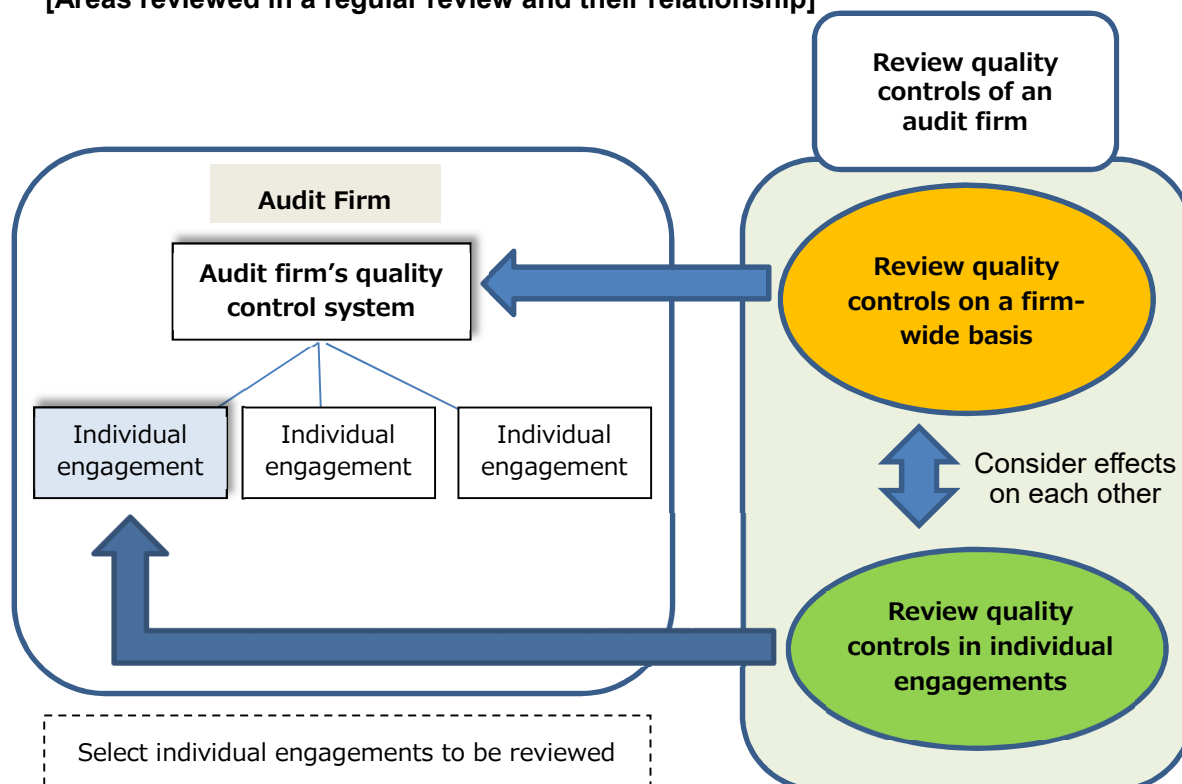
In order to assess the status of audit quality controls on a firm-wide basis, regular reviews are conducted mainly through the following procedures. As illustrated below, "quality controls on a firm-wide basis" and "quality controls in audit engagements" are interrelated.

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

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

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

[Areas reviewed in a regular review and their relationship]



② Special review

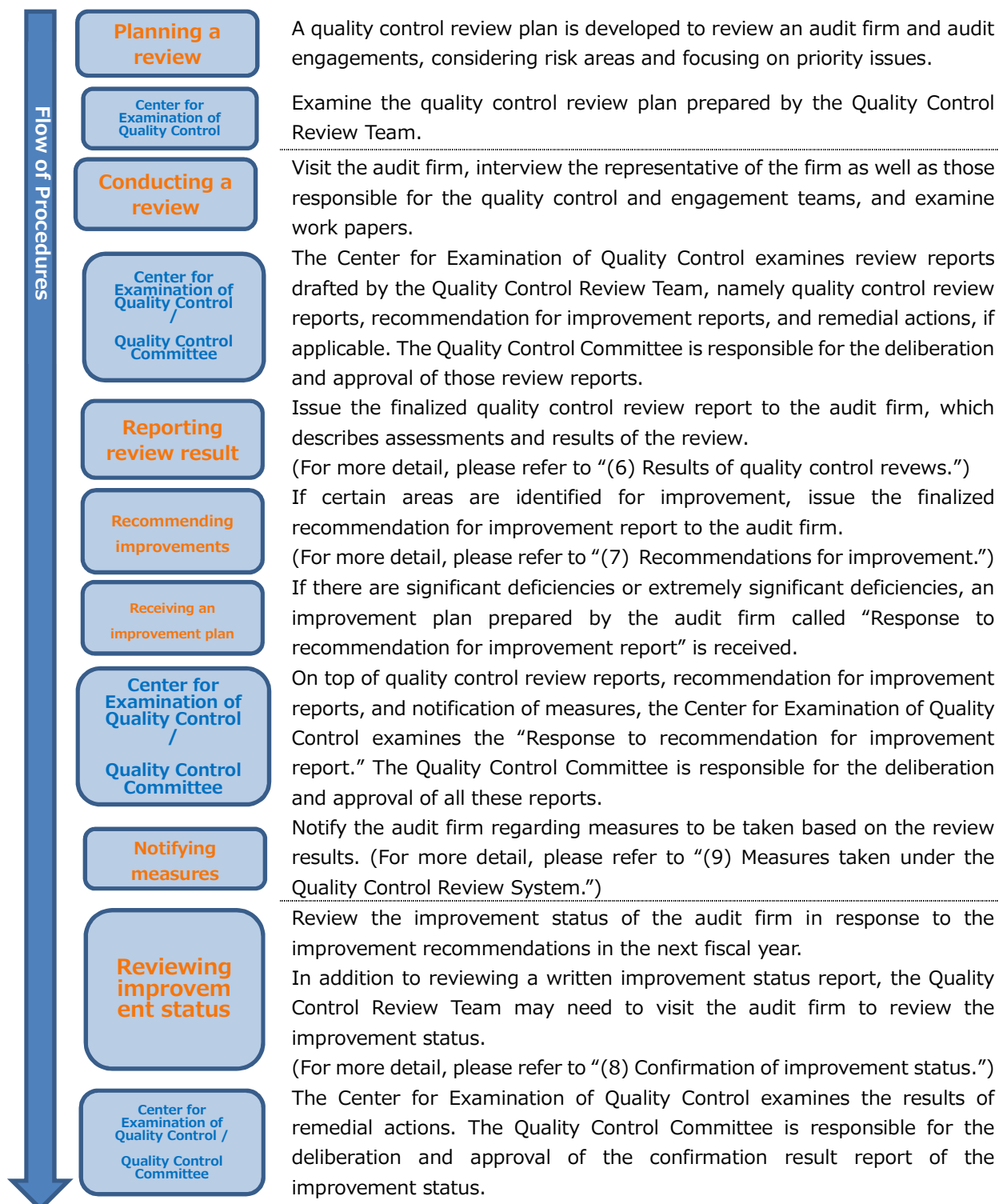
Audit firms subject to a special review are selected when an annual quality control review plan is developed. Also, whenever it is deemed necessary to conduct a special review immediately, audit firms are selected for such review even during the middle of the fiscal year.

A special review is conducted for selected firms after determining the scope based on the purpose of the special review, considering certain areas of concern or specific audit engagements.

[Detailed procedure for quality control reviews]

In principle, the procedure for quality control reviews is as follows:

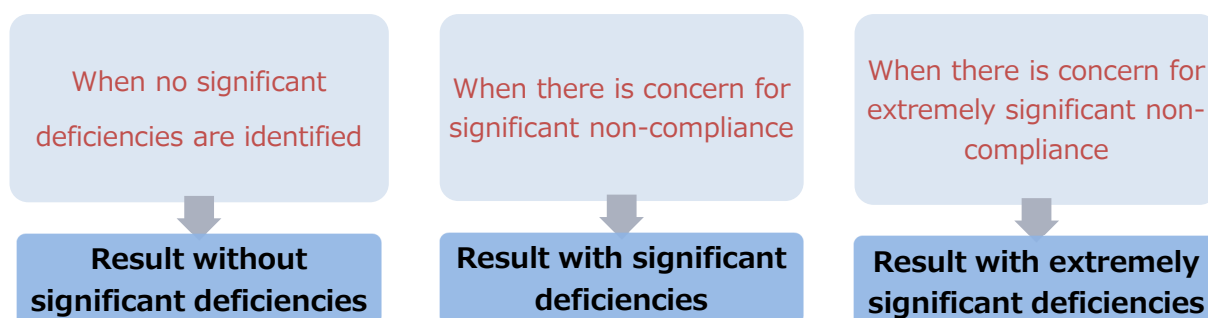
(Orange: Procedures performed by the Quality Control Review Team; Blue: Procedures performed by the Quality Control Committee or the Center for Examination of Quality Control)



(6) Results of quality control reviews

JICPA issues a quality control review report to audit firms, which contains a result of quality control reviews for the design and operation of a quality control system of the audit firm.

Results of quality control reviews are classified into the following three types based on whether or not significant deficiencies are identified for non-compliance with professional standards or applicable laws and regulations in the design and operation of a quality control system of audit firms.



* Results of special reviews provide an opinion as to whether or not there are significant deficiencies for non-compliance with quality control standards or quality control systems from the viewpoint of the design and operation of a quality control system for certain areas of concern or specific audit engagements, depending on issues subject to the special review.

For example, when there is concern that material misstatements may be overlooked in key accounting areas (e.g. accounting estimates, revenue recognition) or when an audit firm is not obtaining appropriate and sufficient evidence to reduce audit risks to an acceptable low level for those key areas, “Result with significant deficiencies” is expressed.

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

Also, based on the amendment of the Quality Control Review System in July 2019, in order to clarify the nature of regular reviews, quality control review reports highlight items particularly considered in the regular review based on the size and operational structure of the audit firm.

! Detailed results of quality control reviews, including specific examples, are disclosed in the " Explanatory Material for the Quality Control Review Systems" (Japanese only) for reference purposes.

(7) Recommendations for improvement

Regardless of the result of a quality control review, if deficiencies are identified for non-compliance with professional standards or applicable laws and regulations, i.e. recommendation for improvement, is identified, a "Recommendation Report," describing such recommendations for improvement will be prepared and issued to an audit firm together with the quality control review report.

Also, in the event of "Result with significant deficiencies," the audit firm is required to prepare and submit a response to the Recommendation Report, called the "Improvement Plan."

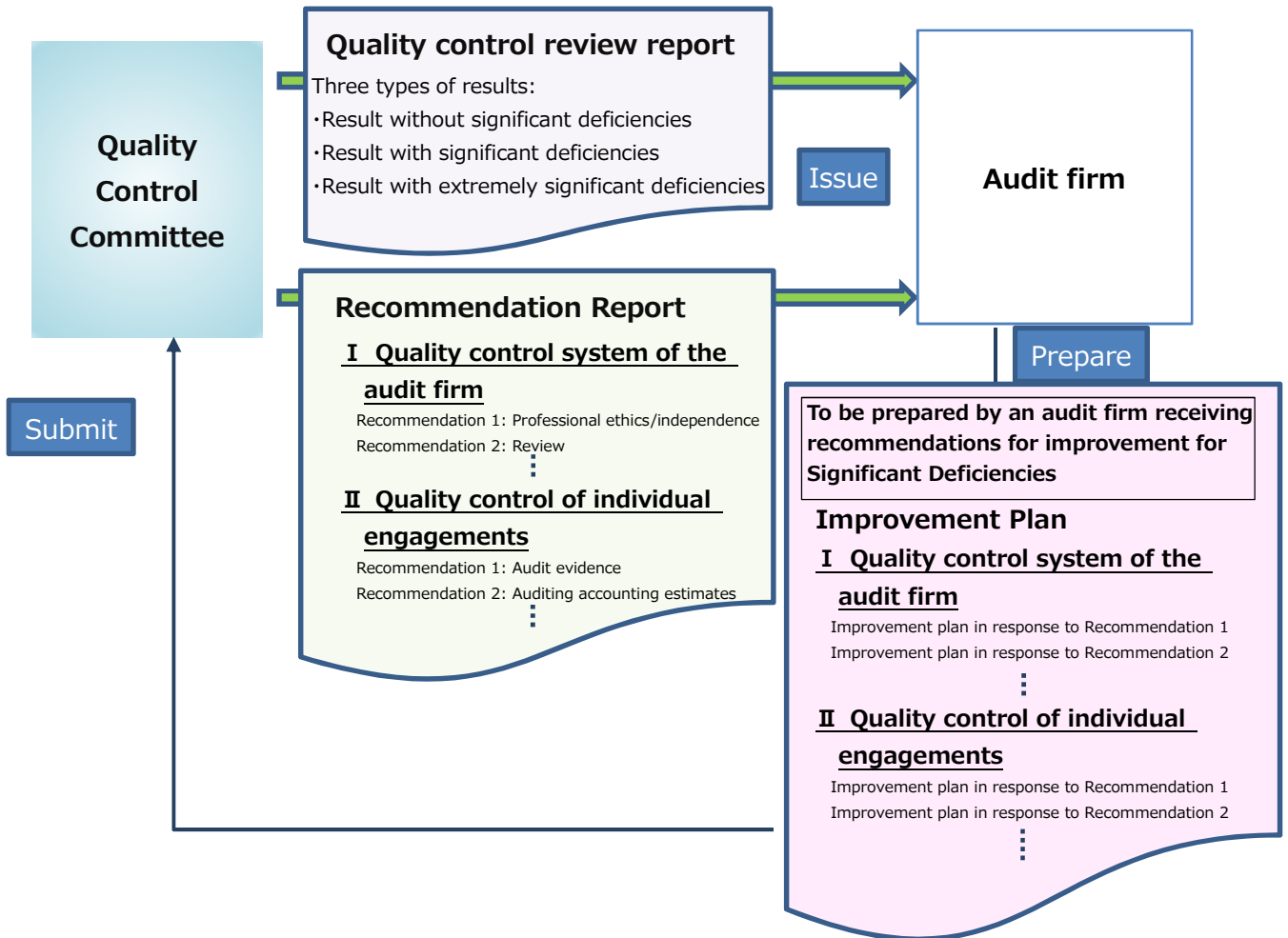
① Recommendation Report

Recommendations for improvement are put into two sections under the Recommendation Report, namely recommendations for the quality control on a firm-wide basis and recommendations for the quality control in audit engagements.

② Improvement Plan

Of the recommendations for improvement received, an audit firm shall prepare and submit to the Quality Control Committee an Improvement Plan describing remedial actions related to Significant Deficiencies. (Although the audit firm is not required to describe remedial actions for other deficiencies, it is necessary for the audit firm to voluntarily improve all items for which improvement recommendations were made.) The Quality Control Review Team will provide necessary instructions to the audit firm to encourage improvement regardless of whether or not the audit firm is required to prepare an Improvement Plan.

[Recommendation Report and Improvement Plan]



(8) Confirmation of improvement status

In the following fiscal year of a quality control review, all audit firms that received recommendations for improvement as a result of the quality control review are required to prepare and submit an improvement status report, describing the status of remedial actions in response to recommendations for improvement. The method for confirming the improvement status is as follows:

When confirming the improvement status as described below, the confirmation result report of the improvement status describing the results is issued to the audit firm.

① When a regular review is conducted

a. Result without significant deficiencies

In principle, the status of remedial actions is confirmed through the improvement status report. However, if there is a concern that improvement is insufficient as a result of reviewing the improvement status report, the audit firm has to go through another regular review or another confirmation process for the improvement status as part of the regular review.

b. Result with significant deficiencies

After confirming the status of remedial actions through the improvement status report, the audit firm has to go through another regular review or another confirmation process for the improvement status as part of the regular review.

② When a special review is conducted

If there are recommendations for improvement as a result of a special review, the status of remedial actions will be confirmed in the following fiscal year through the improvement status report and the audit firm has to go through another confirmation process for the improvement status as part of the special review.

* Since special reviews are conducted when the Quality Control Committee judges that it is necessary to confirm the quality control system of an audit firm in a timely manner, the improvement status will be confirmed in the following fiscal year, in principle, even if only deficiencies are identified without any significant deficiencies.

(9) Measures taken under the Quality Control Review System

We determine measures to be taken against audit firms based on the result of quality control reviews to achieve the following: encourage audit firms with insufficient level of quality controls to voluntarily improve their quality control system; continuously monitor the improvement status. In principle, the Quality Control Committee determines measures to be taken based on the significance of findings identified in quality control reviews, including the confirmation of improvement status and frequency of quality control reviews conducted. In the event an audit firm unreasonably refuses or does not cooperate with quality control reviews, the Quality Control Committee determines to recommend the audit firm to withdraw from audit engagements regardless of the frequency of quality control reviews.

Also, when a recommendation to withdraw from audit engagements is issued to a Listed Company Audit Firm, the registration on the Official Rosters may be removed in addition to the following measures (For more detail, please refer to “4. Registration System for Audit Firms that Engage in Audits of Listed Companies (3) Measures taken for the registration on the Official Rosters”):

[Measures taken under the Quality Control Review System]

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

(*) Mitigated measures can be taken based on individual circumstances, such as the size of the audit firm, audit engagement related to/not to listed companies, frequency of quality control reviews, and results of previous reviews.

(10) Collaboration with the System for Individual Case Review

The Quality Control Review System under the Quality Control Committee and the System for Individual Case Review under the Audit Practice Review and Investigatory Committee collaborate as necessary to improve the quality of audit work. In the event 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, as a result of a quality control review, significant doubt may cast about the appropriateness of an audit opinion issued in individual engagements.

(11) Disclosure of quality control review results to third parties

In principle, audit firms are not allowed to disclose quality control review reports, Recommendation Reports, Improvement Plans, and the confirmation result report of the improvement status (collectively as “Quality Control Review Reports”) to third parties. However, audit firms are allowed to disclose the outline of the latest quality control review results to third parties in their own reports, such as the “Audit Quality Report.”

(12) Communication with Company’s Auditors regarding quality control review results

Company auditors (or the Board of company auditors), Audit and Supervisory Committee or Audit Committee (collectively as “Company’s Auditors”) are responsible for understanding the overall design and operation of an audit firm’s quality control system in order to assess the validity of audit procedures conducted by the audit firm as well as the outcomes.

That said, when auditing listed companies, audit firms are required to communicate to the Company’s Auditors in writing about quality control review results and associated measures taken in response to the results. Such information may include whether or not recommendations for improvement were received for quality controls of individual engagements and also their issue areas as well as the general trend. However, audit firms are not allowed to disclose the Quality Control Review Reports. Audit firms should communicate such information on or after receiving the Quality Control Review Reports.

* In accordance with the amendment of the Quality Control Review System effective from July 2020, JICPA revised the Auditing Standards Committee Statements No.260, *Communication with Those Charged with Governance* in August 2020.

(13) Monitoring the work of the Quality Control Committee

In order to ensure the objectivity and fairness of JICPA's self-regulatory activities and to contribute to social confidence in the CPA system, the operation of the Quality Control Committee is monitored by the Self-Regulatory Monitoring Conference, which is established to express opinions and provide advices from a broad perspective.

<https://jicpa.or.jp/about/activity/self-regulatory/quality/monitoring.html>

4. Registration System for Audit Firms that Engage in Audits of Listed Companies

(1) Overview of the Registration System for Audit Firms that Engage in Audits of Listed Companies

JICPA has introduced the Registration System for Audit Firms that Engage in Audits of Listed Companies, which requires all audit firms engaged in audits of listed companies to register with the system for the purpose of enhancing the audit quality control of registered audit firms and ensuring trust in capital markets in relation to financial statement audits.

Within the Quality Control Committee, the Listed Company Audit Firms Subcommittee is established, which is responsible for preparing the Official Rosters and the list of deregistered firms from the Official Rosters (or the “list of deregistered firms”) and publishing the information on JICPA’s website.

<http://tms.jicpa.or.jp/offios/pub/>

* Website only available in Japanese.

The Official Rosters contain information not only about the profile of the listed company audit firms, but also the status of quality control reviews, summary of Significant Deficiencies, disciplinary actions and others. The listed company audit firms are classified as follows.

[Type of the listed company audit firms]

| Type | | Roster | Application Conditions for Registration | Method of Registration Examination |
|-----------------------------------------------|-------------------------------------------------|-----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| Registered firms | | Official roster of registered firms | Associate registered audit firms that engage in audits of listed companies | Determine the appropriateness of registration based on the result of regular reviews |
| Associate registered audit firms | Audit firms before quality control reviews | Official roster of associate registered audit firms | Audit firms that have specific plans to engage in audits of listed companies | Determine the appropriateness of registration based on the result of on-site reviews conducted by the Quality Control Review Team |
| | Audit firms that passed quality control reviews | | Audit firms that satisfy both of the following: <ul style="list-style-type: none"> •Have an intention to enter into audit engagements with listed companies in the future •Already engaged in audits of companies that are recognized to be equivalent to listed companies | Determine the appropriateness of registration based on the result of regular reviews |
| Audit firms on the list of deregistered firms | | List of deregistered firms | - | - |

! According to the Securities Listing Regulations of stock exchanges, an accounting firm engaged in an audit of a listed company must be a registered firm. In addition, an accounting firm engaged in IPOs must be a registered firm that passed a quality control review. (For Tokyo Stock Exchange, refer to Article 205, Item 7-2, Article 441-3, etc. of Securities Listing Regulations)

Due to an amendment in the JICPA Constitution in July 2019, the Registration System for Audit Firms that Engage in Audits of Listed Companies was also amended from the viewpoint of improving the effectiveness and transparency of supervisory function for quality control reviews, effective July 2020. See main amendments in the following table.

[Main amendments to the Registration System for Audit Firms that Engage in Audits of Listed Companies]

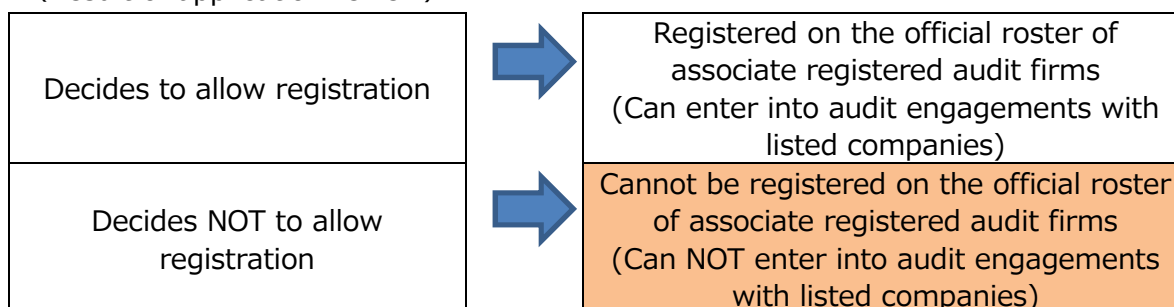
| | |
|---------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Expand information disclosed in the Official Rosters | Previously, the outline of Qualified conclusions and Negative conclusions was partially disclosed in the Official Rosters as a measure against audit firms. Under the new system, the outline of Significant Deficiencies is disclosed in the Official Rosters as part of JICPA's effort to expand information disclosure for stakeholders in the capital market. |
| Stringent review of registration on the official roster of associate registered audit firms | In determining the appropriateness of registration to the official roster of associate registered audit firms (for audit firms before quality control reviews), the Center for Examination of Application for Associate Registered Firms used to be in charge of the examination based on document reviews and interviews. Under the new system, the Center for Examination of Quality Control now does the examination based on the result of reviews conducted and instructions provided by the Quality Control Review Team for the quality control system of audit firms. |

(2) Application review process for the registration on the Official Rosters

① Application review process for the registration on the official roster of associate registered audit firms

If an audit firm that has currently not entered into any audit engagements with listed companies plans to enter into a new one, the audit firm must apply for registration on the official roster of associate registered audit firms. When the audit firm has not gone through any quality control reviews, it must apply for registration every time it plans to engage with listed companies. The Center for Examination of Quality Control and the Quality Control Committee review whether or not to register the audit firm based on the result of investigations or regular reviews conducted by the Quality Control Review Team.

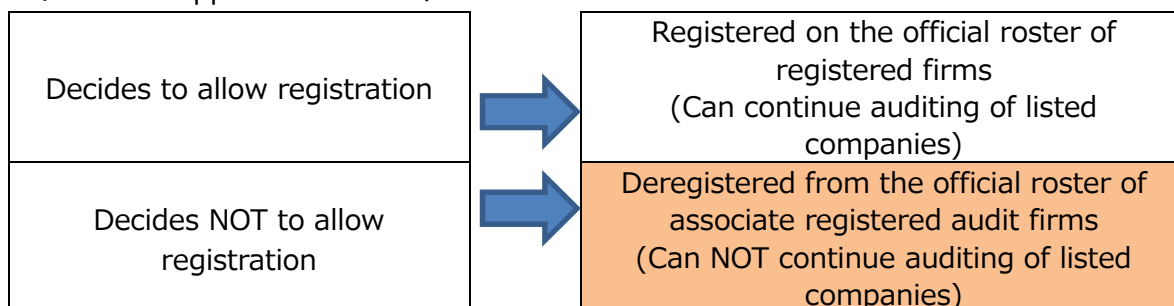
(Result of application review)



② Application review process for the registration on the official roster of registered firms

If an associate registered audit firm enters into audit engagements with listed companies, it must apply for registration on the official roster of registered firms. Based on the result of regular reviews, the Center for Examination of Quality Control and the Quality Control Committee review whether or not to register the firm.

(Result of application review)



(3) Measures taken for the registration on the Official Rosters

When it is decided to impose a recommendation to withdraw from audit engagements as a measure taken against an audit firm under the Quality Control Review System based on the result of quality control reviews, measures related to the registration on the Official Rosters are determined as well.

When a finding is related to extremely significant deficiencies, the registration on the Official Rosters is removed. When a finding is related to significant deficiencies or deficiencies, whether or not a removal is required will be considered as necessary based on the impact and frequency of deficiencies identified.

Also, when disciplinary sanctions are imposed on the listed company audit firms by the Commissioner of the Financial Services Agency or JICPA, same measures will be taken according to the nature of disciplinary sanctions.

Audit firms subject to removal are put on the list of deregistered firms and designated as auditors restricted from re-registration on the Official Rosters. Those designated auditors are no longer allowed to apply for registration on the Official Rosters, unless the designation is cancelled.

(4) Disclosures on the Official Rosters

When quality control reviews conclude that Significant Deficiencies are identified, the outline of circumstances causing such deficiencies is disclosed in the Official Rosters as part of JICPA's effort to expand information disclosure for stakeholders in the capital market.

Also, when disciplinary sanctions are imposed on the listed company audit firms by the Commissioner of the Financial Services Agency or JICPA, such fact may be disclosed according to the nature of disciplinary sanctions.

(5) Review Request System

Audit firms can file an application to the Review Board for Appropriate Procedures for a review when they are dissatisfied with the registration status on the Official Rosters or measures undertaken for the registration.

! To ensure that audit firms are capable enough and have an appropriate system to audit listed companies, application reviews are strictly conducted to assess the appropriateness of registration status on the Official Rosters and to determine necessary measures to be taken against registered firms.

5. Overview of the Official Rosters

(1) Registration on the Official Rosters

For the fiscal year from April 1, 2020, to March 31, 2021, 18 audit firms were newly registered through application reviews, and 14 audit firms were deregistered due to termination of audit engagements with listed companies or for other reasons. Also, there were no audit firms that were put on the list of deregistered firms during the relevant period. As a result, there were 140 listed company audit firms as of March 31, 2021.

[Breakdown of the listed company audit firms]

(As of March 31, 2021)

| | Audit Firm | CPAs (*) | Total |
|----------------------------------|------------|----------|-------|
| Registered firms | 119 | 8 | 127 |
| Associate registered audit firms | 9 | 4 | 13 |
| Total | 128 | 12 | 140 |

(*) Joint Offices are subject to quality control reviews on a joint office basis and included in the number of CPAs.

The following table shows the number of the newly registered firms approved by the Quality Control Committee during the period from April 1 to March 31 of each fiscal year after receiving applications to become registered firms or associate registered audit firms.

| | FY2017 | FY2018 | FY2019 | FY2020 |
|------------------------------------------------------------------------------------|--------|--------|--------|--------|
| Audit firms registered on the official roster of registered firms | 7 | – | 5 | 11 |
| Audit firms registered on the official roster of associate registered audit firms | 4 | 9 | 8 | 7 |
| Number of application reviews to be registered as associate registered audit firms | 6 | 10 | 13 | 13 |

(Note 1) The number of audit firms registered on the official roster of associate registered audit firms differs from the number of application reviews because audit firms are required to file an application to be registered as an associate

registered firm each time they plan to enter into an audit engagement with listed companies.

(Note 2) Registration is approved for all of the above audit firms from FY2017 and onwards. However, based on the Quality Control Committee reviews, four audit firms and two audit firms in FY2015 and FY2016, respectively, were denied for their registration on the official roster of registered firms. Also, one audit firm and two audit firms in FY2015 and FY2016, respectively, were denied for their registration on the official roster of associate registered audit firms, and one audit firm was rejected for its application FY2015.

Also, the application review process was redesigned from FY2020 in order to conduct in-depth reviews against audit firms that applied for registration to the official roster of associate registered audit firms (i.e. those before going through quality control reviews). Please refer to “4 (1) [Main amendments to the Registration System for Audit Firms that Engage in Audits of Listed Companies].” At the same time, instructions were provided mainly around items to be considered when conducting audits for listed companies, including the following:

- Developing policies and manuals related to quality controls
- Securing sufficient human resources to audit listed companies
- Preparing engagement partners’ rotation plans
- Addressing audit fee dependence on specific clients (i.e. future listed company clients)
- Assessing audit risks around audit work that schedules to be accepted

(2) Measures taken for the registration on the Official Rosters

In FY2020, the Quality Control Committee decided not to take any measures against audit firms regarding the registration status on the Official Rosters.

[Examples of the official roster of registered firms published on JICPA’s website (Japanese only)]

As quality control reviews are conducted under the new system from July 2020, some changes are made to disclosure items on the official roster of registered firms in order to improve transparency.

| Name | Organization | Representative | Address | Disclosed Documents | Quality control review implementation status (*1) | Measures; Disciplinary sanctions; Administrative punishment; Recommendations (*2) | Other Information | Date of last update |
|------------------------------------------------------------------------------|--------------|-------------------|---------|-----------------------------------------------------------------------|----------------------------------------------------|-----------------------------------------------------------------------------------|-------------------|---------------------|
| イロハカンサハウジン イロハ監査法人 | 法人 | カンサ タロウ 監査 太郎 | 東京都 | 誓約書 品質管理概要 説明書類 | 2020年度 通常 :2020/12 レビュー:2019/03 フォロー:2017/02 | あり | | 2021/01/15 |
| エーピーシー カンサハウジン ABC監査法人 | 法人 | カイケイ ハナコ 会計 花子 | 大阪府 | 誓約書 品質管理概要 説明書類 | 2020年度 特別:2020/10 レビュー:2018/10 | | | 2020/10/31 |

(*1) The terms described in the "Quality control review implementation status" column are defined as follows:

通常 : Regular review (regular reviews conducted under the system up to June 2020 were described 「レビュー」.)

特別 : Special review (overview will be posted to the link destination)

確認 : Confirmation of improvement status

フォロー : "Follow-up Review" under the system up to June 2020

再フォロー : "Second follow-up review" under the system up to June 2020

(*2) If "あり" is displayed in the "Measures; Disciplinary sanctions; Administrative punishment; Recommendations" column, the contents are posted to the link destination.

(3) Disclosures and review requests related to the listed company audit firms

Disclosures of disciplinary sanctions against listed company audit firms and review requests in the fiscal year are as follows:

① **Disclosures of disciplinary sanctions against the listed company audit firms**

Two audit firms on the Official Rosters were disclosed that they had been subject to disciplinary sanctions during the period from April 1, 2020, and March 31, 2021. Detail of the disclosure is as follows:

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|---|
| Audit firms on which the CPAAOB recommended to impose administrative sanctions or other measures to the Commissioner of the Financial Services Agency. | 1 |
| Audit firms that received the Financial Services Agency order to improve business | – |
| Audit firms that received disciplinary sanctions by JICPA | 1 |

② **Designation of auditors restricted from re-registration on the Official Rosters**

Two accountants were newly designated as auditors restricted from re-registration on the Official Rosters and no members were delisted from the designation during the period from April 1, 2020, to March 31, 2021. As of March 31, 2021, there were 14 accountants designated as auditors restricted from re-registration on the Official Rosters.

③ **Review requests made to the Review Board for Appropriate Procedures**

During the period from April 1, 2020, to March 31, 2021, no audit firms newly made review requests to the Review Board for Appropriate Procedures with respect to registration status on the Official Rosters or measures undertaken for the registration. Although the Listed Company Audit Firm Registration and Complaint Review Committee^(*), which is the previous review board, had been reviewing two audit firms since FY2018, no conclusions were reached because disputes were ongoing. The two cases are subject to review by the Review Board for Appropriate Procedures from October 1, 2019, however, no conclusions are yet made in FY2020.

(*) The committee was originally set under the Quality Control Review System as a complaint review body. As of October 1, 2019, it was unified into the Review Board for Appropriate Procedures based on the July 2019 JICPA Constitution amendment.

④ **Re-examination**

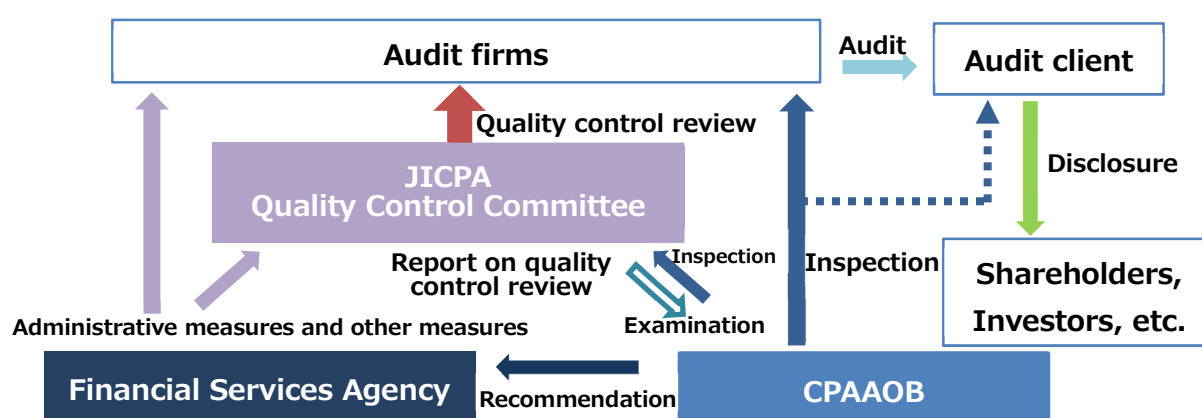
In the event that a review request made by an audit firm is deemed appropriate as a result of examination by the Review Board for Appropriate Procedures, the Quality Control Committee shall be requested to conduct a re-examination. In FY2020, there were no cases subject to re-examination.

6. Relationship with the CPAAOB

(1) Monitoring by the CPAAOB

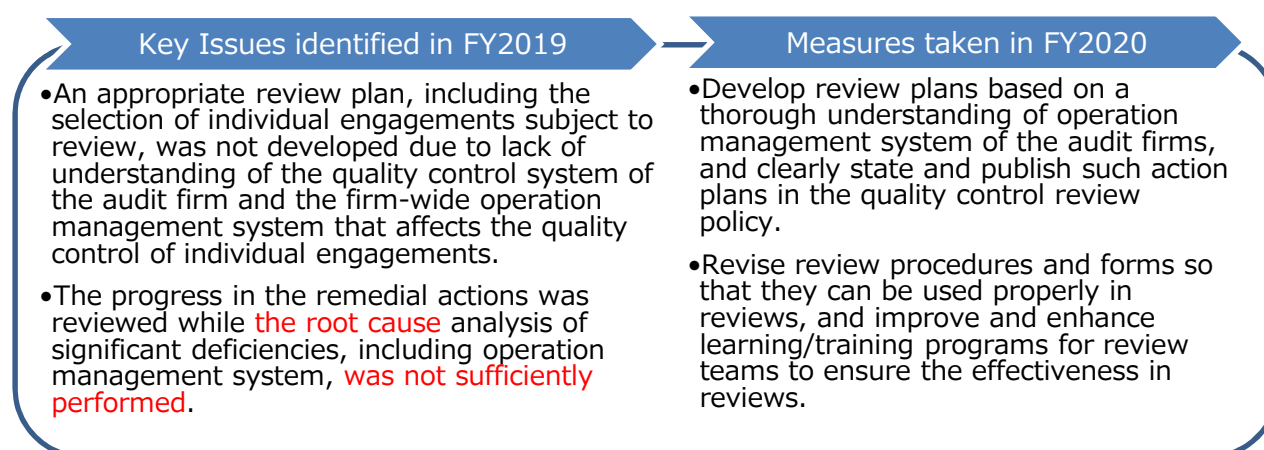
In accordance with the CPA Act, JICPA reports the status of quality control reviews on a monthly and annual basis to the CPAAOB, which is a consultative administrative body established in the Financial Services Agency. The following diagram shows the relationship between the Financial Services Agency, the CPAAOB, audit firms and JICPA.

[The relationship between the Financial Services Agency, the CPAAOB, audit firms and JICPA]



(2) Cooperation with the CPAAOB

In order to further improve the effectiveness of quality control reviews, JICPA regularly holds staff meetings with the CPAAOB. Through the analysis of specific cases, issues and associated measures for quality control reviews are summarized so that they can be utilized for reviews in the following fiscal years.



we are working to promote continuous information collaboration mainly by taking charge of training instructors of workshops organized by the CPAAOB.

Also, JICPA exchanges views on a regular basis with the CPAAOB regarding the relationship between the two systems in order to get the most out of JIPCA's quality control reviews and the CPAAOB's inspections as a whole. Especially, discussions between JICPA and the CPAAOB are focused on the way quality control reviews are conducted for large-sized audit firms and the improvement on instructions and monitoring provided to small- and medium-sized audit firms.

Going forward, we will continue to strengthen collaboration with the CPAAOB in order to build a better Quality Control Review System.

【Part 2 Implementation Status and Results】

1 . Implementation status and results of quality control reviews

(1) Quality control review plan

Focus area in FY2020

Reviewers were required to check the following focus areas in conducting regular reviews in FY2020, based on previous recommendations for improvement and recent trend in quality control reviews. Additional items for the FY2020 quality control review are highlighted in red.

- Design and operation of the quality control system of audit firms
 - Culture that emphasizes the quality of audit engagement
 - Governance and management of audit firms
 - Hiring, education/training, evaluation and assignment of professional personnel
 - Professional ethics and independence (e.g. rotation of engagement partners and team members)
 - Address to Key Audit Matters
 - Wrap-up of audit files and management and retention of audit records

- Auditing individual engagements
 - Auditing accounting estimates
 - Identifying, assessing and addressing the risk of material misstatements due to fraud
 - Procedures for group audits
 - Evaluation of internal control in financial statement audit and internal control audit
 - Audit procedures over other information included in entities' annual report

Major consideration points in developing regular review plans in FY2020

Major consideration points in developing quality control review plans based on the understanding of operation management system of audit firms are as follows:

① Enhance information gathering/analysis and focus on engagements for large-sized listed companies

- Strengthen information gathering and analysis related to audit firms and individual engagements.
- When selecting individual engagements for quality control reviews, focus on audit engagements for large-sized listed companies.
- Determine the number of individual engagements subject to review based on the risk assessment of individual engagements as well as the evaluation result of monitoring effectiveness conducted by audit firms.

② Reinforce risk approach in conducting regular reviews

- Focus on audit areas with higher risk of material misstatements.
- Determine the number of reviewers in charge of individual engagements depending on the size or risk of the audit engagement.

③ Communicate effectively with audit firms

- Have a good communication with audit firms in identifying the root cause of recommendations for improvement as well as developing effective remedial actions.
- Provide instruction to improve the quality of audits by requiring audit firms to document the root cause of recommendations for improvement when they prepare the Improvement Plan.

④ Add flexibility to the frequency of regular reviews

- While maintaining the principle rule of conducting regular reviews once in every three years, the Quality Control Committee may decide to shorten or extend the interval period (up to five years at most) when selecting audit firms subject to regular reviews.

Address the COVID-19 pandemic impact in the FY2020 Quality Control Review

Quality control reviews in FY2020 were conducted under unusual circumstances due to the spread of COVID-19 pandemic, including the declaration of state of emergencies issued in April 2020 and January 2021. Also, from March 2020, JICPA announced the audit considerations related to the remote work in stages so as to encourage auditors to obtain sufficient and appropriate audit evidence even under circumstances where preventive measures are taken against the COVID-19 pandemic. Under these circumstances, the following measures were taken in the quality control review.

●Operational measures taken for quality control reviews

Under the state of emergency, adjusted schedules and checked situations in audit firms in advance to avoid the “three Cs (Crowded places, Close contact settings and Closed spaces).” Conducted reviews from JICPA office, used large conference rooms, and ensured fresh air thorough ventilation as needed.

●Survey by the Self-Regulation of JICPA on audit response to the COVID-19 pandemic

The Quality Control Committee in collaboration with the Audit Practice Review Investigatory Conference conducted a survey on audit response to the COVID-19 pandemic. For the detail of the survey, please refer to the “Survey Report on Audit Response Related to the COVID-19 Pandemic (Address to the self-regulations over audit engagements for the fiscal year ended March 31, 2020, under the COVID-19 pandemic situation)” dated March 26, 2021: https://jicpa.or.jp/specialized_field/20210326gfb.html. (Japanese only)

(2) Quality control reviews in FY2020

The following table shows the result of quality control reviews in FY2020.

| | Number of audit firms reviewed in FY2020 | Number of audit firms receiving review reports in FY2020 | Number of carried-over audit firms (Note 3) |
|-----------------------------------------------------------------------------|------------------------------------------|----------------------------------------------------------|---------------------------------------------|
| Regular reviews (A) | 56 (84) | 55 (82) (Note 4) | 1 (2) |
| Confirmation of improvement status (Note 5) | 13 (44) | 13 (44) | - (-) |
| Total (B) | 69 (128) | 68 (126) | 1 (2) |
| Number of audit firms subject to regular review (C) (Note 6) | 206 (190) | | |
| Percentage of audit firms reviewed under the regular review in FY2020 (A/C) | 27% (44%) | | |
| Percentage of audit firms reviewed in FY2020 (B/C) | 33% (67%) | | |

(Note 1) FY2019 numbers are shown in parentheses.

(Note 2) The number of audit firms subject to special reviews is excluded from the above table.

(Note 3) The audit firms were subject to a regular review in FY2020; however, the deliberation and approval of quality control review reports were carried over to the next year (hereinafter referred as to the “carried-over audit firms”).

(Note 4) In addition to the above table, two quality control review reports were issued to the

carried-over audit firms in FY2019 and FY2020, respectively.

(Note 5) The number in parentheses represents the number of audit firms subject to follow-up reviews and second follow-up reviews in FY2019.

(Note 6) The number of audit firms subject to regular reviews as of April 1, 2020 (the number in parentheses is as of April 1, 2019).

The number of audit firms that were reviewed in FY2020 decreased due to the postponing of review schedules for some audit firms, considering effects of the spread of the COVID-19 pandemic.

The number of audit firms that went through a regular review in FY2020 at an interval shorter than three years from the previous review as well as the number of audit firms whose interval is more than three years but whose regular review schedule is extended to FY2021 or after are presented below:

| | Number of audit firms with shorter review interval | Number of audit firms with extended review interval |
|--------|----------------------------------------------------|-----------------------------------------------------|
| FY2020 | 5 | 29 |

Breakdown of audit firms by size (i.e. the number of audit engagements provided to listed companies) for those subject to regular reviews and those that went through regular reviews or confirmation of improvement status is as follows:

[Breakdown by size of audit firms]

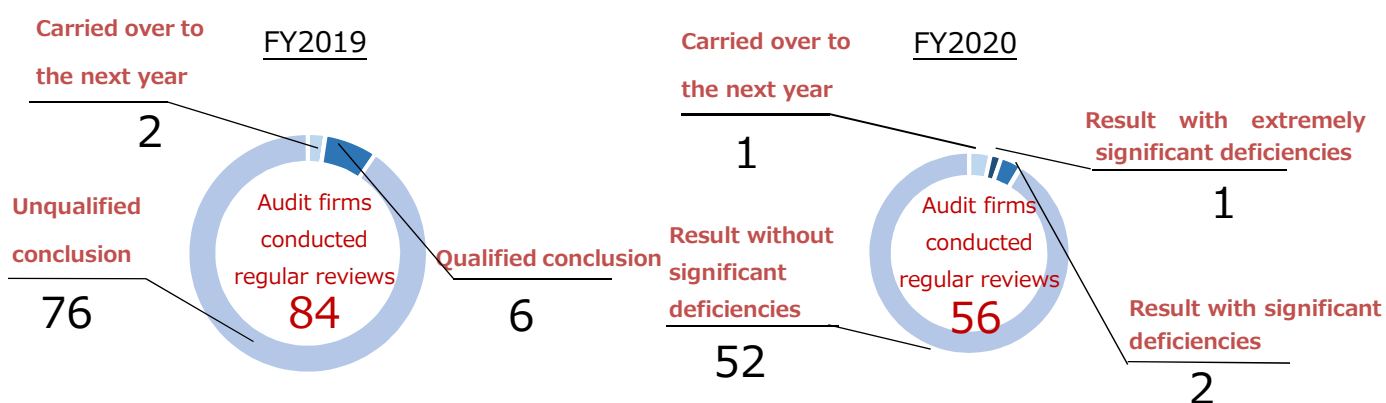
| | | Number of audit firms subject to regular review | Number of audit firms that went through: | |
|----------------------------|-----------------------------------------------------|-------------------------------------------------|------------------------------------------|------------------------------------------------|
| | | | Regular review | Confirmation of improvement status (Note 2) |
| Listed Company Audit Firms | Audits of listed companies (over 100 companies) | 5 (5) | 2 (2) | - (3) |
| | Audits of listed companies (20-99 companies) | 8 (8) | 3 (2) | 1 (3) |
| | Audits of listed companies (10-19 companies) | 13 (14) | 3 (7) | 4 (4) |
| | Audits of listed companies (less than 10 companies) | 110 (104) | 30 (44) | 8 (23) |
| | Sub-total | 136 (131) | 38 (55) | 13 (33) (Note 3) |
| Other audit firms (Note 4) | | 70 (59) | 18 (29) | - (11) |
| Total | | 206 (190) | 56 (84) | 13 (44) |

- (Note1) FY2019 number of audit firms are shown in parentheses.
- (Note2) The number in parentheses in the "Confirmation of improvement status" represents the number of audit firms subject to follow-up reviews and second follow-up reviews in FY2019.
- (Note3) Includes the number of audit firms deregistered from the official roster of registered firms in FY2019.
- (Note4) "Other audit firms" represent audit firms other than the listed company audit firms.

(3) Results of regular reviews

① Results of regular reviews

Regular reviews were conducted for 56 audit firms in FY2020, which resulted in "Result without significant deficiencies" of 52 audit firms, "Result with significant deficiencies" of two audit firms and "Result with extremely significant deficiencies" of one audit firm. One audit firm was carried over to the next year and no firm received "Disclaimer of conclusion."



(Note) There were two audit firms that went through regular reviews in FY2019 but whose quality control report was carried over for issuance in FY2020. One firm received "Unqualified conclusion" and the other received "Qualified conclusion."

The number of audit firms that went through regular reviews decreased significantly in FY2020 when compared to FY2019. Although the results cannot be simply compared, the number of audit firms with "Result with significant deficiencies" or "Result with extremely significant deficiencies" continuously decreased to three audit firms in FY2020 from six audit firms in FY2019 (with Qualified conclusion). The following shows the reclassification based on the Quality Control Review System in FY2020 of the six audit firms with "Qualified conclusion" in FY2019.



The three audit firms identified for their Significant Deficiencies seem to have common root causes, including little appreciation on a culture that emphasizes the importance of audit quality, the lack of leadership’s awareness as a chief executive officer of an audit firm, and the chief executive officer’s lack of understanding relating to the importance of developing a system to conduct audits systematically. These root causes typically result in deficiencies in the quality control system of an audit firm including the following: engagement partners failing to give proper instructions and supervision, to review working papers, and to conduct quality assurance reviews; and lack of periodical inspections within the audit firm.

Accordingly, a number of recommendations for improvement in individual engagements were made in focus areas, such as auditing accounting estimates and identifying, assessing, and addressing risks of material misstatement, including fraud risks.

The following table shows the breakdown of regular review results by the size of audit firms (i.e. the number of audit engagements provided to listed companies).

[Breakdown by size of audit firms]

(Unit: Number of audit firms)

| | | Breakdown of review report type ^(Note 2) | | | | |
|----------------------------|-----------------------------------------------------|-----------------------------------------------------|--------------------------------------|------------------------------------------------|--------------------------|---------|
| | | Result without significant deficiencies | Result with significant deficiencies | Result with extremely significant deficiencies | Carried-over audit firms | Total |
| Listed Company Audit Firms | Audits of listed companies (over 100 companies) | 2 (2) | - (-) | - (-) | - (-) | 2 (2) |
| | Audits of listed companies (20-99 companies) | 3 (2) | - (-) | - (-) | - (-) | 3 (2) |
| | Audits of listed companies (10-19 companies) | 3 (6) | - (-) | - (1) | - (-) | 3 (7) |
| | Audits of listed companies (less than 10 companies) | 30 (40) | - (2) | - (-) | - (2) | 30 (44) |
| | Sub-total | 38 (50) | - (2) | - (1) | - (2) | 38 (55) |
| Other audit firms | | 14 (26) | 2 (1) | 1 (2) | 1 (-) | 18 (29) |
| Total | | 52 (76) | 2 (3) | 1 (3) | 1 (2) | 56 (84) |

(Note 1) FY2019 number of audit firms are shown in parentheses.

(Note 2) The figures in parentheses in the columns "Result without significant deficiencies," "Result with significant deficiencies," and "Result with extremely significant deficiencies" indicate the number of audit firms that received "Unqualified conclusion," "Qualified conclusion" and "Negative conclusion and Qualified conclusion with concerns of extremely significant non-compliance," respectively, in FY2019.

! "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 of a quality control system of audit firms. It does not automatically mean there is a significant compliance violation in auditing engagements or a doubt in the reasonableness of audit opinions. For examples of significant deficiencies, please refer to the "Explanation of Quality Control Review Cases in FY2020" (Japanese only).

② Focus areas in FY2020 and review results

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

a. Design and operation of the quality control system of audit firms

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

(Unit: Number of audit firms)

| Focus areas | FY2019 | FY2020 |
|-----------------------------------------------------------------------------------------------|---------------|--------|
| 1. Culture that emphasizes the quality of audit engagement | 3 | 2 |
| 2. Governance and management of audit firms | 3 | 2 |
| 3. Hiring, education/training, evaluation and assignment of professional personnel | 1 | 4 |
| 4. Professional ethics and independence (Rotation of engagement partners and team members) | 3 | - |
| 5. Address to the Key Audit Matters | - (Note 2) | - |
| 6. Wrap-up of audit files and management and retention of audit records | - (Note 2) | 4 |

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

(Note 2) The number of audit firms in FY2019 is not applicable as these items were not identified as focus areas in FY2019.

In FY2020, three audit firms identified for their Significant Deficiencies received recommendations for improvement on “1. Culture that emphasizes the quality of audit engagement” and “2. Governance and management of audit firms.” Recommendations include lack of awareness among representatives of the audit firm about their full responsibility on the quality control system, and ineffective monitoring on the quality control system due to weak management and quality control policies.

Recommendations for improvement related to “3. Hiring, education/training, evaluation and assignment of professional personnel” include an appropriate system not in place to track continued professional education (CPE) status of professional personnel, given that they were able to obtain credits without attending or taking classes.

A survey has been conducted on the rotation of team members that is described in

"4. Professional ethics and independence." Please see "1. The Quality Control Review System (7) Other Activities" in the "Overview of the Quality Control Review in FY2020 (Material Section)" (Japanese only) for the outline and results of the survey.

b. Individual engagements

The following items were identified as focus areas in FY2020 for individual engagements. The following represents the number of audit firms that received recommendations for improvement by each focus area.

(Unit: Number of audit firms)

| Focus areas | FY2019 | FY2020 |
|-------------------------------------------------------------------------------------------|---------------|--------|
| 1. Auditing accounting estimates | 32 | 17 |
| 2. Identifying, assessing and addressing the risk of material misstatements due to fraud | | |
| •Professional skepticism | 3 | 2 |
| •Revenue recognition | 19 | 16 |
| •Risk of management's override of internal controls | 46 | 15 |
| 3. Procedures for group audits | 3 | 2 |
| 4. Evaluation of internal control in financial statement audit and internal control audit | - (Note 2) | 3 |
| 5. Audit procedures over other information included in entities' annual report | - (Note 2) | 1 |

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

(Note 2) The number of audit firms in FY2019 is not applicable as these items were not identified as focus areas in FY2019.

The number of audit firms that went through regular reviews decreased by 28 audit firms, from 84 audit firms in FY2019 to 56 audit firms in FY2020 . The number of audit firms that received recommendations for improvement related to focus areas decreased as well. Still, same as in FY2019, many of the recommendations for improvement were related to the following areas.

Regarding "1. Auditing accounting estimates," many of the recommendations continued to be related to the recoverability of deferred tax assets and impairment accounting of fixed assets including goodwill, same as in FY2019. Also, many of the recommendations were related to accounting estimates, including going concern, inventory valuation, and allowance for doubtful accounts. In detail, the following were pointed out: lack of capability to critically assess assumptions used by management; and insufficient consideration given on the methods used by management in developing accounting estimates and their underlying data.

In "2. Identifying, assessing, and addressing the risk of material misstatement due to

fraud,” many recommendations were related to “Revenue recognition.” Although the number decreased from FY2019, many recommendations still came from “Risk of management’s override of internal controls.” In detail, issues pointed out for revenue recognition were failure to perform sufficient audit procedures to address fraud risks and lack of audit evidence with stronger corroboration. Also, a number of comments were made on journal entry testing, one of the audit procedures to address the risk of management’s override of internal controls, such as inadequate assessment of fraud risk scenarios and failure to perform detail testing on extracted journal entries.

We provide instructions to audit firms regarding these recommendations for improvement and check remedial actions taken by the firms.

(4) Results of special reviews

In FY2020, special reviews were conducted based on the following two themes.

① Merger of audit firms

A special review was conducted due to a merger of audit firms to make sure policies and procedures related to key areas in the audit firm's quality control system were uniformly in place and the quality control system was operated effectively, including the rendering of audit engagements. As such, a special review was conducted to ensure that merged audit firms appropriately addressed this matter.

Results of the special review, including the number of audit firms, were as follows:

| | | |
|--------------------------------------------------------|-------------------------------------------|-------------------|
| Number of audit firms for the special review in FY2020 | | 1 audit firm |
| Result | Result without significant deficiencies | 1 audit firm |
| | Number of recommendations for improvement | 6 recommendations |

[Recommendations for improvement]

As a result of the special review, some deficiencies were identified, including no consideration made on the appropriateness of accounting policies adopted by audit clients and no modifications made for the audit plan despite identifying uncorrected misstatements in the opening balance. We also exchanged opinions with the audit firm regarding the importance of continuing professional education program to retain sufficient level of audit quality post the merger as well as the consecutive years of involvement for team member rotations.

② Auditor change

Special reviews were conducted on certain individual engagements newly succeeded from a predecessor auditor due to a change in auditors, because there was a concern about the predecessor’s audit quality. Given the information on successor audit firms, such as the number of the newly accepted audit engagement for listed companies and the number of professional personnel, it was determined that the design and operation of the successor’s quality control system for engagement acceptance and audit procedures over the opening balance in the initial year of audit needed to be reviewed in a timely manner.

Results of the special review, including the number of audit firms, are as follows:

| | | |
|--------------------------------------------------------|-------------------------------------------|-------------------|
| Number of audit firms for the special review in FY2020 | | 6 audit firms |
| Result | Result without significant deficiencies | 6 audit firms |
| | Number of recommendations for improvement | 3 recommendations |

[Recommendations for improvement]

As a result of the special review, deficiencies were identified in the area of initial engagement acceptance, saying that it was not conducted in accordance with the policies and procedures of the audit firm. Also, we exchanged views with the audit firms on documentation for engagement acceptance reviews as well as audit procedures for obtaining sufficient and appropriate audit evidence on the opening balance in the initial audit.

(5) Confirmation of improvement status

① Confirmation of improvement status

The following represents a breakdown of 13 audit firms whose improvement status was confirmed by the size of audit firms (i.e. the number of audit engagements provided to listed companies).

(Unit : Number of audit firms)

| | | Confirmation results | | |
|-------------------|-----------------------------------------------------|-----------------------------------------------|--------------------------------------------|-------|
| | | Result without insufficient improvement items | Result with insufficient improvement items | Total |
| Listed Firms | Audits of listed companies (over 100 companies) | - | - | - |
| | Audits of listed companies (20 to 99 companies) | 1 | - | 1 |
| | Audits of listed companies (10 to 19 companies) | 3 | 1 | 4 |
| | Audits of listed companies (less than 10 companies) | 6 | 2 | 8 |
| | Sub-Total | 10 | 3 | 13 |
| Other audit firms | | - | - | - |
| Total | | 10 | 3 | 13 |

(Note 1) If the scheduled date for implementing remedial actions for certain items are not yet determined as of the start date of confirming improvement status, such items need to be followed up to next year at another confirmation process. In FY2020, there were no audit firms identified as such.

(Note 2) None of the above 13 audit firms subject to the confirmation of improvement status were deregistered from the official roster of registered firms during FY2020.

② Reporting the status of remedial actions in writing to the Quality Control Committee

Based on the review of improvement status reports submitted by audit firms regarding their remedial actions undertaken, 59 audit firms were reported to the Quality Control Committee in FY2020, concluding that no concerns remain about their insufficient improvement. There was one audit firm that failed to sufficiently improve deficiencies, which will be subject to a regular review in FY2021.

(6) Measures taken as a result of quality control reviews

① Determination of measures

The following table shows measures taken as a result of regular reviews and confirmations of improvement status.

(Unit: Number of audit firms)

| Result of quality control reviews and related measures | | | | |
|------------------------------------------------------------------------------|------------------------------------------------------------------------------|-----------|-----------|----------|
| Result of quality control reviews | Measures ^(Note 3) | FY2018 | FY2019 | FY2020 |
| Results with extremely significant deficiencies | Recommendation to withdraw from audit engagements | 2 | - | 1 |
| | Recommendation to withdraw from audit engagements (Insufficient improvement) | 2 | 1 | - |
| | Severe warning | - | 2 | - |
| | Sub-Total | 4 | 3 | 1 |
| Results with significant deficiencies | Recommendation to withdraw from audit engagements | - | - | 1 |
| | Recommendation to withdraw from audit engagements (Insufficient improvement) | - | - | 1 |
| | Severe warning | - | - | 1 |
| | Warning | 2 | 3 | - |
| | Sub-Total | 2 | 3 | 3 |
| Results without significant deficiencies with recommendation for improvement | Warning (Insufficient improvement) | 5 | 5 | 2 |
| Total | | 11 | 11 | 6 |

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

(Note 2) "Results with extremely significant deficiencies," "Results with significant deficiencies," and "Results without significant deficiencies with recommendation for improvement" in the FY2018 and FY2019 columns represent "Negative conclusion and Qualified conclusion with concerns of extremely significant non-compliance," "Qualified conclusion," and "Recommendations for improvement with Unqualified conclusion," respectively, in FY2018 and FY2019.

(Note 3) "Recommendation to withdraw from audit engagements (Insufficient improvement)" and "Warning (Insufficient improvement)" in the "Measures" column were determined based on confirmation of improvement status as a result of insufficient improvement in their remedial actions.

(Note 4) In addition to the above table, there was one carried-over audit firm in FY2018, one in FY2019, and two in FY2020 from the previous years against which measures were determined in FY2018, FY2019 and FY2020, respectively. The result of quality control reviews and measures taken against those audit firms were "Unqualified conclusion with warning (Insufficient improvement)" in FY2018, "Qualified conclusion with warning" in FY2019, and "Unqualified conclusion with warning (Insufficient improvement)" and "Qualified conclusion with warning" in FY2020.

② Reporting to the Chairman of the Audit Practice Review and Investigatory Committee

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

(Unit: Number of audit firms)

| | FY2018 | FY2019 | FY2020 |
|------------------------------------------------------------------|---------------|---------------|---------------|
| Result with extremely significant deficiencies ^(Note) | 4 | 3 | - |
| Result with significant deficiencies | - | - | 1 |

(Note) FY2018 and FY2019 columns represent the number of audit firms reported to the Chairman when "Negative conclusion" or "Qualified conclusion with concerns of extremely significant non-compliance" were expressed in FY2019 or before.

2 . Recommendations for improvement related to regular reviews in FY2020

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 "Quality control on a firm-wide basis" and "Quality control of individual engagements." Recommendations for improvement related to carried-over audit firms from previous years are also included in the table.

[Breakdown of recommendations for improvement]

| Fiscal year | Number of recommendations for improvement | | | Total | Number of audit firms that received quality control review report | | Individual engagements selected for quality control review |
|-------------|-------------------------------------------|-------------------------------------------|--|-------|----------------------------------------------------------------------|----|------------------------------------------------------------|
| | Quality control of the audit firm | Quality control of individual engagements | | | Of which, number of audit firms with recommendations for improvement | | |
| FY2019 | 67 | 502 | | 569 | 84 | 79 | 187 |
| FY2020 | 39 | 299 | | 338 | 57 | 56 | 148 |

(Note) The two carried-over audit firms from FY2018 are included in the FY2019 column, both of which received recommendations for improvement. The number of those related to "Quality control of the audit firm" and "Quality control of individual engagements" were three and 42, respectively. Eight individual engagements were selected for quality control reviews. Likewise, the two carried-over audit firms from FY2019 are included in the FY2020 column, both of which received recommendations for improvement. The number of those related to "Quality control of the audit firm" and "Quality control of individual engagements" were one and 14, respectively. Three individual engagements were selected for quality control reviews.

(1) Recommendations for improvement related to "Quality control on a firm-wide basis"

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

[Number of recommendations for improvement related to “Quality control of the audit firm”]

| Result of reviews | Number of recommendations for improvement | | Number of audit firms that received quality control review report | | |
|-----------------------------------------|-------------------------------------------|------------------------------|-------------------------------------------------------------------|----------------------------------------------------------------------|-------------|
| | (A) | Average per audit firm (A/B) | (B) | Of which, number of audit firms with recommendations for improvement | |
| Result without significant deficiencies | 25 (34) | 0.5 (0.4) | 53 (77) | 21 (19) | 40% (25%) |
| Result with significant deficiencies | 14 (33) <small>(Note 2)</small> | 3.5 (4.7) | 4 (7) | 4 (7) | 100% (100%) |
| Total | 39 (67) | 0.7 (0.8) | 57 (84) | 25 (26) | 44% (31%) |

(Note 1) FY2019 figures are in parentheses. Figures in parentheses for "Result without significant deficiencies" and "Result with significant deficiencies" columns represent "Unqualified conclusion" and "Qualified conclusion or Negative conclusion," respectively, in FY2019.

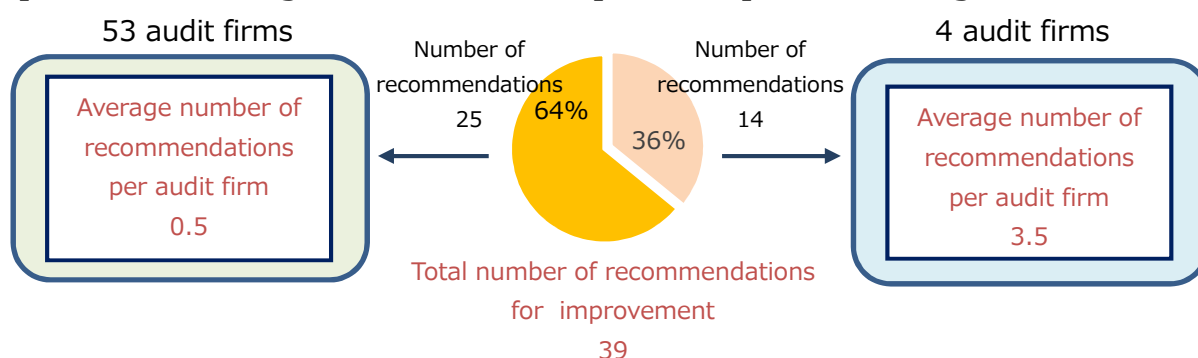
(Note 2) Out of the 14 (33) recommendations, seven (18) led to significant deficiencies.

(Note 3) The two carried-over audit firms from FY2018 are included in the FY2019 column. One audit firm received Qualified conclusion with three recommendations for improvement, and the other audit firm received Unqualified conclusion without any recommendations. Likewise, the two carried-over audit firms from FY2019 are included in the FY2020 column. One audit firm received Qualified conclusion with one recommendation for improvement, and the other audit firm received Unqualified conclusion without any recommendations.

[Audit firms that received quality control review report in FY2020] 57 audit firms

[Result without significant deficiencies]

[Result with significant deficiencies]



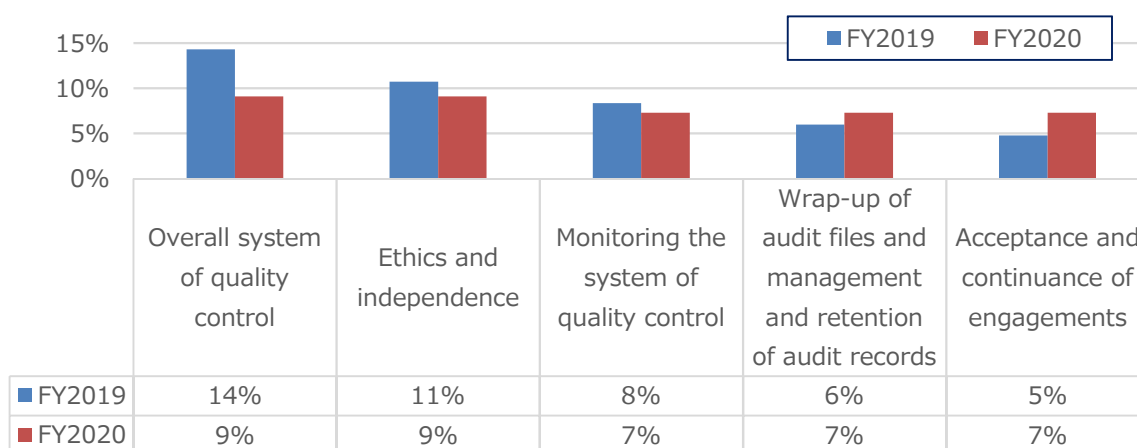
! Recommendations for improvement represent matters with a certain degree of concern for significant non-compliance against professional standards as well as applicable laws and regulations. Some are more severe leading to “Result with significant deficiencies”; however, most of the recommendations described in Recommendation Reports represent matters requiring improvement for the purpose of enhancing audit quality control.

! Since the number of audit firms that went through regular reviews varies from year to year, and the number of audit firms that received quality control review reports in FY2020 decreased from FY2019, 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 trend in recommendations made. Hence, recommendations for information are broken down into “Quality control of the audit firm” and “Quality control of individual engagements.”

Major recommendations for improvement (Quality control on a firm-wide basis)

Recommendations for quality control of the audit firm are mainly related to “Overall system of quality control” and “Ethics and independence” in FY2020. Although the ratio of “Overall system of quality control” decrease significantly, major recommendations seem to follow a similar trend as in FY2019.

[Ranking of occurrence rate of recommendations for improvement (Quality control of the audit firm)]



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

! For more details on recommendations for improvement, please refer to “Explanation of Quality Control Review Cases in FY2020” (Japanese only).

(2) Recommendations for improvement related to “Quality control of individual engagements”

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

[Number of recommendations for improvement related to “Quality control of individual engagements”]

| Result of reviews | Number of recommendations for improvement | | Number of audit firms that received quality control review report | Individual 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 | 268(411) | 1.9(2.3) | 53(77) | 143(175) | 93(138) | 65%(79%) |
| Result with significant deficiencies | 31(91) <small>(Note 2)</small> | 6.2(7.6) | 4(7) | 5(12) | 5(12) | 100%(100%) |
| Total | 299(502) | 2.0(2.7) | 57(84) | 148(187) | 98(150) | 66%(80%) |

(Note 1) FY2019 figures are in parentheses. Figures in parentheses in "Result without significant deficiencies" and "Result with significant deficiencies" columns represent "Unqualified conclusion" and "Qualified conclusion or Negative conclusion," respectively, in FY2019.

(Note 2) Out of the 31 (91) recommendations, 7 (20) led to Significant Deficiencies.

(Note 3) The two carried-over audit firms from FY2018 are included in the FY2019 column. One audit firm received Unqualified conclusion with 26 recommendations for improvement in total from six individual engagements, and the other audit firm received Qualified conclusion with 16 recommendations in total from two individual engagements. Likewise, the two carried-over audit firms from FY2019 are included in the FY2020 column. One audit firm received Unqualified conclusion with one recommendation for improvement from one individual engagement, and the other audit firm received Qualified conclusion with 13 recommendations in total from two individual engagements.

[Audit firms that received quality control review report in FY2020]

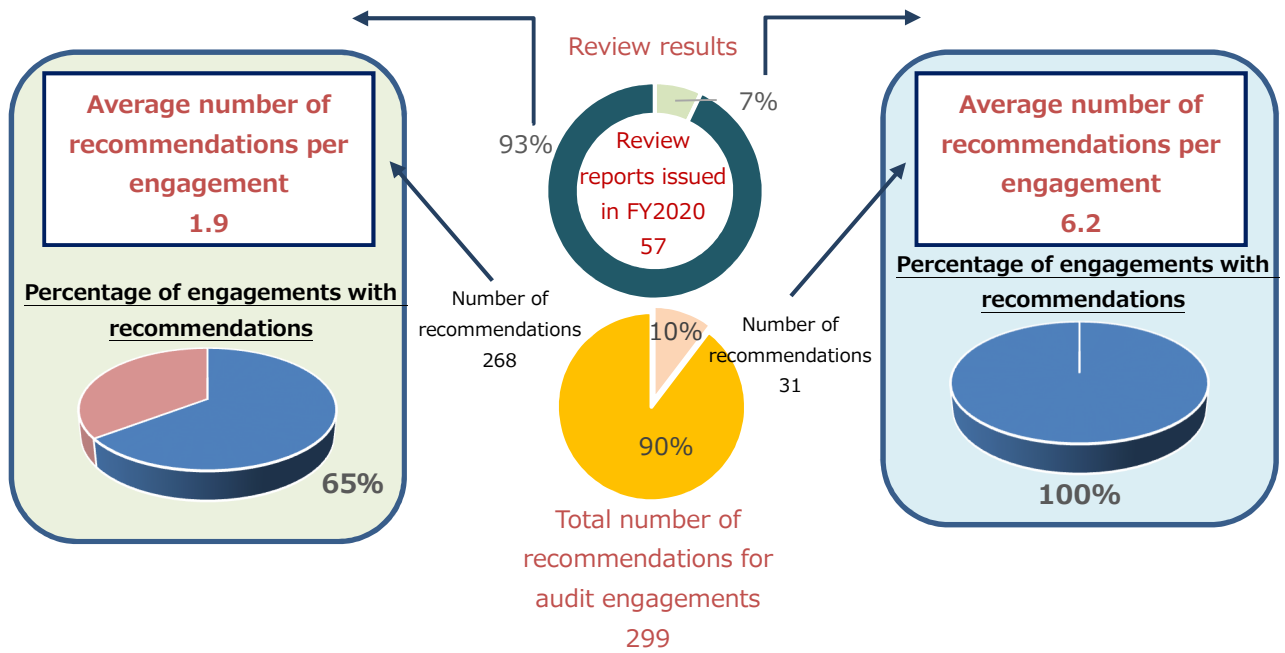
57 audit firms (148 engagements)

[Result without significant deficiencies]

53 audit firms, 143 engagements

[Result with significant deficiencies]

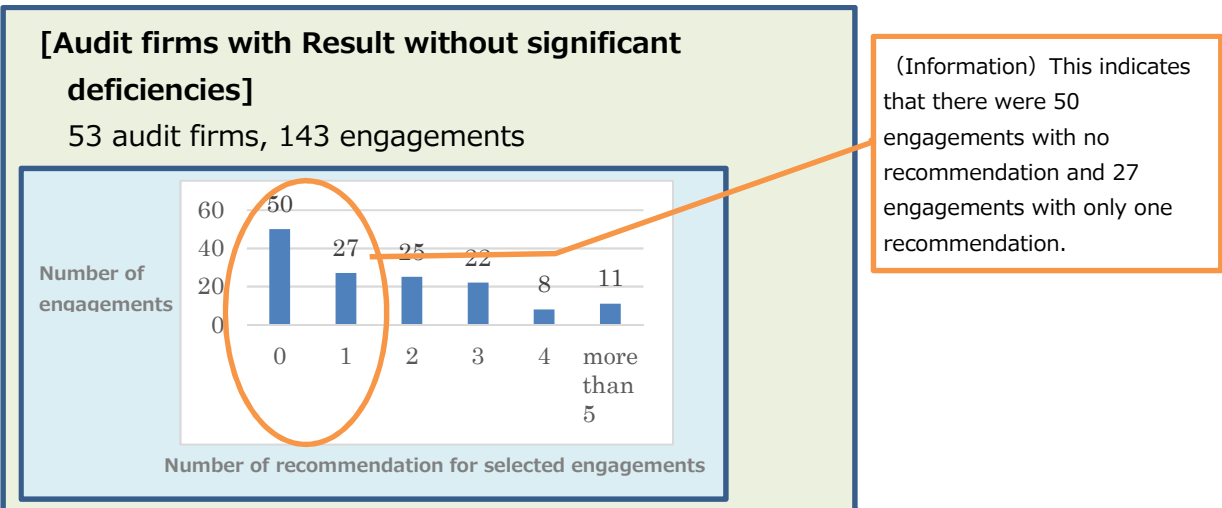
4 audit firms, 5 engagements



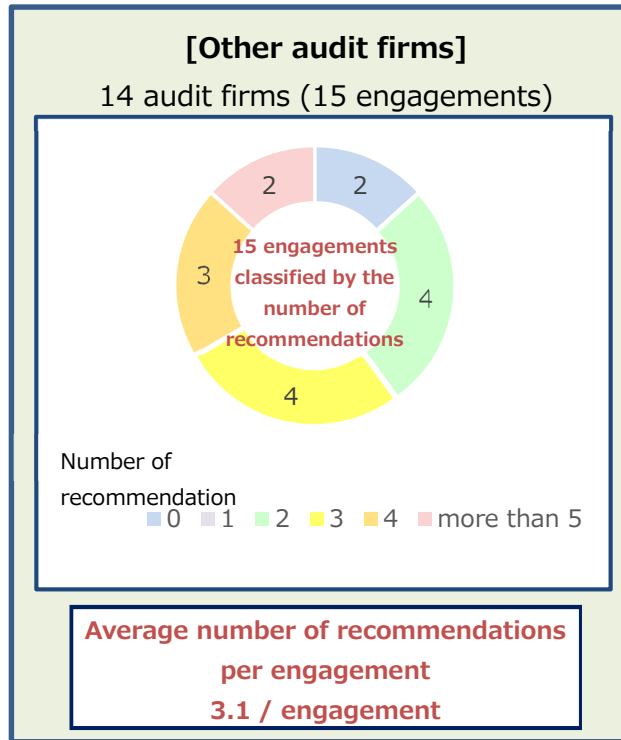
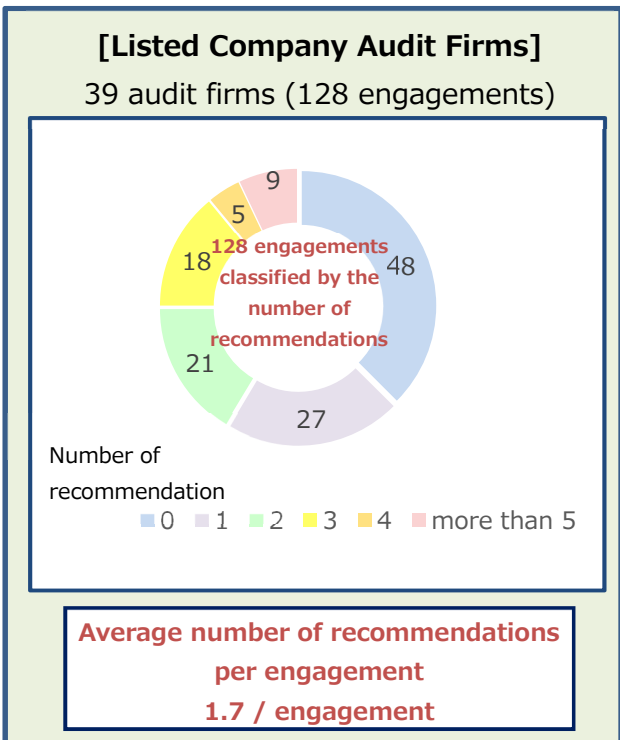
Recommendations for improvement for audit firms with “Result without significant deficiencies”

Regarding audit firms with “Result without significant deficiencies,” the number of recommendations for selected individual engagements is represented as follows:

[Number of recommendations for improvement for selected engagements]



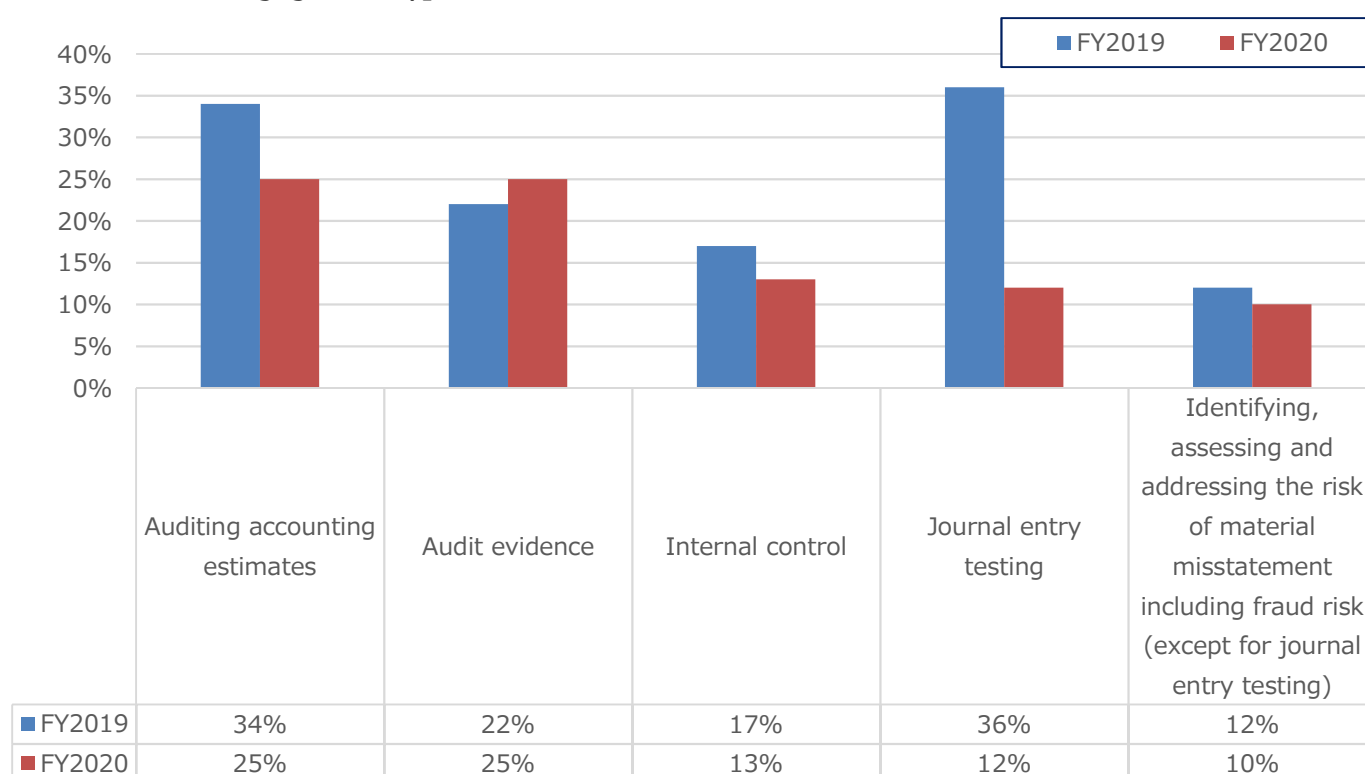
Classification by registration status



Major recommendations for improvement (Quality control of individual engagements)

Recommendations for quality control of individual engagements are mainly related to “Auditing accounting estimates” and “Audit evidence,” showing the same trend as in FY2019. Recommendations related to “Journal entry testing” decreased in FY2020 when compared with FY2019.

[Ranking of occurrence rate of recommendations for improvement (Quality control of individual engagements)]



(Note) “Ratio to selected engagements” =
$$\frac{\text{Number of engagements provided with recommendations for each item}}{\text{Number of selected engagements}}$$

! For more details on recommendations for improvement, please refer to “Explanation of Quality Control Review Cases in FY2020” (Japanese only).

3. Future action plan

JICPA amended part of the JICPA Constitution at its Annual General Assembly in July 2019, aiming to further improve the Quality Control Review Systems. Effective July 1, 2020, quality control reviews have been conducted under the new system.

Currently, it is extremely difficult to predict how COVID-19 pandemic will spread and when it will return to normal. Also, it is likely that audits will be conducted more stringently on a worldwide basis, given that the International Auditing and Assurance Standards Board ("IAASB") and the International Ethics Standards Board for Accountants ("IESBA") finally approved a series of revisions to quality control standards and codes of ethics, respectively. In the light of these circumstances, the Quality Control Committee plans to take the following actions.

1. Addressing the COVID-19 pandemic

A series of "Audit Considerations Related to the COVID-19 pandemic" published by JICPA clearly indicates that appropriate measures should be taken to maintain high audit quality even under the spread of COVID-19 pandemic. JICPA will continue focusing on whether auditors are able to obtain sufficient and appropriate audit evidence, while taking COVID-19 precautions suitable for each audit firm, such as remote working/reviewing.

2. Responding to Key Audit Matters in audit reports

From the fiscal year ended March 2021, Key Audit Matters (KAMs) shall be included in audit reports of listed companies under the Financial Instruments and Exchange Act. The purpose of introducing KAMs is to improve the transparency of audit engagements conducted by auditors and provide useful information to users of the financial statements. With these in mind, the ways auditors are handling KAMs are looked into in the quality control reviews.

3. Enhancing instruction capability

Same as in prior years, regular reviews and confirmation of improvement status will continue to be conducted on-sites. That said, more off-site instructions will be given going forward. Specifically, after the completion of on-site reviews, such as regular reviews, review teams will follow up through visits and calls as necessary to continuously give instructions to audit firms on developing effective Improvement Plans and implementing remedial actions appropriately by identifying root causes that led to recommendations for improvement.

4. Dealing with revisions to the International Standards of Quality Management and Code of Ethics

The IAASB finalized “International Standards on Quality Management (“ISQM”) 1 - Quality Management of Audit Firms,” “ISQM 2 - Engagement Quality Reviews,” and “International Standards on Auditing 220 (revised) - Quality Management for an Audit of Financial Statements” in September 2020. Also, the IESBA finalized the revision of the Code of Ethics in December 2020. In response, the Business Accounting Council of the Financial Services Agency has started deliberations on the quality control of audits. Quality control standards and ethical rules for audits in Japan will be revised in the future, which are expected to have a significant impact on auditing practices. That said, JICPA is dedicated to monitor the way audit firms handle the situation through quality control reviews.

5. Considering an approach for quality control reviews that aligns with the nature of audit firms

A suitable quality control system varies depending on the nature of audit firms, such as the complexity of the organizational structure, characteristic in business operations, relationship with network firms, and the nature of audit engagements. Given the circumstances audit firms are facing as mentioned in the previous paragraph (Item 4), we will consider an approach for quality control reviews that aligns with the nature of audit firms in order to provide more effective and efficient quality control reviews.

In particular, we are discussing with the CPAAOB about focusing on different areas when considering an approach for reviewing operation management system of large-sized audit firms and that of other audit firms. Going forward, we are committed to strengthen collaboration with the CPAAOB in order to improve quality control reviews.

