

# JICPA 2018 Annual Report

Year ended March 31, 2018



**JAPANESE INSTITUTE OF CPAs**

# Profile

The Japanese Institute of Certified Public Accountants (JICPA) started as a voluntary organization in 1949 and later became a corporation under the CPA Act in 1966.

The JICPA has always been committed to remain transparent and independent as a self-regulatory organization for the accountancy profession. In serving the public interest and strengthening the accountancy profession, we are committed to maintaining the quality of services provided by members and upholding the professional ethics, values, and standards.



# Annual Report 2018

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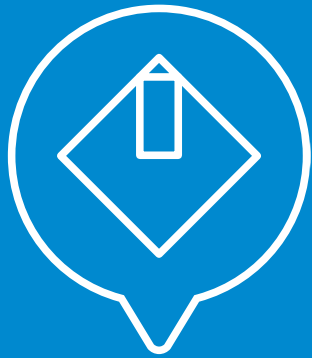
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# Message & Mission



# Message

## from the Chairman and President

Dramatic advances in technology have been transforming our society. As the internet of things (IoT) and other new tools permeate our lives, the way we live is starting to change. At the same time, the development of artificial intelligence (AI), greater efficiency resulting from use of robotic process automation (RPA), and innovative mechanisms such as blockchain are leading to productivity gains and revitalization of economic activity.

As we undergo these transformations, the need for greater transparency within our complex society calls for reliable information to be provided to stakeholders. CPAs, as professionals handling financial information, have long been responsible for upholding the reliability of such information. In recent years, financial auditing has reached beyond the capital markets, gaining ground in the nonprofit sector, while CPAs are now more frequently employed as professionals within organizations such as corporations and government agencies. I am very aware, therefore, that the demand for reliable information in this day and age means that CPAs are being expected to play an increasingly important role.

The Japanese Institute of Certified Public Accountants (JICPA) was established by law to provide guidance, coordination, and supervision for CPAs and to undertake administration related to their registration. Building our key activities on these, however, we have increasingly pursued a range of initiatives responding to the changes in the roles CPAs play and expectations to CPAs from the public. This English version of 2018 Annual Report was produced to communicate the JICPA activities to stakeholders particularly outside Japan and it offers



an overview of the JICPA missions, management, as well as key activities during fiscal 2018 (the fiscal year from April 1, 2017 to March 31, 2018). Drawing from the Japanese version of the report, it also introduces some of the perspectives on information technology and integrated reporting as part of our initiatives on addressing the future of the profession.

I hope this 2018 Annual Report will provide a good opportunity for dialogue with various parties. Based on such dialogue, we hope to redouble our efforts to pursue further activities, thereby contributing to economic and social development.

**Aiko Sekine**

Chairman and President

# Leadership 2016.7 - 2019.7

1 **Aiko Sekine**  
Chairman and President

2 **Masaji Suzuki**  
Deputy President

3 **Kiyonobu Takeuchi**  
Deputy President

4 **Giichi Yanagisawa**  
Deputy President

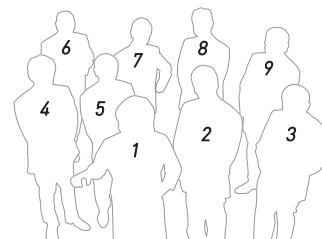
5 **Haruhiko Yamada**  
Deputy President

6 **Atsushi Takada**  
Deputy President

7 **Kazutomi Asai**  
Deputy President

8 **Shigeru Takahama**  
Deputy President

9 **Tadashi Umino**  
Chief Executive





# Mission



To uphold the professional ethics of members by developing the code of ethics for accountancy profession and promoting compliance with the code



To support members by providing necessary assistance through consulting with the members and providing materials



To design and implement measures to improve the quality of services provided by members through organizing seminars and research projects



To resolve disputes over engagements of members through mediation



To research on the theories and the practices of auditing, accounting, and other related fields of professional services in order to promote the implementation of auditing and accounting standards, and to establish auditing and accounting systems



To design and implement measures for the education and training of individuals who pass CPA examinations



To research on the CPA system and the services (including tax services), and to issue recommendations to the governmental and regulatory agencies, as appropriate



To perform administrative works for the registration of members



To design and implement measures to ensure that proper auditing services are provided by members



# JICPA Membership



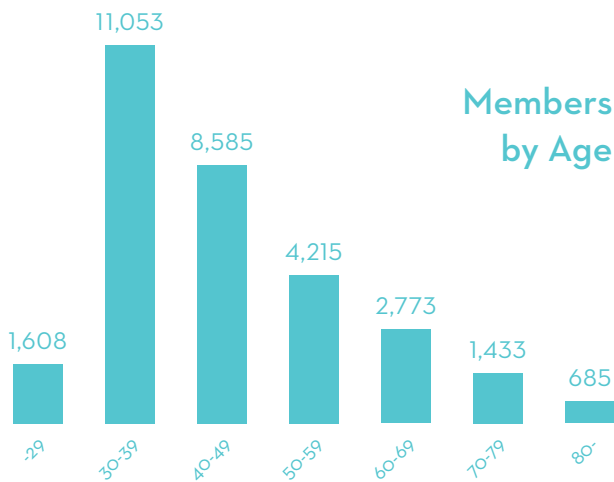


TOTAL  
37,317

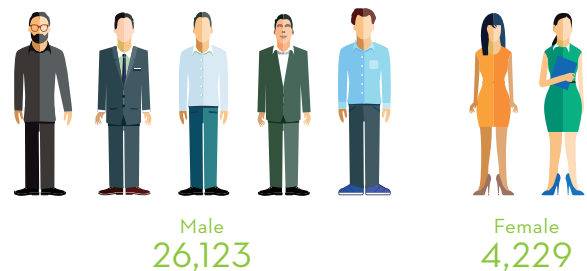
Member 30,581 + Associate Member 6,736

Certified Public Accountants 30,352 + Audit Firms 229

<span style="color: red;">■</span> Hokkaido	380	<span style="color: teal;">■</span> Keiji	630
<span style="color: orange;">■</span> Tohoku	400	<span style="color: blue;">■</span> Kinki	3,477
<span style="color: yellow;">■</span> Tokyo	17,831	<span style="color: darkblue;">■</span> Hyogo	729
<span style="color: lightgreen;">■</span> Saitama	715	<span style="color: navy;">■</span> Chugoku	462
<span style="color: green;">■</span> Chiba	700	<span style="color: purple;">■</span> Shikoku	233
<span style="color: darkgreen;">■</span> Kanagawa	1,485	<span style="color: magenta;">■</span> Hokubu Kyushu	722
<span style="color: forestgreen;">■</span> Hokuriku	276	<span style="color: pink;">■</span> Minami Kyushu	212
<span style="color: teal;">■</span> Tokai	2,031	<span style="color: red;">■</span> Okinawa	69



**CPA Members by Gender**





# Key Activities



# International Highlights

Apr. 12-13, 2017

## Myanmar CPAs visit Tokyo as part of capital market training program of JICPA-MICPA-DMJF.

For the week of 10th, April, 2017, three CPAs from Myanmar Institute of CPAs (MICPA) visited Tokyo as part of capital market training program, accompanied by Mr. U Maw Than, Union Auditor General. Pursuant to the MoU signed by JICPA, MICPA, and Daiwa-Myanmar-Japan-Foundation (DMJF), this program has been established for Myanmar CPAs to enhance their understanding on the rules and operations of capital markets and role of CPAs in them with other related topics.

A variety of topics were covered during the week-long training, including, for example, the development of audit firms in Japan, current trend of governance, risk management and auditor independence. At their visit to JICPA, an overview of quality control review system was provided to contribute to their further understanding of the roles and responsibilities of the accountancy profession in Japan for the healthy functioning of the capital markets. The training also included visits to relevant stakeholders in Tokyo, such as audit firms, Financial Services Agency, Japan Stock Exchange and Asia-Oceania Office of the IFRS Foundation.

JICPA hopes to keep strengthening ties with MICPA and continue to support the development of the CPA profession and capital markets in Myanmar.



Jul. 19, 2017

## The 51th JICPA Annual General Assembly was successful

On July 19, 2017, the 51th JICPA Annual General Assembly was held at the Imperial Hotel, Tokyo. More than 1,000 members and associate members attended the meeting, which was also relayed to other regional chapters of the JICPA nationwide. At the opening, Prime Minister Shinzo Abe delivered a video message, and Mr. Taro Aso, Minister of State for Financial Services, as well as Mr. Akira Kiyota, Director & Representative Executive Officer, Group CEO of the Japan Exchange Group, Inc., presented congratulatory remarks. Following the report of the results of the 51th fiscal year business plan and budget statements, all assembly agendas were approved. The party held after the assembly was also

a success, with total of more than 500 guests attended, including Diet members and others from various fields.



## Sep. 28, 2017 The 38th JICPA Annual Conference was successful

On September 28, 2017, the 38th JICPA Annual Conference was held in Ishikawa, with a main theme "Regional revitalization – Challenges for CPAs."

The keynote speech was given by Mr. Sadahiko Oda, who is an advisor at a famous long-established Ryokan (traditional Japanese inn) called "Kagaya," followed by the total of 10 concurrent sessions.

The conference was attended by over 900 JICPA members and individuals from related fields.



## Nov. 28-30, 2017 Mongolian CPAs visit Japan for JICPA-MONICPA training program

From November 28 to 30, 2017, 11 Mongolian CPAs, headed by Mr. L.ENKH-AMGALAN, CEO of the Mongolian Institute of CPAs, visited Japan for three-day training program for building knowledge in accounting and auditing as well as to learn CPAs crucial roles in enhancing capital markets and economy.

A variety of topics were covered in the training program, including CPA system in Japan and overview of JICPA and its activities, with focuses on the quality control review system and Taxation and Legislation committee. The training program also included visits to relevant stakeholders in Tokyo, such as Japan Stock Exchange, Financial Accounting Standards Foundation (FASF) / Accounting Standards Board of Japan (ASBJ), the IFRS Foundation Asia-Oceania Office and KPMG AZSA LLC.

JICPA hopes to keep strengthening ties with MONICPA and continue to support the development of the CPA profession and capital markets in Mongolia.



## Mar. 23, 2018 Exchange Meeting with KICPA

On March 23, 2018, the 24th Annual Exchange Meeting with the Korean Institute of Certified Public Accountants (KICPA) was held in Japan. This meeting is held annually to discuss matters related to accounting and auditing in both countries and facilitate mutual understanding and cooperation between the two institutions. Topics of the discussion included issues related to accounting system reform in Korea, integrated reporting, and emerging area of audit services, among others.





# Key Activities for Fiscal 2018

**The fiscal 2018 business plan approved at the 51st Annual General Assembly held on July 19, 2017, set out the JICPA's basic policy as follows:**

*As a professional body representing CPAs who play a part in ensuring transparent organizational management through disclosure of information and assurance of information reliability, the JICPA will continue contributing to economic and social development by making recommendations with regard to the maintenance and enhancement of CPAs' credentials, self-regulation in business practice, and the nature of social institutions. The JICPA will also pursue initiatives to enhance its own accountability toward society by conducting transparent operations and actively informing the public about its efforts in this regard. Furthermore, the JICPA will fulfill its societal responsibilities as a professional body in terms of taking action to realize a sustainable, international, diverse society.*

In accordance with this basic policy, the JICPA had implemented six sets of priority measures as explained below.

## 1 Measures related to enhancing audit quality and transparency, improving the auditing environment, and strengthening self-regulation

### (1) Enhancing audit quality and transparency and improving the auditing environment

#### (a) The Audit Firm Governance Code

The Principles for Effective Management of Audit Firms (the Audit Firm Governance Code) were released on March 31, 2017, and the JICPA also issued a statement by its chairman and president.

Following the code's announcement, the JICPA set up a page on its website listing audit firms' initiatives to ensure effective organizational management. Its aim in so doing was to help the general public better understand audit firms' efforts in regard to effective organizational management. The list describes the initiatives of audit firms that wish to be included, including those that have not adopted the code.

The code calls on audit firms to strive for active dialogue with investors and other stakeholders regarding their initiatives to enhance the quality of financial audits. Therefore, in addition to dialogue with investors conducted by individual audit firms, the JICPA decided to also provide its own opportunities for dialogue with investors. Accordingly, on March 13, 2018, it held its first investors' forum, inviting representatives of the Securities Analysts Association of Japan and the Japan Investment Advisers Association. The aim of the forum was to understand investors' expectations with regard to auditing and to further their understanding of it.

#### (b) Improving information disclosure by audit firms

Auditing Standards Committee Statement No. 260 (Communication with Those Charged with Governance) calls

on external auditors to communicate to corporate auditors and others a summary of their audit firms' provision and operation of quality control systems, including the results of an external review or inspection of the audit firm's quality control system. Voluntary, proactive efforts by audit firms to augment and reinforce information disclosure with regard to overviews of their own provision and operation of quality control systems can be considered to contribute to enhancing audit quality and transparency. In addition, therefore, the JICPA submitted a proposal for partial amendment of the Quality Control Committee's rules to the July 2017 Annual General Assembly to enable summaries of quality control review results to be disclosed to third parties other than corporate auditors at auditee companies.

Furthermore, following the recommendation entitled Ensuring Confidence in Audit released on March 8, 2016, by the Financial Services Agency (FSA)'s Advisory Council on the Systems of Accounting and Auditing (referred to hereinafter as "the Advisory Council's recommendation"), in June 2017 the FSA announced Improved Transparency in the Auditor's Report, a document compiled by stakeholders, as an initiative to improve the transparency of the audit process, and the Business Accounting Council's Audit Standard Committee considered action to be taken in Japan and published its views on July 6, 2018. The JICPA participated in the committee's discussions and sought to identify practical issues relating to the introduction of key audit matters (KAMs) by trialing KAMs with the cooperation of the relevant parties. Meanwhile, its Auditing Standards Committee undertook publicity activities including public debates with the relevant parties inside and outside Japan, studied related International Standards on Auditing (ISAs), and conducted surveys and research on progress with introduction of KAMs overseas. Moreover, since the Advisory Council's recommendation called for improved disclosure of the reasons for replacement of external auditors, the JICPA administered a questionnaire regarding the reasons for replacement of external auditors and related matters, releasing the results on June 30, 2017. Also on June 30, 2017, the JICPA released a document entitled The JICPA's Initiatives Relating to Improving Disclosure of Reasons for Replacement of External Auditors, etc. to inform members about its own measures to augment the disclosure of reasons for replacement of external auditors. Additionally, in relation to disclosure of initiatives to enhance the transparency of audit firms' management, and in particular to improve audit quality in accordance with the Advisory Council's recommendation and the Audit Firm Governance Code, the JICPA conducted investigations aimed at improving information disclosure by audit firms, including audit quality indicators (AQIs).

#### (c) Improvement of auditing environment

The JICPA has always requested its members to ensure sufficient time for auditing, and on December 8, 2017, it

released a statement by the chairman and president entitled *Ensuring Sufficient Time for Year-End Audits*, to reiterate its request to ensure sufficient time for those audits. Moreover, the JICPA researched and analyzed the effects on audit quality of a tight audit schedule following the year-end date by administering a questionnaire to its members and releasing the results on March 15, 2018, in the form of the *Report on the Fact-Finding Survey Relating to Year-End Auditing Periods*, etc. The report indicated that most listed companies subject to auditing that have a March fiscal year-end schedule collation of their financial results during April. The report also indicated that it is still the customary practice for many such companies to complete the main auditing procedures by their results announcement date. In light of these findings, the JICPA decided that it would investigate what measures it should take. Despite frequent media reports suggesting that the advances in information technology in recent years will lead to CPAs' work being taken over by AI, the JICPA believes that tasks performed by CPAs require judgment based on specialized knowledge and cannot be taken over by AI. Instead, it believes that AI can be used effectively as a tool for performing such tasks as part of efforts to enhance quality and productivity and reform work styles, ultimately leading to improved working environments. The JICPA therefore produced a short video and pamphlet describing and explaining both the impact of AI's development on the work of CPAs and AI-related initiatives by the JICPA and the auditing industry, and made these publicly available on its website. It also made use of information sessions regarding the CPA system, as well as other events, to publicize the content of these materials. Meanwhile, the JICPA responded to measures targeting unified disclosure of business reports and annual securities reports as proposed in the *Japan Revitalization Strategy 2016* and the *Investments for the Future Strategy 2017*. It addressed the measures by examining the standardization of content included in disclosure documents based on the *Companies Act* and the *Financial Instruments and Exchange Act*, studying the impact of disclosure timing, and investigating audit-related issues and considerations. The JICPA summarized its findings into a report by the Project Team on the *Unification of Disclosure and Audit Systems* entitled *Study on Unified Disclosure of Business Reports and Annual Securities Reports*, which was released on August 22, 2017. In other action related to this issue, the JICPA conducted publicity activities to promote publications from the relevant government ministries and other organizations including the Cabinet Secretariat; the FSA; the Ministry of Justice; the Ministry of Economy, Trade and Industry; and the Financial Accounting Standards Foundation. The JICPA also expressed its opinions in forums including the Financial System Council's Working Group on Corporate Disclosure, which is investigating matters including quarterly disclosure.

#### (d) Ensuring the independence of external auditors

Following the July 2016 establishment of a new provision in the International Ethics Standards Board for Accountants (IESBA)'s code of ethics on responding to non-compliance with laws and regulations, the JICPA reviewed its own Code of Ethics and submitted a proposal for partial amendment of the code to the July 2017 Annual General Assembly to stipulate, among other provisions, that members employed by accountancy firms or similar who notice or suspect illegal conduct should respond in line with the *Guidance for Dealing with Misconduct*. Moreover, following the IESBA's review of other provisions within its code of ethics, including the provision relating to partner rotation, the JICPA also considered revising its *Guidance on Independence*.

The Advisory Council's recommendation calls for investigation into measures to ensure the independence of audit firms. The JICPA therefore administered a questionnaire to approximately 2,900 partners of audit firms that belong to its Listed Company Audit Firms Subcommittee to understand issues such as the advantages and disadvantages of the current partner rotation system and the extent to which auditors think about independence during the actual auditing process. On April 6, 2018, the JICPA released its *Interim Report on Results of the Questionnaire Relating to Partner Rotation*, which summarized its opinions on the matter. Furthermore, on July 20, 2017, the FSA released its first survey report on audit firm rotation.

#### (2) Strengthening self-regulation

The JICPA amended its Constitution and related regulations at the Annual General Assembly held on July 19, 2017, and implemented the amended provisions on November 1, 2017. The amendments addressed demands to maintain and improve the reliability of work performed by CPAs by establishing a system incorporating measures to encourage members' fulfillment of their obligations. Accordingly, the measures provided for more effective action to correct breaches of members' fundamental obligations (the obligations to participate in continuing professional education [CPE], to register any changes in circumstances, and to pay membership dues), as well as for provision of fuller information to the public on the extent to which members fulfill their obligations. With regard to its CPE system, the JICPA decided to publicly disclose the extent to which members were fulfilling their obligations to take courses (i.e., whether obligations were fulfilled or not) by posting the relevant information on its website, starting with fiscal 2017 data. Meanwhile, as part of efforts to enhance audit quality and transparency, the JICPA investigated and implemented measures to improve its self-regulation overall, taking into account the demands of society at large. In specific terms, this entailed examining existing systems for audit practice reviews, disciplinary investigations, and ethics reviews to gauge their efficacy, how they are implemented in each organization, and areas of cooperation, among other matters. To investigate the quality control review system that is central to self-regulation, in December 2015 the JICPA established the Research Group on Quality Control-Focused Self-Regulation, the membership of which comprised mainly experts such as researchers and lawyers. The research group summarized the issues relating to the current quality control review system and improvement of related information provision and released its summary as the *Report of the Research Group on Quality Control-Focused Self-Regulation* on February 16, 2018. Following the release of this report, the JICPA is investigating its recommendations in detail and considering revisions that go beyond the current system and framework.

**2-1 Measures related to supporting members in dealing with the introduction of statutory audits for social welfare and health care corporations, etc., and maintaining and improving audit quality**

For fiscal years that started on or after April 1, 2017, CPA audits were introduced for social welfare corporations over a certain size, and for fiscal years that started on or after April 2, 2017, CPA audits were also introduced for health care corporations over a certain size.

When audits for social welfare and health care corporations were introduced, the JICPA offered its members seminars, as well as regional information sessions held in collaboration with the relevant authorities and the organizations concerned. Also,



with regard to audits of social welfare corporations, the Ministry of Health, Labour and Welfare conducted a research project in fiscal 2017 on the efficacy of introducing financial auditors within social welfare corporations, with the aim of increasing the number of such corporations subject to audit. Representatives of the JICPA also participated in the deliberations and a report was released in April 2018. The report highlighted the difficulty in securing auditors and ensuring that they play a guiding role as the challenges going forward. The JICPA is keeping these issues in mind as it takes action to ensure the smooth implementation of audits.

With regard to audits of health care corporations, on December 26, 2017, the JICPA issued a notice entitled *On the Introduction of CPA Audits at Health Care Corporations*. The notice called in particular for CPAs to respond to society's demands on auditors by striving for self-improvement and conducting effective, efficient audits tailored to the particular characteristics of audited corporations.

At the Annual General Assembly held on July 19, 2017, the JICPA changed its regulations relating to submission of statutory audit-related documents, and started requiring submission of audit implementation reports for audits conducted in accordance with the Social Welfare Act. In addition, the Non-profit Organization Accounting and Audit Practice Committee compiled and revised its output including practical guidance and research reports to facilitate JICPA members' work.

**2-2** Measures related to providing support to, and maintaining and enhancing the credentials of, members engaged in work such as tax practice or support for SMEs, as well as members who draw on their knowledge to serve as PAIBs, or outside directors or corporate auditors

### **(1) Tax practice and support for SMEs**

The JICPA started investigating medium- to long-term measures to support tax-related work, aiming to be more proactive in enabling CPAs to contribute to society in the taxation field and to enhance their social presence as tax experts. The JICPA administered a questionnaire to CPAs engaged in tax practice, gathering information related to its own tax-related measures, including basic information, current circumstances with regard to tax-related work, the extent to which CPAs make use of the JICPA's support for such work, and CPAs' requests to the JICPA with regard to measures to support tax-related work. It subsequently released the results of this questionnaire.

As SME proprietors become ever older, meanwhile, business succession has become a serious problem. The JICPA therefore sought to enable CPAs to make an even greater contribution during business succession by producing a leaflet for SME proprietors entitled *Consult a CPA about Your Business Succession* (released in October 2017). In addition, the Management Research and Investigation Group and the Investigation Group for SME-Related Measures compiled and released research reports on business succession.

### **(2) Support for PAIBs and outside directors or corporate auditors, and maintenance and enhancement of credentials**

As economic activities become more sophisticated, complex, and international, the organizations in which CPAs work are widening to include companies and government agencies. The JICPA recognizes that there will be even more CPAs working in companies and other organizations in future and the need to support them will increase.

In line with this recognition, the JICPA established a PAIB Network with the aim of extending PAIBs' sphere of activity

and encouraging mobility in human resources. At the end of March 2018, a total of 2,027 individuals had joined the network. In addition, the JICPA organized seminars and networking activities for network members, as well as offering discussion events involving PAIBs all over Japan as a means of raising awareness of the network. The JICPA also offered orientation sessions for members who were making the move from working in an audit firm to becoming a PAIB.

Meanwhile, outside directors and corporate auditors are playing an ever greater role in corporate governance and the number of CPAs taking up positions as outside directors or corporate auditors is increasing. In light of these developments, the JICPA sought to effectively implement measures for outside directors or corporate auditors by amending its Constitution at the Annual General Assembly held on July 19, 2017, to establish a Council for Accountants Serving as Outside Directors and Corporate Auditors. This council launched a Network for CPAs Serving as Outside Directors and Corporate Auditors, holding a kickoff seminar for the network on October 3, 2017. Its aim was to organize accountants serving as outside directors or corporate auditors in order to extend members' sphere of activity and increase the mobility of human resources. At the end of March 2018, a total of 893 individuals had joined the network.

**3** Measures related to enhancing the appeal of the CPA profession and informing the public about it by training female CPAs and CPAs who work internationally, as well as a diverse range of other personnel

The fiscal 2017 CPA examination had 776 more applicants and 123 more successful candidates than in the previous fiscal year, which had also witnessed increases. However, in light of the lack of human resources on the front lines of auditing and the increased range of companies and other organizations where CPAs work, even more outstanding human resources need to be secured. Recognizing this necessity, the JICPA continued its initiatives to enhance the appeal of the CPA profession.

As a measure to raise awareness among young people, information sessions regarding the CPA system were held by both the JICPA headquarters and regional chapters. These sessions were held a total of 110 times, including 35 times for high school students and 75 times for university students. Thus, the JICPA directly promoted the appeal of the CPA profession to high school and university students.

Meanwhile, the JICPA held two events designed to enhance the appeal of the CPA profession. The first, on December 6, 2017, targeted female university students and was entitled "f (forte)—Strong, Kind, True to Oneself—The Choice to Be a Female CPA," and the second, held on February 17, 2018, targeted female high school students and was entitled "JK x JK Talking about the Future."

In addition, the Council for Supporting Female Accountants held female CPA networking events and events to support female CPAs in returning to work after taking time off, all over Japan. When holding these events, the JICPA took steps such as providing crèche facilities to make participation easy for as many members as possible.

In other initiatives, the JICPA continued to develop human resources with the international knowledge and experience necessary to play active roles as future representatives of Japan in international organizations, while informing the public that the CPA qualification enables individuals to play international roles.



4

**Measures related to improving the JICPA's organization and establishing its financial infrastructure in order to provide members with nationwide support addressing the extension of CPAs' sphere of activity**

**(1) Improving the JICPA's organization**

The JICPA made steady efforts to provide support for the work of its diversifying membership and respond to the changing business environment for CPAs by striving to build up provision of secretariat personnel at the headquarters and regional chapters. The JICPA also took steps to enhance shared understanding between secretariats throughout its organization by, for example, holding liaison meetings for secretariats throughout Japan, and offering seminars for secretariat and managerial personnel at regional chapters. The JICPA also gathered all specialist personnel engaged in research into one group, launching the JICPA Research Laboratory on July 1, 2017. The aim was to use resources more efficiently and strengthen the JICPA's setup for surveying and researching the CPA system and the work performed by CPAs including auditing, accounting, and tax practice. The JICPA is, moreover, currently in the process of renovating existing core systems and developing new ones to enable it to appropriately manage information pertaining to its members and make proper use of such information to support them.

**(2) Establishing the financial infrastructure**

The JICPA Finances Project Team produced projections for the JICPA's finances over the medium- to long-term and investigated how best to ensure that its finances would be sustainable. On February 23, 2018, the project team released an exposure draft entitled Recommendations on Ensuring Sustainable Finances for the JICPA. The exposure draft proposed systemic changes such as revising membership dues, making CPE courses free of charge, and revising the systems for providing condolence money and subsidizing regional chapters. The JICPA will continue further reviewing its finances, taking into account opinions expressed in response to the exposure draft.

**(3) Promoting digitization of paperwork**

At the July 2017 Annual General Assembly, the JICPA submitted a proposal for partial amendment of its Constitution and its rules relating to the election of officers. One aim of the proposal was to introduce digital methods enabling increased opportunities for members to exercise their rights and cost reductions as a result of using paperless methods, with regard to proxy-based general assembly voting and voting in officer elections, both of which were paper-based. Another aim was to make use of the internet, including email and other means, to reduce the costs of campaigning for officer elections, and to ensure that elections are fair.

5

**Measures related to improving the JICPA's capacity to disseminate information in order to propagate its opinions and instill understanding of its organization and activities more widely at home and abroad**

The JICPA disseminated information to inform the public about its measures and activities in a timely manner and obtain the public's understanding.

Other efforts in this regard included posting advertisements setting out the JICPA's opinions in the Nihon Keizai Shimbun and other national publications, revamping its website to make

it more user-friendly, and producing and releasing its annual report.

Meanwhile, the JICPA reaffirmed the significance of integrated reporting in developing a corporate reporting model. On February 15, 2018, it released Vision for the Future of Integrated Reporting and the Role of CPAs: Building a Corporate Reporting Model to Support Sustainable Value Creation to set out its thinking with regard to the best course of action and approach for developing the model.

On a separate note, the 2030 Agenda for Sustainable Development adopted at the United Nations Sustainable Development Summit held in September 2015 provided the basis for the public and private sectors in Japan, as elsewhere, to join forces in promoting the sustainable development goals (SDGs). Examples include the Japanese government setting up the SDGs Promotion Headquarters and Keidanren (the Japan Business Federation) revising its Charter of Corporate Behavior. Against this backdrop, the JICPA held a seminar entitled "SDGs and Economic Development: Responding to a Global Business Environment" with the aim of proactively addressing the social issues identified in the SDGs. As one initiative to address social problems, the JICPA is implementing measures to increase diversity, including raising awareness of lesbian, gay, bisexual, and transgender (LGBT) issues.

In addition, the JICPA is implementing initiatives to promote fundamental accounting education, recognizing that, as a body representing professional CPAs who are accounting experts, it needs to contribute to making accounting more widely available as a form of societal infrastructure. Accordingly, on July 11, 2017, it announced its Basic Policy on Fundamental Accounting Education, which summarizes its plans for making fundamental accounting education more widely available, and details of related activities to be undertaken in the medium term. The JICPA also obtained the help of experts to undertake a commissioned survey with the primary aim of addressing the current situation with regard to fundamental accounting education in Japan and overseas.

**Governance**

As of March 31, 2018, the JICPA had a total of 85 officers and four auditors. The 85 officers comprised the chairman and president, Aiko Sekine, seven deputy presidents, one chief executive, 32 Executive Board members, and 44 Council members. Two of the Council members and one of the auditors are outside experts and are responsible for executing and monitoring the JICPA's activities from an external perspective.

In other governance-related bodies, likewise, operational transparency is ensured by securing the participation of outside experts. In the Nominating Committee, which handles the election of the chairman and president, two out of a quorum of 16 members are outside experts, and in the Remuneration Committee, which handles the remuneration of full-time officers, two out of a quorum of five members are outside experts. The JICPA has also established an Advisory Board on JICPA Operations made up of experts. The purpose of the board is to canvass opinion on matters such as the JICPA's overall operational direction to be used for reference in the JICPA's operations. The board comprises the six advisors.





# Future Profession

# Future Profession - Interview



## Information Technology

**Masahiko Tezuka** *Executive Board Member (IT)*

**Remarkable advances in IT technology in recent years have dramatically accelerated the use of artificial intelligence (AI). In many business fields, use of AI is bringing about management innovation through improved productivity and advanced data analysis. At the same time, the media is raising concerns that people may be deprived of their work by AI. It was against this backdrop that we asked Masahiko Tezuka, the JICPA Executive Board Member responsible for auditing and assurance practice, and information technology (IT), about how the work of CPAs will change from now on.**

### 1. Will AI deprive CPAs of their work?

A few years ago, a research conducted in collaboration between Nomura Research Institute and Associate Professor Michael A. Osborne and other members of the University of Oxford produced results showing that 49 percent of the Japanese working population's jobs are likely to be replaced by technologies such as AI or robots. Among the occupations cited as highly susceptible to replacement by AI was that of accounting auditors. This research gave rise to concerns about machines potentially depriving CPAs of their jobs in the future, but I personally believe that such concerns are unnecessary in the medium to long term. According to Nomura Research Institute, jobs that require creativity and interpersonal skills, and non-routine work, will continue to be undertaken by humans in the future. So, let's consider the work CPAs do from these perspectives. First, we will look at accounting auditing. If I was asked whether accounting auditing is creative in an "artistic" sense, it would be hard to agree. However, the core tasks of accounting auditing involve comprehensive auditing judgments combining the perspectives of risk approach, advanced accounting decisions, and utility for investors, and I believe that these tasks are very creative. Accounting standards are not prescribed in sufficient detail to specify procedures for all transactions, and worries about uncertainty of how to process actual transactions are

therefore a daily occurrence. As for judgments relating to fair presentation of financial statements to avoid any misunderstanding by the readers, it is impossible to set clear standards on how to prepare financial statements so as to eliminate the possibility of any misunderstandings. In other words, the world of accounting auditing is not one where every potentiality can be governed by the same, fixed rules as in the Japanese board games go and shogi. Accounting auditing can consequently be described as "creative" in that it is left to the highly sophisticated judgment of experts.

While it is true to say that many corporate transactions are in themselves quite routine, actual corporate activities are complex and diverse, frequently requiring non-routine action to be taken. And in terms of communication too, accounting auditing is work that requires "non-routine" and extremely human communication with executives and employees of the companies audited. Even under normal circumstances, communication is the key to successful auditing, but that is truer still in situations requiring difficult accounting or auditing judgments, such as when the auditor recognizes signs of an irregularity, or when an irregularity is actually discovered.

Thus accounting auditing involves non-routine work that is both creative and important, in addition to relying on communication. Arguably, therefore, it strongly demonstrates the characteristics the Nomura Research



**Masahiko Tezuka**  
Executive Board Member (IT)

Institute ascribes to work that will continue to be undertaken by humans in the future.

And accountants are of course involved in a whole range of other work in addition to accounting auditing. Nomura Research Institute includes such jobs as management consultants in general and Registered Management Consultants for small- and medium-sized enterprises (SMEs) in its list of 100 occupations unlikely to be replaced by technologies. Given that the role of CPAs encompasses consulting, therefore, I believe they will also be able to continue working in spheres outside accounting auditing.

## **2. How will the relationship between CPAs' work and AI develop in the future?**

The fact is that a substantial part of the tasks making up CPAs' work can be performed more efficiently using technology than manually. Typical examples include verifying the accuracy of figures, analyzing financial figures, and collecting and analyzing the necessary information. Where these tasks are concerned, it should be possible to significantly enhance productivity by making active use of technology to enhance efficiency, leaving CPAs to focus on work requiring their expertise. An added advantage is that alleviating the human labor shortage has the potential to dramatically improve actual working conditions. In my opinion, therefore, CPAs should make active use of

technology to save labor, which will in turn enhance the appeal of the CPA profession and enable us to attract talented people to this industry.

At the same time, I foresee a big change in the attributes and abilities that will be required of CPAs. How will we use the time gained through liberation from routine tasks? For example, it will no doubt be essential to improve CPAs' IT literacy and ability to interpret the results of data analysis. On the other hand, CPAs might also need to be able to lead diverse teams of experts, or to reason with corporate executives on an equal footing, offer them insights, and prompt them to act.

Accordingly, I believe that use of technology will make the CPA profession more appealing, and as the JICPA Executive Board Member responsible for IT, I will continue dedicating myself to supporting CPAs as they make use of technology.

# Future Profession - Interview



## Integrated Reporting

**Keiko Kishigami** *Executive Board Member (IR)*

In February 2018 JICPA released *Vision for the Future of Integrated Reporting and the Role of CPAs: Building a Corporate Reporting Model to Support Sustainable Value Creation* (the “Vision Document”). We asked Keiko Kishigami, the Executive Board Member responsible for management advisory service and research at JICPA about the background to the release of the Vision Document and JICPA’s future-oriented initiatives.

### 1. Integrated reporting has spread rapidly in recent years, but what is behind this development, and what are the challenges?

In the last few years, the practices of disclosing non-financial information and of combining financial information and non-financial information in the form of integrated reporting have spread rapidly. This situation is not unique to Japan but is a global trend. The business environment surrounding companies is undergoing dramatic transformation driven by rapid evolution of technologies such as AI, the rise of emerging economies, declining birthrates combined with aging societies, and intensifying environmental and social challenges represented by climate change. In such an era of transformation, companies need to keep abreast of sustainability issues and build business models according to their long-term visions. I think that for companies to grow sustainably it has become more important than ever for them to have a vision, as well as a business model supported by such elements as tangible and intangible capital, strategies, the ability to respond to risks and opportunities, and governance. Meanwhile, investors are being called on to anticipate future corporate value when making their investment decisions, and they also now need non-financial information to fulfill their stewardship responsibilities from a long-term perspective. The International Integrated Reporting Council (IIRC) was set up with the aim of establishing a corporate reporting model indicating capacity to create value sustainably. In 2011 it advocated the need for integrated reporting, and in

2013 it announced the International Integrated Reporting (IIR) Framework. The latest figures suggest that the number of Japanese companies taking action on integrated reporting is close to 400. The institution of Japan’s Corporate Governance Code and Stewardship Code prompted active dialogue between companies and investors regarding both disclosure practice and policy. As a result, companies are now expected to explain their businesses to investors and other users of their reports in their own words, and logically, so that their explanations can be understood. Not only is integrated reporting a corporate reporting model that can serve as the basis for such dialogue between companies and investors, it is also expected to support management based on integrated thinking, which is a prerequisite for such dialogue.

On the other hand, putting integrated reporting into practice involves challenges. Necessary action includes clarifying how the corporate reporting process will relate to corporate governance, enhancing and systematizing the framework and guidance on which disclosure practices will be based, and establishing the fundamental principles necessary to ensure reliability. Informed by the opinions of company representatives, investors, and other experts who contribute to the capital markets, the Vision Document sets out the challenges involved in advancing corporate reporting practice, while also considering what role CPAs should play and what JICPA itself should do.

Although it is not mentioned in the Vision Document, the IIRC’s framework-based approach is also applicable to small- and medium-sized enterprises, as well as to nonprofit or



**Keiko Kishigami**  
Executive Board Member (IR)

public organizations. I think, moreover, that an international consensus is developing on the importance of questioning what sustainable medium- to long- term value creation for an organization actually comprises.

## 2. How will the role of CPAs change?

I think that the International Federation of Accountants (IFAC) and other main accountancy bodies are experiencing a sense of impending crisis. They fear that accountants will be left behind as society progresses unless they respond to changes in corporate reporting and to society's needs and take the lead in driving innovation themselves.

When auditors involved in auditing financial statements make judgments regarding audit risk assessments and accounting estimates, they need to gain a grasp of the background not only from financial information but also from non-financial information. Deliberations are currently under way to establish practice and develop guidance with regard to assurance procedures for non-financial information that is disclosed, and CPAs are required to consider how the reliability of corporate reporting as a whole can be enhanced. In addition, Boards of Directors are increasingly required to demonstrate leadership in terms of linking governance and corporate reporting, and the role of accountants as outside directors and corporate auditors is particularly important in this regard. Thus, CPAs are expected to improve the reliability of corporate reporting as a whole from a range of standpoints.

It is therefore important that CPAs maintain a management

perspective in addition to expertise in accounting and auditing as the essential foundation for helping to improve corporate governance and upgrade integrated reporting. As CPAs become increasingly diverse, they will contribute to the quality of reporting by companies and organizations from their individual standpoints as auditors, consultants, professional accountants in business, and outside directors or corporate auditors, helping to create sustainable value creation cycles in Japan and worldwide. In my opinion, this is what society expects of CPAs. I therefore think that CPAs too need to transform themselves based on their core attribute: trustworthiness accumulated through expertise, professional ethics, and a sense of mission.

## 3. What initiatives is JICPA pursuing?

JICPA was quick to join the IIRC and the International Auditing and Assurance Standards Board (IAASB) and has led the domestic debate by holding round tables and other events. As an organization, we would like to continue helping to develop the corporate reporting framework while deepening our dialogue with stakeholders both in Japan and overseas. In February 2018 we organized the ICGN-IIRC Tokyo Conference jointly with the Japan Exchange Group, Inc. By stimulating debate globally and in Japan in this way, as well as conducting training on themes related to integrated reporting, we will also continue increasing opportunities to share information.



# Financial Summary



### Statements of Cash Flows [Years ended March 31]

	Yen in thousands		
	2018	2017	Changes
<b>Cash flows from operating activities</b>			
Cash receipts from operating activities	6,436,514	6,317,228	119,286
Cash payments from operating activities	6,216,623	6,095,817	120,806
Net cash generated from operating activities	219,891	221,411	-1,520
<b>Cash flows from investing activities</b>			
Cash receipts from investing activities	2,840,588	1,287,399	1,553,189
Cash payments from investing activities	2,087,370	3,261,470	-1,174,100
Net cash used in investing activities	753,218	-1,974,071	2,727,289
<b>Cash flows from financing activities</b>			
Cash proceeds from financing activities	-	-	-
Cash payments from financing activities	-	-	-
Net cash used in financing activities	-	-	-
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>973,109</b>	<b>-1,752,660</b>	<b>2,725,769</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>2,318,437</b>	<b>4,070,753</b>	<b>-1,752,316</b>
<b>Cash and cash equivalents at end of year</b>	<b>3,291,546</b>	<b>2,318,093</b>	<b>973,453</b>

### Balance Sheet [As of March 31]

	Yen in thousands		
	2018	2017	Changes
<b>Assets</b>			
Current assets	5,334,247	5,346,524	-12,277
Non-current assets	10,240,898	10,129,792	111,106
Total assets	15,575,145	15,476,316	98,829
<b>Liabilities</b>			
Current liabilities	717,156	580,372	136,784
Non-current liabilities	2,572,534	2,534,944	37,590
Total liabilities	3,289,690	3,115,316	174,374
<b>Net Assets</b>			
Restricted net assets	903,995	919,278	-15,283
Unrestricted net assets	11,381,458	11,441,721	-60,263
Total net assets	12,285,453	12,360,999	-75,546
Total liabilities and net assets	15,575,143	15,476,315	98,828

### Statements of Operations and Other Changes in Net Assets [Years ended March 31]

	Yen in thousands		
	2018	2017	Changes
<b>Unrestricted net assets</b>			
Ordinary changes			
Ordinary revenues	6,502,440	6,326,785	175,655
Ordinary expenses	6,561,762	6,385,902	175,860
Net ordinary changes	-59,322	-59,117	-205
Non-ordinary changes			
Non-ordinary revenues	-	4,499	-4,499
Non-ordinary expenses	939	1,061	-122
Net non-ordinary changes	-939	3,438	-4,377
Total changes of unrestricted net assets	-60,262	-55,678	-4,584
Unrestricted net assets at beginning of year	11,441,721	11,497,400	-55,679
Unrestricted net assets at end of year	11,381,459	11,441,722	-60,263
<b>Restricted net assets</b>			
Total changes of restricted net assets	-15,282	-11,555	-3,727
Restricted net assets at beginning of year	919,278	930,833	-11,555
Restricted net assets at end of year	903,996	919,278	-15,282
<b>Total net assets at end of year</b>	<b>12,285,455</b>	<b>12,361,000</b>	<b>-75,545</b>



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