

## JICPA's response to the alleged Kanebo incident

On September 13, 2005, Tokyo prosecutors arrested four accountants for allegedly helping Kanebo executives falsify accounting reports. Kanebo, a household goods and cosmetics conglomerate, was delisted from the Tokyo Stock Exchange this year after admitting to accountancy fraud over a four-year period. Though we have yet to confirm the actual events at Kanebo and the actions of its auditors and accountants, JICPA deplores this regrettable incident., From our standpoint, this case is currently under investigation by the discipline committee of JICPA. We definitely expend our efforts to grasp the fact relevance promptly, however will refrain from making any comment until we fully understand the case.

Having adopted "the reinforcement of audit practices" as its most important agenda in 2004, the incumbent Executive Board of JICPA continues full-fledged efforts to improve auditing practices. These work on the part of JICPA makes the recent Kanebo incident all the more regrettable.

JICPA is currently working towards improvements in four main areas:

- i) We continue to strengthen its quality control review system. In July of this year, for example, we increased our full time quality control reviewers from 10 to 20 to reinforce the effectiveness of our "quality control reviews" in maintaining and improving the quality of auditing practices at individual auditing firms. We have also hired an information technology expert to assist in these reviews.
- ii) We have reorganized the handling scheme of disciplinary cases which is engaged in, for example, individual audit failures and will establish a disciplinary board and will have it independent from our Executive Board. In addition, Some of the members participating in this new disciplinary board are enlisted from outside the CPA profession and outside JICPA.
- iii) We have formed a project team to reinforce auditing practices, and it continues its efforts to provide a sufficient audit hours, rationalize and allocate the hours required for auditing processes more properly.
- iv) We also continue to strengthen auditing procedures in certain industries, to conduct studies, to make proposals, and to organize lectures related to auditing issues based on the industry-specific management environment.