

January 2018

Aiming High and Opening a New Horizon for the Profession

In July 2018, we will commemorate the 70th anniversary of the establishment of the CPA system in Japan. With the globalization and the coming of the information age having significant impacts on our society and the economy, the accountancy profession is also in the midst of a great transformation.

This is exactly in this period of the transformation that I believe our mission stated in the article 1 of the CPA Act becomes ever more significant – we must all strive to meet the vision, “Engage in the Public Interest,” by contributing to the sound development of the economy as professionals in accounting and auditing.

I am committed to continue our efforts in facing new challenges and opportunities so that the profession will further grow to celebrate 80th, 90th and 100th anniversaries. Through leading the business, economic, and social scenes with high quality services, and by making enduring efforts to be ahead of new technologies and innovation, I hope that the profession will play a key role as a trusted partner in various aspects of business, economy and the society. Envisioning high for the future of the accountancy profession, I kindly ask you to join hands with me in achieving those visions.

As we start the New Year, I would like to bring to your attention some of the key initiatives we are currently undertaking.

Enhancing Quality Audits

Audits conducted by CPAs are the essential part of the socio-economic infrastructure of the capital markets – audits support economic activities of organizations by ensuring the credibility of the financial information disclosed, and thereby forming the foundation for the sustainable growth of the economy. JICPA continues a discussion with various key stakeholders in capital markets in relation to how the future of information disclosure should be, and how high quality audits could further solidify the cornerstone of the trust in healthy capital markets. For example, discussions are in areas such as audit firm governance code implemented last year. The issue of Key Audit Matters (KAMs) is another area where new perspectives are required – the extended auditor’s reports that proactively communicate risks identified and audit procedures taken may provide useful information to investors. I have a positive view of this new transformation in audit reports as it may provide a new opportunity for the auditors to appeal to the investors of the quality of audits conducted by CPAs.

Support to outside directors

In recent years, we are seeing the investment trends where the sustainability and long-term perspectives in corporate strategies and activities are valued in terms of the environment, social, and governance aspects. We encourage these trends since responding to matters such as climate change and ensuring diversity in boards are major issues that also influence the overall financial state of business. Listed companies in Japan recognize, to a greater extent, the importance of partnerships with various stakeholders other than shareholders, such as employees, customers, business partners, creditors, and wider local communities. Under such recognition, the value of ESG, that is, environment, social and governance aspects, in meeting the mid-to-long term business targets are widely acknowledged, and we currently see diverse reform efforts in corporate governance structures that endure sustainable value creation.

The Corporate Governance Code implemented in 2015 states that companies should appoint one or more audit & supervisory board members with appropriate finance and accounting knowledge and experience. In addition, we are seeing a growing interest in outside directors equipped with overall knowledge in business strategies, risks, finance, communications, and general corporate affairs. I believe that CPAs are the professionals who can meet those expectations as outside directors, and as such, the number of our members appointed as outside directors of listed companies are increasing. Given those growing expectations, JICPA has established a council for members serving as outside directors this year, and through this council, we have expanded training opportunities for members to enrich their knowledge and enhance their competence as outside directors.

Roles and responsibilities in public sector

Japan currently faces increased social welfare costs with amounting national spending on medical cares and nursing cares for elderlies. The total cost for those cares amounts to 60 trillion yen, which takes up about 10% of Japan's GDP, and this is expected to rise up to 80 trillion yen in the near future. As such, the sustainability of social welfare system in Japan is a great concern for many citizens. From the perspectives of strengthening management system and achieving transparency in its activities, audits by CPAs have been introduced to social welfare corporations, medical corporations and other corporations of certain size. In addition to the fundamental function of audits to achieve transparency to the public of how funds are utilized or how corporations are operated, there is an expectation that audit services provided by CPAs will be important in terms of improving governance and management capabilities of those publicly accountable corporations.

Furthermore, together with the declining birthrate and the coming of an aging society, the population of Japan is decreasing. This means that local governments all over Japan will be forced to tackle with declining incomes from tax or other administrative services. At the same time, maintenance costs for assets that local governments have, such as schools, libraries, roads, bridges, and water and drainage services that constitute the essential part of social infrastructure, will place a great burden on financial state of local governments. Questions as to whether those timeworn social infrastructures will be able to withstand natural disasters or accidents will certainly arise, and if they are torn down, will the local governments be able to rebuild those facilities? Will the local governments be able to take appropriate actions to natural disasters or other emergencies if they also face declining administrative staff in police or fire departments? To answer those questions, I expect that local governments will have to implement reforms in its accounting systems so that financial documents are duly prepared and further utilization of those financial information is achieved. To be accountable to taxpayers and the citizens, the allocation of funds or reforms in assets or debts at local governments will have to be based on its financial reporting. We expect that financial state of local governments will be disclosed in a more comprehensive manner, and the management of assets or debts, as well as the preparation of budgets or evaluation of their activities will be grounded on such information.

New Technologies – AI and Blockchain

The evolution in information technologies such as Artificial Intelligence (AI) and blockchain technologies have rapidly changed our society with a speed beyond our imagination. We have seen startling debates where some argue that accounting professionals will be replaced by AI. It is true that we are benefiting from IT transformation in works that had been done manually in the past, and this transformation should continue. With this transformation, CPAs will be able to focus more on engagements that require professional judgements, and CPAs will also become able to enhance communication with management. Further utilization of IT and AI will be imperative for CPAs in ensuring credibility of financial information disclosed.

We will also observe the new era where handling of financial data will be altered with blockchain technologies. Once recorded, the data in any given block cannot be altered retroactively, and by design, blockchains are inherently resistant to modification of the data which will grant a certain level of a trust in the data exchanged. We will have to continue observing those new trends in technologies and consider their impacts on audits and the future of the profession in theoretical and practical terms.

Diversity and promoting women leadership in the profession

The number of women in the workforce in Japan is steadily increasing, but the women in management or C-level jobs are still very limited. The government of Japan is calling to ensure diversity and promotion of women in leadership roles through its growth strategies and in the corporate governance code. CPA profession in Japan faces similar issues – with varying roles expected of CPAs, we need to ensure best and brightest talents in the profession. Achieving diversity and promoting various talents in organizations will lead to appreciating different values and ideas, which will bring the innovation in the organizations and the society as a whole.

As part of our initiative, we promote women leadership in the profession. We have launched a special council where we communicate the attractiveness of CPA profession to many aspiring women. CPA profession is genuinely the desirable profession for women as it enables flexibility to meet the changing life-cycle needs unique to women. JICPA is committed to this initiative and will continue to work rigorously toward this goal.

Accounting Literacy

We believe that the accounting literacy is the essential part of citizenship - people can understand the economic activities well and play a range of roles in the society with basic accounting knowledge. Therefore, JICPA has established a council to encourage governments and other stakeholders to incorporating accounting education to elementary and junior high school curriculums, and also to the life-long learning programs of the general public so that people will have the opportunity to enrich their knowledge in accounting. This year, JICPA supported a mathematics competition for school students. This competition aims at fostering students with the competence in problem solving, creative thinking, team works, innovation and communication – by cultivating competence and capabilities of school students, we expect that those students will grow up to contribute to our economy and the society in future. Through engaging with younger generations, we hope to further contribute to the public and discharge our responsibilities as accounting professionals.

Aiko Sekine

Chairman and President