

The Japanese Institute of Certified Public Accountants
Overview of the Quality Control Review 2023



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【Part 1 Overview of the Quality Control Review】

1. The Japanese Institute of Certified Public Accountants

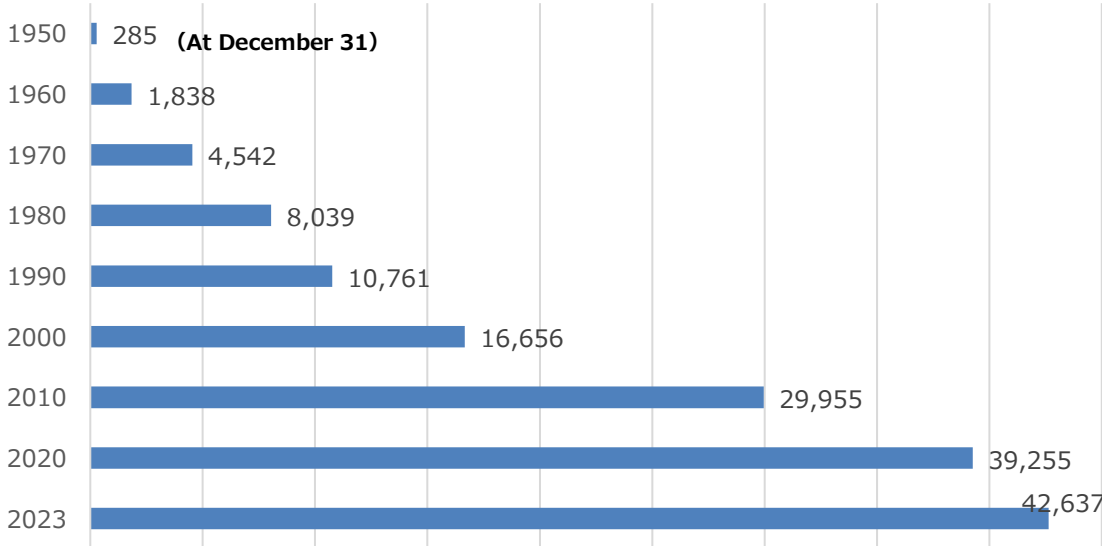
The Japanese Institute of Certified Public Accountants (“JICPA”) is dedicated to provide instruction and oversight of certified public accountants (“CPAs”) to improve their qualifications to fulfill their mission as a CPA.

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, 2023, the total number of members, including associate members, stood at 42,637 which consisted of the following: the number of members totaled 34,717, including 34,438 of CPAs of Japan and of other countries in Japan as well as 279 audit firms; and the number of associate members, including junior accountants and successful candidates of the CPA examination, stood at 7,920.

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.

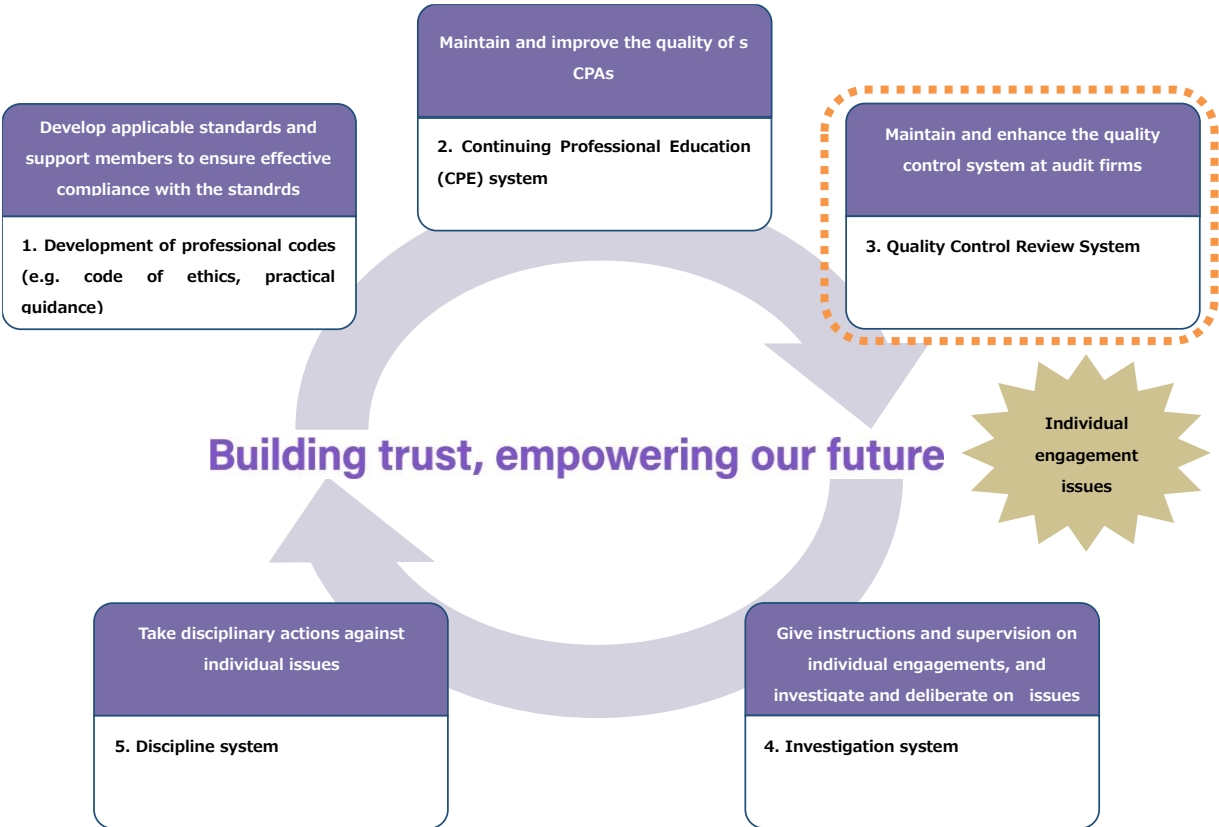
[Number of members (At March 31)]



2. Activities of JICPA as a Self-Regulatory Body

JICPA is a self-regulatory body dedicated to continuously retain 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.

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



※ Continuing Professional Education (CPE) system has been revised into Continuing Professional Development (CPD) system since April 1, 2023.

3. Quality Control Review Systems

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

① Quality Control Review System

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

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 FY2007 to further enhance the quality control system of audit firms that engage in audits of listed companies (“listed company audit firms”). Under the system, the Listed Company Audit Firms Subcommittee, established within the Quality Control Committee, is responsible for maintaining the official roster of audit firms that engage in audits of listed companies and the official roster of associate registered audit firms (collectively as the “Official Rosters”), reflecting registration decisions made and measures taken by the Quality Control Committee in the rosters, and making them available to the public.

[Note]

Against the backdrop of an increase in the number of listed company audit firms, the Act Partially Amending the Certified Public Accountants Act and the Financial Instruments and Exchange Act was enacted on May 11, 2022. The registration system for audits of listed companies and similar companies is now stipulated under the revised act. JICPA will continue to be involved by operating the registration system based on its extensive insight and expertise.

Based on the revised act, JICPA has reorganized related internal rules and newly operated the Registration System for Auditors that Engage in Audits of Listed Companies and Similar Companies on April 1, 2023. Accordingly, the Review Board for Registration on Auditors that Engage in Audits of Listed Companies and Similar Companies, instead of the Quality Control Committee, is responsible for registration and other administrative matters for listed company audit firms effective April 1, 2023.

This report provides the operational status of the Quality Control Committee as well as the Listed Company Audit Firms Subcommittee under the previous registration system, namely the Registration System for Audit Firms that Engage in Audits of Listed Companies, effective until March 31, 2023. (For details, please refer to "4. Registration System for Audit Firms that Engage in Audits of Listed Companies")

The table below shows the comparison between the Registration System for Audit Firms that Engage in Audits of Listed Companies, the previous registration system effective until March 31, 2023, and the Registration System for Auditors that Engage in Audits of Listed Companies and Similar Companies, the new registration system effective from April 1, 2023.

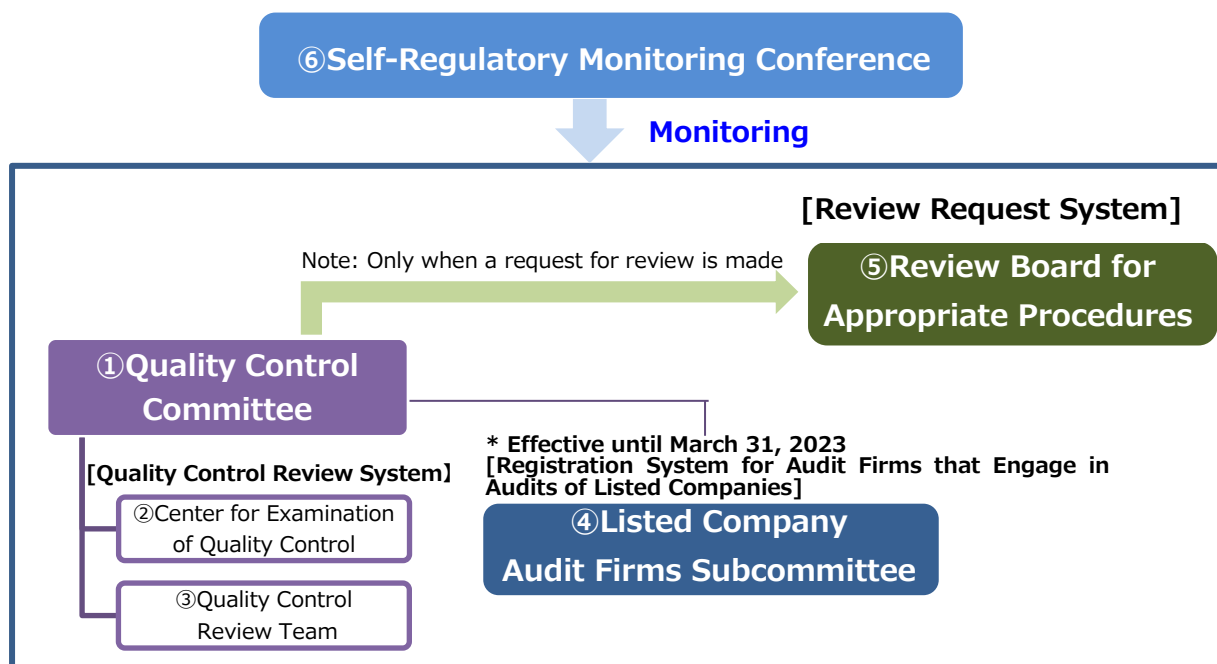
	Registration System for Audit Firms that Engage in Audits of Listed Companies (until March 31, 2023)	Registration System for Auditors that Engage in Audits of Listed Companies and Similar Companies (from April 1, 2023)
Type of registration system	Self-regulation	Laws and regulations
Responsible party in JICPA	Quality Control Committee	Review Board for Registration on Auditors that Engage in Audits of Listed Companies and Similar Companies
Rosters	<ul style="list-style-type: none"> • Official Roster of Audit Firms that Engage in Audits of Listed Companies • Official Roster of Associate Registered Audit Firms • List of Deregistered Firms from the Official Rosters 	<ul style="list-style-type: none"> • Official Roster of Auditors that Engage in Audits of Listed Companies and Similar Companies

Under the previous registration system effective until March 31, 2023, the Securities Listing Regulations of each Financial Instruments Exchange stipulate that auditors of listed companies must be audit firms registered on the Official Rosters. (For example, refer to Rule 441-3 of the Securities Listing Regulations for the Tokyo Stock Exchange. In addition, according to Article 205 (7) of the Securities Listing Regulations, applicants for auditors on initial public offering must be audit firms registered on the Official Rosters that underwent quality control reviews by JICPA.

Under the new registration system effective April 1, 2023, the Financial Instruments and Exchange Act stipulates that auditors that engage in audits of listed companies and similar companies must be audit firms registered on the "Official Roster of Auditors that Engage in Audits of Listed Companies and Similar 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.



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 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 as well as the registration status of listed company audit firms.

③ Quality Control Review Team

The team is responsible for conducting quality control reviews and investigating whether the quality control system of audit firms is appropriate for a listed company audit firm.

④ Listed Company Audit Firms Subcommittee

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

⑤ Review Board for Appropriate Procedures

The board reviews the registration status on the Official Rosters as well as

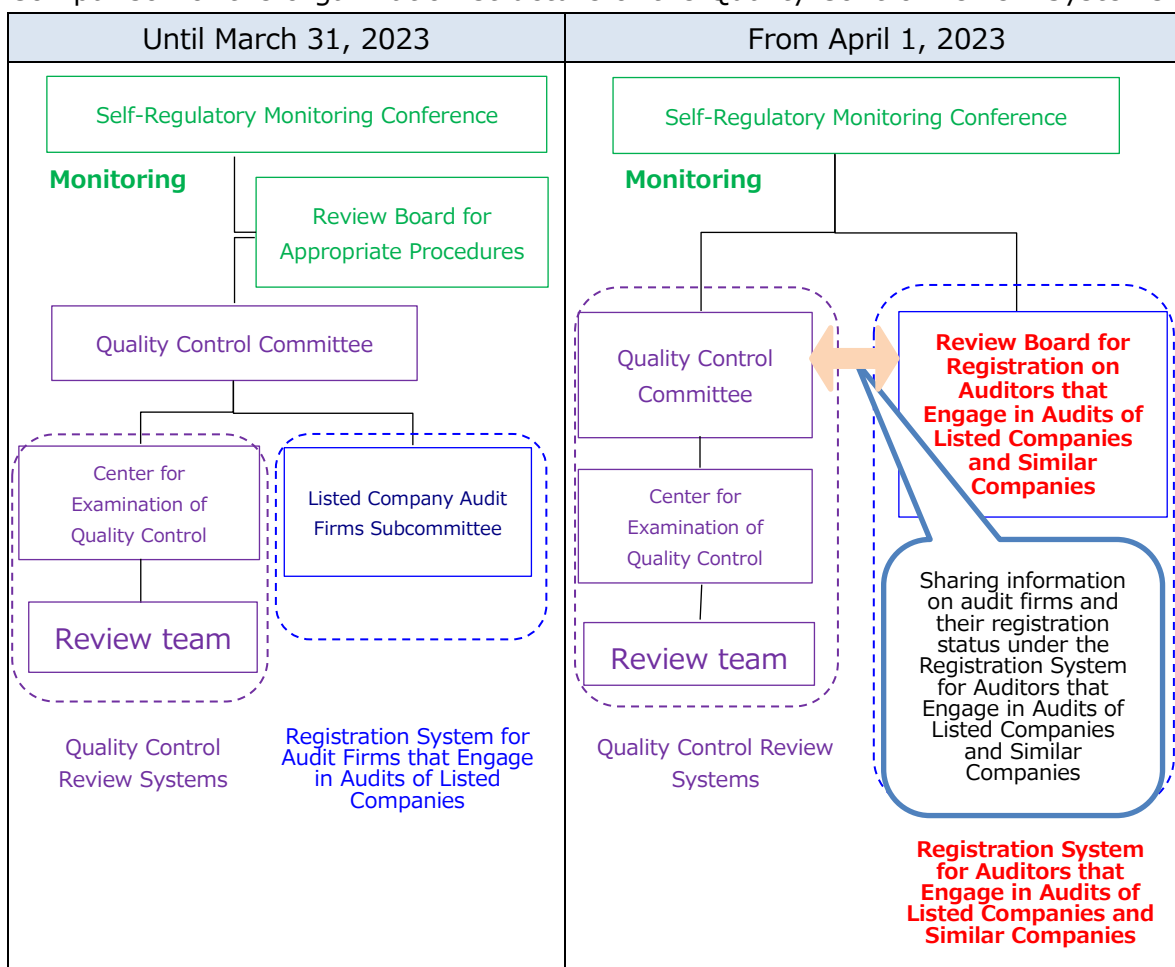
measures undertaken by the Quality Control Committee for registrations when requested by members.

⑥ **Self-Regulatory Monitoring Conference**

The conference provides high-level opinions and advice on the operation of the Quality Control Review Systems overseen by the Quality Control Committee.

【Reference】

Comparison of the organization structure of the Quality Control Review Systems



※The Review Board for Appropriate Procedures is an organization which reviews, upon members’ request, the registration status on the Official Rosters as well as measures taken regarding registrations. As the Registration System for Audit Firms that Engage in Audits of Listed Companies, effective April 1, 2023, has been changed to the Registration System for Auditors that Engage in Audits of Listed Companies and Similar Companies, the Review Board for Appropriate Procedures is removed from the above organization chart.

(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 (collectively as “professional personnel”) comply with professional standards as well as applicable laws and regulations.
- ② Audit firms or engagement partners issue audit reports appropriately.

The quality control system of an audit firm mainly consists of the following policies and procedures. An audit firm is responsible for designing these policies and procedures, whereas engagement partners are responsible for conducting individual audit engagements (“individual engagements”) in accordance with the quality control system designed 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 to conduct 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 required for audits (e.g. audit manuals and guidance, audit practice tools)
- Instruct, supervise 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 are maintained
- Conduct a thorough engagement quality control review

Monitoring the quality control system

- Evaluate impacts of deficiencies identified through the process of ongoing monitoring and periodic inspections, and 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. The committee selects audit firms subject to regular and special reviews each year 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 an audit firm’s quality control system	To assess the design and operation of an 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. Based on the judgment of the Quality Control Committee, the frequency may be shortened or extended (however, the review is conducted at least once in 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 an audit firm - Status of audit engagements - Specific matters
Audit firms subject to review	Audit firms subject to regular reviews	All audit firms that provide audit engagements
Procedures	Site visit	Site visit, inquiry or in writing

[Audit firms subject to regular reviews]

(As of March 31, 2023)

	Audit Firms	CPAs ^(*1)	Total
Audit firms subject to regular reviews	157	66	223
Of the above, listed company audit firms ^(*2)	134	10	144

(*1) For CPA joint offices (the "Joint Offices") in which multiple CPAs jointly conduct audits 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 detail, 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

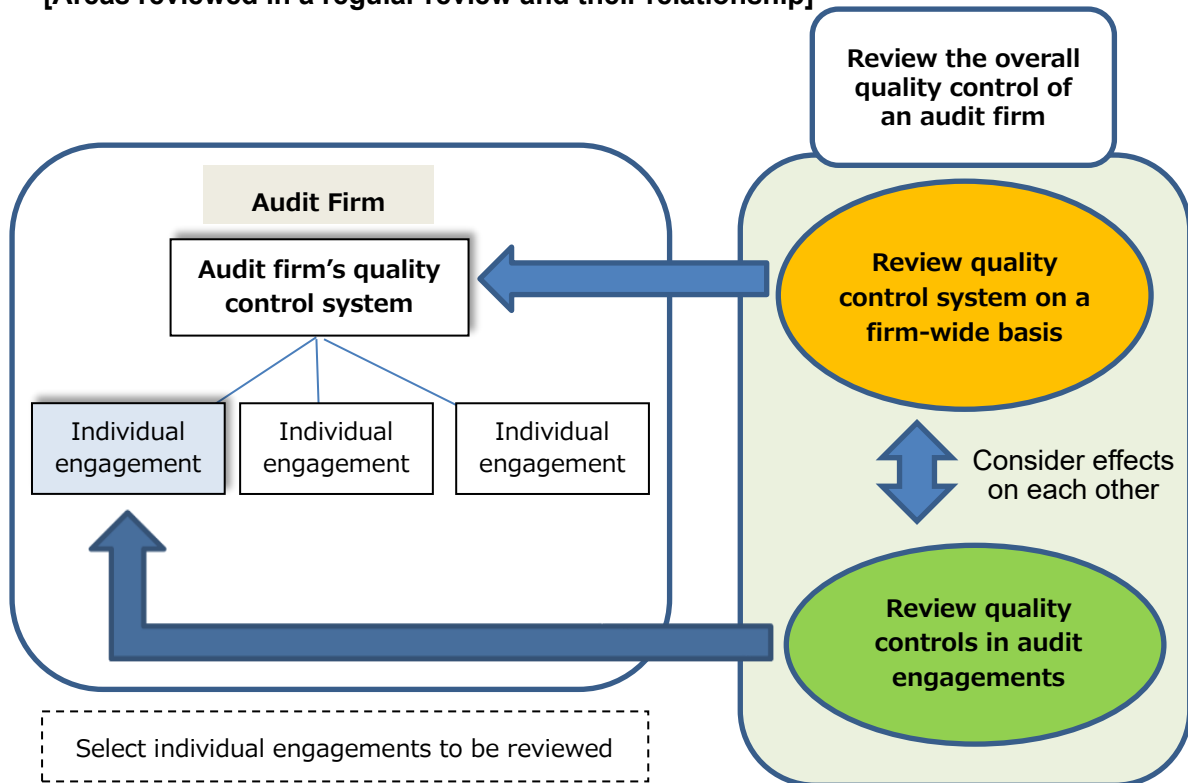
In order to assess the status of audit quality controls on a firm-wide basis, regular reviews are conducted mainly through the following procedures. As illustrated below, quality controls on a firm-wide basis and quality controls in audit engagements are interrelated.

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

By considering the environment surrounding an audit firm, the level of individual engagement risks, the nature of audit engagements and other factors, individual engagements are carefully selected for a review so that the 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.

In accordance with the purpose of a special review, the review scope for selected audit firms is determined by considering certain areas of concern or specific audit engagements.

【Detailed procedure for quality control reviews】

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

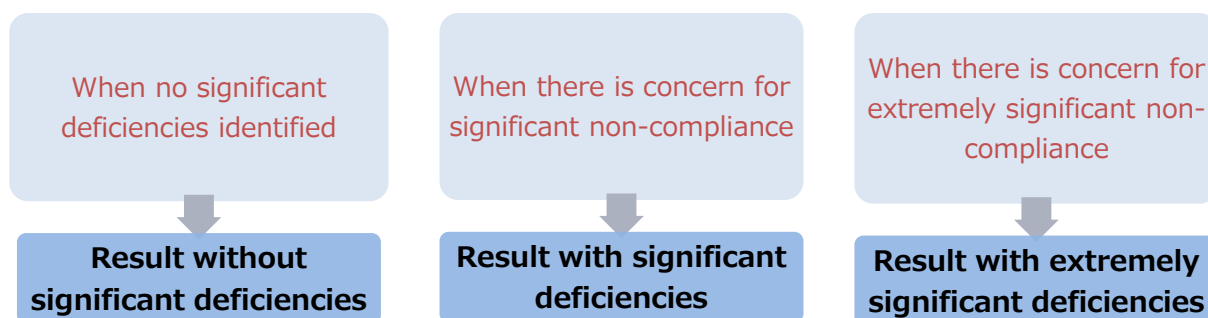


※ In parallel with the above, the Quality Control Review Team also confirms remedial actions done by an audit firm in response to improvement recommendations pointed out in previous years. In certain cases, the Quality Control Review Team may need to change the review plan for the year and visit an audit firm to confirm its improvement status. (For more detail, please refer to “(10) Confirmation of Remedial Actions.”)

(6) Results of Quality Control Reviews

JICPA issues a quality control review report to audit firms, which contains a result of quality control review for the audit firm.

Quality control review results 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.

Result with significant deficiencies is expressed under certain circumstances, including the following:

- when the design or operation of the quality control system is significantly inappropriate or insufficient
- when there is concern that material misstatements may be overlooked in key accounting areas (e.g. accounting estimates, revenue recognition)
- when an audit firm is not obtaining appropriate and sufficient evidence to reduce audit risks to an acceptable low level for those key areas

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”).

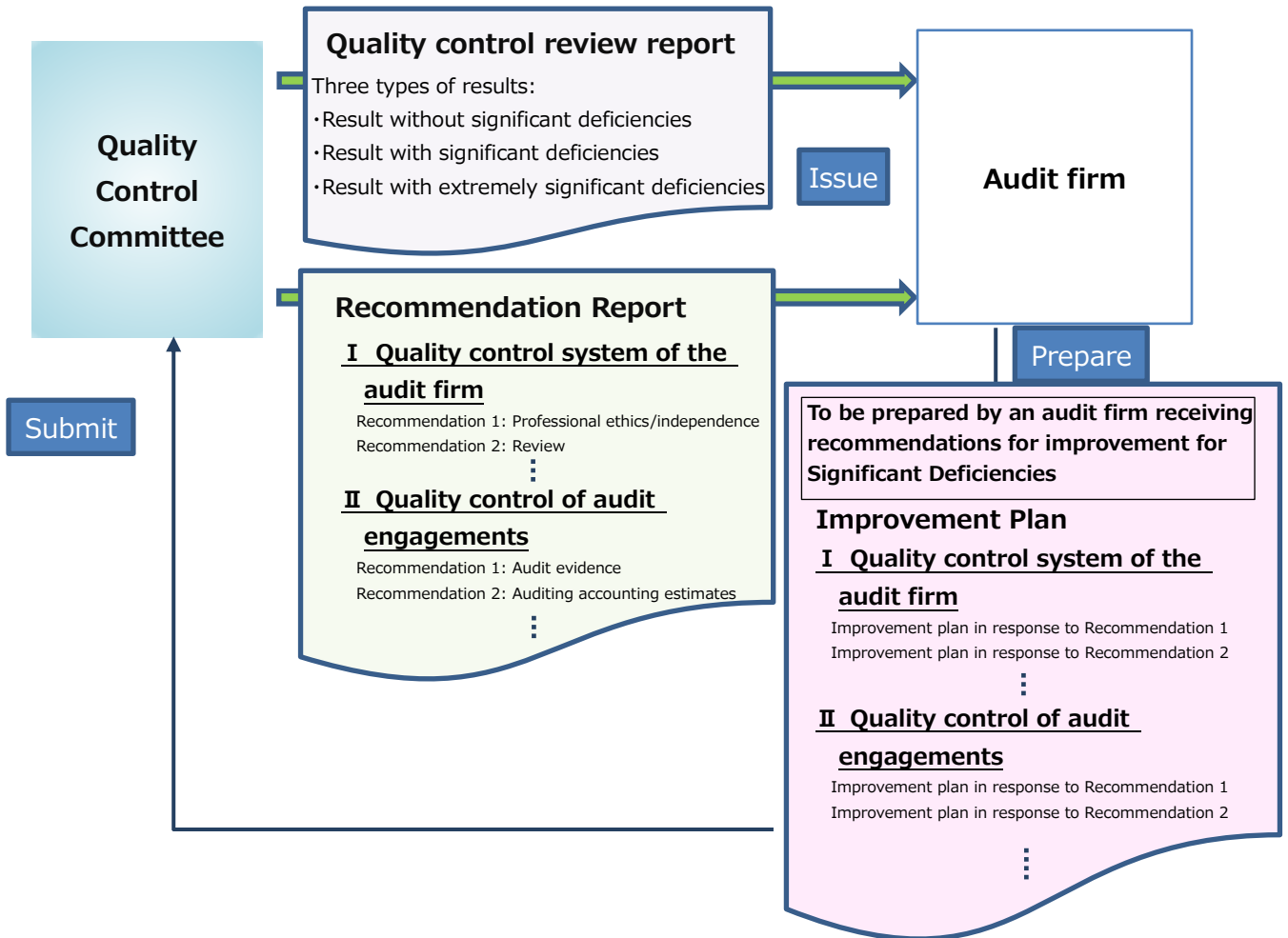
(7) Recommendations for Improvement

Regardless of the result of a quality control review, if recommendations for improvement are identified, a Recommendation Report which describes such recommendations for improvement will be prepared and issued to an audit firm together with the quality control review report. Recommendations for improvement are put into two sections under the Recommendation Report, namely recommendations for the quality control system on a firm-wide basis and recommendations for the quality control in audit engagements. Recommendations for improvement consist of three types, which are extremely significant deficiencies, significant deficiencies, and deficiencies.

Further, if an audit firm receives recommendations for improvement for Significant Deficiencies, it is required to prepare and submit an Improvement Plan in response to the recommendations by describing remedial actions against the Significant Deficiencies.

Regardless of whether or not an Improvement Plan is issued, it is necessary for audit firms to voluntarily improve all items for which improvement recommendations were made. The Quality Control Review Team will not only provide necessary instructions to them to encourage improvement but also review Improvement Status Reports prepared by audit firms in the following fiscal year. (For more detail, please refer to “(10) Confirmation of the Remedial Actions.”)

[Recommendation Report and Improvement Plan]



(8) Cause of Recommendations for Improvement (Root Cause Analysis)

In order to develop and implement more effective and appropriate remedial actions, it is essential for audit firms to identify the reason where deficiencies are coming from. Therefore, in the event of a result with Significant Deficiencies, audit firms shall describe causes that led to recommendations for improvement in their Improvement Plans.

In many cases, included in causes are not only direct causes but also root causes behind recommendations for improvement. Such root causes commonly found in several causes are generally related to poor audit culture and weak management of an audit firm. Therefore, when an audit firm receives a result with Significant Deficiencies, it is required to describe in the Improvement Plan both causes and root causes that led to recommendations for improvement after having a careful deliberation between the chief executive officer of the audit firm and the Quality Control Review Team.

Even when an audit firm ends up receiving Result without significant deficiencies, if it appears to have concerns about the audit firm's voluntary improvement, the Quality Control Review Team explicitly states root causes on the top page of the Recommendation Report, as needed, after having the same kind of communication with the audit firm.

(9) The Objection System for Quality Control Reviews

The Quality Control Committee has a system in which an audit firm can file an objection with the Center for Examination of Quality Control when it has reasonable grounds to believe that their assertions related to Significant Deficiencies pointed out in the quality control review report (draft) are not sufficiently examined. When filing an objection, an audit firm is required to submit a written objection accompanied by supporting documents of the claim.

(10) Confirmation of Remedial Actions

In the following fiscal year after a quality control review, all audit firms that received recommendations for improvement as a result of the quality control review are required, as a general rule, to submit an Improvement Status Report to the Quality Control Committee. The Quality Control Committee confirms the remedial actions accordingly as follows, depending on the level of improvement:

- Audit firms with result with Significant Deficiencies

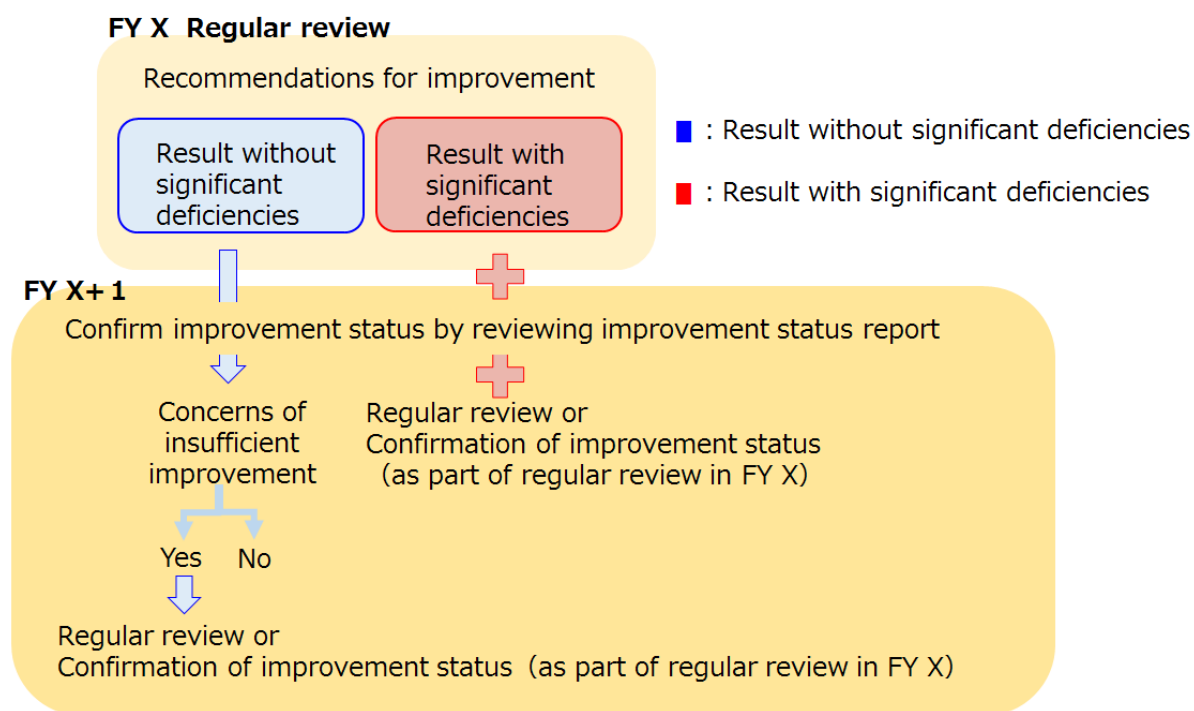
After confirming an audit firm's remedial actions through an Improvement Status Report in the following fiscal year, the audit firm is subject to another regular review or confirmation of improvement status with an on-site visit to physically confirm remedial actions.

- Audit firms with Result without significant deficiencies

In general, an audit firm is only subject to an inspection of its Improvement Status Report. However, if improvements seem to be insufficient as a result of the inspection, it is subject to another regular review or confirmation of improvement status with an on-site visit to physically confirm remedial actions.

When performing the confirmation of the improvement status, the Quality Control Committee issues a Confirmation Result Report of the Improvement Status describing

the status of improvement to an audit firm.



※Since special reviews are conducted when the Quality Control Committee determines 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.

(11) Measures Taken under the Quality Control Review System

Measures to be taken against audit firms that are necessarily encouraged to implement their voluntary improvement due to the insufficient level of quality controls and monitored on their improvement status are determined based on the result of quality control reviews.

[Types of measures]

- Warning
- Severe warning
- Recommendation to withdraw (entire or specific audit engagements conducted by an audit firm)

In general, measures determined by the Quality Control Committee based on

recommendations for improvement identified through Quality Control Reviews, including confirmation of improvement status, are as follows: recommendation to withdraw (for entire or specific audit engagements conducted by an audit firm) when extremely significant deficiencies are identified; severe warning when significant deficiencies are identified; and warning when deficiencies identified. However, when recommendations for improvement from previous quality control reviews remain unresolved and recognized again as recommendations for improvement in the current fiscal year, the Quality Control Committee may toughen measures on top of general measures described above.

If an audit firm unreasonably refuses or does not cooperate with quality control reviews, the Quality Control Committee issues a recommendation to withdraw from audit engagements regardless of the frequency of quality control reviews.

Furthermore, under the Registration System for Audit Firms that Engage in Audits of Listed Companies effective until March 31, 2023, when a recommendation to withdraw from audit engagements is issued to a listed company audit firm, the registration on the Official Rosters may be canceled in addition to the above-mentioned withdrawal measures (For more detail, please refer to “4. Registration System for Audit Firms that Engage in Audits of Listed Companies (3) Measures Taken against 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, history of audit engagements with listed companies, frequency of quality control reviews, and results of previous reviews.

(12) Collaboration with the System for Individual Case Review

The Quality Control Committee under the Quality Control Review System collaborates as necessary with the Audit Practice Review and Investigatory Committee under the System for Individual Case Review to improve the quality of audit work. When 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, if any doubts arise through quality control reviews about the appropriateness of audit opinion expressed by an audit firm or compliance with the constitution or regulations of JICPA, such concerns will be reported to the Chairman of the Audit Practice Review and Investigatory Committee.

(13) 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 Audit Quality Reports.

(14) 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”) of listed companies are responsible for understanding the overall design and operation of an audit firm’s quality control system when they assess the validity of audit procedures conducted by the audit firm as well as the outcomes or when listed companies enter into new audit engagements.

That said, when auditing listed companies, audit firms are required to communicate to the Company’s Auditors in writing or in the form of electromagnetic records 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 issued for quality controls of individual engagements and also their issue areas as well as the general trend. Audit firms should communicate such information on or after receiving the Quality Control Review Reports.

(15) Monitoring the Operation of the Quality Control Review Systems

The operation of the Quality Control Review Systems governed by the Quality Control Committee is monitored by the Self-Regulatory Monitoring Conference, which mainly consists of academic experts who are not members of JICPA. The Self-Regulatory Monitoring Conference is a body dedicated to express opinions and provide advice from a broad perspective in order to ensure the objectivity and fairness of JICPA's self-regulatory activities and to contribute to social confidence in the CPA system.

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

※ In line with the revised act, “Registration System for Audit Firms that Engage in Audits of Listed Companies” is changed to “Registration System for Auditors that Engage in Audits of Listed Companies and Similar Companies” from April 1, 2023. Please note that the following explanation in this report is based on the previous system effective until March 31, 2023.

(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.

The Listed Company Audit Firms Subcommittee, which is established under the Quality Control Committee, is responsible for preparing the Official Rosters and the list of deregistered firms from the Official Rosters.

The Official Rosters contain information not only about the profile of listed company audit firms, but also the status of quality control reviews, summary of Significant Deficiencies, disciplinary sanctions and others, which are published on JICPA’s website.

The type of the listed company audit firms and the list of deregistered firms are as follows:

[Type of listed company audit firms]

Type		Name of Roster	Application Conditions for Registration	Application Review Process
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

[List of deregistered firms]

Name of Roster	Audit firms which are to be put on the list of deregistered firms
List of deregistered firms from the Official Rosters	<ul style="list-style-type: none"> • Audit firms that do not apply for registration on the official roster even though it signed an audit engagement with listed companies • Audit firms that received orders to withdraw from audit engagements based on the result of quality control reviews, and thus is determined to be removed from the official roster • Audit firms that are NOT allowed for registration as a result of an application review • Audit firms removed from the Official Rosters due to disciplinary sanctions, etc. ^(*).

(*) "Disciplinary sanctions, etc." represent administrative sanctions imposed by the Financial Services Agency (FSA) as well as sanctions imposed by JICPA which are stipulated in bylaws.

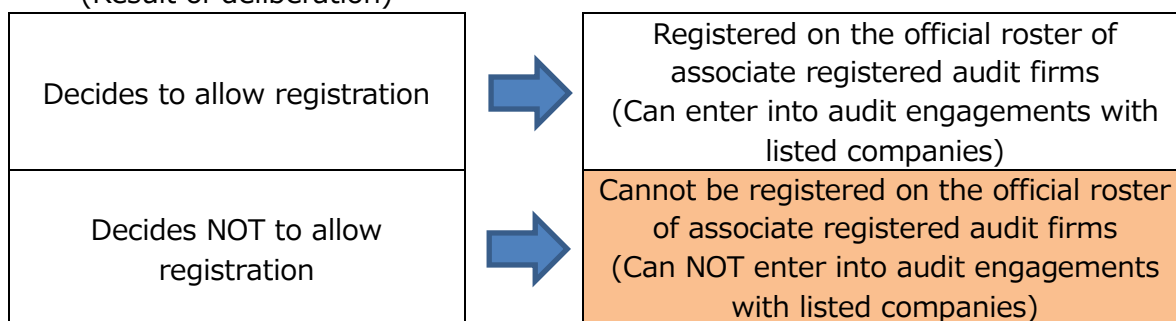
(2) Application Review Process for the Registration on the Official Rosters

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. The Center for Examination of Quality Control and the Quality Control Committee review and deliberate whether or not to register the audit firm based on the result of investigations or regular reviews conducted by the Quality Control Review Team.

※ 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.

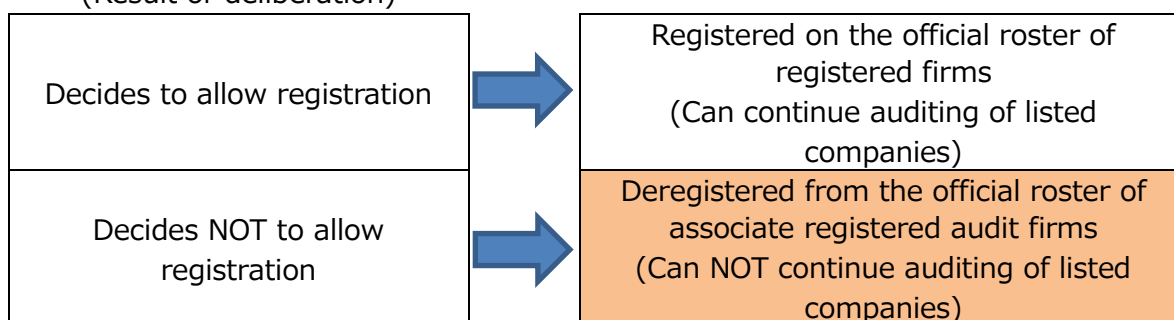
(Result of deliberation)



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 or deliberation)



(3) Measures Taken against the Registration on the Official Rosters

When extremely significant deficiencies are identified for a registered firm as a result of quality control reviews and a recommendation for withdrawal is determined as a measure taken against the firm, a decision is made at the same time to remove the firm from the Official Rosters.

When Significant Deficiencies are identified as a result of quality control reviews, consideration is given whether or not a removal is required based on the impact and frequency of deficiencies identified.

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.

! 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 (For status in FY2022, please refer to “Part 2 Implementation Status and Results, 3. Overview of the Official Rosters”).

(4) Disclosures on the Official Rosters

As part of JICPA's effort to disclose information to stakeholders in the capital market, when Significant Deficiencies are identified for a registered firm as a result of quality control reviews, the outline of deficiencies is disclosed in the Official Rosters. When registered firms are cancelled for registration, the outline of deficiencies is disclosed in the list of deregistered firms from the Official Rosters.

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

(5) Review Request System

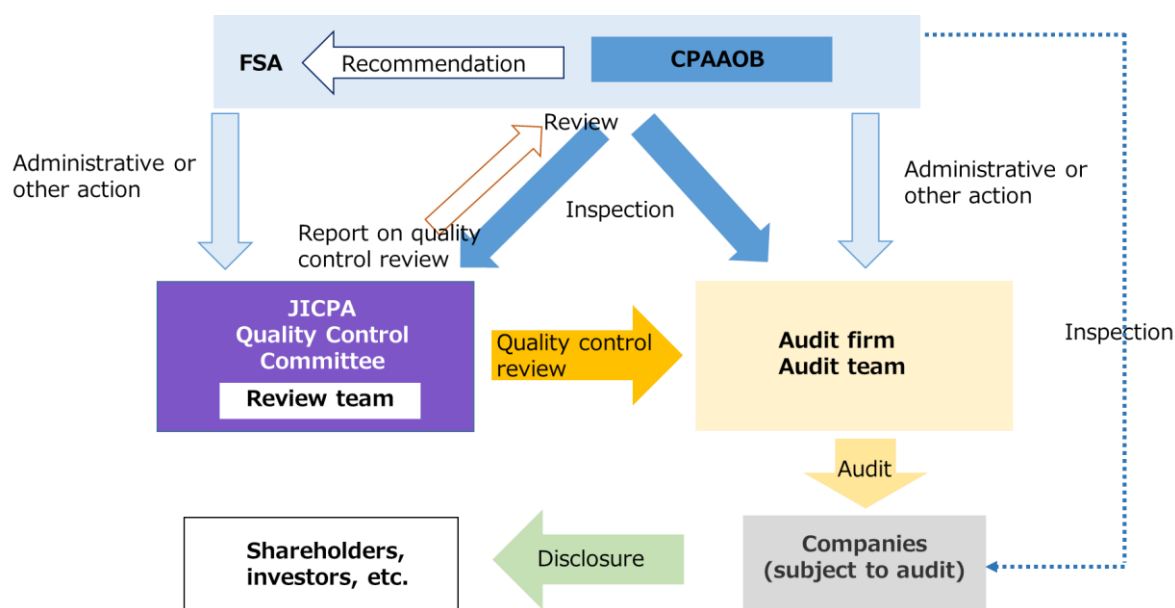
Audit firms can file an application to the Review Board for Appropriate Procedures for a review when procedures are inappropriate, facts are significantly misinterpreted, or new facts arise regarding the registration status on the Official Rosters or measures undertaken for registration.

5. Relationship with the CPAAOB

(1) Monitoring by the CPAAOB

In accordance with the CPA Act, JICPA has been monitored by the Certified Public Accountants and Auditing Oversight Board (CPAAOB) since FY2004, a consultative administrative body established within the Financial Services Agency (FSA), and reports the status of quality control reviews on a monthly and annual basis to the CPAAOB.

[The relationship between the FSA, the CPAAOB, audit firms and JICPA]



(2) Cooperation with the CPAAOB

In order to enhance the effectiveness of the Quality Control Review System, JICPA holds staff meetings with the CPAAOB several times throughout the year. Through analyses of specific cases with CPAAOB, issues and associated measures for quality control reviews are summarized to be reflected in quality control reviews in the following fiscal years.

FY2022 was no exception, as JICPA reviewers and CPAAOB inspectors sat together and used individual cases to analyze various conclusions derived from quality control reviews and CPAAOB inspections. Improvement areas and issues identified through the analyses were communicated to JICPA reviewers through announcements and trainings for the purpose of enhancing quality control reviews.

Quality control reviews are generally conducted once every three years based on an

understanding that JICPA's approach to audit firms are completed in a uniform and homogeneous manner within the three-year time frame in practice. Given that the current Quality Control Review System as well as basic policies for quality control reviews (see "4. Looking Back the achievements after the revision of Quality Control Review System" below) were introduced three years ago in FY2020, JICPA assessed their operation status in FY2022 for the purpose of improving quality control reviews in the future. In addition, JICPA discussed how to address newly introduced rules for the Registration System for Auditors that Engage in Audits of Listed Companies and Similar Companies as well as the Revision to the Standards on Quality Control.

Going forward, JICPA will expand effort to have a closer and a more effective collaborative relationship with the CPAAOB in order to build a better Quality Control Review System and respond flexibly to the ever-changing environment.

【Part 2 Implementation Status and Results】

1. Implementation Status and Results of Quality Control Reviews

(1) Quality Control Review Plan

Focus area in FY2022

Reviewers were required to check the following focus areas in conducting regular reviews in FY2022, based on previous recommendations for improvement and recent trends in quality control reviews. Updated areas for the FY2022 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 of audit firms and organizational operation**
 - Hiring, education/training, evaluation and assignment of professional personnel
 - Professional ethics and independence (e.g. rotation of engagement partners and team members)
 - **Acceptance of new engagements**
 - Wrap-up of audit files and management and retention of audit records

- Auditing individual engagements
 - Key Audit Matters
 - 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' disclosures

Major considerations in developing regular review plans in FY2022

Major considerations 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

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 Enhance post-review instructions

- After the completion of on-site reviews, including regular reviews, visit audit firms and make calls as necessary to continuously provide instructions for developing effective Improvement Plans and implementing remedial actions appropriately based on an understanding of root causes that led to recommendations for improvement.

Preparations in FY2022 for the Revision of the Standards on Quality Control

In FY2022, JICPA amended the “Quality Control Standards Committee Report 1: Quality Control at Audit Firms” and “Auditing Standards Committee Report 220: Quality Control in Audits,” newly published “Quality Control Standards Committee Report 2: Review of Audit Engagement,” and amended related Auditing Standards Committee Reports. To have audit firms be prepared for the application from July 2023, JICPA and relevant departments worked together to communicate the issuance of the new standards and revisions to audit firms. Also, JICPA put efforts into checking the readiness of audit firms when conducting quality control reviews in FY2022, promoting audit firms to prepare for the application of the new standards and revisions, and distributing guidance materials created by JICPA to call audit firms’ attention to this matter.

(2) Quality Control Reviews in FY2022

The following table shows the result of quality control reviews in FY2022:

	Number of audit firms reviewed		Number of audit firms receiving review reports		Number of carried-over audit firms (Note3)	
Regular reviews	92	(76)	89 ^(Note4)	(75) ^(Note5)	5	(2)
Confirmation of improvement status	11	(11) ^(Note6)	12 ^(Note7)	(9) ^(Note8)	1	(2)
Total	103	(87)	101	(84)	6	(4)
Number of audit firms subject to regular review ^(Note9)	216	(209)				
Percentage of audit firms reviewed under regular review	43%	(36%)				
Percentage of audit firms reviewed	48%	(42%)				

(Note 1) FY2021 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 and confirmation of improvement status in FY2022; however, the deliberation and approval of quality control review reports and Confirmation Result Report of the Improvement Status were carried over to the next fiscal year (hereinafter referred as to the "carried-over audit firms").

(Note 4) The number includes two audit firms carried over from FY2021 and excludes five audit firms carried over to FY2023.

(Note 5) The number includes one audit firm carried over from FY2020 and excludes two audit firms carried over to FY2022.

(Note 6) Confirmation was cancelled for one audit firm due to refusal of a review, which is excluded from the table.

(Note 7) The number includes two audit firms carried over from FY2021 and excludes one audit firm carried over to FY2023.

(Note 8) The number excludes two firms carried over to FY2022.

(Note 9) The number represents audit firms subject to regular review as of April 1, 2022 (the number in parentheses is as of April 1, 2021).

The number of audit firms in each fiscal year that went through a regular review 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 after are presented below.

	FY2020	FY2021	FY2022
Number of audit firms with shorter review interval	5	10	10
Number of audit firms with extended review interval	29 ^(Note1)	12 ^(Note2)	14

(Note1) FY2020 was affected by the revision of the Quality Control Review System and the spread of COVID-19 pandemic. Accordingly, the number of audit firms whose interval was more than three years but whose regular review schedule was extended further increased in FY2020. Regular reviews for 24 audit firms, excluding three audit firms no longer subject to regular reviews, were performed in FY 2021 (including all audit firms whose regular review schedule was extended due to the spread of COVID-19 pandemic). Two audit firms whose regular review schedule was extended in FY 2021 were subject to regular reviews in FY 2022.

(Note2) All firms were subject to regular reviews in FY2022, except the following three firms: one was dissolved; another was deregistered due to the termination of all audit engagements with listed companies; and the third one was no longer subject to regular reviews.

Breakdown of audit firms by size for those subject to regular reviews as well as those that went through regular reviews and confirmation of improvement status is as follows:

[Breakdown of audit firms by size]

		Number of audit firms subject to regular review	Number of audit firms that underwent:		
			Regular review	Confirmation of improvement status	
Listed company audit firms	Large-sized/ second-tier	9 (9)	3 (4)	- (-)	
	Audit firms by the number of listed company audits	Over 10 companies	24 (20)	10 (8)	4 (3)
		5~9 companies	28 (26)	12 (9)	1 (3)
		2~4 companies	49 (50)	21 (21)	4 (2)
		Less than 2 companies	32 (32)	17 (10)	1 (1)
	Sub-total ^(Note2)	142 (137)	63 (52)	10 (9)	
Other audit firms		74 (72)	29 (24)	1 (2)	
Total		216 (209)	92 (76)	11 (11) ^(Note3)	

(Note1) Number of audit firms in FY2021 are shown in parentheses.

(Note2) Includes the number of audit firms deregistered from the official roster of registered firms in FY2022.

(Note3) The number excludes one audit firm whose confirmation process was cancelled due to the refusal of a review in FY2021.

(3) Initiatives for Improving the Effectiveness of Quality Control Reviews

Quality control reviews have been conducted under the current system since July 2020 to improve effectiveness and transparency. JICPA pursued the following initiatives in FY2022:

① Providing instruction and oversight in response to root causes

The review team provides instructions to audit firms to improve the quality of audit, such as having a good communication with them in identifying the cause of recommendations for improvement and developing improvement plans. It is also important for the review team to encourage audit firms with result with Significant Deficiencies to enhance quality control of audits and to oversee the progress of improvement, which could be achieved by determining measures based on quality

control review results. For registered firms, it is also necessary for the review team to reconsider their registration status in the Official Rosters.

When audit firms even with Result without significant deficiencies appear to have concerns about the audit firm’s voluntary improvement, the review team provides instructions for improvement through communication with audit firms, such as advising them to describe root causes on the top page of the Recommendation Report. In FY2022, eight audit firms had their Recommendation Reports with such descriptions (seven firms in FY2021).

② Understanding the operation management system thoroughly

The review team develops and executes review plans based on a thorough understanding of operation management system of audit firms on top of their quality control system and business environment surrounding clients for the selected individual engagements.

If there are recommendations for improvement as a result of review procedures, the review team provides instructions to audit firms to appropriately identify causes of findings, including whether or not there are problems in their operation management system, so that audit firms can develop remedial actions to align with the root cause analysis.

When confirming remedial actions in the following fiscal year, the review team ensures that remedial actions planned by audit firms is not merely a tentative treatment, but a fundamental solution for them, including a change in operation management system.

③ Enhancing instructions after on-site reviews

At the end of on-site reviews, the review team confirms whether remedial actions planned by audit firms are feasible and effective enough, considering issues identified through quality control reviews and underlying root causes, including operation management system of audit firms. Also, the review team instructs audit firms to review improvement plans as necessary. The approach and frequency of such post-review instructions are determined based on the importance of issues audit firms are facing and the capability of audit firms to improve issues on their own.

④ Improving the examination function of quality control reviews results

JICPA aims to improve examinations by utilizing the following systems:

	Purpose
Consultation system for	Throughout the quality control review process,

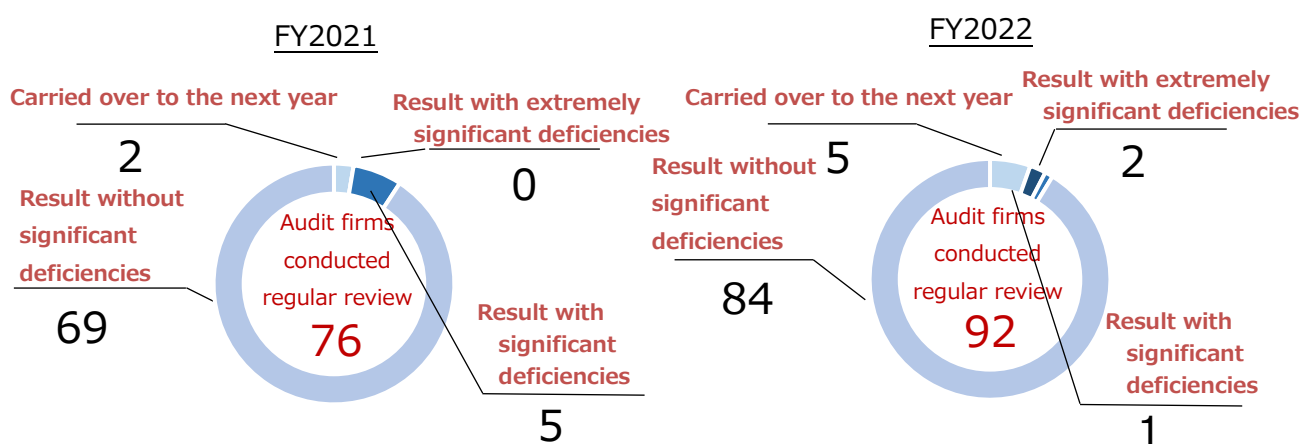
subject matters	subject matter experts capable of providing technical insights in specific areas, such as ethics, accounting, and IT, are assigned as appropriate. (Number of assignments: Four in FY2022 and eight in FY2021)
Preliminary consultation on quality control review results with the Center for Examination of Quality Control	When a careful consideration is required for a specific review case, it is always good for members of the Center for Examination of Quality Control to have a deeper general understanding of each case as it leads to deeper discussions when examining quality control review reports and other reports. (See "1. Quality Control Review System, etc. (6) Performance Information Related to the Quality Control Review" in the Book of Materials)
Preliminary discussion at the Quality Control Committee prior to the examination of quality control review reports	When a careful consideration is required for a specific review case prior to examination, members of the Quality Control Committee can discuss about issues and concerns identified by the Center for Examination of Quality Control. In this way, the Center for Examination of Quality Control can improve the quality of examination and the Quality Control Committee can contribute to a more in-depth examination. (See "1. Quality Control Review System, etc. (6) Performance Information Related to the Quality Control Review" in the Book of Materials)
Description of root cause in the Recommendation Report to encourage audit firms for improvement	The review team provides instructions for improvement to audit firms as necessary, such as advising them to describe the root cause on the top page of the Recommendation Report. This is one way of instructing audit firms to improve the quality of audits. (See the above-mentioned "① Providing instruction and oversight in response to root causes ")

(4) Results of Regular Reviews

FY2022 results of quality control reviews and associated measures represent those deliberated and approved by the Quality Control Committee during the period from May 2022 to April 2023.

① Results of regular reviews

Regular reviews were conducted for 92 audit firms in FY2022, which resulted in “Result without significant deficiencies” of 84 audit firms, “Result with significant deficiencies” of one audit firm and “Result with extremely significant deficiencies” of two audit firms. Five audit firms were carried over to the next fiscal year and no audit firm received “Disclaimer of conclusion.”



The number of audit firms with result with Significant Deficiencies decreased from five in FY2021 to three in FY2022.

Out of the five audit firms with result with Significant Deficiencies in FY2021, two firms were subject to regular review and one firm was subject to confirmation of improvement status in FY2022. The other two audit firms were scoped out from regular reviews due to dissolution.

Out of two audit firms that underwent regular review in FY2021 whose quality control review report issuance was carried over to FY2022, one ended up with “Result of extremely significant deficiencies” and the other with “Result of significant deficiencies.” The two audit firms underwent another regular review or confirmation of improvement status in FY2022, and a quality control review report or a Confirmation Result Report of the Improvement Status was issued in the same fiscal year.

The three firms that were identified for their Significant Deficiencies in FY2022 seem to have the following common root causes: little appreciation on culture that emphasizes the importance of audit quality; and chief executive officer's lack of understanding relating to the necessity of organizing the firm to conduct systemic audits. These root causes typically result in deficiencies in the quality control system of an audit firm, such as engagement partners failing to give proper instructions and supervision, insufficient review of working papers, and poor engagement quality control reviews and periodical inspections.

As a result of the above, a number of recommendations for improvement in focus areas for individual engagements were also made, including auditing accounting estimates and identifying, assessing and testing fraud risks and other risks of material misstatements.

The following table shows the breakdown of audit firms receiving quality control review reports for regular reviews by size and type of review results:

[Breakdown by size of audit firms]

(Unit: Number of audit firms)

		Breakdown of review report type					Total
		Result without significant deficiencies	Result with significant deficiencies	Result with extremely significant deficiencies	Carried-over audit firms		
Listed company audit firms	Large-sized/ second-tier	3 (4)	- (-)	- (-)	- (-)	3 (4)	
	Audit firms by the number of listed company audits	Over 10 companies	9 (8)	- (-)	- (-)	1 (-)	10 (8)
		5~9 companies	12 (9)	- (-)	- (-)	- (-)	12 (9)
		2~4 companies	19 (16)	(Note2) 1 (4)	- (-)	2 (1)	22 (21)
		Less than 2 companies	17 (10)	- (-)	- (-)	- (-)	17 (10)
	Sub-total		60 (47)	1 (4)	- (-)	3 (1)	64 (52)
Other audit firms		24 (22)	1 (1)	(Note2) 3 (1)	(Note3) 2 (1)	30 (25)	
Total		84 (69)	2 (5)	3 (1)	5 (2)	94 (77)	

(Note 1) FY2021 numbers are shown in parentheses.

(Note 2) Two audit firms that underwent regular review in FY2021 and were carried over to FY2022 are individually included in each category.

(Note 3) One audit firm that underwent regular review in FY2020 and was carried over to FY2021 is included.

! “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.

② **Focus areas 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	FY2020	FY2021	FY2022
1. Culture that emphasizes the quality of audit engagement, governance and management of audit firms	4	4	5
2. Hiring, education/training, evaluation and assignment of professional personnel	4	5	6
3. Professional ethics and independence (Rotation of engagement partners and team members)	-	1	2
4. Acceptance of new engagements	※(Note2)	※(Note2)	7
5. Wrap-up of audit files and management and retention of audit records	4	11	21

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

(Note 2) Not applicable as these items were not identified as focus areas in FY2020 and FY2021.

Recommendations for improvement related to “1. Culture that emphasizes the quality of audit engagement, governance and management of audit firms” include comments about lack of awareness among representatives of the audit firms about the necessity of appreciation on culture that emphasizes the importance of audit quality.

Also, recommendations for improvement related to “4. Acceptance of new engagements” include comments about signing new audit engagements without sufficiently evaluating audit engagement risks.

The number of recommendations for improvement related to “5. Wrap-up of audit files and management and retention of audit records” increased in FY2021 and FY2022, many of which were about inappropriate archiving practice within audit firms. For example, it was unclear whether an audit firm completed archiving within a designated time frame in accordance with its archiving policy simply because the

actual date of the completion of archiving was never recorded.

b. Individual engagements

The following items were identified as focus areas for individual engagements. The number of audit firms that received recommendations for improvement by each focus area is presented below.

(Unit: Number of audit firms)

Focus areas	FY2020	FY2021	FY2022
1. Key Audit Matters	※(Note2)	-	11
2. Auditing accounting estimates	17	47	51
3. Identifying, assessing and addressing the risk of material misstatements due to fraud			
•Professional skepticism	2	5	-
•Revenue recognition	16	32	28
•Risk of management's override of internal controls	15	27	35
4. Procedures for group audits	2	3	5
5. Evaluation of internal control in financial statement audit and internal control audit	3	2	-
6. Audit procedures over other information included in entities' annual report	1	-	1

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

(Note 2) Not applicable as these items were not identified as focus areas in or before FY2020.

The number of audit firms that underwent regular reviews increased by 16 audit firms, from 76 audit firms in FY2021 to 92 audit firms in FY2022. The number of audit firms that received recommendations for improvement related to focus areas increased as well. Recommendations for improvement were mainly related to the following areas as they were in FY2021.

Regarding "2. Auditing accounting estimates," recommendations were mainly related to impairment accounting of fixed assets, as well as accounting estimates, including valuation of loans receivable, valuation of inventories, and allowance for doubtful accounts. For example, comments included insufficient consideration given on methods, rationale and underlying data used by management in developing accounting estimates.

In "3. Identifying, assessing, and addressing the risk of material misstatement due to fraud," recommendations for " Risk of management's override of internal controls"

increased, whereas those for “Revenue recognition” decreased in FY2022. Issues around the risk of management’s override of internal controls were mainly related to journal entry testing, such as inadequate assessment of fraud risk scenarios and failure to perform detailed testing on extracted journal entries. Recommendations related to revenue recognition were mainly given on insufficient audit procedures to address fraud risks, failure to conduct audit procedures designed to test fraud risks, and lack of audit evidence with stronger corroboration.

The Quality Control Review Team provides instructions to audit firms to improve these recommendations and confirm remedial actions done by the firms.

(5) Results of Special Reviews

In FY2022, a special review was conducted for one audit firm, which signed an agreement to audit restated financial statements included in amended annual securities reports and issued an audit opinion. Original financial statements for the same period were audited by a predecessor auditor. The purpose of the special review was to confirm the design and operation of the audit firm’s quality control system, especially around engagement acceptance procedures, the appointment of engagement team members, and engagement performance.

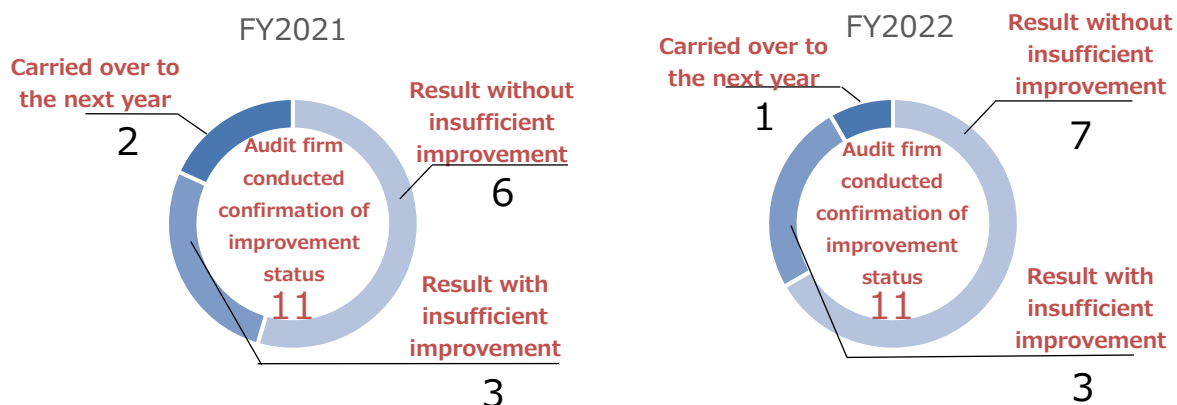
Results of the special reviews, including the number of audit firms, are as follows:

	FY2020		FY2021	FY2022
Themes	Merger of audit firms	Auditor change	Audit of amended annual securities report for previous fiscal years	Audit of amended annual securities report for previous fiscal years
Number of audit firms	1	6	1	1
Result	Result without significant deficiencies	Result without significant deficiencies	Result without significant deficiencies	Result without significant deficiencies

(6) Confirmation of the Remedial Actions

① Confirmation of improvement status

Results of the confirmation of improvement status for the 11 audit firms are as follows:



According to the confirmation of improvement status in FY2022, three out of the seven audit firms without insufficient improvements showed improvement in all of the recommendations for improvement identified in the previous fiscal year's quality control review but were identified for different new recommendations for improvement in associated areas. Also, like in FY2021, there were three audit firms with "Result with insufficient improvement" in FY2022. Out of the three audit firms with "Result with insufficient improvement" in FY2021, two firms were subject to regular reviews in FY2022 by shortening their review cycles and one firm went through another confirmation of improvement status in FY2022, which were determined based on individual circumstances of the audit firms.

Of the two audit firms that went through confirmation of improvement status in FY2021 but whose issuance of the Confirmation Result Report of the Improvement Status was carried over to FY2022, one ended up with "Result with insufficient improvement" and the other with "Result without insufficient improvement." Accordingly, regular reviews were conducted and quality control review reports were issued to the two audit firms in FY2022.

The following represents a breakdown by the size of audit firms whose improvement status was confirmed.

[Breakdown by the size of audit firms]

(Unit : Number of audit firms)

		Confirmation results				
		Result without insufficient improvement	Result with insufficient improvement	Carried-over audit firms	Total	
Listed Company Audit Firms	Large-sized/second-tier	- (-)	- (-)	- (-)	- (-)	
	Audit firms by the number of listed company audits	Over 10 companies	3 (2)	- (1)	1 (-)	4 (3)
		5~9 companies	1 (3)	- (-)	- (-)	1 (3)
		2~4 companies	3 (1)	- (1)	- (-)	3 (2)
		Less than 2 companies	- (-)	1 (1)	- (-)	1 (1)
Sub-total		7 (6)	1 (3)	1 (-)	9 (9)	
Other audit firms		1 ^(Note2) (-)	3 ^(Note2) (-)	- (2)	4 (2)	
Total		8 (6)	4 (3)	1 (2)	13 (11)	

(Note 1) FY2021 numbers are shown in parentheses. The number excludes one audit firm whose confirmation process was cancelled due to the refusal of a review.

(Note 2) The two audit firms that went through confirmation of improvement status in FY2021 but whose issuance of the Confirmation Result Report of the Improvement Status was carried over to FY2022 are included individually in each category.

② Confirmation of remedial actions in writing

Improvement Status Reports submitted by audit firms showed the following results:

(Unit : Number of audit firms)

		FY2020	FY2021	FY2022
Number of audit firms that are subject to the review of Improvement Status Reports		60	46 ^(Note1)	56
Number of audit firms with concerns of insufficient improvement	With concern	1 ^(Note2)	1 ^(Note3)	-
	No concern	59	44	56

(Note 1) Includes one audit firm that could not be confirmed for its status of whether or not remedial actions were appropriately implemented based on a review of its Improvement Status Report. Thus, no conclusion could be made in FY2021 whether it had concerns of insufficient improvement. A regular review was conducted for the audit firm in FY2022, which ended up with Result without significant deficiencies.

(Note 2) As a result of reviewing an Improvement Status Report submitted by the audit firm in FY2020, the audit firm still had concerns of insufficient improvement. Therefore, the audit firm was subject to a regular review in FY2021 with a shorter review interval and ended up with Result without significant deficiencies.

(Note 3) JICPA changed the review plan in FY2021 and conducted confirmation of improvement

status for one firm. As a result, a Confirmation Result Report of the Improvement Status with result with insufficient improvement was issued to the audit firm in FY2022.

(7) 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.

(Unit: Number of audit firms)

Result of quality control reviews	Measures ^(Note2)	FY2020	FY2021	FY2022
Results with extremely significant deficiencies	Recommendation to withdraw from audit engagements	-	1	1
	Recommendation to withdraw from audit engagements (Insufficient improvement)	1	-	2
	Sub-Total	1	1	3
Results with significant deficiencies	Recommendation to withdraw from audit engagements (Insufficient improvement)	1	-	1
	Severe warning	-	3	1
	Severe warning (Insufficient improvement)	1	1	-
	Warning	1	1	-
	Sub-Total	3	5	2
Results without significant deficiencies with recommendation for improvement	Warning (Insufficient improvement)	1	3	6
Total		5	9	11

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

(Note 3) There were two audit firms in FY2020, one in FY2021, and two in FY2022, which were carried over from previous fiscal years and whose measures were determined in FY2020, FY2021 and FY2022, respectively. The result of quality control reviews and measures taken against those audit

firms were “Unqualified conclusion with warning (Insufficient improvement)” and “Qualified conclusion with warning” in FY2020, “Results with extremely significant deficiencies and Recommendation to withdraw from audit engagements” in FY2021, and “Results with extremely significant deficiencies and Recommendation to withdraw from audit engagements (Insufficient improvement)” and “Results with significant deficiencies and Recommendation to withdraw from audit engagements (Insufficient improvement)” in FY2022. Based on the July 2019 JICPA Constitution amendment, JICPA revised the Quality Control Review Systems from the viewpoint of improving effectiveness and transparency. Accordingly, regular reviews conducted in FY2019 under the system prior to July 2020 are categorized in the table as follows: “Unqualified conclusion” as “Results without significant deficiencies;” and “Unqualified conclusion” as “Results without significant deficiencies.”

The following table shows measures taken as a result of refusal of review and confirmation of improvement status.

(Unit: Number of audit firms)

Result of quality control reviews	Measures	FY2020	FY2021	FY2022
Refusal of review	Recommendation to withdraw from audit engagements	-	1 ^(Note 2)	-
Confirmation results with insufficient improvement	Recommendation to withdraw from audit engagements (Insufficient improvement)	1	-	1
	Warning (Insufficient improvement)	2	3	3 ^(Note 3)
Total		3	4	4

(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) Review was refused and the confirmation of improvement status was canceled accordingly.

(Note 3) Includes one audit firm that was confirmed for its improvement status in FY2021 and for which the issuance of a Confirmation Result Report of the Improvement Status and determination of measures were carried over to FY2022.

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

Through 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.

The number of audit firms reported to the Chairman of the Audit Practice Review and Investigatory Committee is as follows:

(Unit: Number of audit firms)

	FY2020	FY2021	FY2022
Refusal of review	-	1 ^(Note)	-
Results with extremely significant deficiencies	-	1	3
Results with significant deficiencies	1	-	1

(Note) One audit firm refused a review and thus the confirmation of improvement status was canceled accordingly, which was reported to the Chairman of the Audit Practice Review and Investigatory Committee.

2. Recommendations for Improvement Related to Regular Reviews

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

[Breakdown of recommendations for improvement]

Fiscal year	Number of recommendations for improvement			Number of audit firms that received quality control review report	Of which, number of audit firms with recommendations for improvement	Individual engagements selected for quality control review
	Quality control system of the audit firm	Quality control of individual engagements	Total			
FY2021	69	453	522	75	73	182
FY2022	112	577	689	89	89	194

(Note) One carried-over audit firm from FY2020 is included in the FY2021 column, which received recommendations for improvement. The number of those related to "Quality control system of the audit firm" and "Quality control of individual engagements" were eight and 42, respectively. One individual engagement was selected for quality control review. Likewise, two carried-over audit firms from FY2021 are included in the FY2022 column, which received recommendations for improvement. The number of those related to "Quality control system of the audit firm" and "Quality control of individual engagements" were 19 and 67, respectively. Four individual engagements were selected for quality control review.

(1) Recommendations for Improvement Related to "Quality Control System of the Audit Firm"

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

[Number of recommendations for improvement related to “Quality control system 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	67(49)	0.8 (0.7)	84(69)	30(23)	36%(33%)
Result with Significant Deficiencies	45(20) ^(Note 3)	9.0 ^(Note 4) (3.3)	5(6)	5(6)	100%(100%)
Total	112(69)	1.3 (0.9)	89(75)	35(29)	39%(39%)

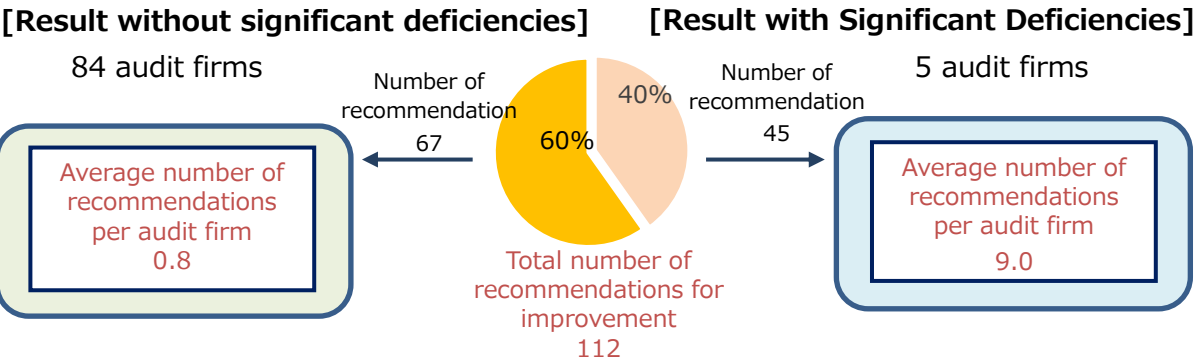
(Note 1) FY2021 figures are in parentheses.

(Note 2) One carried-over audit firm from FY2020 is included in the FY2021 column, which received results with Significant Deficiencies with eight recommendations for improvement. Likewise, two carried-over audit firms from FY2021 are included in the FY2022 column, which received results with Significant Deficiencies with 19 recommendations for improvement.

(Note 3) Out of the total recommendations, 22 (14) led to Significant Deficiencies.

(Note 4) In FY2022, a number of extremely significant deficiencies were identified, causing an increase in the average number of recommendations per audit firm compared to FY2021.

[Audit firms that received quality control review report in FY2022] 89 firms

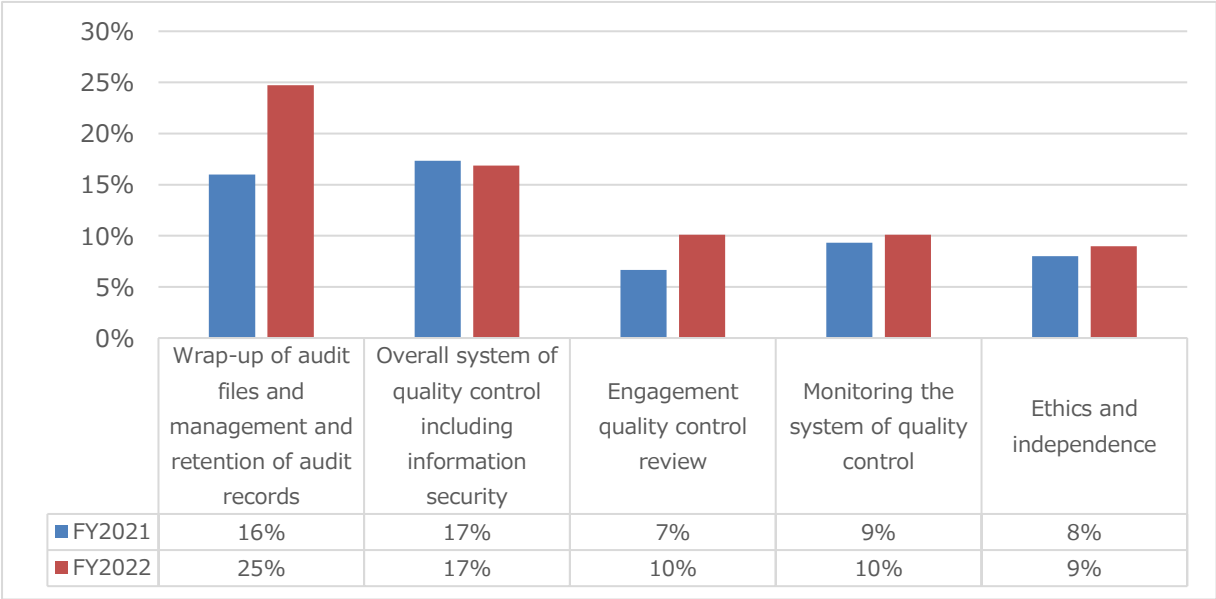


- ❗ Recommendations for improvement represent matters with a certain degree of concern for significant non-compliance against professional standards as well as applicable laws and regulations. They are recommendations described in the recommendation for improvement reports, representing matters requiring improvement for the purpose of enhancing audit quality control.
- ❗ Since the number of audit firms that underwent regular reviews varies from year to year, 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 system of the audit firm” and “Quality control of individual engagements.”

Major recommendations for improvement (Quality control system of the audit firm)

Among the recommendations related to quality control system of the audit firm, the occurrence rate^(Note) of “Wrap-up of audit files and management and retention of audit records,” “Engagement quality control review,” “Monitoring the system of quality control” and “Ethics and independence” increased in FY2022 compared to FY2021.

[Occurrence rate of recommendations for improvement (Quality control system 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 FY2022” (Japanese only) page 14 of Part 1 onwards and page 4 of Part 2 onwards.

(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 (A)		Average per audit engagement (A/B)	Number of audit firms that received quality control review report	Individual engagements selected for quality control review (B)		
						Of which, number of engagements provided with recommendations for improvement	
Result without significant deficiencies	451	(352)	2.4 (2.1)	84 (69)	186 (170)	147 (118)	79%(69%)
Result with Significant Deficiencies	126	(101) ^(Note3)	15.8 ^(Note4) (8.4)	5 (6)	8 (12)	8 (12)	100%(100%)
Total	577	(453)	3.0 (2.5)	89 (75)	194 (182)	155 (130)	80%(71%)

(Note 1) FY2021 figures are in parentheses.

(Note 2) One carried-over audit firm from FY2020 is included in the FY2021 column, which received results with Significant Deficiencies with 42 recommendations for improvement for one selected engagement. Likewise, two carried-over audit firm from FY2021 are included in the FY2022 column, which received results with Significant Deficiencies with 67 recommendations for improvement for four selected engagements.

(Note 3) Out of the total recommendations, 35 (14) led to Significant Deficiencies.

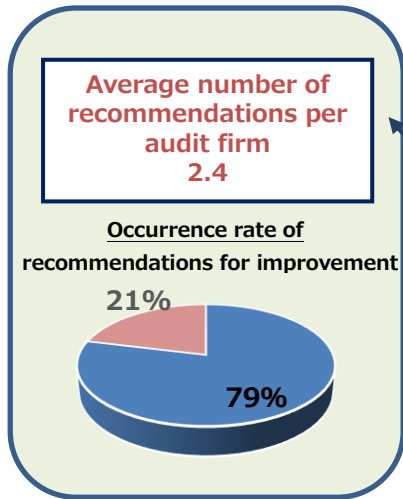
(Note 4) In FY2022, a number of extremely significant deficiencies were identified, causing an increase in the average number per audit firm compared to FY2021.

[Audit firms that received quality control review report in FY2022]

89 audit firms (194 engagements)

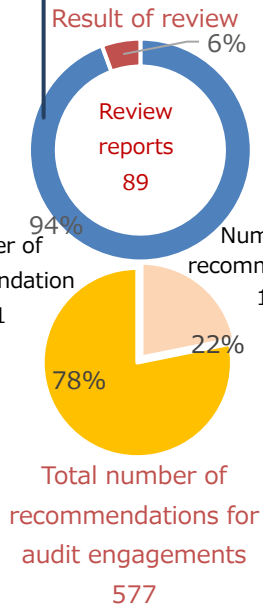
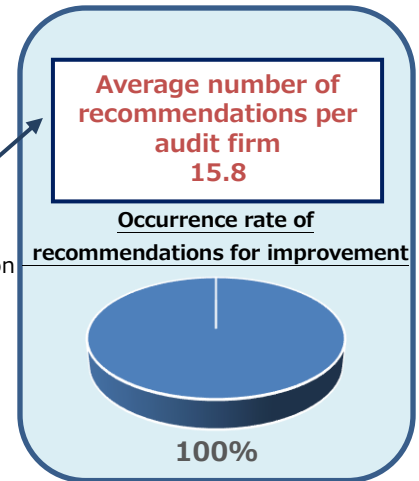
[Result without significant deficiencies]

84 audit firms (186 engagements)



[Result with Significant Deficiencies]

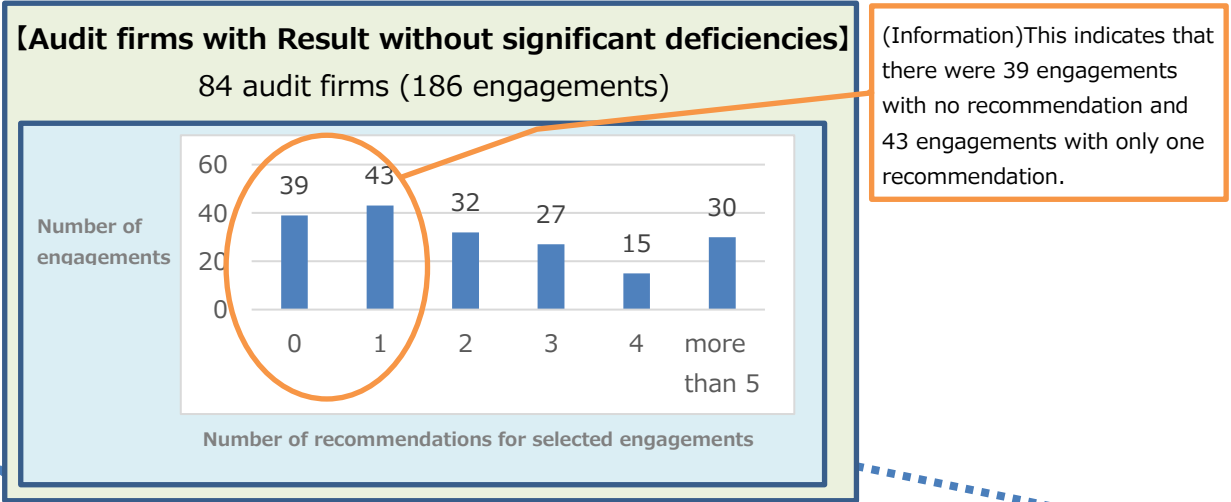
5 audit firms (8 engagements)



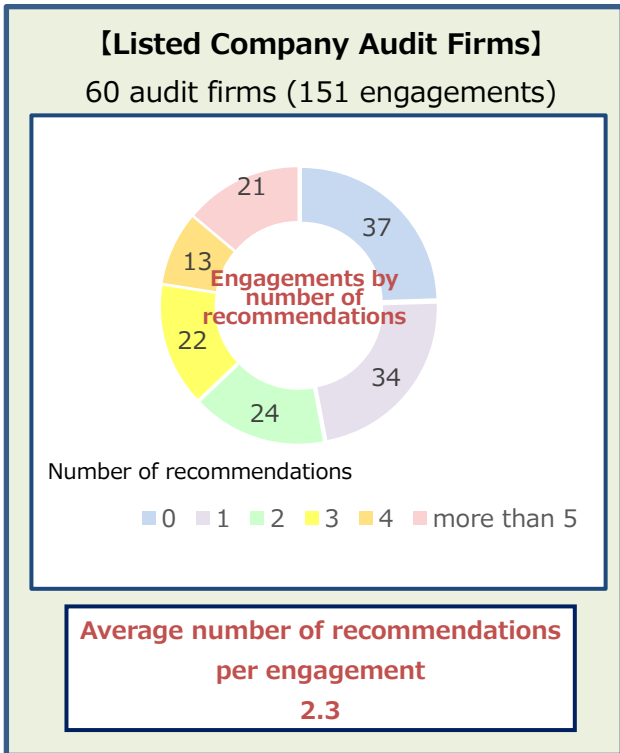
Recommendations for improvement for audit firms with “Result without significant deficiencies”

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)

Among the recommendations related to quality control of individual engagements, the occurrence rate ^(Note) of “Auditing accounting estimates,” “Journal entry testing,” “Audit evidence,” “Identifying, assessing and addressing the risk of material misstatement, including fraud risk (except for journal entry testing)” and “Internal control” increased in FY2022 compared to FY2021.

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



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

! For more details on recommendations for improvement, please refer to “Explanation of Quality Control Review Cases in FY2022” (Japanese only) Part 1, page 26 of Part 1 onwards and page 21 of Part 2 onwards.

3. Overview of the Official Roster

※ In line with the revised act, “Registration System for Audit Firms that Engage in Audits of Listed Companies” is changed to “Registration System for Auditors that Engage in Audits of Listed Companies and Similar Companies” from April 1, 2023. Please note that the following information regarding the Official Rosters is based on the previous system effective until March 31, 2023.

(1) Registration on the Official Rosters

For the fiscal year from April 1, 2022, to March 31, 2023, eight audit firms were newly registered through application reviews and five audit firms were deregistered due to termination of audit engagements with listed companies or for other reasons. Also, there was one audit firm put on the list of deregistered firms during the relevant period and subsequently excluded from the list. As a result, there were 144 listed company audit firms as of March 31, 2023.

[Breakdown of the listed company audit firms]

(As of March 31, 2023)

	Audit Firm	CPAs (*)	Total
Registered firms	125	8	133
Associate registered audit firms	9	2	11
Total	134	10	144

(*) Joint Offices are subject to quality control reviews on a joint office basis. One Joint Office is counted as one CPA and is included in the number of CPAs in this table.

If an audit firm newly plans to enter into audit engagements with listed companies, the Quality Control Review Team reviews whether or not to register the audit firm on the official roster of associate registered audit firms. The Quality Control Review Team investigates whether a quality control system is appropriately implemented and provides instructions as needed mainly around the following areas. The Center for Examination of Quality Control and the Quality Control Committee review and deliberate whether or not to register the audit firm based on the result of investigations or regular reviews conducted by the Quality Control Review Team.

- Developing policies and manuals related to quality controls
- Securing sufficient human resources to audit listed companies
- Preparing engagement partners’ rotation plans
- Considering fee dependence on specific clients (i.e. listed company expected to sign

an audit contract)

- Assessing audit risks around audit work expected to be performed

The following table shows the number of 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.

	FY2020	FY2021	FY2022
Audit firms registered on the official roster of registered firms	11	3	10
Audit firms registered on the official roster of associate registered audit firms	7	7	8
Number of application reviews to be registered as associate registered audit firms	13	20	16

(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) As a result of the quality control review in FY2021, there was one audit firm not allowed to be registered on the official roster of registered firms and one audit firm that was removed from the Official Rosters by the end of March 31, 2023.

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

During the period from April 1, 2022 to March 31, 2023, the Quality Control Committee decided to take measures against one audit firm regarding the registration status on the Official Rosters.

(3) Disclosures and Review Requests Related to Listed Company Audit Firms

During the period from April 1, 2022 to March 31, 2023, disclosures of disciplinary sanctions against listed company audit firms and review requests in the fiscal year are as follows:

① Disclosure as a result of quality control reviews for listed company audit firms

Two audit firms were disclosed in the Official Rosters for their significant

deficiencies as a result of quality control reviews. However, given that improvement was seen in regular reviews conducted in FY2022, such disclosure was removed from the Official Rosters.

② Disclosures of disciplinary sanctions against listed company audit firms

Five audit firms were disclosed in the Official Rosters for their disciplinary sanctions, which are described below:

Audit firms on which the CPAAOB recommended the Commissioner of the FSA to impose administrative sanctions or other measures	4
Audit firms that received an order to improve business by the FSA	3
Audit firms that received disciplinary sanctions by JICPA	-

(Note) The number of audit firms on the column differs from the total number of firms that received disciplinary sanctions because one audit firm may have received multiple disciplinary sanctions.

③ Designation of auditors restricted from re-registration on the Official Rosters

In FY2022, two members including, audit firms, were newly designated as auditors restricted from re-registration on the Official Rosters, and no members were taken off from the designation list. As of March 31, 2023, total 14 members remain to be designated as auditors restricted from re-registration on the Official Rosters.

④ Review requests made to the Review Board for Appropriate Procedures

In FY2022, one audit firm made a new review request to the Review Board for Appropriate Procedures with respect to registration status on the Official Rosters or measures undertaken for the registration. The matter was resolved as of March 31, 2023.

Although the Listed Company Audit Firm Registration and Complaint Review Committee (*), 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 as of the end of FY2022.

(*) 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. Looking Back the Achievements after the Revision of Quality Control Review System

Under the July 2019 JICPA Constitution amendment, JICPA revised the Quality Control Review System to improve effectiveness and transparency, which had been operated since FY2020 together with policies for quality control reviews based on the recognition of practical issues in the areas of developing and implementing review plans with an understanding of audit firms' operation management system, analyzing root causes, and providing instructions for improvement. Quality control reviews are generally conducted once every three years based on an understanding that JICPA's approach to audit firms are completed in a uniform and homogeneous manner within the three-year time frame in practice. Therefore, JICPA has reflected on its major achievements made over the latest three-year cycle from FY2020 to FY2022 as follows:

(1) Improved risk approach when drafting the annual plan and making revisions during the period

- ① Enhanced flexibility for regular reviews and relaxed requirements for special reviews

The revision allowed more flexibility in terms of the frequency of regular reviews and relaxed requirements for conducting special reviews. As a result, JICPA was able to draft annual review plans more easily and also allocate resources efficiently and intensively to higher-risk audit firms.

- ② Reinforced off-site monitoring

JICPA regularly conducted off-site monitoring on each audit firm during interval periods, thereby obtaining information on changes in an audit firm's operational management system as well as the situation of acceptance of individual engagements. The results were reflected in annual review plans in a timely manner to improve the quality of planning.

- ③ Conducted confirmation of improvement status

Based on the results of regular reviews and off-site monitoring, JICPA carefully selected audit firms that appeared to have concerns about their voluntary improvement and confirmed their improvement status by covering wider areas for confirmation purposes depending on the situation of each audit firm. There were cases where insufficient improvements or new recommendations for improvement were successfully identified through such confirmation processes. JICPA is confident

that risk approach-based instructions for improvement has gained wider acceptance in practice and been implemented effectively.

(2) Strengthened instruction capability

- ① Required audit firms in the Recommendation Report to make improvements in response to root causes

Regardless of whether they are Significant Deficiencies or not, when a number of findings were identified or when similar findings were identified across several individual engagements, JICPA determined that continuous improvement instructions based on root causes were required for such audit firms. In detail, JICPA reinforced instructions by requiring audit firms to provide results of root cause analysis in writing and also actively requesting audit firms in the Recommendation Report to make improvements in response to root causes.

- ② Provided instructions for small- and medium-sized audit firms after on-site reviews

At the end of on-site reviews, JICPA mainly focused on the registered firms, and confirmed whether their measures for improvement were feasible and effective enough to address root causes, including their operation management systems. Further, JICPA strived to provide instructions by requiring the firms to reassess such measures for improvement as necessary.

(3) Enhanced transparency in the Quality Control Review System

- ① Improved disclosures for deficiency information on the Official Rosters

Prior to the revision, when qualified conclusion with concerns of extremely significant non-compliance was issued to an audit firm, JICPA took measures against them by disclosing the summary of its conclusion on the official roster of registered firms. Whereas, during the three-year period from FY2020 to FY2022, JICPA strived to improve transparency in the Quality Control Review System, when either "extremely significant deficiencies" or "significant deficiencies" were identified, by disclosing their deficiencies' summary on the official roster of registered firms.

(NOTE) The 2023 Quality Control Review Policy and the three-year Quality Control Review Basic Policy are published on JICPA's website (Japanese Only) .

