

*For FEE Conference*

# Oversight of Foreign Audit Firms under the Revised Japanese CPA Law

Japanese Financial Services Agency

November 2007

# I. Public consultation process

- The revised CPA Law was enacted by the Diet of Japan on June 20, 2007, and will be effective as of April, 2008.
- The JFSA published the proposal for a Cabinet Order and Cabinet Office Ordinance of the law for public consultation on September 28, 2008.
- The JFSA has received a number of comments.

## II. Outline of Notification Requirement

- Audit firms that prepare audit reports for entities that file continuous reports are subject to this requirement.
- Notification document + Attachment are to be submitted.
- Subject audit firms shall provide notification in advance of performing relevant audit attestation service, and whenever information contained within the documents are changed.
- Audit reports produced by the audit firm are invalidated if notification is not provided to the JFSA prior to the release of audit reports.

### III. What the JFSA will do to subject audit firms(1/2)?

- JFSA(CPAAOB) may request the submission of relevant information *and/or* conduct on-site inspections when deemed necessary and appropriate in light of the public interest and the investor protection.
- JFSA may issue a necessary instruction when firms are found to be in violation of the order issued according to this law; or when the firm's operations are considered to be significantly inappropriate and necessitate instructions to ensure proper functioning.

### III. What the JFSA will do to subject audit firms(2/2)?

#### ■ Nature of instructions

Not disciplinary action. However, when an audit firm does not comply with instructions, the facts and contents of those instructions will be disclosed. This invalidates the effectiveness of audit report issued by the subject firm thereafter.

#### ■ Remedial measures by the firm

If remedial measures are subsequently taken by the firm, the facts thereof shall be disclosed. This revalidates the effectiveness of the audit report produced by the subject firm consequently.

## IV. How the JFSA cooperates with foreign auditor oversight authorities?

- In the way to enhance the efficiency and the effectiveness of the oversight through cooperation.
- This may include exchange of information, including the use of inspection results conducted by foreign oversight authorities.