

Overview of the Results of Quality Control Review for the Year Ended March 31, 2009

June 9, 2009

Japanese Institute of Certified Public Accountants

1. Introduction

The Japanese Institute of Certified Public Accountants (JICPA), taking into consideration the public interest in audits, began conducting quality control reviews of audits (hereinafter, “quality control review system”) performed by audit corporations and sole practitioners (hereinafter, “audit firms”) beginning in April 1999 as a self-regulatory system in order to maintain and improve an appropriate level of quality of members’ audits, which would lead to maintaining and ensuring public confidence in audits. Furthermore, this quality control review system has been subject to monitoring by the Certified Public Accountants and Auditing Oversight Board (CPAAOB) since 2004.

This quality control review system represents a system of review of the quality control implemented by audit firms engaged in the audit of large companies and other entities, as defined by the CPA Act, by full-time reviewers, who are members of the JICPA Quality Control Committee. The system has thus far functioned as a means to maintain and improve our nation’s audit quality.

Moreover, from 2007 JICPA has adopted the “Registration System of Listed Company Audit Firms” as a new measure to strengthen quality controls of the audit firms that audit listed companies. This system requires the audit firms that audit listed companies to register with the Center for Listed Company Audit Firms established within the Quality Control Committee. That is to say, the decision of whether to permit such registration is made based on the result of the quality control review; audit firms that are permitted to register are enrolled on the “listed company audit firm” roster, posted on the JICPA website. In this way, JICPA has encouraged listed company audit firms to improve the quality of their audit engagements through the public exposure of the results of the quality control reviews.

2. Relationships between the Quality Control Review System, the Registration System of Listed Company Audit Firms, and Monitoring by the CPAAOB

The quality control review system and the registration system of listed company audit firms of JICPA are operated by the Quality Control Committee and the Quality Control Oversight Board, and as of March 31, 2009 a total of 68 members were involved in these systems.

The Quality Control Committee consists of a chairperson and 26 committee members who are all members of JICPA. As a sub-organization, the Quality Control Review Team has been established, comprised of 28 quality control reviewers. These quality control reviewers are also members of the JICPA. The Quality Control Committee performs quality control reviews of audit firms, and then issues a quality control review report and recommendation letter to each firm. It also

performs follow-up reviews of listed company audit firms, and issues each a follow-up review report. Moreover, under the registration system for listed company audit firms, the Committee submits proposals to the Quality Control Oversight Board regarding whether certain listed company audit firms be permitted registration, and whether measures ought to be taken against audit firms registered with the Center for Listed Company Audit Firms, based on the results of quality control reviews and follow-up reviews. The Committee regularly reports its activities to the Quality Control Oversight Board, and reports to the CPAAOB in accordance with laws and regulations.

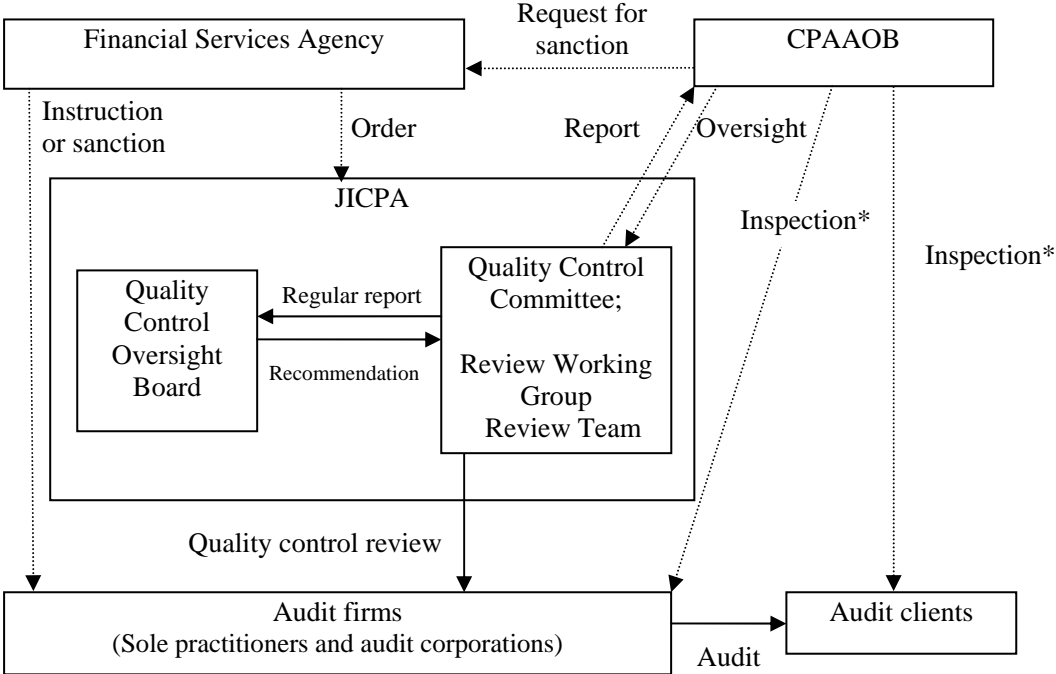
The Quality Control Oversight Board consists of five members who are knowledgeable persons outside the profession and three JICPA members. The Quality Control Oversight Board is informed of quality control review activities by the Quality Control Committee, examines and evaluates such activities, while submitting the necessary recommendations to the Quality Control Committee based on such evaluations. The Board also deliberates and makes determinations regarding proposals for acceptance or rejection of registration of a listed company audit firm, and proposals for measures submitted by the Quality Control Committee. The Board reports these results to the Chairman and President of the JICPA.

The CPAAOB monitors the JICPA’s operation of these systems.

Figure 1 illustrates the relationship between quality control review system and monitoring by the CPAAOB. Figure 2 illustrates the structure of the registration system of listed company audit firms.

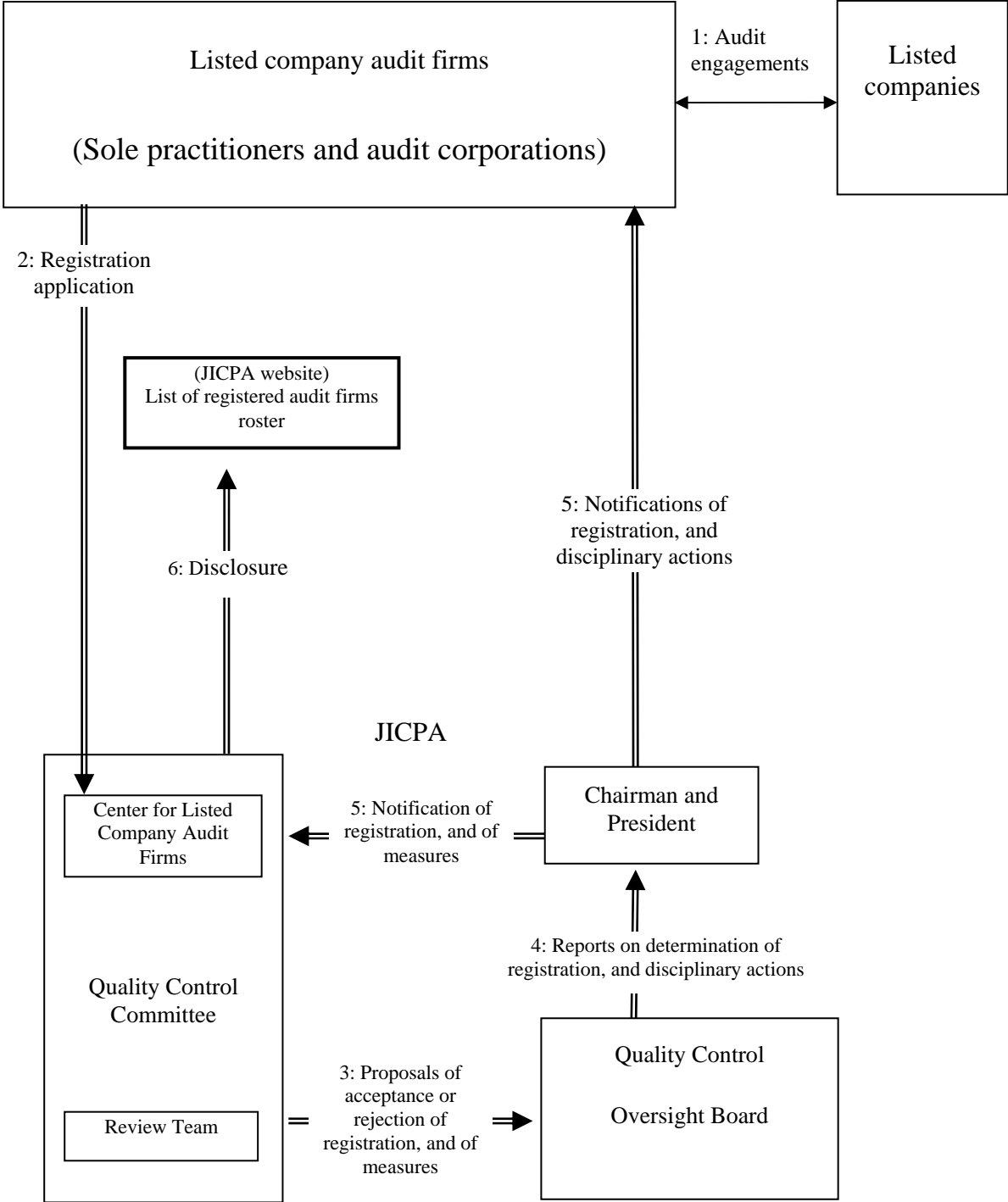
- Flow of quality control reviews
- ===== Flow of the registration system for listed company audit firms
- Flow of monitoring by the CPAAOB

Figure 1. Relationship between JICPA’s Quality Control Review and Monitoring by the CPAAOB



*if necessary

Figure 2. Registration System of Listed Company Audit Firms



The following report summarizes the quality control review activities for the year ended March 31, 2009 (April 1, 2008 to March 31, 2009).

3. Overview of Quality Control Reviews Conducted for the Year Ended March 31, 2009

3-1. Regular quality control reviews

The following table indicates the number of audit firms subject to quality control reviews and the actual number of reviewed firms for the review year (April 1, 2008 to March 31, 2009).

Quality control reviews	Conducted during the year ended March 31, 2009				
	Brought forward	Audit firms subject to quality control review for the year	Total	Quality control review reports issued	Carried forward
Listed company audit firms	-	100	100	98	2
Non-listed company audit firms	-	20	20	20	-
Total	-	120	120	118	2

Notes:

1. Among the 120 audit firms in the column "Audit firms subject to quality control review for the year," 38 audit firms were newly subject to quality control review for the year ended March 31, 2009, including 25 listed company audit firms (hereinafter, "listed" in the text and the tables) and 13 non-listed company audit firms ("non-listed").
2. Recommendation letters as well as quality control review reports have been issued to all audit firms to which quality control reports have been issued.

Furthermore, the number of audit firms that were subject to a quality control review in the above table can be further classified by audit corporations and sole practitioners, as follows:

Quality control review	Conducted during the year ended March 31, 2009				
	Brought forward	Audit firms subject to quality control review for the year	Total	Quality control review reports issued	Carried forward
Audit corporations	-	65	65	64	1
Sole practitioners	-	55	55	54	1
Total	-	120	120	118	2

3-2. Follow-up of quality control reviews

a. Follow-up reviews

The following table indicates the number of audit firms subject to follow-up reviews and the actual number of follow-up reviews for the review year (April 1, 2008 to March 31, 2009).

Follow-up reviews	Conducted during the year ended March 31, 2009		
	Audit firms subject to follow-up review	Follow-up review reports issued	Carried forward
Audit corporations	41	41	-
Sole practitioners	27	27	-
Total	68	68	-

b. Re-implementation of follow-up reviews

The following table indicates the number of audit firms subject to re-implementation of follow-up reviews and the actual number of reviews re-implemented for the review year (April 1, 2008 to March 31, 2009).

Re-implementation of follow-up reviews	Conducted during the year ended March 31, 2009		
	Audit firms subject to re-implementation of follow-up review	Follow-up review reports issued	Carried forward
Audit corporations	10	10	-
Sole practitioners	4	4	-
Total	14	14	-

c. Reports on implementation of quality control

The report on implementation of quality control is a report pursuant to Article 6 of the Regulations of the Quality Control Committee. In the year ended March 31, 2009, reports on implementation of quality control were received from 83 audit firms (13 audit corporations and 70 sole practitioners).

3-3. Special reviews

Pursuant to Article 139 paragraph 2 of the JICPA Constitution, special reviews were implemented, under the instruction of the Chairman and President of JICPA, on three audit firms with respect to specific items of the quality control system of audits, and the results of the special reviews were reported to the Chairman and President of JICPA.

4. Recommendations from the Quality Control Oversight Board on the quality control review for the year ended March 31, 2008 and JICPA's Responses

Listed below are each of the items included in "Recommendations for Activities of the Quality Control Committee for the year ended March 31, 2008," which were received from the Quality Control Oversight Board on June 4, 2008 and included in the September 2008 issue of the *Accounting and Auditing Journal*, a monthly publication of the JICPA.

The Quality Control Committee and other relevant committees of the JICPA have taken actions, such as making these recommendations the items of focus in quality control reviews conducted during the year ended March 31, 2008.

Recommendations:

- 4-1. Appropriate responses to compliance at audit firms
- 4-2. Design and implementation of quality control systems
- 4-3. Risk-based approach
- 4-4 Consideration of significant matters in forming audit opinions
- 4-5. Enhance proper operation of the registration system of listed company audit firms
- 4-6. Assistance to small and medium-sized audit firms in establishing systems of quality control

5. Reporting to the CPAAOB

Under the CPA Act, JICPA is subject to monitoring by the CPAAOB with regard to the results of its quality control review.

The Quality Control Committee responded to the CPAAOB as follows:

- 5-1. The Quality Control Committee submitted to the CPAAOB monthly reports on the results of its quality control reviews and an annual report on quality control reviews for the year ended March 31, 2008, pursuant to the Cabinet Office Ordinance related to the JICPA.
- 5-2. The Quality Control Committee submitted review working papers that the CPAAOB considered necessary, and replied to inquiries from the CPAAOB.
- 5-3. The Quality Control Committee explained the contents of the annual report on quality control reviews for the year ended March 31, 2008.
- 5-4. The Quality Control Committee reflected the findings and recommendations from the CPAAOB in revisions of the Quality Control Review Standards, the Quality Control Review Procedures, and the review tools.
- 5-5. The Quality Control Committee conducted exchanges of opinions with the CPAAOB in order to enhance the effectiveness of examination and inspections by the CPAAOB and the quality control review of JICPA.

6. Focuses of the Quality Control Reviews for 2008, and the Results

With reference to the recommendations from the Quality Control Oversight Board in 2007 and from the CPAAOB through its monitoring process, we established the following items on which to focus for the quality control reviews of 2008. The results of the quality control review items of focus are as follows:

6-1. Appropriate responses to compliance at audit firms

In order to address the recent examples of misconduct, including insider trading and the simultaneous provision of audit and non-audit services, confirmations were made this year as to whether relevant internal control structures related to compliance had been properly designed and implemented at the audit firms.

The result of the quality control review revealed an incident of infringement on auditor independence at one audit firm, as well as an incident of provision of services not prescribed in the audit corporation's articles of incorporation at another audit firm. Consequently, these incidents were reported to the Chairman and President of JICPA, pursuant to Article 123 paragraph 3 of the JICPA Constitution.

Responses to the prevention of insider trading will be discussed below.

6-2. Responses to professional standards, laws, and regulations

a. Appropriate implementation of procedures for change of auditors and for the acceptance and continuance of audit engagements

In considering the growing number of auditor changes in recent years, confirmations were made this year as to whether the audit firms had been ensuring auditor independence; whether appropriate procedures relating to auditor changes, pursuant to Auditing Standards Committee Statement No. 33, *Change of Auditors*, were being followed; and whether appropriate procedures relating to the acceptance of new audit engagements and the continuance of audit engagements had been designed and implemented to the end of properly assessing engagement risks and other matters.

As a result of the quality control review, recommendations for improvement of "matters concerning acceptance and continuance of audit engagements" and "matters concerning communications between predecessor auditor and successor auditor" were issued to 33 audit firms (28 listed and 5 non-listed) that were deemed to have items to be improved, although no qualified items were issued to any audit firms.

b. Appropriate development and implementation of audit plans based on the risk-based approach

In terms of appropriate development and implementation of audit plans based on a risk-based approach, the 2007 quality control reviews had identified deficiencies in the development and implementation of tests of controls (including the assessment of risks of material misstatements relating to information systems utilizing IT) and the determination of substantive procedures in numerous audit firms. Consequently, confirmations were made once again this year as to whether audit firms had revised audit manuals, etc. pursuant to the Auditing Standards Committee Statements on the risk-based approach and performed audits in compliance therewith.

As a result, qualified conclusions were issued to 21 audit firms (12 listed and 9 non-listed), despite the general decrease in the number of audit firms receiving qualified items.

Recommendations for improvement of “matters concerning the risk-based approach” were issued to 87 audit firms (78 listed and 9 non-listed) that were deemed to have items to be improved in their risk-based approach, while no qualified items were issued to these audit firms.

c. Monitoring of the quality control system

Pursuant to Quality Control Standards Committee Statement No. 1, *Quality Control for Firms that Perform Audits*, it is required that audit firms have in place the policies and procedures for monitoring of the quality control system (ongoing monitoring and periodic monitoring of audit engagements), and also to take appropriate corrective actions against deficiencies identified through the monitoring process of the quality control system, in order to ensure that the audit quality control system is operating effectively. The 2007 quality control reviews had resulted in numerous audit firms receiving recommendations to the effect that adequate monitoring was not being performed. Since it is expected that the audit firms would be able to steadily improve the audit quality control system by taking appropriate corrective actions against deficiencies identified through the monitoring process of the quality control system, confirmations were made this year as to whether appropriate monitoring of the quality control system had been designed and implemented.

As a result of quality control reviews, qualified conclusions were issued to one audit firm (listed), which had been deemed to have material deficiencies in the ways in which firm’s quality control regulations and other matters were being communicated to the personnel engaged in audits and in the monitoring of the quality control system. Additionally, recommendations for improvement of “matters concerning the monitoring of the quality control system” were issued to 55 audit firms (38 listed and 17 non-listed) that were deemed to have items to be improved regarding the monitoring of the quality control system.

d. Appropriate development and implementation of rotation policies of key personnel in audit engagements with large companies and other entities

In order to ensure auditor independence, it is required that audit firms rotate for a given period of time, as defined in the CPA Act, etc., key personnel in audit engagements with large companies and other entities. Consequently, confirmations were made this year as to whether rotation policies of key personnel in audit engagements with large companies and other entities were being properly developed and implemented at all audit firms.

As a result of quality control reviews, recommendations for improvement of “matters concerning professional ethics and independence” were issued to two audit firms (2 listed), although no audit firms were found to have material deficiencies in the appropriate development and implementation of rotation policies of key personnel in audit engagements with large companies and other entities.

6-3. Consideration of significant matters in forming an audit opinion

Since significant matters in forming an audit opinion including the auditing procedures of accounting estimates, in many cases, entail subjective judgments, auditors are required to

carefully weigh their reasonableness, as well as conduct thorough reviews thereof. However, the 2007 quality control reviews had identified deficiencies relating to the auditing procedures of accounting estimates and engagement quality control reviews in numerous audit firms. Consequently, confirmations were made this year as to whether, in the auditing procedures of accounting estimates, auditors were carefully weighing their reasonableness and properly summarizing and considering the significant matters in forming an audit opinion, including matters to be weighed and matters to be adjusted, such as accounting estimates; and whether these significant matters were undergoing engagement quality control reviews.

The results indicated the following in terms of the number of audit firms to which qualified items were issued:

- Nine audit firms (6 listed; 3 non-listed) were issued qualified items regarding “auditing procedures of accounting estimates.”
- Nine audit firms (6 listed; 3 non-listed) were issued qualified items regarding “engagement quality control reviews.”
- One audit firm (listed) was issued qualified items regarding “going concern assumptions.”

Additionally, the following audit firms were deemed to have items to be improved, although no qualified items were issued to any of the firms:

- 87 audit firms (76 listed; 11 non-listed) were recommended improvements regarding “auditing procedures of accounting estimates.”
- 57 audit firms (47 listed; 10 non-listed) were recommended improvements regarding “engagement quality control reviews.”
- 16 audit firms (14 listed; 2 non-listed) were recommended improvements regarding “preparation of the summary of audit findings.”
- 15 audit firms (14 listed; 1 non-listed) were recommended improvements regarding “going concern assumptions.”

6-4. Appropriate implementation of follow-up reviews of listed company audit firms

In order to enhance the effectiveness of quality control reviews and further promote improvements in the design and implementation of the quality control systems at audit firms, follow-up reviews were conducted this year by confirming the status of the corrective actions as described in the responses submitted by the audit firms in the previous quality control review. Additionally, follow-up reviews were re-implemented on audit firms registered with the Center for Listed Company Audit Firms, which, as a result of the follow-up review of the previous year, were found to have items that were not yet improved.

7. Results of the Quality Control Reviews and Significant Issues Identified in the Quality Control Reviews

7-1. Results of regular quality control reviews

The numbers of audit firms being issued an unqualified conclusion, a negative conclusion or a qualified conclusion as a result of quality control reviews are as follows:

Quality control reviews	Year ended March 31, 2009			
	Unqualified conclusion	Negative conclusion	Qualified conclusion	Total
Listed company audit firms	74	-	24	98
Non-listed company audit firms	7	-	13	20
Total	81	-	37	118

Note: Among the 37 audit firms with qualified conclusions for the year ended March 31, 2009, 13 audit firms (5 listed; 8 non-listed) were newly subject to a quality control review.

The following table indicates the number of audit firms by audit corporation and sole practitioner based on the above quality control review results.

Quality control reviews	Year ended March 31, 2009			
	Unqualified conclusion	Negative conclusion	Qualified conclusion	Total
Audit corporations	49	-	15	64
Sole practitioners	32	-	22	54
Total	81	-	37	118

Qualified items for which a qualified conclusion was issued in the quality control reviews for 2008 included the following:

- “The risk-based approach” (21 audit firms [12 listed; 9 non-listed])
- “Engagement quality control review” (9 audit firms [6 listed; 3 non-listed])
- “Audit procedures of accounting estimates” (9 audit firms [6 listed; 3 non-listed])

A disclaimer of conclusion was not expressed for any of the current period quality control reviews, as was also the case in the prior period.

7-2. Results of follow-up reviews

The results of the follow-up reviews and the re-implementation of follow-up reviews are as follows:

(Unit: Number of audit firms)

Follow-up reviews	Conclusion with no items requiring improvement	Conclusion with insufficiently improved items	Total
Audit corporations	33	8	41
Sole practitioners	15	12	27
Total	48	20	68

(Unit: Number of audit firms)

Re-implementation of follow-up reviews	Conclusion with no items requiring improvement	Conclusion with insufficiently improved items	Total
Audit corporations	8	2	10
Sole practitioners	2	2	4
Total	10	4	14

As indicated above, there were a number of audit firms that had insufficiently implemented improvements (audit firms that had not improved). However, among such audit firms, the rate of items that have been already improved reached 76%. Furthermore, among the audit firms that underwent this year's implementation and re-implementation of follow-up reviews, the rate of items that have been improved was 91%. Consequently, it was concluded that as a whole, corrective measures were being taken for each item of recommendations for improvements.

Measures under the registration system of listed company audit firms were undertaken, with respect to the audit firms indicated above that were found to have implemented corrective actions insufficiently in the follow-up reviews or the re-implementation of follow-up reviews.

7-3. Cases reported to the Chairman and President

In accordance with Article 123, paragraph 3 of the JICPA Constitution, the following cases were reported to the Chairman and President of JICPA:

- a. Significant doubt has arisen as to the reasonableness of the audit opinion at one audit firm (audit corporation).
- b. Significant doubt has arisen as to the compliance with the JICPA Constitution and Regulations at two audit firms (2 audit corporations).

8. Overview of Recommendations of Regular Quality Control Reviews

The following tables indicate the number of recommendations by item and content for the year ended March 31, 2009.

(Unit: Number of audit firms)

Recommendations of quality control reviews for the year ended March 31, 2009		Listed company audit firms and non-listed company audit firms			Structure of audit firms		
		Listed	Non-listed	Total	Audit corporations	Sole practitioners	Total
Quality control at audit firms	Development of manuals on the quality control system	30 (1)	8 (-)	38 (1)	19 (1)	19 (-)	38 (1)
	Professional ethics and independence	39 (1)	3 (-)	42 (1)	26 (1)	16 (-)	42 (1)
	Acceptance and continuance of audit engagements	25	4	29	22	7	29
	Recruitment, education and training, evaluation and assignment of auditors and personnel engaged in audits	26	5	31	17	14	31
	Engagement quality control review	53 (6)	13 (3)	66 (9)	35 (3)	31 (6)	66 (9)
	Monitoring of the quality control system	39 (1)	17 (-)	56 (1)	22 (1)	34 (-)	56 (1)
	Communication between predecessor auditor and successor auditor	12	2	14	6	8	14
	Joint audit arrangements	3	1	4	3	1	4
Performance of audit engagements	Risk-based approach	90 (12)	18 (9)	108 (21)	57 (9)	51 (12)	108 (21)
	Audit procedures of accounting estimates	82 (6)	14 (3)	96 (9)	55 (3)	41 (6)	96 (9)
	Auditor's consideration of the going concern assumption	15 (1)	1 (-)	16 (1)	11 (1)	5 (-)	16 (1)
	Audit procedures of related parties	37	13	50	23	27	50
	Communication with company auditors or their equivalent	17	6	23	11	12	23
	External confirmations	39	3	42	25	17	42
	Contingent liabilities and subsequent events	33	5	38	23	15	38
	Preparation of the summary of audit findings	14	2	16	14	2	16
	Presentation and disclosure of financial statements	47	11	58	34	24	58
	Management representations	65	18	83	47	36	83
	Direction and supervision of engagement team members and review of documentation	33	6	39	26	13	39
	Development and retention of engagement documentation	56	11	67	42	25	67
Reference: Number of quality control review reports	98	20	118	64	54	118	

Note: The figures in parenthesis in the table indicate the number of qualified items that led to a qualified conclusion in the quality control review reports.

The recent announcements by the JICPA on the various committee reports and reporting formats on auditing and attestation services, instructions directed toward audit firms through quality

control reviews, and the implementation of follow-up reviews of listed company audit firms and the implementation of various measures by the Committee for Small and Medium-Sized Practitioners (SMP) has led to an overall decline in the number of recommendations including qualified items.

However, with respect to the risk-based approach, auditing procedures of accounting estimates, management representations, development and retention of engagement documentation, and engagement quality control reviews, recommendations were issued to numerous audit firms once again this year. Moreover, in regard to the application of the *Security Guidelines for the Prevention of Leakage of Electronic Data used in Engagements* (IT Committee Statement No. 4), the number of recommendations for improvement in the “development of manuals on the quality control system” has been on the rise.

9. Overview of Improvements Identified in Follow-Up Reviews

The following table indicates the status of improvement identified through the implementation and re-implementation of follow-up reviews as represented by the number of audit firms classified according to the type of recommendation received in the previous quality control review.

(Unit: Number of audit firms)

Recommendations of a previous quality control review		Follow-up reviews		Re-implementation of follow-up reviews	
		Improved	Not improved	Improved	Not improved
Quality control at audit firms	Development of manuals on the quality control system	11	-	-	-
	Professional ethics and independence	19	-	3	-
	Acceptance and continuance of audit engagements	26 (3)	1 (-)	1	-
	Recruitment, education and training, evaluation and assignment of auditors and personnel engaged in audits	31	1	-	-
	Engagement quality control review	41 (2)	4 (3)	3 (1)	- (-)
	Monitoring of the quality control system	33	3	1	-
	Communication between predecessor auditor and successor auditor	5	-	-	-
	Joint audit arrangements	9	-	1	-
Performance of audit engagements	Risk-based approach	53 (6)	12 (6)	9 (1)	4 (3)
	Audit procedures of accounting estimates	46 (1)	10 (2)	5 (-)	- (-)
	Audit procedures of related parties	20	1	3	-
	Communication with company auditors or their equivalent	18	3	-	-

External confirmations	31 (2)	- (-)	- (-)	- (-)
Contingent liabilities and subsequent events	22	-	1	-
Preparation of the summary of audit findings	12	1	-	-
Presentation and disclosure of financial statements	27	1	-	2
Management representations	46	6	2	-
Direction and supervision of engagement team members and review of documentation	28	1	2	-
Development and retention of engagement documentation	39	3	5	-
Reference: Number of follow-up review reports	48	20	10	4
	68		14	

Notes:

1. The figures in parenthesis in the table indicate the number of qualified items that led to a qualified conclusion or a negative conclusion in a previous quality control review report that was subject to a follow-up review.
2. In the follow-up reviews and the re-implementation of follow-up reviews, even a single item that remained incomplete among the multiple recommendation items would lead to a “conclusion with insufficiently improved items.”

As indicated in the above table, despite a certain number of “not improved” items, the ratio of improved items to the total number of recommendations was 91%, suggesting that, in general, corrective actions were being taken based upon each recommendation.

10 . Overview of Reports on Implementation of Quality Controls

Reports on implementation of quality controls were submitted by 83 non-listed company audit firms for the current period.

Non-listed company audit firms	Review completed	Review not performed	Total
Audit corporations	7	6	13
Sole practitioners	17	53	70
Total	24	59	83

The results of analyses and consideration of the implementation of quality controls at non-listed company audit firms based upon the reports on implementation of quality controls are as follows.

10-1. Implementation status of recommendation items

Twenty-four audit firms, which had previously been subject to quality control reviews, were requested to submit reports on the status of improvement of recommendation items. Of these

audit firms, 22 replied that all recommendations had been implemented, while two submitted reports to the effect that they were in the process of implementing the recommendations.

10-2. Design and implementation status of the quality control system

Together with the reports on the implementation of quality controls, all audit firms (83 firms) were also requested to submit replies to a simple questionnaire on the design and implementation status of the quality control system for audit. The replies indicated that 37 audit firms were expected to consider improvements to their systems of quality control, with numerous replies pointing to deficiencies, particularly in the performance of engagements (assessment of IT control risk, information security), the engagement quality control reviews (engagements other than those with large companies and other entities), and the monitoring of the quality control system (periodic monitoring of audit engagements).

11. Investigation of measures relating to the prevention of insider trading and responses made through the quality control review

To address the issue of insider trading, an investigation of measures relating to the preventions of insider trading was conducted targeting listed company audit firms, in response to the statement by the JICPA Chairman and President, On the Insider Trading of a CPA, dated March 18, 2008, and the request by the FSA, Measures Against Insider Trading by Certified Public Accountants and Audit Corporations, dated May 19, 2008; and the results thereof were reported to the FSA on September 29, 2008.

The results of this investigation indicated that numerous audit firms believed that mere compliance with auditor's independence and observance of confidentiality would simultaneously serve as measures toward the prevention of insider trading. Therefore, a reminder was sent in writing that warned simply complying with auditor's independence and observing confidentiality were not enough to prevent insider trading. Furthermore in the course of the 2008 quality control review, the Q&A on Insider Trading (September 2, 2008) was used as reference and confirmations were made as to whether listed company audit firms had been implementing measures to prevent insider trading, while also offering relevant instructions. The results of quality control reviews indicated that regulations relating to the prevention of insider trading had been established and thorough communications thereof to firm members had been implemented at many audit firms.

12. Center for Listed Company Audit Firms

The JICPA implemented a registration system of listed company audit firms beginning in 2007 in an effort to further improve the quality level of members' audits and to maintain and ensure public confidence in audits.

12-1. Registration of listed company audit firms

Registrations and deletions of listed company audit firms for the year ended March 31, 2009 were as follows:

Registration system of listed company audit firms		As of May 31, 2008	Increase	Decrease	As of May 14, 2009 (Note)
Firms having an audit engagement with a listed company	Registered audit firms	184	18	21	181
	Unregistered audit firms	1	-	1	-
	Those regarded as associate registered firms	25	27	25	27
	Total	210	45	47	208
Firms not having an audit engagement with a listed company	Associate registered firms	15	5	5	15

The above registration of listed company audit firms broken down by audit corporations and sole practitioners is as follows:

Registration system of listed company audit firms		Audit corporations	Sole practitioners	As of May 14, 2009 (Note)
Firms having an audit engagement with a listed company	Registered audit firms	120	61	181
	Unregistered audit firms	-	-	-
	Those regarded as associate registered firms	12	15	27
	Total	132	76	208
Firms not having an audit engagement with a listed company	Associate registered firms	7	8	15

a. Listed company audit firms

The 18 audit firms stated under “Increase” in the above table are firms that were newly registered as listed company audit firms based on the result of the quality control reviews of 2008. The 21 audit firms stated under “Decrease” in the above table indicate firms that no longer have audit engagements with listed companies.

b. Unregistered audit firms

During the previous year the registration of one audit firm (1 audit corporation) was revoked based on the results of the quality control review. However, as it was later confirmed that the said audit firm had cancelled all engagements with listed companies, the name of the said audit firm has been removed from the list of unregistered audit firms as of June 30, 2008.

c. Those regarded as associate registered firms

Those regarded as associate registered firms are audit firms that have newly concluded audit engagements with listed companies. Those regarded as associate registered firms as of May 14, 2009 will be subject to a quality control review for the year ending March 31, 2010.

Of the 25 audit firms stated in the Decrease column above, 18 audit firms have been permitted to register as listed company audit firms following the 2008 quality control review, while seven audit firms have cancelled their audit engagements with listed companies.

d. Associate registered firms

Associate registered firms are audit firms that do not have an audit engagement with a listed company but will attempt to conclude audit engagements with listed companies in the future, and registered on the associate registered firm roster.

12-2. Measures under the registration system of listed company audit firms

When considerable doubt has arisen regarding the audit quality controls of an audit firm registered with the Center for Listed Company Audit Firms based on the results of a regular quality control review or follow-up review, following deliberation by the Quality Control Oversight Board, measures are taken to encourage audit firms to establish and maintain a system of quality control.

The following table indicates various measures undertaken through May 14, 2009, based on the results of the quality control reviews for the current year.

(Unit: Number of audit firms)

Measures	Audit corporations	Sole practitioners	Total	Reference (Year ended March 2008)
No measures taken	88	37	125	96
Measures taken	20	20	40	92
Item 4 (Revocation of registration, and disclosure)	(-)	(-)	(-)	(1)
Item 3 (Disclosure of overview of qualified items)	(2)	(3)	(5)	(9)
Item 1 (Admonishment)	(18)	(17)	(35)	(82)
Audit firms not subject to review in the current year	12	4	16	1
Total	120	61	181	189

(Note) In the above table, the numbers in parentheses indicate the number of audit corporations and sole practitioners subject to the relevant measures.

Of the nine audit firms that were subject to measures as prescribed by Item 3 based on the results of the 2007 quality control review, improvements were confirmed in the items, which led to the said measures, at five of the audit firms (5 audit corporations) and thus disclosure of the said audit firms was terminated. Furthermore, as two (2 audit corporations) of these nine audit firms had applied for deletion from the register, the names of the said audit firms were deleted.

It should also be noted that the five audit firms (2 audit corporations, 3 sole practitioners), subject to measures as prescribed by Item 3 based on the result of the quality control review of 2008 in the above table, include the two audit firms (2 sole practitioners) that were also subject to the same measures in the previous year.

12-3. Disclosure of disciplinary actions against listed company audit firms and other developments

The JICPA disclosed the disciplinary actions taken against the following audit firms in the register of listed company audit firms in the year ended March 31, 2009:

- Two audit firms (2 audit corporations) were subject to a recommendation by the CPAAOB to the Commissioner of the Financial Services Agency (FSA) that an administrative sanction or other action be taken against them;
- Four audit firms (4 audit corporations) were subject to disciplinary actions or instructions to improve operations by the FSA;
- Two audit firms (2 audit corporations) were subject to JICPA disciplinary actions (reprimand).

13. Amendment and Abolishment of the Quality Control Committee's Regulations, Quality Control Review Standards, Quality Control Review Procedures, and Quality Control Review Tools

Quality control review standards, quality control review procedures and quality control review tools have been amended in order to comply with the amendments to the CPA Act, the JICPA Code of Ethics, and the implementation of Financial Instruments and Exchange Act in 2007.

Major amendments to these laws and regulations include the following:

- a. Mandatory submission and disclosure of expository documents for public inspection;
- b. Addition of the item, "Specified partner" under the breakdown of the number of affiliated CPAs and the classification of each item as either "full-time" or "part-time" in the Outline of the Listed Company Audit Firms;
- c. Addition of "Rotation Policy and Procedures" and "Audit Documentation" to the Outline of the Quality Control System;
- d. Clarification of the exact time of "Conclusion of audit engagements with listed companies;"
- e. Mandatory submission of periodic reports by associate registered firms.

14. Activities of the Quality Control Committee and Review Working Groups

The Quality Control Committee, despite replacing three of its members as of August 1, 2008, maintained the same composition as the previous year with one chairperson and 26 members. The composition of the review groups also remained the same as the previous year with one General Committee and five review working groups, comprising five members each.

This past year, a total of 13 meetings of the General Committee of the Quality Control Committee and 70 meetings of review working groups were held.

15. Quality Control Review Team

15-1. Composition of the review teams

Changes in quality control reviewers for the current year are as follows.

(Unit: Number of staff)

Composition of the review team	As of March 31, 2008	Increase	Decrease	As of March 31, 2009
Chief executive reviewer	1	-	-	1
Deputy chief reviewers	4	1	1	4
Senior reviewers	13	5	3	15
Staff reviewers	11	2	5	8
Total	29	8	9	28

15-2. Total number of days spent on reviews

The following table indicates the total number of days by reviewers conducting reviews for the year ended March 31, 2009.

(Number of days)

Total number of days by reviewers conducting reviews for the year ended March 31, 2009	Regular quality control review	Follow-up review	Re-implementation of follow-up reviews	Total
Listed company audit firms	2,821	459	105	3,385
Non-listed company audit firms	194	-	-	194
Total	3,015	459	105	3,579
Reference: Total for the year ended March 31, 2008	2,489	791	-	3,280

Note: The total number of days in the above table aggregates the work hours for quality control reviews at audit firms and the related office work hours until the issuance of a report; seven hours are deemed as one day of work.

16. Future Challenges of the Quality Control Review System

A decade has past since the JICPA introduced the quality control review system in 1999. During this time, the JICPA has carried out amendments to its quality control review system, in compliance with such developments as the amendments to the CPA Act, the establishment of the quality control standards related to audit, and the revision of auditing standards. Additionally, in April 2007, the JICPA introduced a registration system of listed company audit firms as a measure to strengthen self-regulation.

In light of the performance and experience of the past decade, quality control reviews from the year ending March 31, 2010 should endeavor to conduct reviews of even greater effectiveness and efficiency that take into account such factors as the size of the audit firm. At the same time, quality control reviews, by fully utilizing their instructional functions, should also contribute to the enhancement of the quality control of the audit firms. Furthermore, timely readjustments

should also be made to the review items in conjunction with the various amendments to the laws and regulations and standards surrounding the quality control review system.

Based on the results of the quality control reviews for the current year the JICPA believes that the following issues should be dealt with as the future challenges of the control quality review system:

- 1) Appropriate operation of the registration system of listed company audit firms (including the implementation of appropriate measures);
- 2) Further consideration of appropriate conclusions in quality control review reports of audit firms, which, despite not receiving a qualified conclusion, were cited with numerous recommendation items;
- 3) Providing instruction that promotes improvement to audit firms, which, despite not receiving qualified conclusions, failed to correct recommendation items for long periods of time;
- 4) Providing instructions in advance to audit firms that will be newly subject to quality control reviews (e.g. Those regarded as associate registered firms under the registration system of listed company audit firms and audit firms that audit credit unions, credit associations and labor credit associations);
- 5) Appropriate implementation of quality control reviews in terms of internal control audits.