

Strategies and Issues for New Executives of the JICPA

Environment surrounding the JICPA

- CPAs and audit corporations are under public scrutiny due to high-profile accounting scandals.
 - CPAs are expected to act as watchdogs over the capital markets.
 - Fields requiring a CPA's knowledge and skills are expanding and diversifying as social and economic structures become more complex, sophisticated, and globalized.
- ⇒ CPAs need to recognize the public need for the roles that CPAs play.

Five strategies for new executives

- I. Restore public confidence in CPA audits by implementing self-regulatory measures in a visible manner.
- II. Voice our views on reforming the regulatory framework and developing accounting standards.
- III. Ensure the necessary resources by contributing to the professional development of CPAs.
- IV. Expand and diversify CPA services by responding appropriately.
- V. Continue to reform JICPA governance.

Implement self-regulatory measures in a visible manner (1/2)

1. Restoring confidence in CPA audits through self-regulatory measures

(1) Implement various self-regulatory actions

- ① Quality control reviews
- ② Disciplinary actions against JICPA members
- ③ Continuing Professional Education (CPE)
- ④ Improve the JICPA Code of Ethics
- ⑤ Develop implementation guidance for audits
- ⑥ Develop practical guidelines for industry-specific accounting treatments

(2) Relationship between governmental regulation and self-regulation

I. Implement self-regulatory measures in a visible manner (2/2)

2. Establish an appropriate registration system for firms that audit listed companies

- (1) Require audit firms that perform audits for 3,900 listed companies to register with the Center for Listed Company Audit Firms and establish an effective quality control system.
- (2) Require audit firms to submit outlines of the audit firms and their quality control systems. Make the information publicly available.
- (3) Improve the quality control systems of audit firms by conducting quality control reviews, making recommendations when deficiencies are identified, and promoting implementation of corrective actions.
- (4) Publish recommendations for firms that do not take corrective action. Firms with significant deficiencies should be unregistered and declared to be lacking the quality control system needed for auditing listed companies.

II. Voice our views on reforming the regulatory framework and developing accounting standards

1. Company auditors should have the power to appoint an independent auditor and determine audit fees. These company auditors are responsible for monitoring corporate management. Call for the amendment of the Companies Act or the enactment of the Public Companies Act
2. Promote further convergence with IFRSs. Encourage the ASBJ to accelerate convergence with IFRSs so as not to isolate Japanese GAAP from the IFRS community.
3. Develop accounting principles for revenue recognition. Urge the ASBJ to develop standards and practical guidelines that clarify revenue recognition in order to avoid earnings manipulation.
4. Ensure sufficient audit hours and fees. Seek an increase in the audit fees, which are one fourth those in the U.S. Send the message that adequate audit hours and fees are essential factors for ensuring high quality audits.

III. Ensure the necessary resources by contributing to the professional development of CPAs

1. Reform the CPA Examination.
 - (1) Short term: reform within the current framework.
 - (2) Long term: amend the CPA Laws.
2. Cooperate with graduate schools of professional accountancy
 - (1) Education at undergraduate schools is insufficient due to the increasing sophistication and specialization of accounting and auditing.
 - (2) Recognize classes at graduate schools as professional accountancy education programs (pre-qualification education).
 - (3) Provide support by introducing internships.
3. Enhance the “Hello! Accounting” programs
 - (1) Boost interest in accounting among elementary and high-school students.
 - (2) Develop educational materials.
4. Improve workshops provided under CPE programs
 - (1) Case studies
 - (2) Discussions

IV. Expand and diversify CPA services

1. Develop studies that improve services, such as taxation, public sector auditing, CSR, internal control, M&A, and support for SMEs. (Develop materials that serve CPA services.)
2. Support SMPs.
 - ① Provide information and support for SMP incorporations and mergers.
 - ② Develop audit and IT tools.
 - ③ Separate clients into two groups: those best served by big firms and those best served by SMPs.
3. Review assurance and other engagements. Examples: comprehensive external audits of local governments, audits of political parties.

V. Continue reforming JICPA governance

In order to operate effectively as a self-regulatory body and accomplish our social mission of responding swiftly to environmental changes, the JICPA should become an organization that is capable of timely and appropriate decisions and actions.

1. Strengthen the JICPA Secretariat.
 - (1) Create the new position of Chief Executive.
 - (2) Improve the expertise of each member of the Secretariat staff.
2. Reinforce the coordination between the JICPA head office and the local chapters.
3. Review the financial position of the JICPA.
4. Review operation of the continuing professional education and publishing.