

Audit in Japan & EY Japan

March 25, 2015

Ernst & Young ShinNihon LLC ("EY Japan")

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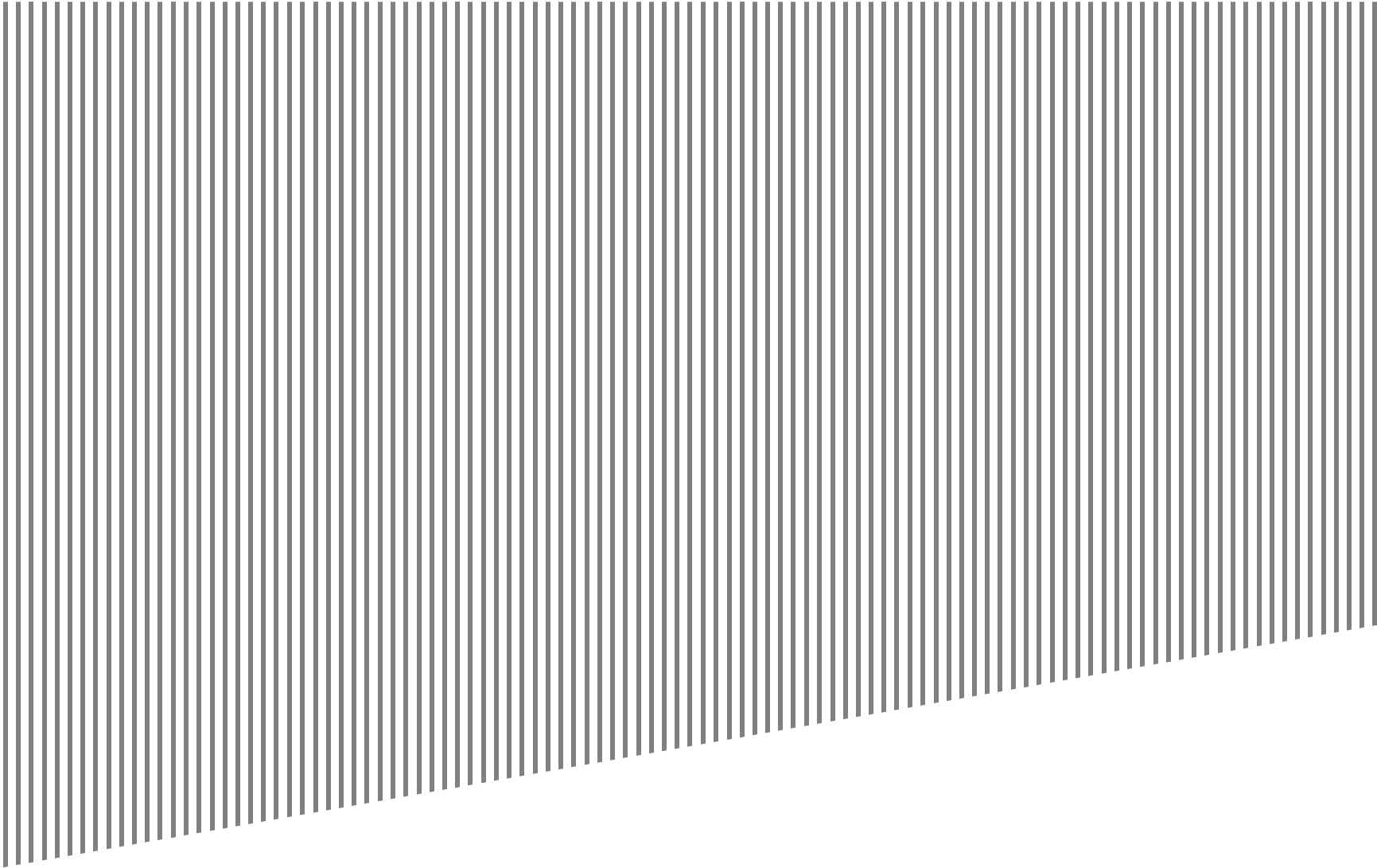


Building a better
working world

Agenda

- 1. Certified Public Accountant in Japan**
- 2. Audit in Japan**
- 3. About EY**
- 4. About EY Japan**

1. Certified Public Accountant in Japan



1. Certified Public Accountant in Japan

- Overview Japan CPA

- Overview of Japanese Certified Public Accountant (“JCPA”)

- ▶ JCPA is a specialist for auditing and accounting
- ▶ “Audit” is an exclusive area for JCPA
- ▶ The number of regular member (“JCPA”) and associate member (“Junior Accountant”) is 27,207 and 6,550, respectively, as of December 31, 2014
- ▶ 220 Audit firms registered with JICPA as of December 31, 2014
- ▶ Among audit firms, ShinNihon, Tohmatsu, Aarata and Azusa are members of Big 4 who dominate the audit industry globally. Each of the Japanese audit firms has a membership with each of Big 4 as follows:

Japanese Big Audit Firm	Big 4
ShinNihon (EY Japan)	Ernst & Young
Tohmatsu	Deloitte Touche
Aarata & Kyoto (Two firms)	PriceWaterhouseCoopers (“PwC”)
Azusa	KPMG

1. Certified Public Accountant in Japan

- Road map to Certified Public Accountant

First step : Passed the CPA examination

- ▶ Starting line of CPA is to pass CPA's National examination
- ▶ The average study period of up to pass the exam is 2-3 years
- ▶ The pass rate was 10.0% in 2014

Second step : Practical auxiliary and Study of practice of CPA

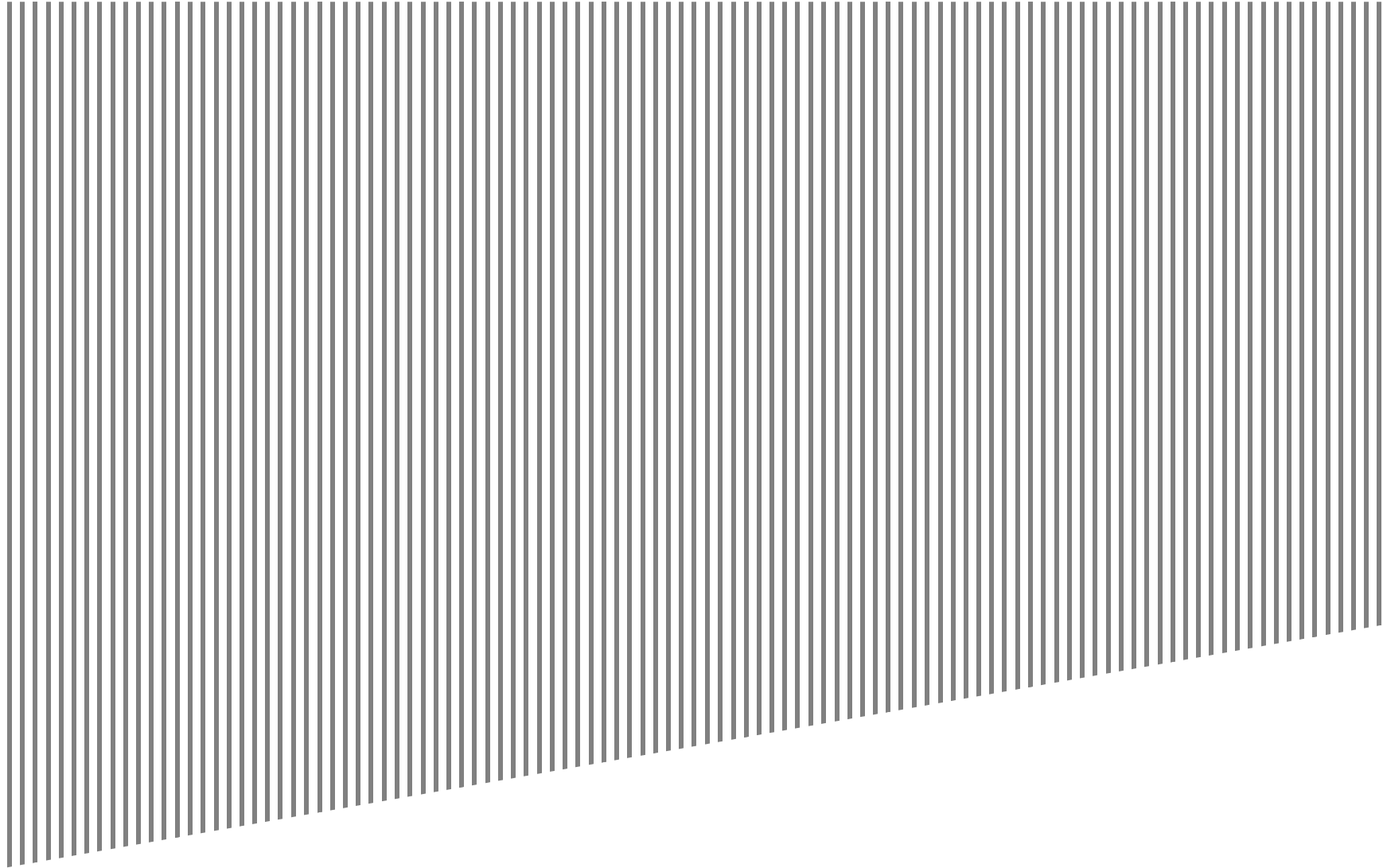
- ▶ Over 2 Years of practice auxiliary(practical business experience)
- ▶ Study of practice of CPA in “Japan Foundation for Accounting Education and Learning(JFAEL)” of 3 Years

Third step : Passed the Completion examination of JFAEL

- ▶ The last step is to pass the final exam of JFAEL

⇒ You can register as a CPA in Japan

2. Audit in Japan



2. Audit in Japan - Mission

- Mission of CPA

CPA's mission is to protect the fair business of entities, investors, and creditors to contribute to the sound development of national economy by ensuring the credibility of financial statement and other financial information from independent state as an audit and accounting specialist

(Source: JCPA Act Article 1)



- ▶ Audit, that is to offer assurance on financial information, comes first for CPA's responsibility
- ▶ In Japan, a) Companies Act and b) Financial Instruments and Exchange Act are the basic laws to regulate the audit for general-purpose financial statements
- ▶ Criteria of audit under both laws are as follows:

	Audit Article	Audited Entity
Companies Act	436. 2. 1	Entity with over JPY500M of capital paid or JPY20,000M of liability
Financial Instruments and Exchange Act ("FIEA")	193-2. 1	Entity obligated to report annual report (e.g., listed entity in Tokyo Stock Exchange)

2. Audit in Japan

- Audit (1)

- Audit

- ▶ In order to meet the requirements of audit, ‘Corporate Accounting Council’ and ‘The Japanese Institute of Certified Public Accountants (“JICPA”) ’ issue the relevant auditing standards
- ▶ General hierarchy of auditing standards in Japan are as follows:

	Standards
General Auditing Standards	<ul style="list-style-type: none"> - Auditing Standard - Quality Management Standard in an Audit - Standard to Address Risks of Fraud in an Audit – This is a new standard effective for the year-end audit as of March 31, 2014
Auditing Standards for interim financial statements	<ul style="list-style-type: none"> - Semi-annual Auditing Standard - Quarterly Review Standard
Other Auditing Statements	<ul style="list-style-type: none"> - Auditing Standard Committee Statement <p>For example,</p> <ul style="list-style-type: none"> 240 – Fraud in an audit of financial statements 260 – Communication of corporate auditors 600 – Group audit etc.

2. Audit in Japan - Audit (2)

- Audit

- ▶ CPA needs to comply with the auditing standards in the execution of an audit
- ▶ Audit standards require CPA to make a professional judgment to see whether an audited entity reflects its transactions in the financial statements appropriately



- ▶ CPA needs to refer to accounting standards as well as auditing standards to conclude if the financial statements present fairly, in all material aspects, the financial position and the result of operations
- ▶ Accounting standards (Japanese generally accepted accounting principles – JGAAP) consist of a lot of standards as follows:

Accounting Area	Standards
Consolidation	Accounting Standard for Consolidated Financial Statements
Business Combination	Accounting Standard for Business Combination
Fixed Tangible Assets	Accounting Standard for Impairment of Fixed Tangible Assets
Lease	Accounting Standard for Lease Transactions
Financial Instruments	Accounting Standard for Financial Instruments
Retirement Benefits	Accounting Standard for Retirement Benefits
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2. Audit in Japan

- Audit (3)

- Fiscal Year

- ▶ The fiscal year of most Japanese companies is from April 1 to March 31
- ▶ Hence, 'audit year' usually starts July 1 and ends June 30 every year
 - ▶ Most companies holds general stockholders meeting near the end of June and file their annual report right after the meeting

- Audit Team in Japan

- ▶ Usually, 2 or 3 partners lead the audit team
- ▶ Partners sign on the final audit report
- ▶ Depending on an audited entity, a couple of managers manage the team mainly consisting of senior staff and junior staff
- ▶ Other specialists engaged in an audit (e.g., tax, IT, insurance liability, evaluation of complex financial instrument)

2. Audit in Japan - Audit (4)

- Audit Approach

- ▶ Audit can be divided into major phases as follows:
 1. Determination of materiality applied to audit
 2. Identification and assessment of risk of material misstatements through the understanding of entity and its environment
 3. General audit strategy and detailed audit plan
 4. Execution of audit procedures to address risks
 5. Wrap-up of audit and audit report

- ▶ Rough audit schedule for entity with fiscal end of March 31 is

Summer (Jul. – Sep.)	Autumn (Oct. – Dec.)	Winter (Jan. – Mar.)	Spring (Apr. – Jun.)
<ul style="list-style-type: none"> - Audit planning - Management discussion - 1st Quarter Review - Communication with Corporate Auditors 	<ul style="list-style-type: none"> - Walkthrough and Test of Control (Design) - 2nd Quarter Review - Communication with Corporate Auditors 	<ul style="list-style-type: none"> - Walkthrough and Test of Control (Operation) - 3rd Quarter Review - Communication with Corporate Auditors 	<ul style="list-style-type: none"> - Update of TOC - Year-end Audit - Communication with Corporate Auditors - Wrap up

2. Audit in Japan - Non-Audit

- Non-audit services

- ▶ CPA's work is not limited to audit
- ▶ Accounting consulting, internal controls, regulations, taxes, due diligence etc. are major non-audit services
- ▶ CPA can offer non-audit services to audit client if CPA complies with independence rules
- ▶ External auditors have advantage to offer non-audit services to the audit clients because external auditors are familiar with their issues and needs



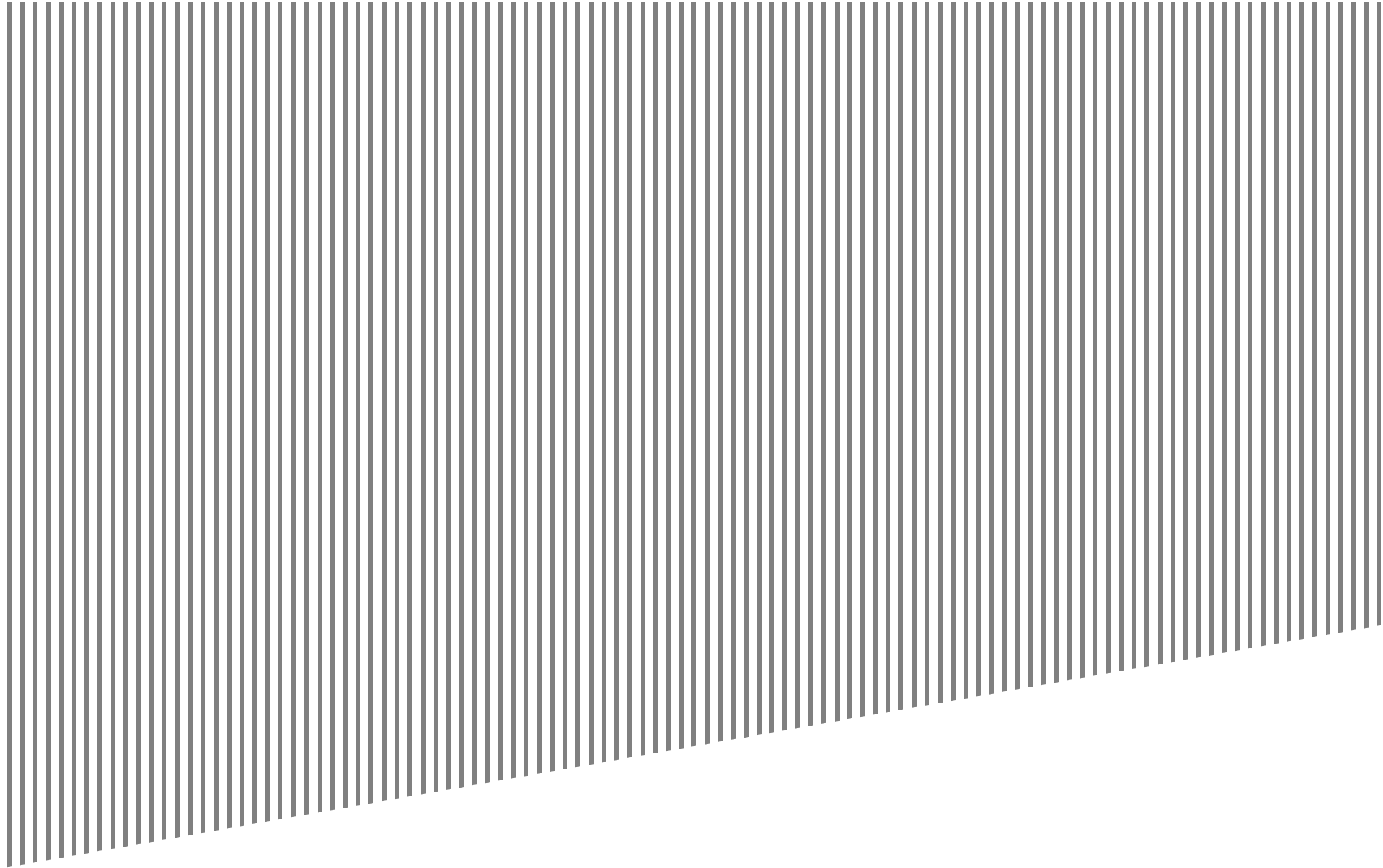
(1) Non-Audit Client

- ▶ CPA can offer any services in principle

(2) Audit Client

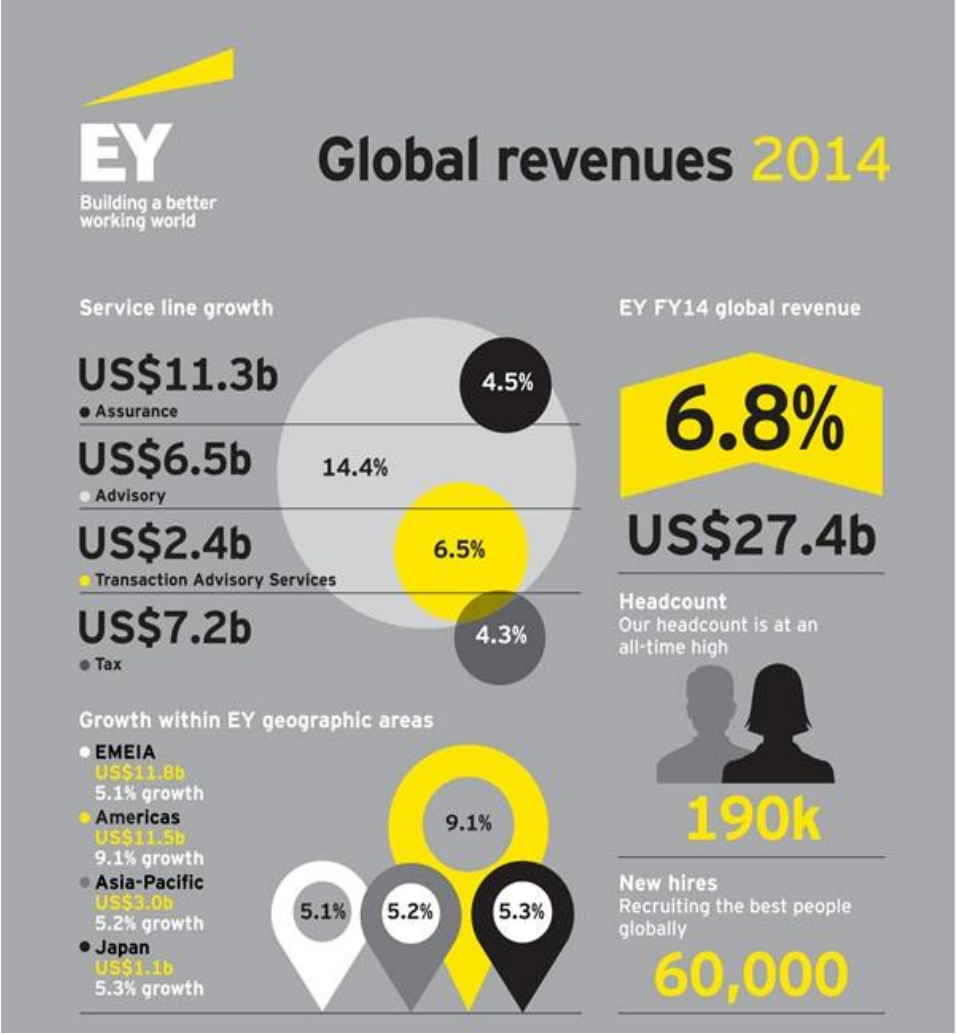
- ▶ Independence rules come first
- ▶ If auditors breach independence rules, the audit loses trust

3. About EY



3. About EY

- EY Global Performance



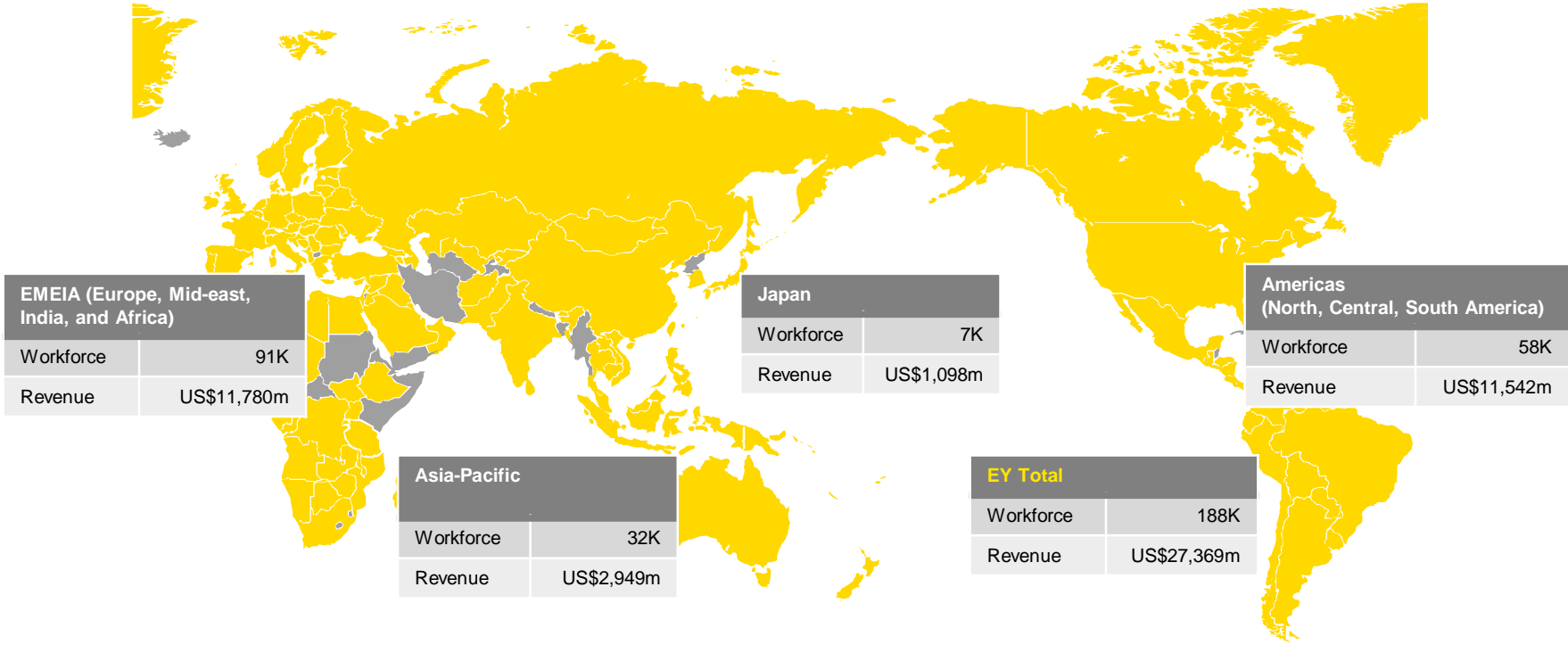
- **Global revenue for FY2014 – USD27.4 billion!**
 - 6.8% growth from FY2013
 - Revenue growth from all business areas for FY2014
 - Advisory – 14.4% up
 - Transaction advisory service – 6.5% up
 - Assurance – 4.5% up
 - Tax – 4.3% up
- **EY employees reached approx. 190,000 increased by 15,000 since FY2013**

3. About EY

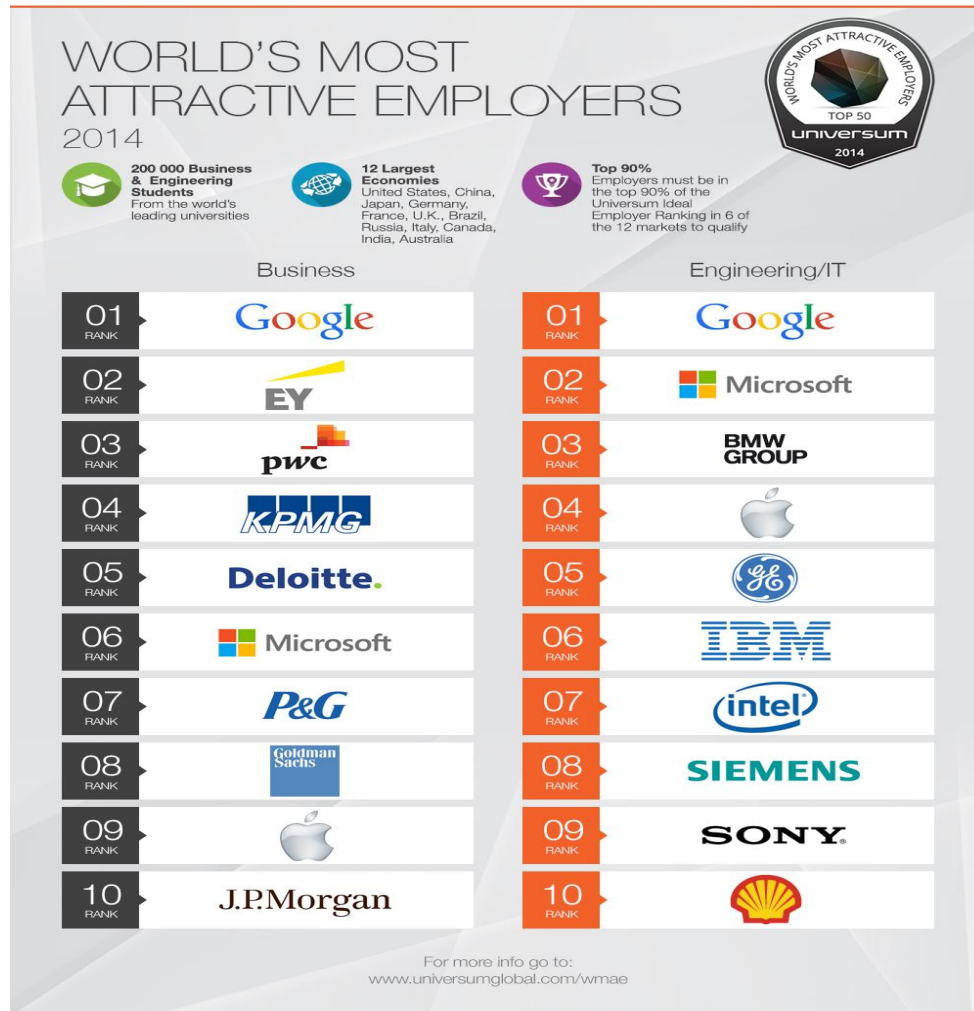
- Overview of EY

[EY Slogan]
Building a better working world

Sound development of business builds a better working world.
We, EY, address all the issues faced by clients and contribute to a steady improvement. With our prominent knowledge based on abundant experience and high-quality services, we enhance confidence in capital markets and support growth of economy. We aim to 'build a better working world' through contribution to sound development of business.



3. About EY - Most Attractive Employer for FY2014

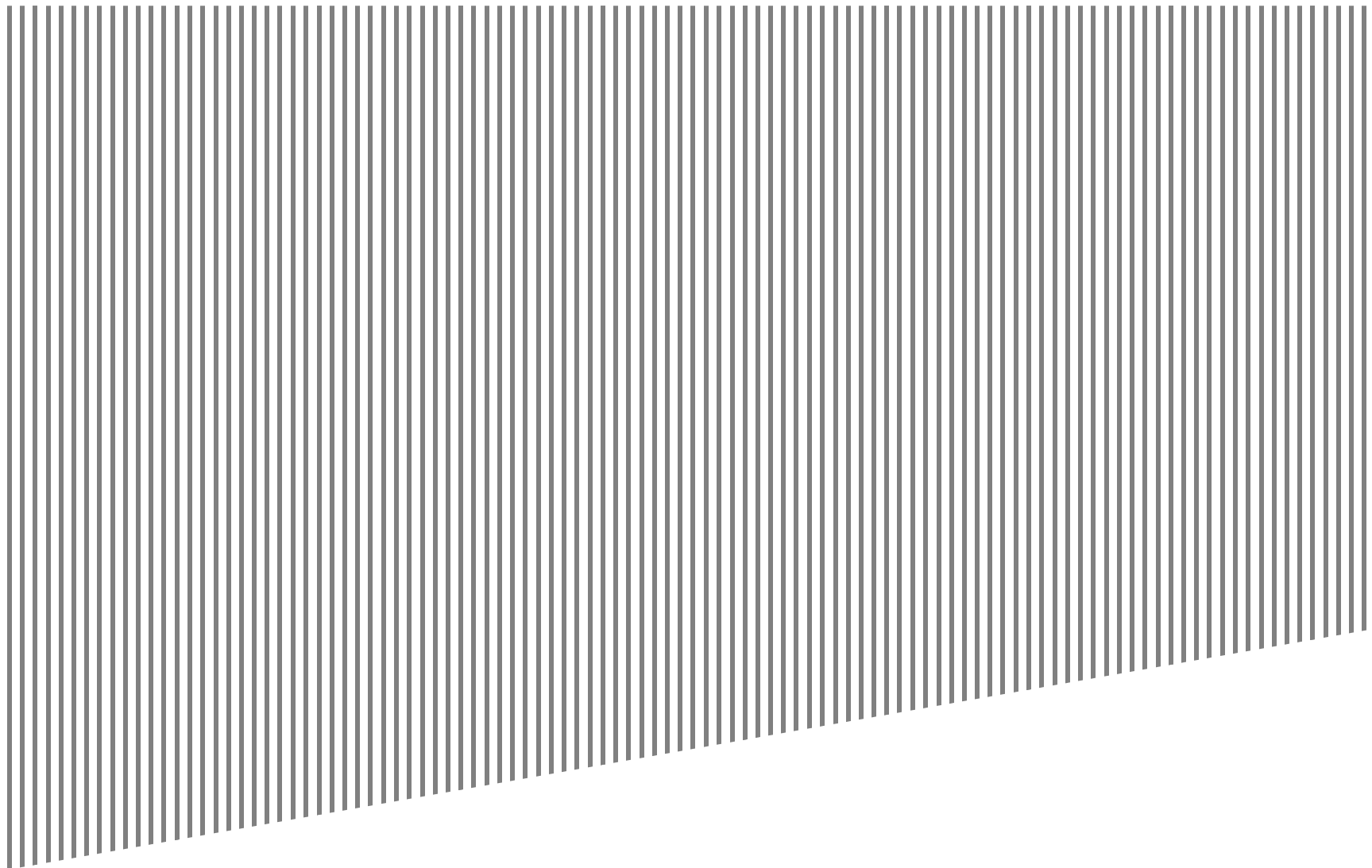


 **1st for Professional Service**

 **2nd for Business**

- This list is based on Universum's national student surveys of more than 200,000 business and engineering students in the world's 12 largest economies
- The World's Most Attractive Employers ranking reveals top choices for today's young talent

4. About EY Japan



4. About EY Japan - Workforce (Big 3)

► Workforce

	(Head-count)		
	ShinNihon (EY)	Tohmatsu (Deloitte)	Azusa (KPMG)
Total workforce	6,015	5,855	5,251
(CPA)	3,521	3,059	2,993
(Junior Accountant)	1,033	1,338	1,077

(Source: Disclosures)

► Workforce growth

	(Head-count)		
	ShinNihon (EY)	Tohmatsu (Deloitte)	Azusa (KPMG)
June 2014	6,015	5,855	5,251
June 2013	5,850	5,580	5,264
Growth	+165	+275	- 13

(For Deloitte, data is as of the end of September, 2013 & 2014)

4. About EY Japan - Client Base (Big 3)

▶ Client Base (Assurance Service)

	ShinNihon (EY)	Tohmatsu (Deloitte)	Azusa (KPMG)
FIEA/Companies Act audit	1,009	956	725
FIEA audit	60	16	54
Companies Act audit	1,424	1,122	1,295
Educational Institution audit	119	83	62
Labor Union audit	19	54	21
Other statutory audit	598	430	426
Other voluntary audit	746	981	682
Total	3,975	3,642	3,265

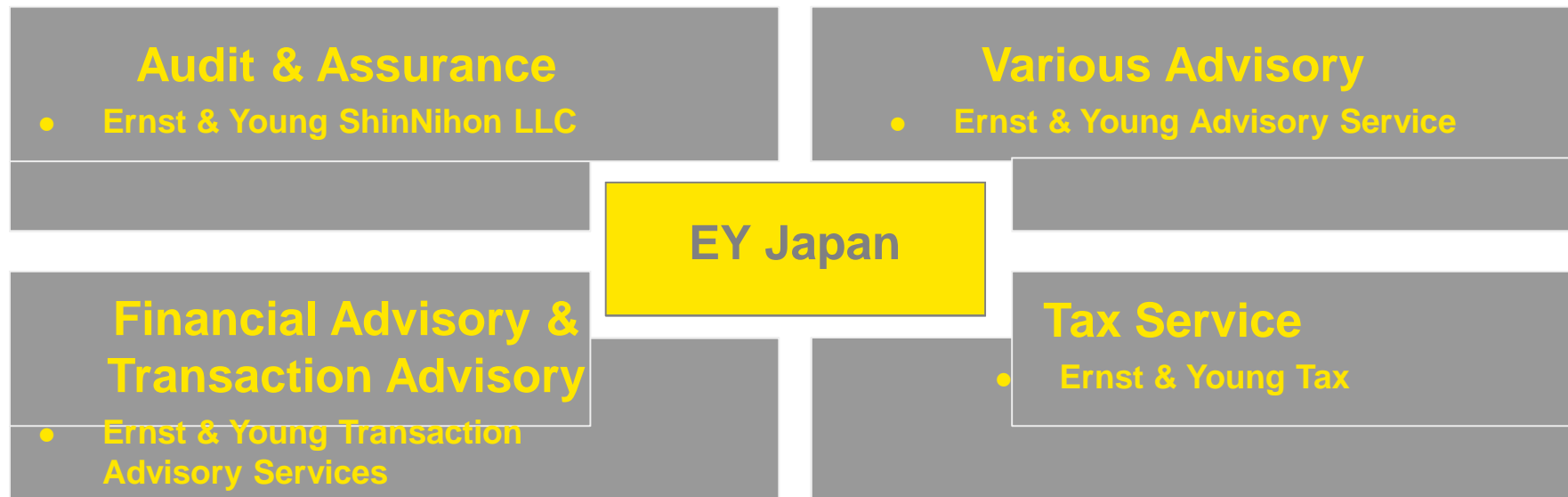
(Source: “Annual report on operations and assets”)

▶ Client Base (Non-Audit Service)

	ShinNihon (EY)	Tohmatsu (Deloitte)	Azusa (KPMG)
Large companies	781	453	564
Other companies	2,602	2,763	1,444
合 計	3,383	3,216	2,008

4. About EY Japan - 4 Service Lines

- ▶ There are 10 EY member firms in Japan, being ‘EY Japan’
- ▶ Interact with one another to deliver a variety of services
- ▶ EY Japan consists majorly of 4 service lines below.



▶ আপনাকে ধন্যবাদ

▶ Thank you

▶ ご清聴ありがとうございました

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About EY

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