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Professional Accounting Issues in Japan

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1. Formal association of professional accountants in Japan

There are two major formal associations of professional accountants in Japan as follows:

- ① The Japanese Institute of Certified Public Accountants (JICPA)
- ② The Japanese Institute of Licensed Tax Accountants

In this report, I will describe only JICPA, which meets the objectives of the EAAR.

(1) Nature and history of JICPA

The Japanese Institute of Certified Public Accountants is the only organization of its kind in Japan and a distinctive corporate professional body established in accordance with the Certified Public Accountants Law

The Institute was originally formed in 1949; however, it was merely a voluntary body at that time. In 1953, the Institute became incorporated under the Civil Code of Japan, although there was still no legal requirement for CPAs to become members of the body. In 1966, it was reorganized into the present form requiring every CPA in practice to become a member of the Institute.

(2) Number of JICPA members (as of December 1999):

CPAs	12,707
Jr. CPAs	3,831
Foreign CPAs	10
Audit Corporations	142

(3) Roles of JICPA

The Institute's roles under the CPA Law are to effectively exercise guidance to, communicate with, and supervise the members in order to uphold professional standards and to improve and advance the profession.

The Rules of Conduct for the members have been made in order to uphold certain standards as professional accountants and to encourage self-discipline. The members must strictly observe all of the Rules.

(4) Activities of JICPA

The Institute not only takes part in setting accounting standards by sending representatives to the Business Accounting Deliberation Council (BADC), which is the standards setting and advisory body to the Ministry of Finance of the Japanese Government, but through various committees it also: (a) issues practical guidelines and interpretations, (b) carries out research and investigations, (c) makes proposals for reforms in the theory and practice of accounting, auditing, management advisory services and taxation, (d) sponsors training courses and holds meetings for improving professional services, and (e) issues periodic professional publications such as "JICPA Journal" and "JICPA News Letter."

Note: Above descriptions of (1), (3) and (4) have been extracted from the fifth edition of "CPA Profession in Japan" published by JICPA.

2. Interaction between Academic and Professional

There are some mutual participations in the other association's activities. For example, academics send representatives to some committees of JICPA and some professionals are members of certain academic associations.

3. Interaction between Associations and the Government

Some academics and professionals are members of BADC. In addition, academics and professionals participate actively in various research and investigation activities of the government.

4. Major Professional Issues Facing Japan

(1) Accounting “Big-bang”

BADC has made many new accounting standards and revised existing standards in the last few years. These include following major standards.

- √ Consolidation
- √ Cash flow statement
- √ Deferred tax accounting
- √ Accounting for financial instruments
- √ Accounting for pension liabilities
- √ Research and development costs

(2) Criticism on audit quality

Quality of audits are now questioned by business community in Japan due to discovery of window-dressing accounting and huge amounts of unrecorded liabilities after the bankruptcy of public companies in the last few years.

(3) JICPA has taken various measures to cope with the criticism

Those measures include introductions of the following major new systems.

- √ Partner rotation
- √ CPE
- √ Peer review

JICPA has also issued many accounting and auditing guidances and interpretations to meet with the Accounting Big-bang.

(4) The “legend” issue

Big 5 firms have requested their Japanese member firms to make “legend” footnotes to their audit reports that are issued for English version of Japanese GAAP financial statements.