

J-SOX

The Financial Instruments and Exchange Law 2006

ADVISORY

Public companies listed on the Japanese stock exchange are subject to the requirements of Japan's Financial Instruments and Exchange Law enacted in June 2006; also unofficially known as J-SOX.

Effective for fiscal year beginning on or after April 1, 2008, this law requires a company's management team to assess the effectiveness of the company's Internal Control Over Financial Reporting.

This law places accountability for the effectiveness of these controls and procedures squarely on the management team and it is their responsibility to demonstrate that its internal controls are effective.

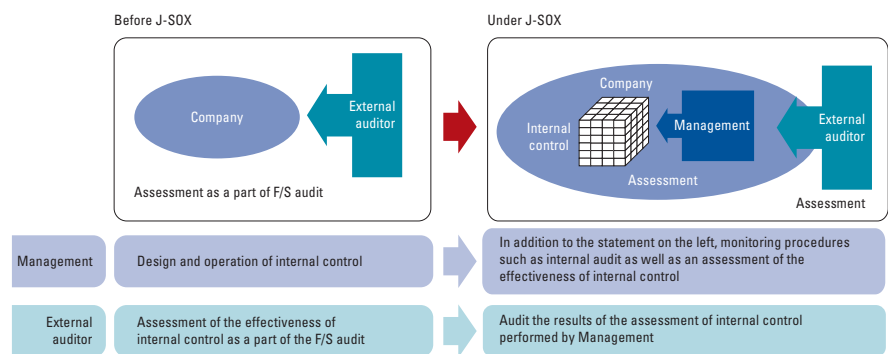
If your company is affected by J-SOX, the first filing of a management evaluation report on internal controls would be for the fiscal year ending March 31, 2009.

Before J-SOX, external auditors were responsible for evaluating the effectiveness of internal controls as part of the audit of financial statements.

Under J-SOX, the management of a company will take this on, as well as responsibility for assessing and reporting on the design and effectiveness of internal controls.

The role of the external auditors is then to audit the results of this assessment. (see Figure 1)

Figure 1: The role of management and external audit



The challenges created by J-SOX

The J-SOX internal control framework was developed based on the Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework.

This is the framework widely used in the US-SOX program.

Where J-SOX differs, is that the additional objectives of 'Safeguarding of assets', and an element of 'Response to IT' have also been included. (see Figure 2 overleaf)

To comply with this, users and adopters of J-SOX therefore have to additionally focus on these areas in their assessment.

A company's management will have to assume additional responsibility in the assessment of Internal Control Over Financial Reporting. They must therefore have a high level of confidence in the information they receive that supports any assertion they make.

Adding to the complexity of the J-SOX requirements are the "risk and controls" concepts. As most users are first time adopters, they lack both the technical capacity as well as implementation experience; which are critical factors for success in a successful J-SOX Implementation Program.

Figure 2: Basic Framework of Internal Control

The internal control subject to audit is the internal control over financial reporting (ICOFR)



With the tight labour market expected to continue, the key challenge facing implementation would be to fill both the knowledge gap as well as the resource gap for the execution of the program.

Adding to this difficulty is that the timeline for compliance is tight, and achieving an adequate return on the investment required for compliance is uncertain.

Why KPMG?

In response to the requirements of J-SOX, users and adopters are focusing their efforts on increasing awareness within their organisations in preparation to adopt J-SOX.

Ensuring that your key business issues are being effectively addressed can have a significant impact on the successful implementation of J-SOX in your organisation.

KPMG has a deep understanding of the requirements of J-SOX as well as the necessary know-how to advise you on the implementation of J-SOX.

Our experience with US-SOX enables us to anticipate difficulties you may encounter, to create a more effective, efficient and smoother implementation process for your organisation.

How KPMG can help

KPMG has established teams dedicated to assisting users and adopters in understanding both the complex requirements of J-SOX, as well as to fill the resource gaps necessary to implement J-SOX within a tight timeline.

We can effectively assist you by providing your staff with the appropriate training required, documenting your processes and internal controls, testing the design and operating effectiveness of your internal controls and identifying deficiencies.

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