

Naibutousei is Japanese for “SOX”

ADVISORY

“Naibutousei” is a new internal control standard for Japanese listed companies. It requires publicly traded corporations to assess and audit their internal controls over financial reporting (ICOFR). Naibutousei is effective for fiscal years commencing on or after 1 April 2008.

The subcommittee on Internal Controls of the Business Accounting Council at the Japanese Financial Services Agency (FSA) issued an official English translation of the standard in February 2007 to help establish a common global understanding of the new requirements.

The challenge

Naibutousei is unofficially known as J-SOX due to its resemblance to the Sarbanes-Oxley Act (SOX) passed in the United States in 2002. This could raise concerns as to the cost and effort required to comply with Naibutousei, since SOX led to major costs being incurred by many companies.

Our approach

KPMG can assist your company in achieving J-SOX compliance status by

- Using top-down and risk-based planning for the compliance process
- Placing greater reliance on company-level controls and IT controls while limiting detailed testing of process level controls
- Focusing on key processes with a significant impact on financial reporting, such as accounts of purchase, sales and inventory.

Our advisory approach has proved to be both effective and valuable to clients in numerous J-SOX and US-SOX implementation projects.

- At first, we identify the steps required by your company to achieve full J-SOX compliance.
- Our modular project structure allows us to offer advisory services at every stage of the implementation process.
- We provide multi-disciplinary, cross-border teams of member firm professionals with detailed industry sector knowledge.
- We assist your implementation project by focusing on key controls and by setting up an appropriate project plan, a customised process landscape and practical process documentation.
- Our structured approach helps to ensure consistency across global operations, allowing you to manage your internal control structure centrally.



- 1 Increased transparency
- 2 Identifying “better practice”
- 3 Setting the right priorities

Potential benefits

At first glance, becoming J-SOX compliant is only a regulatory requirement. But your company can generate some significant benefits from the implementation process:

- Identifying “better practice”: By analysing processes across different divisions or subsidiaries, corporations can determine those controls and control automations that serve as models for optimisation and standardisation.
- Increased transparency: With professional documentation of processes, risks and controls, management can gain valuable knowledge about corporate operations as part of their compliance efforts.
- Setting the right priorities: A professional control documentation provides sufficient insight to identify areas where business process improvement would be most important.

It is clear that Naibutousei presents management with a number of challenges. We hope this document offers management, directors and audit committee members a useful perspective in meeting these challenges. If you are interested in KPMG support for J-SOX compliance, as audit or nonaudit client, please contact the Naibutousei support team.

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