



AZSA Quality 2021/22

Initiatives for Enhancing Audit Quality

October 2021


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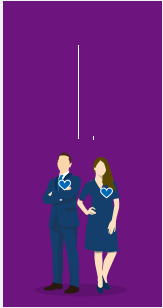
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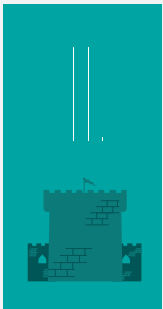


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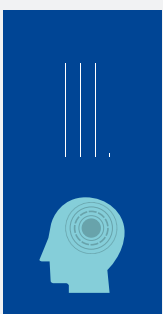
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Toshiya
Mori

KPMG AZSA LLC
CEO

Everything We Do Is to Inspire Confidence

The COVID-19 pandemic has brought about dramatic changes in the social and economic environment in which companies operate, and the end of the pandemic is still not in sight. The future is becoming increasingly uncertain, and we have had to revisit industrial structures and the way we conduct global business. There has also been a heightened need for companies to drive their digitalization and sustainability agendas, while work styles and values continue to diversify. In these challenging times, at KPMG AZSA we continue to pursue our Vision to be the Clear Choice. In other words, we aim to be a firm that is trusted and chosen by our clients, society, and all other stakeholders, now and in the future, by providing outstanding services. We acknowledge that we cannot achieve our Vision without each and every one of our people upholding high ethical standards. Starting with tone at the top, we are committed to ensuring that our people not only maintain but continue to improve their awareness of ethics and compliance. In response to rapid changes in our environment, we are ready to implement bold measures and reforms that place trust at the core of all conduct. We will provide high-quality audit services that meet the expectations of our clients and society in general, thereby contributing to the growth of the economy.

M e s s a g e

Message from Our CEO

Pursuing Audit Quality Is Our Top Priority

At KPMG AZSA, we place the utmost priority on providing audit results that can be relied upon by our clients and by society. Audit quality is the basis of the trust placed in us as an audit firm. To ensure that no matters arise that surprise the market, our pursuit of enhancing audit quality is a mission without end.

Understanding the Changing Business Environment

Changes are happening at a fast pace, and sector-specific issues are coming to light as future risk continues to increase in various industries. We need to have a deeper understanding of businesses and communicate with our audit clients more than ever before in order to enhance our audit quality. Many companies are now facing unprecedented challenges, especially pertaining to the pandemic and to climate change. We will strengthen our system for collecting specialized industry and sector information, and collaborate as KPMG in Japan to provide timely value-added insights regarding such challenges. We will also continue to help our clients strengthen their governance of overseas offices by exploiting our strong global network/KPMG's strong global network and capabilities. The COVID-19 pandemic has led to an irreversible acceleration of digital transformation. As this trend continues to progress, we will be utilizing our KPMG Clara audit platform to provide added value and improve operational efficiency through the digitalization of audit work.

Addressing Heightened Social Needs

There has been a growing need in recent years for organizations to drive sustainable enhancement of audit quality. Following the revisions made to the Quality Control Standards for Audit, the International Standard on Quality Management (ISQM) will come into effect in Japan in stages from July 2023 as a way to ensure organizations make further improvements in audit quality. At KPMG AZSA, we have been working closely with our global network to comply with the revised quality control standards for audit in Japan prior to the adoption date.

Non-financial information is also becoming important in line with the growing urgency of global climate change and ESG initiatives. The time has come when companies can only fulfill their accountability by addressing stakeholder needs relating to non-financial information in addition to financial information. We will continue to provide high value-added audit services based on a thorough understanding of the accountability expected of our clients. We will also utilize KPMG's global network of member firms and various international organizations to obtain a deep understanding of the true necessity of the information in question, upon the basis of which we will utilize the know-how of countries leading in this field and provide high-quality information and services to meet society's needs.

Fostering Talent

Audit quality is made possible by our talent. We will promote diversity in a comfortable working environment under the new normal, and foster a corporate culture in which people with diverse values can speak freely and attain their full potential. We will continue to strengthen our ongoing initiative to foster global talent by further utilizing KPMG's global network. We will focus on the AZSA Digital Academy (ADA) again this year to promote digital transformation at audit sites and achieve "thinking audits using digital technology." The ADA is a talent development program dedicated to improving the digital skills of all firm members. And we will also collaborate with KPMG in Japan colleagues to gain sector insights and respond to the expectations and needs of our clients and society in relation to digitalization.

Our Purpose

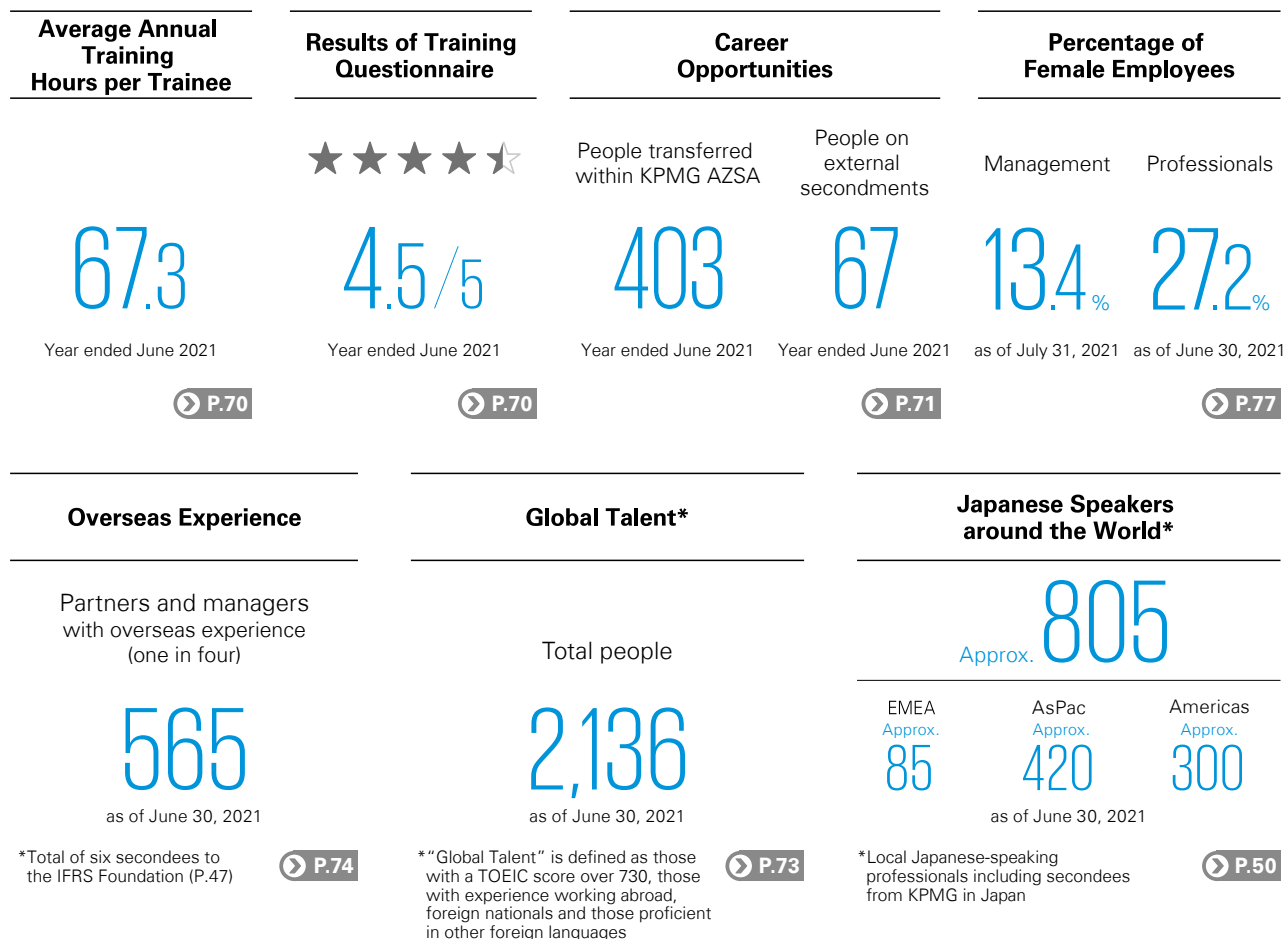
Our purpose at KPMG AZSA is to inspire confidence and empower change in all we do. We value our relationships with our clients as they seek sound growth while acting with integrity, and we fulfill our responsibilities by providing services that live up to the trust placed in us by our clients and society. At the same time, it is our goal to remain trusted by our clients and members of society. At KPMG AZSA we believe that staying true to our purpose will contribute to a sustainable society.

Audit Quality Indicator

Our Initiatives for Audit Quality Viewed from AQI



Investments in Talent



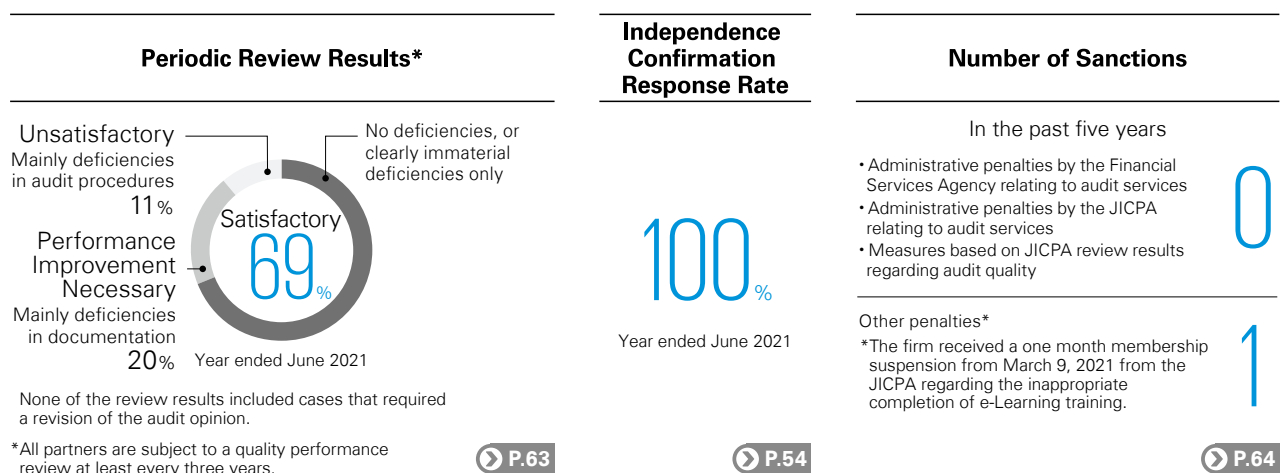
*Total of six secondees to the IFRS Foundation (P.47)

**"Global Talent" is defined as those with a TOEIC score over 730, those with experience working abroad, foreign nationals and those proficient in other foreign languages

*Local Japanese-speaking professionals including secondees from KPMG in Japan



Quality Performance Review Results



KPMG AZSA continually strives to enhance audit quality. As a part of our effort to establish policies and measure outcomes, we refer to certain Audit Quality Indicators (AQI), quantitative information related to factors that are thought to have an impact on audit quality.



Promotion Status of Digital Audit

Digital Investments*

Total for FY's ended June 2021

Approx.
7.6 billion yen

Budget for FY ended June 2021

10.1 billion yen

*Figures are for KPMG in Japan and include IT system-related costs

Digital Talent

Digital Meisters*

723

as of September 30, 2021

Aiming to foster over

2,500

Digital Meisters in the short term

*Talent at the core of our digital transformation

➤ P.14 P.75

Digital Tools Usage

Year ended June 2021

KPMG Clara client Collaboration Usage Rate
Used by over

1,000 companies

of which **80%** are listed

*Including usage of initial framework

companies use data analysis tools

680 listed

companies use audit support tools

739 listed

DisclosureBot_ai

cases processed

Over **7,000**

eAudit/KPMG Clara workflow

Used for **100%** of statutory audits

Group Company Analytics

Used by over

300 companies

➤ P.9 P.11 P.12



Status of Audit Offices

Average Annual Audit Hours*

2,032 hours

Year ended June 2021

*Audit hours calculated based on audit members belonging to the firm for the entire year

➤ P.44

Centralization of Balance Checking (ADC/ACC usage rate)

79.3%

Year ended June 2021

➤ P.44

Composition of Professional Workforce and Average Years of Experience

Partners and Directors
13.0% **695** **21.3**

Managers
23.2% **1,259** **13.5**

Other Professionals
63.8% **3,459** **4.7**

Year ended June 2021

Headcount of the Quality Assurance Headquarters

As a percent of total professionals

281

as of June 30, 2021

➤ P.46

Composition of Professional Workforce and Average Years of Experience

Willingness to contribute to KPMG AZSA

74%

as of June 30, 2021

Percentage of respondents who answered positively

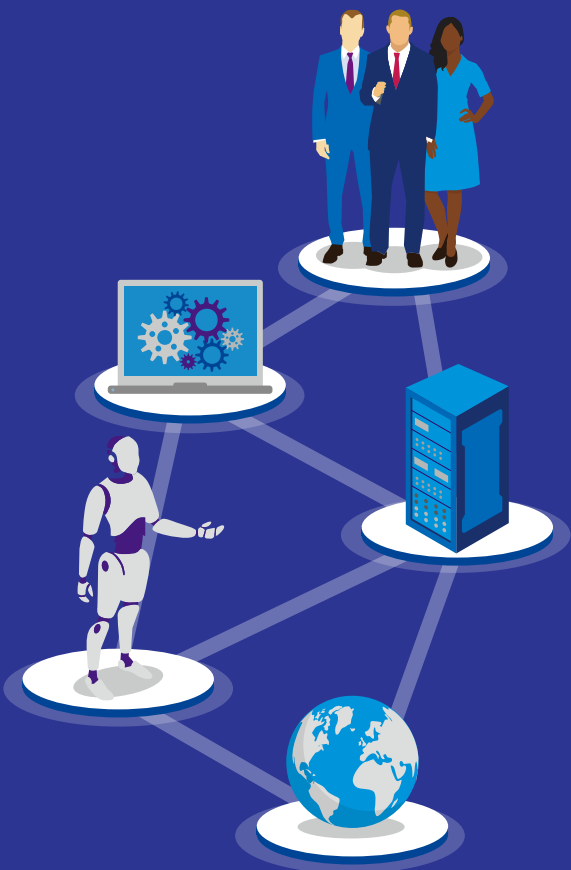
➤ P.78

➤ P.69

[Topics]

1

Audit transformation



AX envisioned by our firm

High-quality audits that meet society's expectations and earn trust Audit Transformation for Trust (AX for Trust)

Our purpose at KPMG AZSA is to inspire confidence and to empower change. In other words, we want to help create a more equitable society and contribute to the sound development of the economy. We acknowledge that we must continue to earn the trust placed in us by members of society in order to achieve this purpose.

A number of significant changes are underway which affect audit stakeholders. As the digitalization of society and companies accelerates and the sustainability of our environment becomes more and more urgent, companies are required to respond to new regulations one after another.

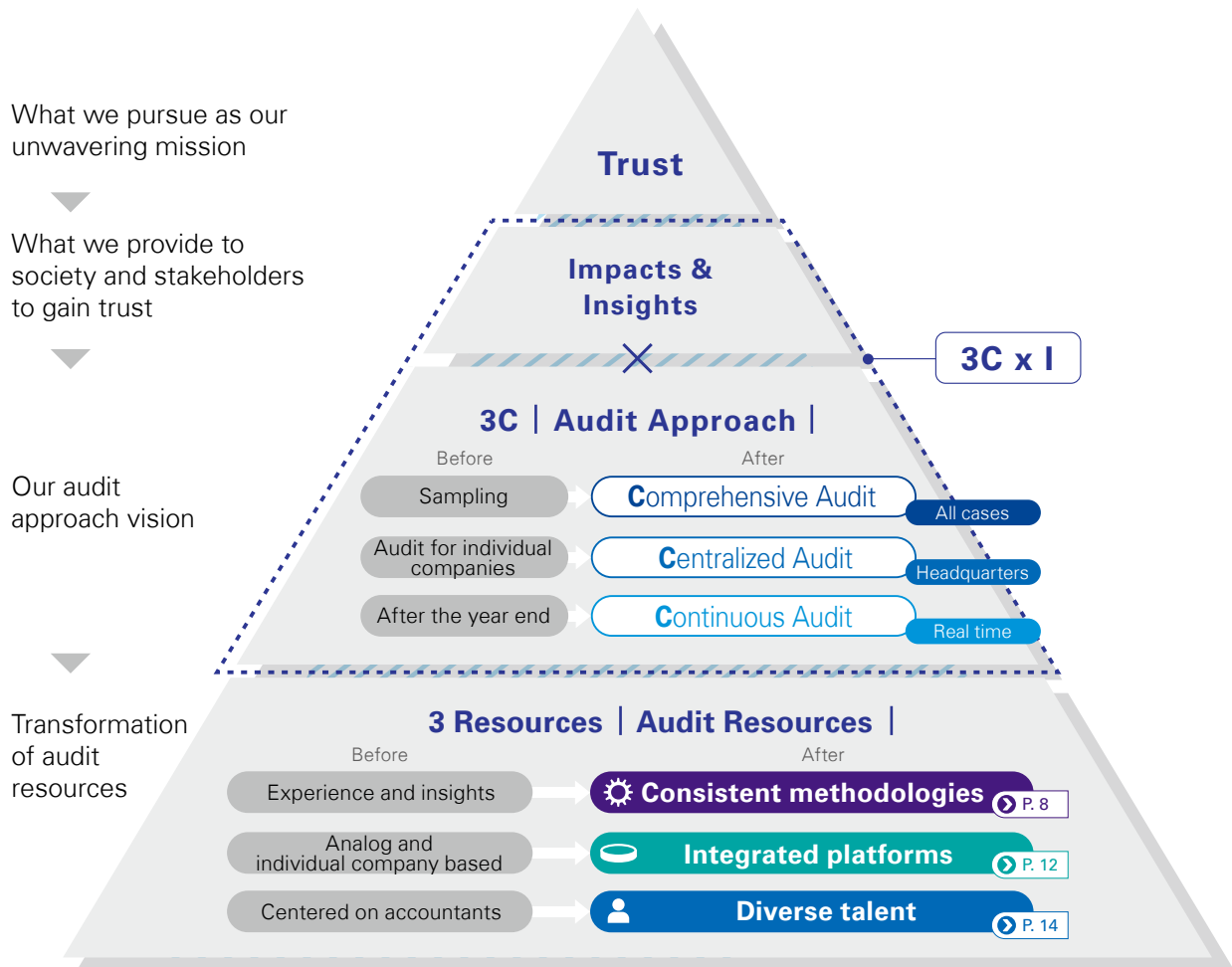
This has led to major changes in the expectations that society and stakeholders have for audits. They no longer expect audits to solely focus on not overlooking material misstatements due to fraud or error. They expect auditors to detect fraud at an early stage, contribute to governance, and reduce audit costs including through remote work.

Under the concept AX for Trust, KPMG AZSA is committed to a continuous transformation of our audits in order to meet the changing expectations of society.

Realizing 3C x I in our audits based on three resources

Through AX for Trust, we will continuously transform our three resources of methodology, platform, and talent using digital technologies including AI as major drivers of transformation and our global capabilities including our KPMG global network and insights.

We will work with our audit clients to implement an audit approach based on the 3Cs — Comprehensive, Centralized and Continuous. We want to have an impact on society and our audit clients by making the audit process more advanced, efficient and visualized, in addition to providing insights relating to the detection of fraud and error risk, strengthening of governance (compliance) and business improvement.



	Main drivers of transformation		
	Digital	Global	Others
Methodology	 P.8	 P.10	—
Platform	 P.12	 P.13	 P.13
Talent	 P.14	 P.14	 P.15

Comprehensive Audit

An audit that draws conclusions based on an analysis of the total data population using advanced technologies. It also analyzes consistency with relevant data, including non-financial data. This allows for comprehensive and accurate identification of anomalies that can be focused on as high-risk areas.

Centralized Audit

Where a parent company or shared service company centrally manages the data of domestic and overseas subsidiaries by standardizing core systems and data, and that data is analyzed and utilized for the audit by the parent company audit team. This makes it possible to gain a central understanding of risk and improve efficiency by aggregating audit procedures.

Continuous Audit

An audit in which data is analyzed and processed after data is extracted from the audit client's system each time there is a transaction using a data extraction program for auditing. This enables the early detection of anomalies and completion of audit procedures.

Methodology transformation



(1) Utilizing data and technologies such as AI

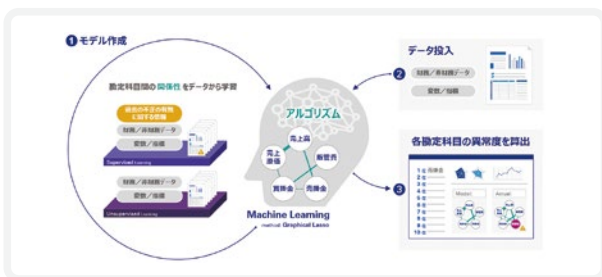
As DX progresses in society and business, the scope and volume of data that needs to be obtained and utilized in the auditing process is increasing day by day. Advanced technologies have made new audit methods such as AI data learning and future forecasting possible. As audits become more sophisticated, all data, rather than sample data, can be analyzed and scrutinized. AI will enable the early detection of anomalies and risks,

and shed light on areas requiring governance. A day-to-day analysis of real-time data will speed up the audit process and allow the timely provision of information. In addition, simple tasks that do not involve judgment will be automated.

Detection of fraud and error risk

Fraud Risk Scoring_ai

We have developed a tool to quantify the risk of corporate accounting fraud based on past fraud cases and restatements. Audit teams utilize this tool to help identify fraud risk.



KaizanCheckBot_ai

This tool processes images to reveal traces of edits made to electronic files such as PDF documents, and extracts and verifies file properties, leading to early detection of signs of tampering with electronic vouchers to prevent fraud.



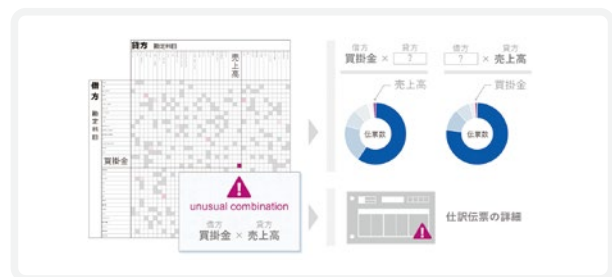
Strengthening governance

Group Company Analytics

P.10

Journal Entry Analytics_Lift Value

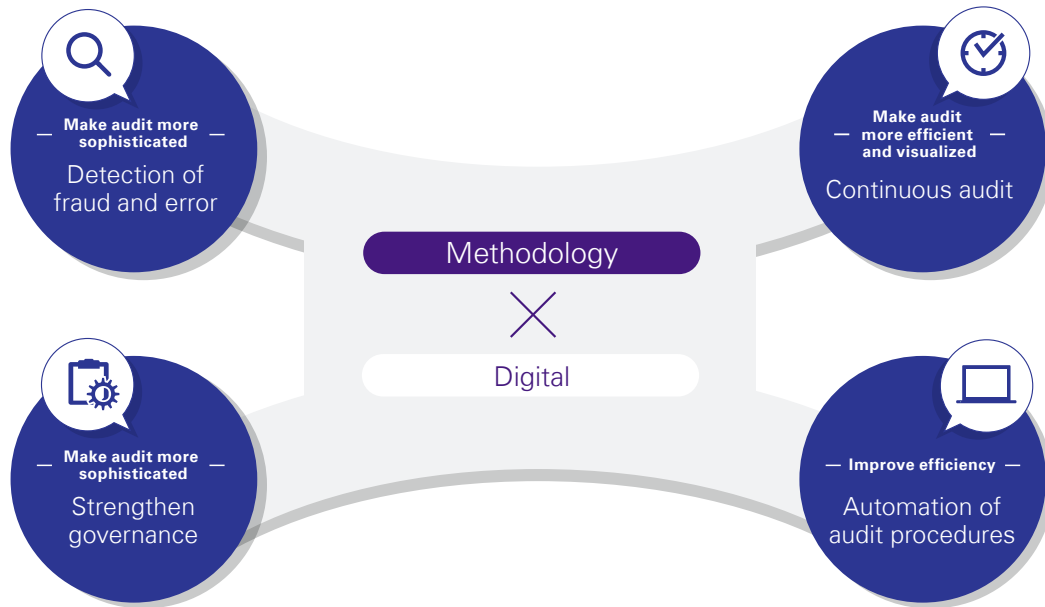
Based on an algorithm utilizing lift value indicating degree of relevance, we can identify journal entries that deviate from normal entry patterns, such as a combination of accounts. This enables us to promptly identify journal entries with risk in an objective way in addition to risk scenarios based on auditor insights, making our audits more sophisticated.



Process mining

This enables detection of high-risk workflows and processes that deviate from the rules by visualizing workflows based on data regarding business processes and providing a comprehensive and objective understanding of unexpected processes and transactions. It also makes it possible for us to reevaluate client business processes and support management with informed recommendations.

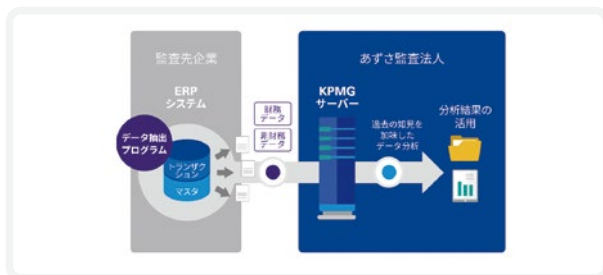




Continuous audit

Enterprise Data Analytics

Large amounts of data can be extracted in bulk from a client’s core business system and processed at high speed. Our analysts with insights into clients’ system data analyze this data from multiple angles. Increasing the frequency of data extraction will lead to performing future audits in real time. We can also build an analysis menu optimized according to journal entries, receivables, payables, etc., and conduct exploratory data analysis to detect anomalies at the line item level to strengthen governance.



Automation of audit procedures

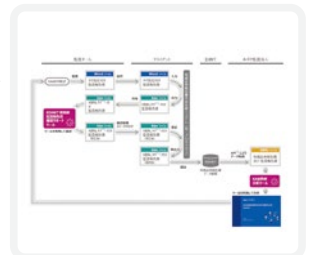
DisclosureBot_ai

This bot analyzes draft disclosure documents received from audit clients in PDF format, such as the financial statements’ accounting practices sections. It automatically verifies the accuracy of calculations, consistency between the main table and notes, and reconciliation of figures from the previous year. Used in over 7,000 cases between July 2020 and June 2021, this has helped reduce man-hours while curbing human error in the verification of disclosure documents.



Audit report KAM tools

We have developed a tool that allows audit teams to aggregate and analyze real examples of Key Audit Matters according to specified conditions, such as industry-based cases, after a sufficient accumulation of securities report and audit report XBRL data on EDINET.



We have also developed a tool for checking the accuracy of changes and differences in the text of audit reports and XBRL tagging. The use of this tool is being introduced for audits of financial statements from the fiscal year ended March 31, 2021.

Methodology transformation



Methodology



Global

(2) Audits of subsidiaries

Many parent companies face the challenge of how best to prevent, or detect and correct, fraud at overseas subsidiaries. At KPMG AZSA we thoroughly assess the risk of fraud and errors in subsidiaries and take steps to ensure the appropriate communication with our audit clients.

Specifically, we combine the Subsidiary Risk Assessment Questionnaire, a qualitative analysis, and Group Company Analytics, a quantitative analysis, to identify subsidiaries with issues in a timely manner. The parent company audit team then instructs the local audit team to carry out a detailed investigation of the identified subsidiaries, or in some cases the parent audit team visits the the local site to conduct the investigation directly. In addition to using the Group Company Analytics tool, the parent company audit team can directly view and analyze the local bookkeeping data of subsidiaries if the data is standardized and linked to the group's accounting system. This is an example of Centralized Audit, allowing centralized analysis and monitoring of subsidiary information by the parent company audit team, an approach that is increasingly effective in today's remote environment.

Qualitative analysis — Subsidiary Risk Assessment Questionnaire

Our Quality Assurance Headquarters has issued the Subsidiary Risk Assessment Questionnaire with the aim of understanding a subsidiary's business and the parent company's control over the subsidiary. The audit team carries out a risk assessment based on the questionnaire, and discusses any governance matters that may come to light with the audit client.

Understanding audit issues and progress of overseas subsidiaries

We have established a framework in which the parent company audit team can monitor the audit progress of subsidiaries across the globe, and have a timely understanding of key issues. Information collected is shared with audit clients as needed through KPMG Clara Client Collaboration to enable a coordinated response to issues.



Quantitative analysis – group company analytics

This tool conducts a comprehensive analysis of financial data of all group companies to identify high-risk areas for individual companies. It analyzes all financial data and quantifies the risks (scoring) of subsidiaries using statistical methods, thereby objectively exposing any abnormal fluctuations in the financials of a subsidiary. This allows a comprehensive risk assessment including for small subsidiaries not included in consolidated group audits. The monitoring also leads to strengthening the governance of our audit clients.

This analysis is applied to audit engagements with more than a certain number of subsidiaries. As of the end of September 2021, it has been used for over 300 companies, most of which are listed.

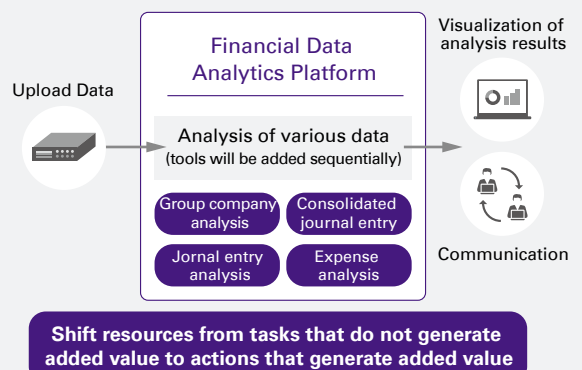


C O L U M N

Financial data analysis service to support accounting DX

Corporate DX initiatives are now being applied to the accounting function, not only to operations. Our Accounting Advisory Service (AAS) Division, comprising specialists in accounting, business processes and technology, plays a central role in supporting the DX of our clients' accounting departments.

In response to strong interest from clients, we have been providing a SaaS (Software as a Service) type service called Financial Data Analytics (FDA) since July 2020. The use of the service has been extended from the accounting function to business administration and internal audit. To meet client needs, we have been reflecting their feedback in the enhancement and development of new functions for the FDA tool, while utilizing the analytical know-how gained from our audit DX. We are also making improvements toward creating a format that allows each company to customize analysis according to the nature and risk of individual client businesses. We will help companies achieve data-driven organizations and businesses by supporting FDA and other accounting DX initiatives.



Platform transformation



(1) Digital platform: KPMG Clara

At KPMG AZSA, we use a digital audit platform called KPMG Clara to achieve 3C x I. KPMG Clara comprises three platforms: KPMG Clara for clients is a portal designed to make communication with audit clients efficient and secure; KPMG Clara analytics enables efficient and advanced analysis and audit procedures; and KPMG Clara workflow compiles audit approaches and working papers.

KPMG Clara for clients

KPMG Clara for clients is a more advanced version of KPMG Clara Client Collaboration that will be gradually rolled out from FY2021. KPMG Clara for clients allows users to exchange and manage the status of audit-related materials, upload data analysis results, list and track the progress of audit tasks and issues, and centrally manage audit results. All of this information is shared with audit clients at all times. Operability, speed and security have been improved, and we will continue to add and enhance functions in the future.

Automatic data acquisition and continuous audit initiative

We are developing a series of systems that are linked and wholly contained within KPMG Clara — this includes bulk data extraction from clients' core systems using a program for extracting data for audits, storing the data in KPMG Clara for clients, analyzing the data using KPMG Clara analytics, and incorporating the results into KPMG Clara workflow. We will aim to achieve Continuous Audit (real-time audit) by expanding this initiative and increasing the frequency of bulk data acquisition.

Robust security

KPMG Clara features robust security measures. It has in place two-factor authentication, access control, data storage and communication encryption, data center security verification, antivirus protection, and data backup and synchronization. KPMG AZSA's Information Security Department, ITS Operations Department, and ITS Development Department are ISMS certified and have a framework to ensure a certain level of CIA (confidentiality, integrity, and availability) for handling all information.

» Three main platforms on KPMG Clara



KPMG Clara for clients/ client collaboration

Online collaboration platform for interacting with audit clients

Usage rate
Total 1,000 clients
80% listed
*Including the same framework as before

KPMG Clara analytics

KPMG Clara analytics is an integrated data analytics platform that provides one-stop services from data extraction to analysis. It centrally stores individual data analysis tools such as Group Company Analytics and audit procedure tools that can be used by audit teams. At the same time, it stores common processing applications that can be used for data processing, enabling audit teams to conduct efficient data analysis and audit procedures.

Companies using data analytics (listed) 680
Companies using audit tools (listed) 739

KPMG Clara workflow

A platform for audit working papers incorporating an audit methodology that allows central management of audit procedures and their results. This is a new platform based on a new audit methodology called KPMG Audit Execution Guide, which takes a more in-depth risk approach.

Transitioning from eAudit to KPMG Clara workflow
Full roll-out from next year

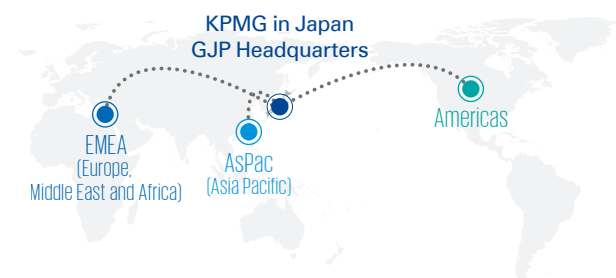
Platform × Global

(2) Global platform

The Global Japanese Practice (GJP) network comprises Japanese-speaking professionals including secondees based in 89 cities around the world. They support clients with collection in the respective countries of information on accounting, taxation and risk including government regulations. They also support the audits of overseas subsidiaries, maintaining and enhancing audit quality on a global level.

As a key member of the KPMG Global Board, KPMG AZSA has strong involvement in global conversations and decision-making on policies and initiatives. We also work closely to exchange information and collaborate with KPMG member firms across the globe, allowing us to take quick action when issues arise in group audits.

Particularly in the AsPac (Asia Pacific) region, KPMG AZSA partners serve as the AsPac Head of Audit and other key roles such as the Head of the Department of Professional Practice (DPP), which is responsible for interpretation and judgment of auditing and accounting standards.



Platform × Automated and centralized

(3) Continuous automation and centralization of operations

**Automation:
Use of RPA and other digital technologies**

Our audit teams working on-site and at headquarters are collaborating on promoting the automation of routine tasks that can be standardized using OCR technology, RPA and Alteryx. Audit teams are also working on gradually automating audit tasks from processing and analyzing data to drafting working papers.

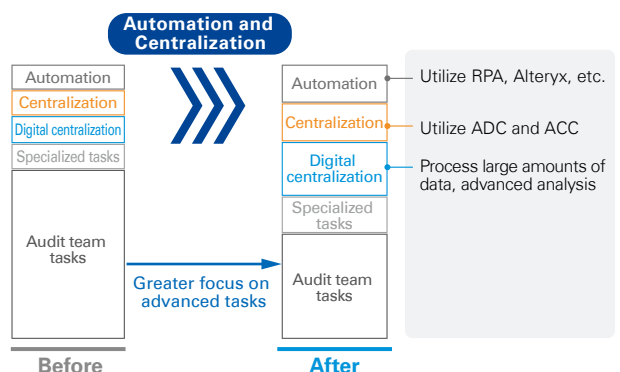
**Centralization:
Utilization of ADC, ACC, and DI divisions**

We centralize routine tasks for which automation is not currently suitable with the aim of improving efficiency and consistency. The AZSA Delivery Center (ADC), established within the Quality Assurance Headquarters, centrally manages routine tasks including sending and collecting balance confirmations, reconciling vouchers, checking financial statements and preparing audit instructions for overseas subsidiaries.

The ADC comprises diverse talent including non-CPAs and is contributing to the transformation of audit work.

We also established the Audit Confirmation Center GK (ACC) as a joint venture with three major Japanese audit firms in November 2008. The ACC works to digitalize balance confirmation procedures while centralizing and streamlining the tasks of sending and collecting paper confirmation letters.

The Digital Innovation (DI) Division centrally manages the processing of large amounts of data and analyzing journal entries. It undertakes everything from confirming the comprehensiveness of data received to processing data and visualizing analysis results.



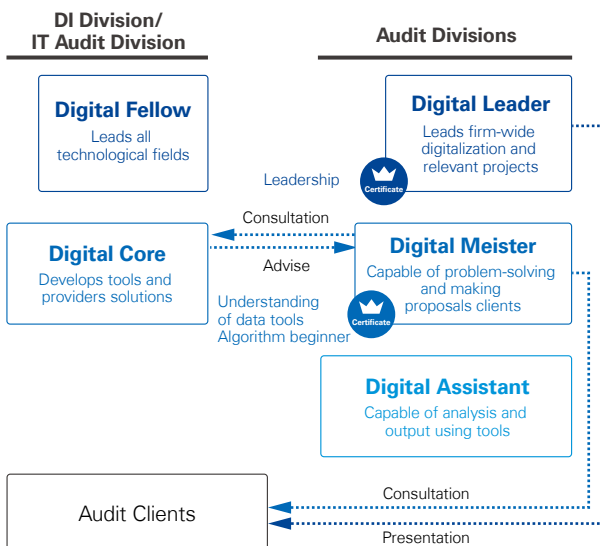
Talent transformation



(1) Improving digital skills – firmwide digital talent

We introduced the AZSA Digital Academy (ADA) in FY2020 as a digital talent development program to realize 3C x I at audit sites by utilizing technologies and data that continue to evolve at a rapid pace.

The ADA has defined the image of the future audit team and the hierarchy of digital talent and their respective roles. We developed an environment for systematic training and OJT based on a clarification of the roles and skills required for each hierarchical level. We have a particular focus on developing Digital Meisters, who play the role of leading audit DX within audit teams. As of the end of September 2021, 723 people have been certified as Digital Meisters.



We also introduced the Future Auditor Initiative in FY2021, a program for selecting accountants from among our Digital Meisters and developing talent capable of leading future audits in the digital age. Participants in this program will invest approximately 70% of their working hours over a two-year period to understand processes from a data perspective, analyze data, and promote audit automation while receiving instruction on digital core skills.



(2) Investment in global skills and experience

KPMG AZSA is committed to making continuous investments in the overseas work experience of our professionals. We currently have GJP network members based in North and South America, Europe, the Middle East and Africa, and the Asia Pacific region.

We are also expanding our secondment quota for young people, and have been offering an 18- to 24-month overseas assignment program called JUMP. Another three-month program called STAR has also enabled many young accountants to take on the challenge of working overseas. By sending more young professionals overseas, we are fostering talent rich in diversity.

We have also established business divisions for four regions of strategic importance to Japanese companies — China, ASEAN, India, and the Middle East and Africa — in addition to Country Desks managed by people with experience in approximately 30 countries, as a way to support local secondees from Japan.

Country desks now have more active and timely communication with local staff by holding meetings and other events online. A remote environment has enabled us to provide more regular regional updates and maintain better communication with regions than before the COVID-19 pandemic, enhancing our ability to provide high-quality services to Japanese clients.

In the digital domain, we are one of four major countries (Japan, the US, the UK, and Germany) leading digital strategies and initiatives on a global level and working together on product development.

We also continuously send our professionals to KPMG Global Solutions Group (KGSG), a KPMG international research institute that is actively engaged in information and technology exchange with other countries.

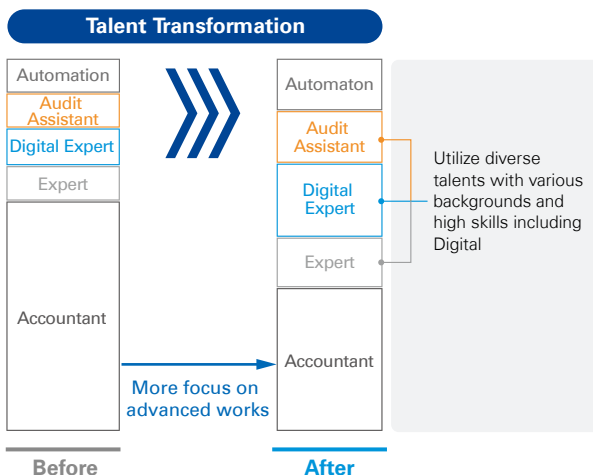


(3) Diversity leads to high-quality services

KPMG AZSA comprises not only certified public accountants but also specialists in various fields such as digital, cyber, finance, and real estate. We have a diverse workforce, including colleagues from overseas with different values as well as those who work under time constraints due to childcare and other caregiving responsibilities. A diverse environment in which we can all do our best work while recognizing and respecting individual differences is the most effective way to foster diverse perspectives, maximize the abilities of our talent, and improve the quality of our audits.

We are also implementing a broad range of talent development initiatives in order to foster talent capable of responding flexibly to rapid changes in the environment while providing high value-added services. In addition to continuous professional education for CPAs, we also provide global skills training, digital training, and people skills training.

The DI Division plays a central role in planning and developing data analytics and audit tools to make audits more sophisticated, efficient, and visualized. The division has many digital specialists such as data scientists, data engineers, and IT specialists in addition to CPAs. They work with KPMG Ignition Tokyo, a group of experts in advanced technologies such as AI and blockchain, to transform the audit process and develop audit platform solutions.

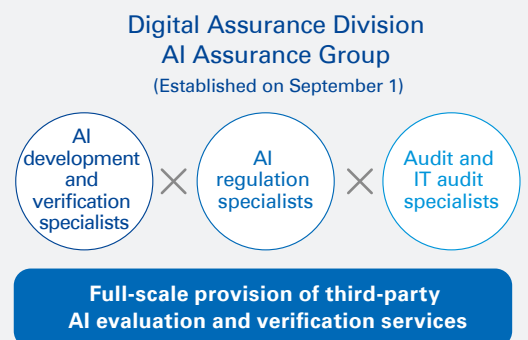


Column

Digital Assurance Office and AI Assurance Group established

As digital transformation progresses in the corporate world, AI is increasingly used in various business operations. With this comes the heightened need to ensure that AI is functioning appropriately by asking questions such as, "Is the AI performing as initially expected?" and "Is it producing unexpected results that interfere with fairness, for example due to inappropriate discrimination in processes or outputs?" It is also necessary to comply with regulations that will continue to become more stringent in the future.

KPMG AZSA has been providing a service to verify the readiness of AI to deal with potential risks using our extensive industry insights, and technology insights regarding cutting-edge AI. The service is based on KPMG's unique AI verification framework complying with domestic and overseas regulations and guidance. We newly established the Digital Assurance Office and the AI Assurance Group (AAG) — a group of AI assessment specialists — on September 1, 2021, with the aim of meeting client needs to assess and verify the effectiveness of governance related to risk management and AI quality control processes. The groups bring together specialists in AI development and verification, regulations in Japan and overseas, as well as accounting and IT audits with extensive experience in assurance services.



[Topics]

2

Initiatives to assure the reliability of non-financial information



I Current status of non-financial disclosures

Rising expectations for non-financial information

Initiatives to expand the disclosure of narrative information in securities reports have been in full swing from the fiscal year ended March 2020. There is also increasing focus on sustainability issues, including climate change.

Sustainability issues may not be linked to a company's cash flow. This makes it difficult for stakeholders to understand a company's situation based only on financial information, leading to expectations for further expansion of non-financial disclosures.

Changes in the environment

Rising expectations for expansion of non-financial reporting



Key points of revised auditing standards



The auditor is required, while reading the other information, to consider whether there is a material inconsistency between the other information and the financial statements or the auditor's knowledge obtained in the audit.



Remain alert for indications of material misstatements in other information.



Report in the auditor's report whether there are material misstatements in other information.

Revision of auditing standards for non-financial information

In response to increasing expectations for non-financial information, the Business Accounting Council of the Financial Services Agency announced the revision of auditing standards in November 2020. The revision makes the responsibility of the auditor stronger with respect to “other information,” or the parts of disclosure documents other than the financial statements and the auditor’s report.

“Other information” corresponds to what is referred to as non-financial information. The revised auditing standards clarify the auditor’s procedure for handling such information and require the auditor to include this in the auditor’s report.

KPMG AZSA’s response

In July 2021, KPMG AZSA established the Office for Promotion of Advanced Disclosures within the Quality Assurance Headquarters in response to the greater responsibility auditors are expected to have in the expansion of non-financial reporting.

We will fulfill the responsibility expected of auditors with regard to non-financial reporting based on the knowledge accumulated in the Office for Promotion of Advanced Disclosures.

» New audit reports on other information

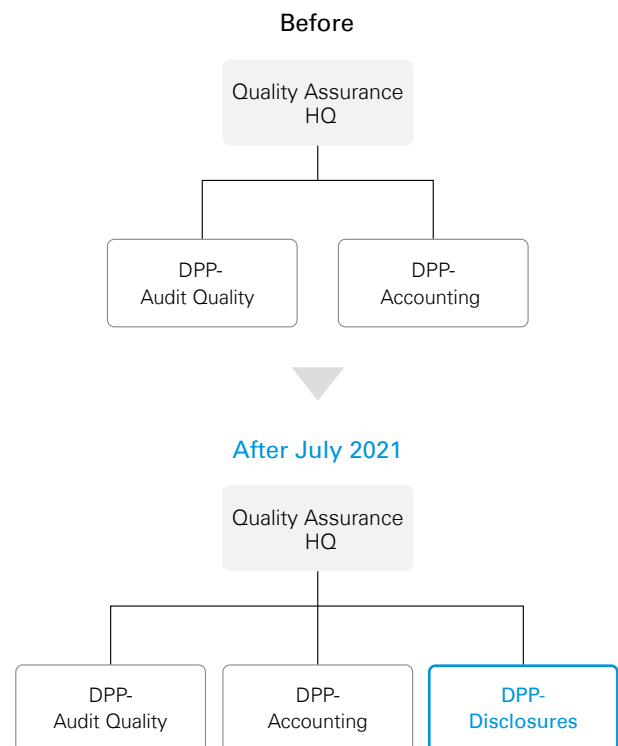
Auditor’s report

Other information
(Omitted)

Our responsibility in the audit of the financial statements is to read the other information and, in doing so, *consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the audit, and to remain alert for indications, apart from any material inconsistencies, that the other information may be materially misstated.*

If we conclude that there is a material misstatement of this other information based on the work we have performed on the other information obtained prior to the date of this auditor’s report, we are required to report that fact. *Our firm has nothing to report in this regard.*

» Systematic response at KPMG AZSA



II Responding to enhanced sustainability reporting

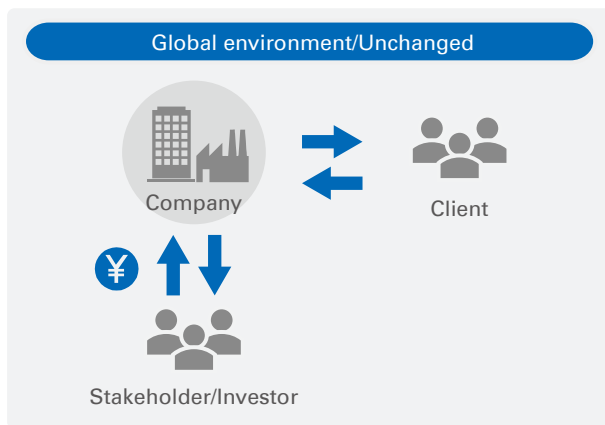
Growing interest in sustainability issues

Interest in ESG has been growing since the Principles for Responsible Investment (PRI), adopted as a United Nations initiative in 2006, announced its initiative to expand ESG investments.

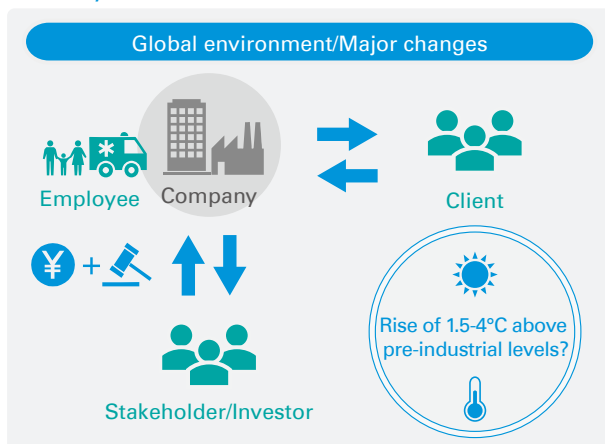
Rapid changes recently happening in the corporate and social environment have led to further interest in ESG.

» A change in interest in sustainability issues

Before



Recent years



Survey by the World Economic Forum

The World Economic Forum releases an annual report on global risks. While environmental matters were not in the top five for any items in the 2010 report, they dominated the top five in both "top risks by likelihood" and "top risks by impact" in the report published in January 2021.

» ESG risks

2010

No matters relating to the environment

Major change

2021



Source: Global Risk Report 2021 – The World Economic Forum

Trends in Japan and overseas toward expanding sustainability reporting

With the growing attention on sustainability issues, there is heightened interest in the disclosure of sustainability information by companies. In light of this, many countries are implementing initiatives for sustainability reporting at a rapid pace.

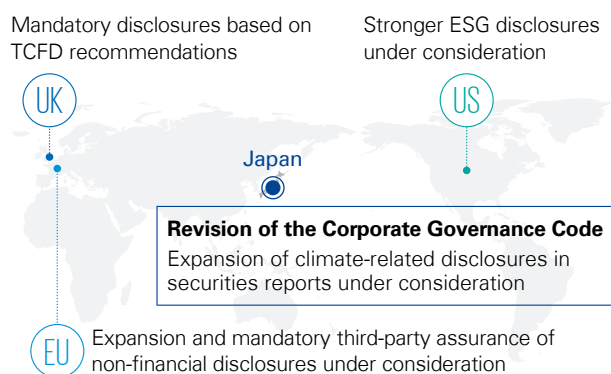
In Japan, the Corporate Governance Code revised in June 2021 requires companies listed on the Prime Market to disclose sustainability information. The Code stipulates in particular that these companies need to enhance the quality and quantity of disclosure on climate change risks based on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) or an equivalent framework.

The Follow-up on the Growth Strategy was approved by the Cabinet in June 2021, and in line with this, the Working Group on Corporate Disclosure of the Financial System Council has been considering the expansion of disclosures in the annual securities report since autumn 2021.

Main issues under consideration

- Disclosure of climate change risk
- Disclosure of human capital investment
- Disclosure of Board of Directors activities

» Sustainability reporting trends in Japan and overseas



Column

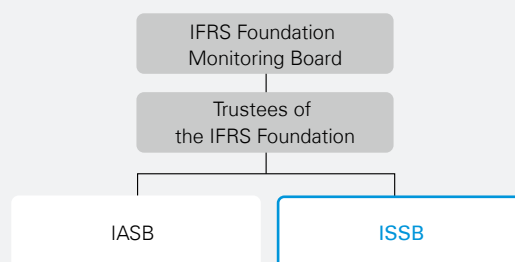
Responding to the establishment of the ISSB

Non-financial reporting had been voluntary in the past. However, sustainability information now plays a major role in investment decisions given the urgency of sustainability issues, and initiatives to enhance institutional disclosures have been made at a rapid pace in recent years. In order to meet such changes in investor needs, there is also a growing move toward globally consistent sustainability reporting.

In particular, the IFRS Foundation, under which the International Accounting Standards Board (IASB®) is organized, is considering the establishment of the International Sustainability Standards Board (ISSB), and an announcement is expected to be made before COP26 in November 2021. It remains to be seen what form the ISSB will take, but we believe that the ISSB will be recognized globally given the strong support expressed in the statement of the G20 Finance Ministers and Central Bank Governors Meeting held in July 2021, as well as the strong endorsement from the International Organization of Securities Commissions (IOSCO), of which the FSA is a member.

In light of this, sustainability reporting standards developed by the ISSB are expected to be applied worldwide especially among listed companies, in the same way that IFRS® standards were applied in the field of financial reporting.

» Positioning of the ISSB



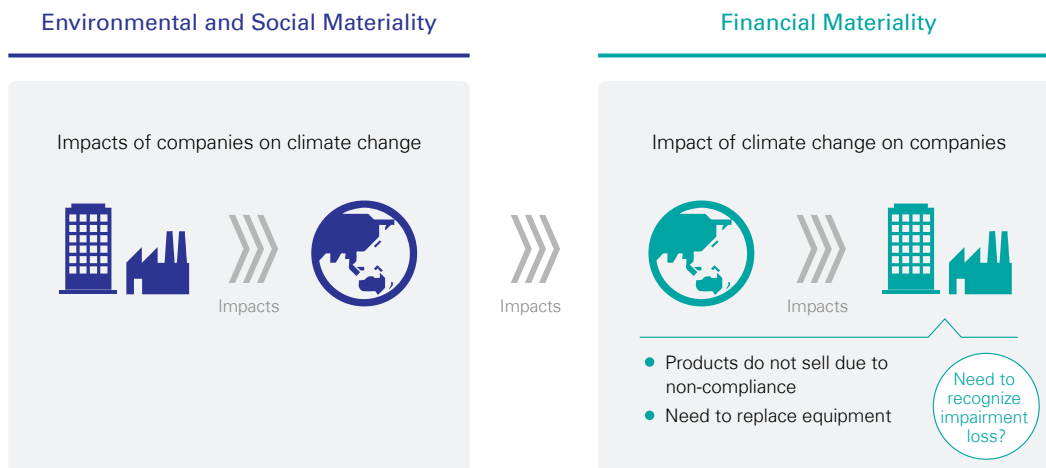
II Responding to enhanced sustainability reporting

Changes in audit approach in light of the urgency of sustainability information

The growing interest in sustainability issues and information has had a significant impact on audits. The reason for this is that while, for example, climate change risk may not have a significant impact on a company's business activities in the short term, it is likely to have an impact over a different time horizon (see the speech by Mark Carney, *Breaking the tragedy of the horizon — climate change and financial stability* (September 2015)).

For example, a disaster due to climate change could cause significant damage to a plant that is currently operating normally (manifestation of physical risk). Or a product sold by a company may be pushed out of a market on the basis that it goes against the Paris Agreement over the life cycle of the product, resulting in a loss of the product's portfolio (transition risk).

This may also force companies to be cautious about the recognition of impairment loss on plants that previously did not require the recognition of such loss.



Sustainability issues including climate change can have a significant impact on a company's financial statements over different time horizons.

! Care also required in audits

Providing assurance services for sustainability information

Sustainability information now needs to be more reliable than ever, and market participants and society are demanding that companies provide third-party assurance for this information. In the proposed Corporate Sustainability Reporting Directive (CSRD) published in April 2021, the EU will significantly expand the scope of sustainability reporting, and in principle, require companies to use assurance services by a statutory auditor or audit firm.

In light of these changes, at KPMG AZSA we believe that we need to respond to the needs of market participants and society in a timely and appropriate manner in order to fulfill our mission.

KPMG AZSA’s response — Establishment of the Sustainable Value Headquarters

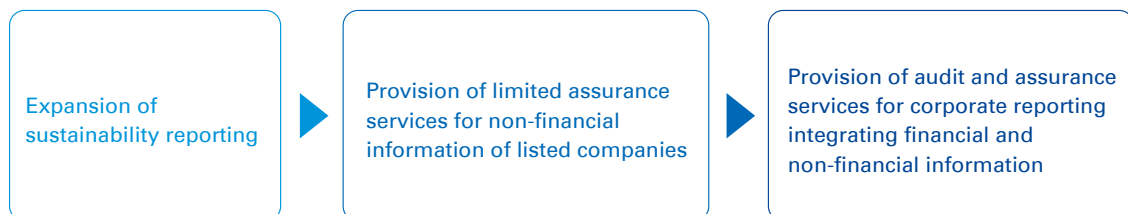
In recognizing the urgency of sustainability reporting, KPMG AZSA established the Sustainable Value Headquarters in July 2021. We are strengthening our structure to provide advisory services related to sustainability and to share information and opinions both inside and outside the firm.

At the same time, we are making preparations toward providing assurance services for sustainability reporting while ensuring sufficient quality as an audit firm, based on insights gained from our KPMG network.

Future vision: Corporate reporting integrating financial and non-financial information and the role of audit firms

In recognizing the urgency of sustainability reporting, KPMG AZSA established the Sustainable Value Headquarters in July 2021. We are strengthening our structure to provide advisory services related to sustainability and to share information and opinions both inside and outside the firm.

At the same time, we are making preparations toward providing assurance services for sustainability reporting while ensuring sufficient quality as an audit firm, based on insights gained from our KPMG network.



Message

Message from Our Head of Quality Assurance

Inspiring confidence in the economy and society by providing high-quality services, and supporting the challenges of our clients and society

Our Purpose

Our purpose is to inspire confidence and empower change in all we do.

Audits are the core service of KPMG AZSA. We believe that our mission is to secure the reliability of financial information from an independent standpoint through our audits, while contributing to the transformation of our clients and society toward achieving sustainable growth.

Japan's capital markets have recently undergone various reforms to ensure their soundness and transparency (enhanced disclosures). Narrative information is being enhanced by such measures as the restructuring of the Tokyo Stock Exchange into new market segments and corporate governance reforms focusing on corporate value. Society is paying more attention to non-financial factors that impact corporate value, such as climate risk. Non-financial information is now

an important element of corporate value that investors look at, in addition to financial factors. Non-financial reporting is expected to be further enhanced in order to ensure its effectiveness and comparability.

In light of these circumstances, we will support the transformation of companies based on our outstanding expertise, capabilities, and experience. We also hope to contribute to the design of capital market policies by providing recommendations and opinions to society.

Our Vision

Based on our purpose, we strive to perform high-quality audits in order to achieve our Vision to be the Clear Choice of our clients, society, and all other stakeholders, now and in the future.

The most important resource for achieving our Vision is our people at KPMG AZSA. Our

people will acquire global, digital and sector insights and apply them as appropriate. They will act autonomously based on what is essential and what needs to be accomplished. We believe our firm will be made stronger by each of our professionals developing their skills in this way. We also have the highest standards of auditing methodologies in the world, based on which we have built a global network and insights, capabilities and experiences to serve global clients over the long history of KPMG AZSA.

We have also been developing digital platforms and tools to conduct in-depth analysis supported by robust security as a means of making our audits more sophisticated. KPMG AZSA, together with the entire KPMG in Japan Group, has developed a system to enhance our expertise by consolidating and accumulating advanced insights in sectors and industries.

We apply such resources to our audits and provide output in the form of auditor reports on capital market information. We will pursue an ecosystem implementing a virtuous cycle that produces a positive outcome of trust, by making further improvements to enhance our audit quality based on feedback from companies and market participants in the process leading up to the release of our auditor report.



Toshihiro
Otsuka

Executive Board Member
(Head of Quality Control,
Head of Risk Management)

Organizational Foundation

KPMG AZSA's audit quality is founded
on a shared basic principle,
an open corporate culture,
a strong governance structure and
the firm's four defense lines.



1. Basic Principles and Corporate Culture

Our shared basic principles and open corporate culture serve as the cornerstone for the foundation of audit quality at KPMG AZSA.

1-1. Shared Basic Principles That are the Foundation of Our Audit Quality

Purpose: This is why we are here

Inspire Confidence,
Empower Change.

Through our audit and accounting services, we will ensure the reliability of information while driving positive transformations and contributing to the realization of a fair society and sound economy.

Values: This is what we believe in

Integrity

We do what is right.

Excellence

We never stop learning and improving.

Courage

We think and act boldly.

Together

We respect each other and draw strength from our differences.

For Better

We do what matters.

Vision: This is what we want to be

The Clear Choice

KPMG AZSA aims to become The Clear Choice for the public, our clients, and our people by relentlessly pursuing quality in our services.

1-2. Management from Diverse Backgrounds

At KPMG AZSA, we have a history of people with diverse experience and knowledge and from various corporate cultures coming together through repeated mergers with various audit firms.

Our current management comprise people from several different firms who make use of their diverse backgrounds in executing management tasks.

We have been implementing regular and continuous structural reforms in order to allow our management themselves to exemplify diversity, while providing an environment that allows our people with various backgrounds to come together and exert their full potential.

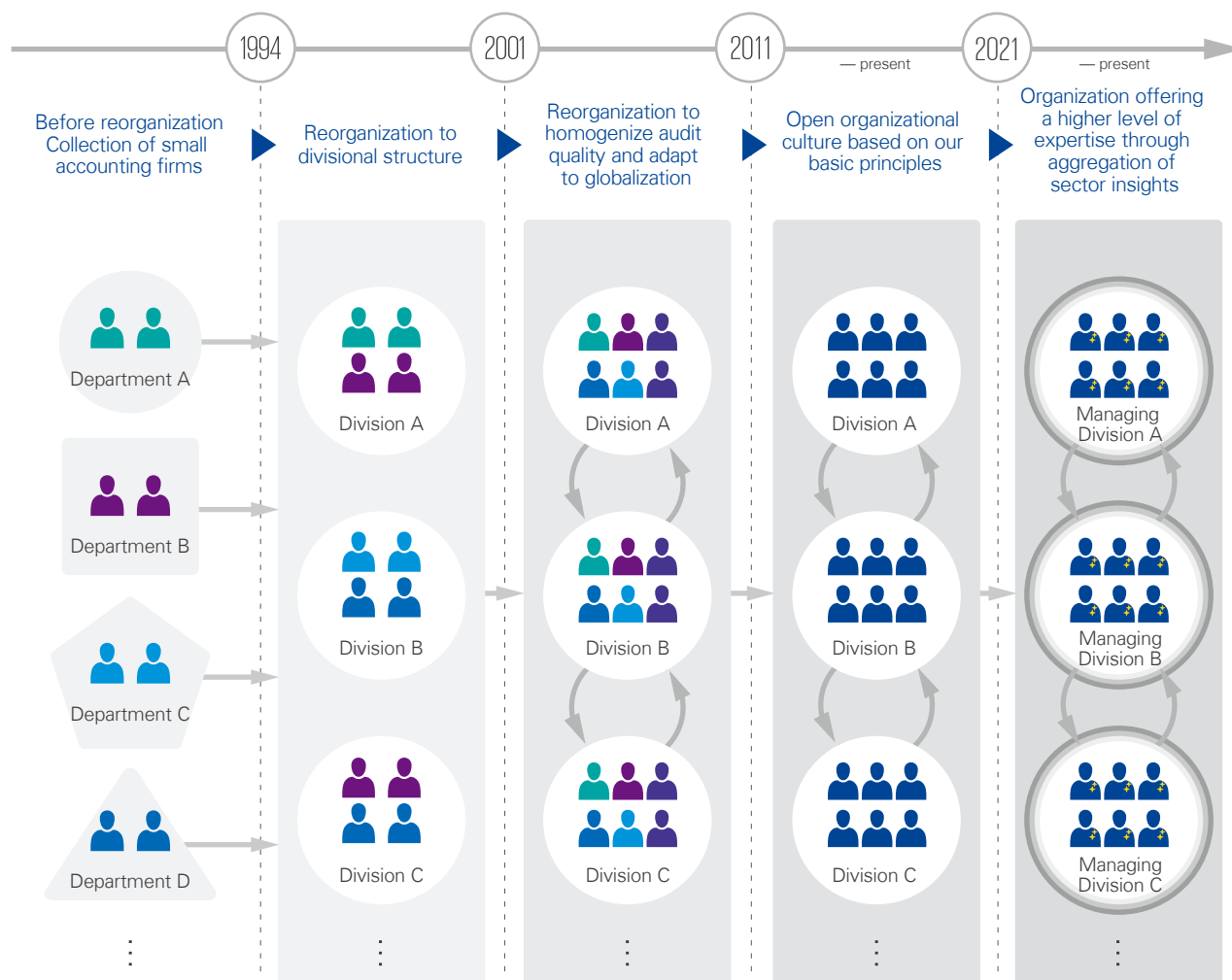
In 2021, we restructured our audit divisions with the aim of further enhancing our level of expertise by consolidating sector insights.

1-3. A Corporate Culture Encouraging Free and Open Communication

At KPMG AZSA we have a corporate culture of encouraging free and open communication.

As previously mentioned, in addition to our background of merging with a number of firms to become the firm that we are today, at KPMG AZSA we follow the conduct guidelines of Courage (we think and act boldly) and Together (we respect each other and draw strength from our differences) as a member firm of KPMG International.

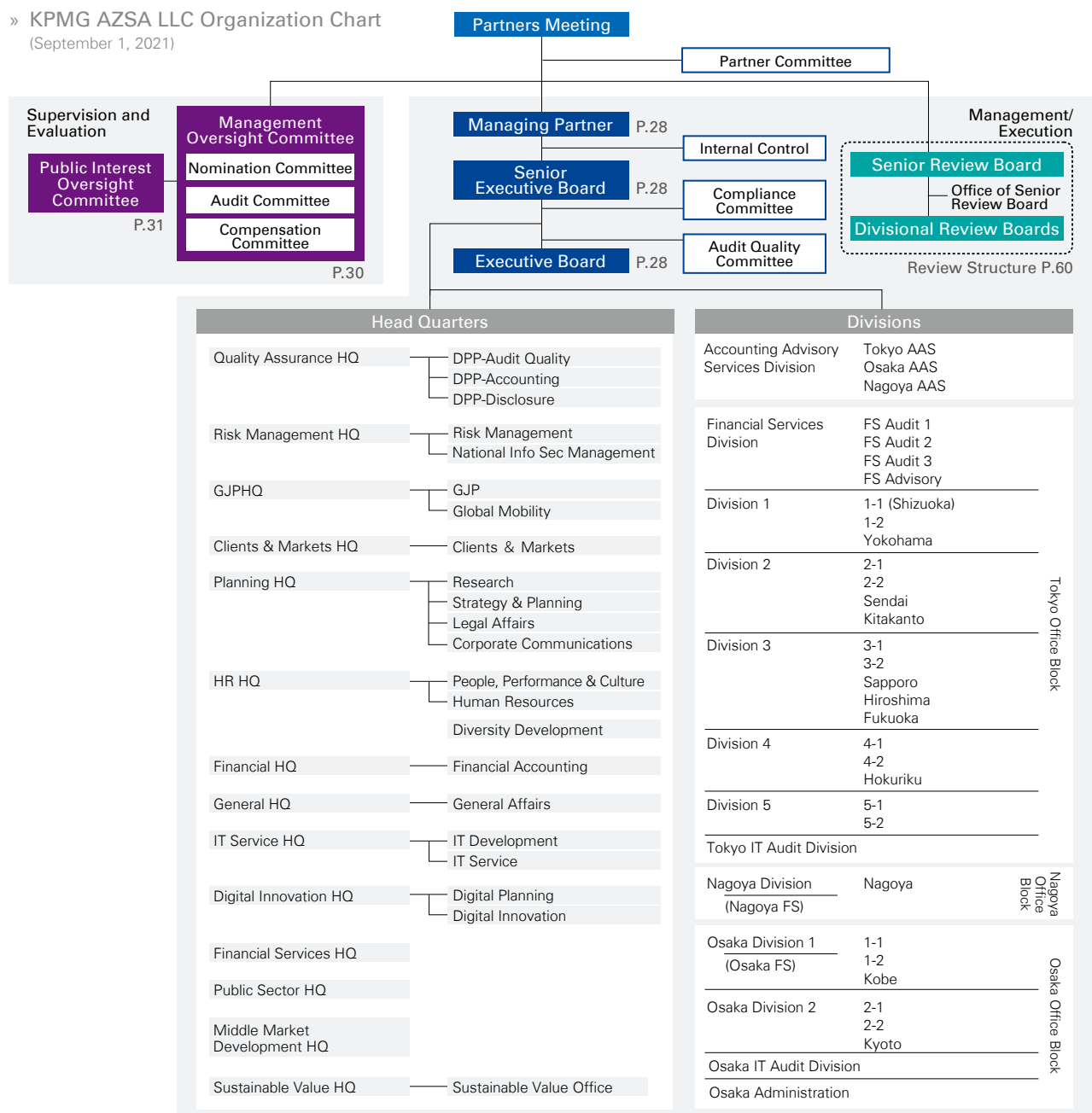
» History of Organizational Reforms



2. Organization and Governance Framework

KPMG AZSA is a limited liability audit corporation managed by partners who are shareholders with authority over operational execution. Our governance framework comprises the Partners Meeting as the supreme decision-making body, the Senior Executive and Executive boards, and a supervisory and evaluation body.

» KPMG AZSA LLC Organization Chart
(September 1, 2021)



2-1. Management/Execution, Supervision and Evaluation

KPMG AZSA is a limited liability audit corporation managed by partners who are shareholders with authority over operational execution.

KPMG's governance framework comprises the Partners Meeting as the supreme decision-making body; the Senior Executive Board, as a decision-making body for management affairs; the Executive Board, as the body responsible for the execution of matters decided by the Senior Executive Board; and, the Management Oversight Committee, as a supervisory and evaluation organization. Additionally, there is the Public Interest Oversight Committee, an independent supervisory body, which supervises management from the standpoint of the public interest.

Furthermore, we have audit and advisory divisions providing professional services, which are supported by headquarter operations.

*For a limited liability audit corporation, partners bear unlimited liability only for the audit report they have signed. While this organizational structure reduces the liability of partners, enhancement of the audit corporation's financial base, enhancement of disclosures, and registration with the Prime Minister are mandatory.

2-2. The Partners Meeting as the Supreme Decision-making Body

The Partners Meeting comprises all partners and adopts resolutions on important firm matters in addition to matters set forth in laws and regulations and the articles of incorporation, as the supreme decision-making body.

Nomination Committee

The Nomination Committee is composed of the CEO, Senior Executive Board members, and Chairman of the Senior Review Board. It is tasked with reviewing partner appointments and with drafting disciplinary actions.

Election System

In order to ensure fair organizational operation, the CEO, Senior Executive Board members and Executive Board members, all of whom are responsible at various levels for firm management and execution, as well as the members of the Management Oversight Committee, who are responsible for supervision and evaluation, are appointed through direct election by all partners.

2-3. Decision-making Management and Execution

KPMG AZSA operates as a firm with clarity about the respective roles of the Senior Executive Board, a decision-making body for corporate management affairs, and the Executive Board, an executive body.

Chief Executive Officer (CEO)

The Managing Partner is the Chief Executive Officer of KPMG AZSA and presides over the Senior Executive Board and Executive Board.

Senior Executive Board

The Senior Executive Board is composed of the CEO and senior executives. It makes decisions on firm management policies and other significant matters, and instructs Executive Board members on the execution of corporate affairs. It also prepares draft candidate lists for members of the Management Oversight Committee and Public Interest Oversight Committee, as well as for the Chairman of the Senior Review Board. (The Senior Executive Board comprises the CEO and nine Senior Executive Board members)

Executive Board

The Executive Board is composed of the CEO, a Senior Executive (Chief Operating Officer) and Executives. It is chaired by the CEO in order to execute decision-making matters of the Senior Executive Board appropriately. (The Executive Board comprises the CEO, nine Senior Executive Board members, and 20 Executive Board members)

Partner Compensation

Compensation for each partner is decided based on a band according to their job title, role, skills and other factors as determined by the Senior Executive Board. Each applicable band has an associated range of points. Each year, points to be granted to each partner are determined based on the results of the performance evaluation, which is conducted according to the firm's partner performance evaluation policy, as well as the results of a competence assessment and other factors. Partner compensation is determined by multiplying the points granted by a monetary value per point. The Compensation Committee, a subcommittee of the Management Oversight Committee, reviews the processes for determining the compensation for the CEO, Senior Executive Board and Senior Review Board.



CEO

Toshiya Mori

The chairman of KPMG in Japan, Chairman of GJP, Head of Digital Innovation

1986 Joined KPMG Minato Audit Corporation
 1990–93 Seconded to the Honolulu office
 1999 Promoted to partner at KPMG ShinNihon
 2004 Joined newly established KPMG AZSA as partner
 2010 Appointed as Executive Board member (current appointment)
 2015 Appointed as Senior Executive Board member
 2018 Appointed as The chairman of KPMG in Japan
 2019 Appointed as Deputy Managing Partner
 2021 Appointed as CEO



Senior Executive Board Member

Kanako Ogura

In charge of JICPA matters and special missions

1988 Joined Asahi & Shinwa & Co. (currently KPMG AZSA)
 2008 Promoted to partner
 2015 Appointed as Executive Board member (current appointment)
 2021 Appointed as Senior Executive Board member



Senior Executive Board Member

Hiroyuki Yamada

Chief Operating Officer, Tokyo Office Managing Partner Head of Planning, Head of HR

1991 Joined Asahi Shinwa & Co. (currently KPMG AZSA)
 2004–05 Seconded to London office
 2004 Promoted to partner
 2015 Appointed as Executive Board member (current appointment)
 2019 Appointed as Senior Executive Board member



Senior Executive Board Member

Michitaka Shishido

Head of Tokai District, Head of HR, Head of Diversity

1986 Joined Asahi Shinwa & Co. (currently KPMG AZSA)
 1991–96 Seconded to New York office
 2007 Promoted to partner
 2015 Appointed as Executive Board member (current appointment)
 2019 Appointed as Senior Executive Board member



Senior Executive Board Member

Hiroyuki Yamada

Head of Quality Control, Head of Risk Management

1987 Joined KPMG Minato Audit Corporation
 1991–95 Seconded to the London office
 2003 Promoted to partner at KPMG ShinNihon
 2004 Joined newly established KPMG AZSA as partner
 2010 Appointed as Executive Board member (current appointment)
 2017 Appointed as Senior Executive Board member



Senior Executive Board Member

Masahiko Chino

Head of Clients & Markets, Head of Public Sector

1988 Joined KPMG Minato Audit Corporation
 1993 Seconded to the Honolulu office
 1994–97 Seconded to the Los Angeles office
 2001 Appointed as Representative Director at the time of KPMG FAS establishment
 2018 Joined KPMG AZSA, appointed as Partner and Senior Executive Board member



Senior Executive Board Member

Daisuke Harada

Head of Kansai District, Osaka Office Managing Partner, Chief Financial Officer, Head of General Affairs, Head of IPO Support

1987 Joined Asahi Shinwa & Co. (currently KPMG AZSA)
 1997–98 Seconded to Chicago office
 2008 Promoted to partner
 2017 Appointed as Executive Board member (current appointment)
 2019 Appointed as Senior Executive Board member



Senior Executive Board Member

Yutaka Terasawa

Head of Financial Services

1986 Joined Asahi Shinwa & Co. (currently KPMG AZSA)
 1991–92 Seconded to Nashville office
 2002–03 Seconded to London office
 2006 Promoted to partner
 2017 Appointed as Executive Board member (current appointment)
 2019 Appointed as Senior Executive Board member



Senior Executive Board Member

Yoshihide Takehisa

Head of Sustainable Value

1990 Joined Asahi Shinwa & Co. (currently KPMG AZSA)
 2009 Promoted to partner
 2015 Appointed as Executive Board member (current appointment)
 2021 Appointed as Senior Executive Board member



Senior Executive Board Member

Masakazu Hattori

Head of Planning

1991 Joined Asahi Shinwa & Co. (currently KPMG AZSA)
 2000–02 Seconded to New York office
 2010 Promoted to partner
 2017 Appointed as Executive Board member (current appointment)
 2021 Appointed as Senior Executive Board member

2-4. Supervision and Evaluation of Effectiveness of Management Functions

The Management Oversight Committee supervises and evaluates the firm's management. At the same time, the Public Interest Oversight Committee, whose members also include independent outside members, supervises management from the standpoint of the public interest. The firm has established an environment that enables the smooth conduct of the committees' work, which includes a secretariat to assist the Management Oversight Committee and Public Interest Oversight Committee and ensure they have necessary information required for their role.

Management Oversight Committee

The Management Oversight Committee is composed of members who are not engaged in management or execution, and is tasked with evaluating the effectiveness of initiatives to enhance audit quality. The Management Oversight Committee has three subcommittees, as described below, and is committed to enhancing the function of audits. The committee members also attend meetings of management and executive bodies to present their opinions and periodically report to and exchange opinions with the Public Interest Oversight Committee. The committee members are also vested with the authority to express their opinions to the Partners Meeting and also to request that the Chairman of the Partners Meeting convenes such meetings. (The Management Oversight Committee comprises five committee members)

▶ **Nomination Committee**

Screens candidates for the Senior Executive Board, the Executive Board, the Chairman, the Chairman of the Senior Review Board, members of the Management Oversight Committee and members of the Public Interest Oversight Committee.

▶ **Audit Committee**

Performs audits of the firm's operations and finances (including subsidiaries), liaising with the firm's external auditors and Office of Internal Control.

▶ **Compensation Committee**

Evaluates whether the compensation of the CEO, Senior Executive Board, Chairman and the Chairman of the Senior Review Board is decided appropriately in accordance with the firm's system for determining partner compensation.

Conduct of Management Oversight Committee Meetings (including subcommittees)

Held at least twice a month

Attendance of Senior Executive Board and Other Meetings

- Attendance of major meetings including the Senior Executive Board, Executive Board and KPMG Japan Management Committee
- Attendance of meetings such as the Partner Committee, Managing Division Head Meeting, National Quality Control Partner Council, HR Partner Meeting, Compliance Committee meetings

Other Activities of the Management Oversight Committee

- Reporting to and exchange of opinions with the Public Interest Oversight Committee
- Interviewing the CEO, Senior Executive Board members, Chairman of the Senior Review Board, etc.
- Visiting relevant headquarter departments, managing divisions, regional offices and subsidiaries.

Management Oversight Committee Members



Chairman
Junshi Ono



Vice Chairman
Ayumu Nakajima



Hirofumi Kubota



Manabu Matsumoto



Masahiko Kobayashi

Public Interest Oversight Committee

Independent outside and internal members who oversee firm management for its sound operation from the standpoint of the public interest.

An outside member chairs committee meetings. The committee receives reports from the CEO, Senior Executive Board members and Management Oversight Committee regarding the firm's important activities and management matters, while outside committee members also choose themes for consideration and proactively hold discussions with the CEO and Senior Executive Board members.

The committee also monitors the supervision and evaluation processes carried out by the Management Oversight Committee including those of the Nomination Committee, Audit Committee and Compensation Committee.

(The Public Oversight Committee comprises four outside members and two internal members (Management Oversight Committee Chair and Vice Chair))



(From left) Mitsudo Urano, Haruya Urano, Koji Ishida, Masahiro Sakata

Outside Committee Members (In alphabetical order)

Koji Ishida	former Councilor, Policy Committee, Bank of Japan
Haruya Uehara	Senior Advisor, Mitsubishi UFJ Trust & Banking Corporation
Mitsudo Urano	former Advisor, Nichirei Corp.
Masahiro Sakata	Attorney-at-Law, Advisor, Anderson Mori & Tomotsune LPC, former Director-General, Cabinet Legislation Bureau

Conduct of Public Interest Oversight Committee meetings

- Meetings held once a month in principle
- Make inquiries concerning management issues as appropriate, receive reports from the CEO and Senior Executive Board members and hold discussions

Other activities of outside committee members

- Attending meetings for exchanging opinions with market participants
- Participating in some Audit Committee visits to regional offices
- Attending regular Partner Meetings

Policy for appointing outside committee members

KPMG AZSA believes that we can strengthen our governance and increase our management transparency by receiving various opinions based on a broad outlook.

As outside committee members, we appoint diverse people who understand the viewpoints of capital market participants, who have experience in organizational operations in a company, and/or who have experience as a legal expert.

Message

Message from the Public Interest Oversight Committee Outside Members

(In alphabetical order)



KPMG AZSA's Governance Initiatives

Koji Ishida

former Councilor, Policy Committee,
Bank of Japan

The main job of an audit firm is to confirm with a true and fair view that financial statements have been appropriately prepared. Smooth economic and financial activities cannot be maintained without the trust placed in audit firms by clients and stakeholders, and it is of utmost importance for an audit firm to maintain and protect this trust. Audit quality needs to be maintained and enhanced even as corporate activities become more diverse and complex to prevent this trust from wavering in any way. An audit firm needs to build and appropriately operate a business management system — in other words, an internal control system. Large audit firms that have evolved from a partnership have a double structure in which a majority of partners, who are

equivalent to investors in a corporation, report to partners who manage the firm. While having homogeneous constituents of an organization may be a strength, there are concerns regarding a lack of robust command and a tendency to become a closed organization.

In this regard, I understand that KPMG AZSA aims to ensure effective management and execution based on its management comprising the CEO, Senior Executive Board and Executive Board, while the Management Oversight Committee supervises and evaluates the effectiveness of management functions.

As a member of the Public Interest Oversight Committee, I ensure the transparency of management decisions through close dialogue with executives from the standpoint of an external third party, and inspect the establishment and operation of the overall internal control system. Our current evaluation is that an internal control system is in place and that the governance status is appropriate, including the activities of the Management Oversight Committee.



KPMG AZSA's HR Initiatives

Haruya Uehara

Senior Advisor, Mitsubishi UFJ
Trust & Banking Corporation

For any organization, its people are a major asset. And for a group of professionals like an audit firm, while it is of course important to have reliable business knowledge, I believe it is even more important to have strong people skills. In order to foster people skills, the firm's talent need to have diverse experiences that are not only about overcoming hardships or working in their main field, but also having back office and other work experience, as well as building relationships and communicating with all kinds of people, including those outside of their work environment. In this respect, KPMG AZSA's talent development initiative based on the Three O's (see P.70) enables its talent to interact with all kinds of people through training sessions, in addition to

achieving growth in their main field. The firm has been steadily implementing many initiatives over a long period aimed at providing opportunities for diverse experiences.

I believe we all learn from our mistakes, and this has certainly been true for me. You may not fail if you always do the same thing or what you are used to doing, but you will also not grow. Auditing of course requires high-quality execution at all times. However, I believe that individuals can still take on challenges by working as a team and complementing each other. I understand that KPMG AZSA is already actively working on providing its people with opportunities for various experiences both at work and in their personal life. I hope that the firm will continue to foster a corporate culture that encourages taking on new and difficult challenges and meeting diverse people through overseas assignments and secondments to external organizations, and that you will aim to become a group of professionals with strong people skills.

The Public Interest Oversight Committee, which regularly monitors the management functions of KPMG AZSA from the standpoint of the public interest, evaluated and made recommendations on priority management themes from an objective viewpoint.



KPMG AZSA's Digital Strategy

Mitsudo Urano

former Advisor,
Nichirei Corp.

KPMG AZSA is promoting Audit DX (Digital Transformation) based on the 3C x I concept. The 3C's (Comprehensive Audit, Centralized Audit, and Continuous Audit) in particular are highly evaluated as they provide an appropriate and concrete direction for digital auditing. Based on the 3C x I, KPMG AZSA has already been using various solutions and audit support tools, including an automatic disclosure checking tool (DisclosureBOT_ai), an automatic matching tool (MatchingBOT_ai), and a tampering detection tool (KaizanBOT_ai). These original tools, developed ahead of other firms, have improved efficiency in areas that require a lot of man-hours for the accounting department of audit clients, and have also led to cost reduction,

which is considered an important objective of the DX strategy. In the future, however, it is important to go beyond this to reduce externalities and create external economies of scale. Audit firms will need to individually promote DX, while also identifying areas for competition and cooperation between audit firms. Collaboration with Accounting DX will also be essential for the further promotion of Audit DX. Encouraging clients to promote Accounting DX is also an important role of an audit firm.

In addition, we expect the makeup of audit teams to shift to a group of specialists with diverse capabilities, such as accountants with sector insights, accountants with strong digital insights, and digital specialists. We hope that this diversity will act as a catalyst for providing clients' management with useful insights.



Compliance at KPMG AZSA

Masahiro Sakata

Attorney-at-Law, Advisor,
Anderson Mori & Tomotsune LPC,
former Director-General, Cabinet
Legislation Bureau

Compliance at KPMG AZSA is supported by the ethical standards of individual members of the firm. Audit firm members are in a position to point out faults through audits. It is therefore essential that they do not put themselves in a position of being criticized, and that they have a sense of professional ethics through self-discipline. Generally speaking, it is not easy to improve ethics in the workplace as ethical values are nurtured largely at home and at school. However, audit firms are highly regarded as a group of professionals centered on CPAs who fulfill public responsibilities and should make every effort to live up to that high regard. Fostering a sense of pride among firm members in their work will naturally heighten their awareness of ethical standards and compliance. The attitude of the firm is

key to fostering such pride. As is often mentioned in management messages, the actual decision-making process of the firm, together with the daily actions of executives and partners, need to reflect the fact that their standard of judgment is based on the public interest and doing the right thing, rather than on the amount of profit involved, or private interest.

I believe KPMG AZSA is working with a sense of urgency to foster high ethical standards and compliance awareness. I have high expectations for the Compliance Promotion Office established last year to proactively raise compliance awareness while effectively planning, drafting and implementing initiatives for preventing compliance violations that occur unconsciously due to ignorance. However, ethics and compliance awareness is limitless, and does not improve overnight. The purpose of CPAs and expectations of audit firms change with the times, which means that the scope and level of compliance required by society will also continue to increase. I hope that KPMG AZSA will continue to make steady and long-lasting efforts to maintain appropriate compliance in line with current standards and in anticipation of future trends.

2-5. Evaluation of Effectiveness of Management Functions

The Management Oversight Committee members attend meetings of the Senior Executive Board and Executive Board to present their opinions and conduct interviews with the CEO and Senior Executive Board members.

Moreover, they are responsible for supervising and evaluating the management and execution by the CEO and Senior Executive Board members. Results of the supervision and evaluation are shared at the Partners Meeting, and the management and executive bodies will consider improvement measures going forward.

Effectiveness evaluation by the Management Oversight Committee for the year ended June 2021

The Committee concluded that KPMG AZSA's initiatives are working effectively.

Status of important matters in the supervision and evaluation by the Management Oversight Committee and status of initiatives by management and executive bodies

1

Status of compliance with the Audit Firm Governance Code

- Management engaged in active discussions regarding KPMG AZSA's operations
- More expansive information provided to support appropriate judgments by management in Partners Meetings
- Recommendations were made to the Management Oversight Committee and management by the Public Interest Oversight Committee
- Group governance strengthened
- Addressing various issues arising due to COVID-19

2

Status of continuous initiatives for enhancing audit quality such as the four defense lines and digital audits

- Executed improvement measures for issues identified in the Audit Quality Enhancement Project
- Strengthened the organizational quality control structure based on the four defense lines
- Dissemination of "thinking audits"
- Upgraded audit technologies through the implementation and wider use of digital audit technologies and provision of audit support tools utilizing AI

3

Status of establishing an environment enabling the growth of employees with confidence, such as work style reforms in line with new behavioral guidelines, and talent development

- Implemented various projects relating to the utilization of human resources and talent development for work style reforms in line with new behavioral guidelines
- Initiatives related to inclusion & diversity
- Established and executed preventive measures after investigating the circumstances surrounding the inappropriate conduct relating to e-Learning and analyzing the root causes

Management issues focused on by the Management Oversight Committee

While the Management Oversight Committee assesses management initiatives as effective, it recommends that the firm tackle the following issues:

- 1** **Compliance with Code of Ethics and enhancement of governance**

 - Thoroughly building awareness regarding the Code of Ethics for each and every member of the firm, and having them reaffirm that maintaining a high standard of ethics and unwavering efforts for self-improvement are the basis for earning trust as professionals
 - Steadily executing various measures for compliance with the code of ethics established by the firm. In particular, conscientiously implementing preventive measures including strengthening the internal control system and working to restore trust with respect to the inappropriate completion of e-Learning courses
 - Strengthen discipline regarding the allocation of resources and the timing of implementation of measures to ensure their effectiveness and enhance corporate governance

- 2** **Continuous initiatives for enhancing audit quality**

 - Incorporating issues identified in the Audit Quality Enhancement Project and the related improvement measures into firmwide initiatives and executing them
 - Ensuring appropriate functioning of the quality control system established through the restructuring of audit divisions to enhance the firm's expertise by consolidating sector insights, and addressing sector-specific audit risks and key audit issues amid the COVID-19 pandemic

- 3** **Addressing quality control standards for audit**

 - In response to the application of ISQM1, ISQM2 and ISA 220, Japan's practical guidelines on quality control for audits are scheduled to be revised. The firm will proceed with appropriate preparations for the application of revised standards

- 4** **Audit digitalization**

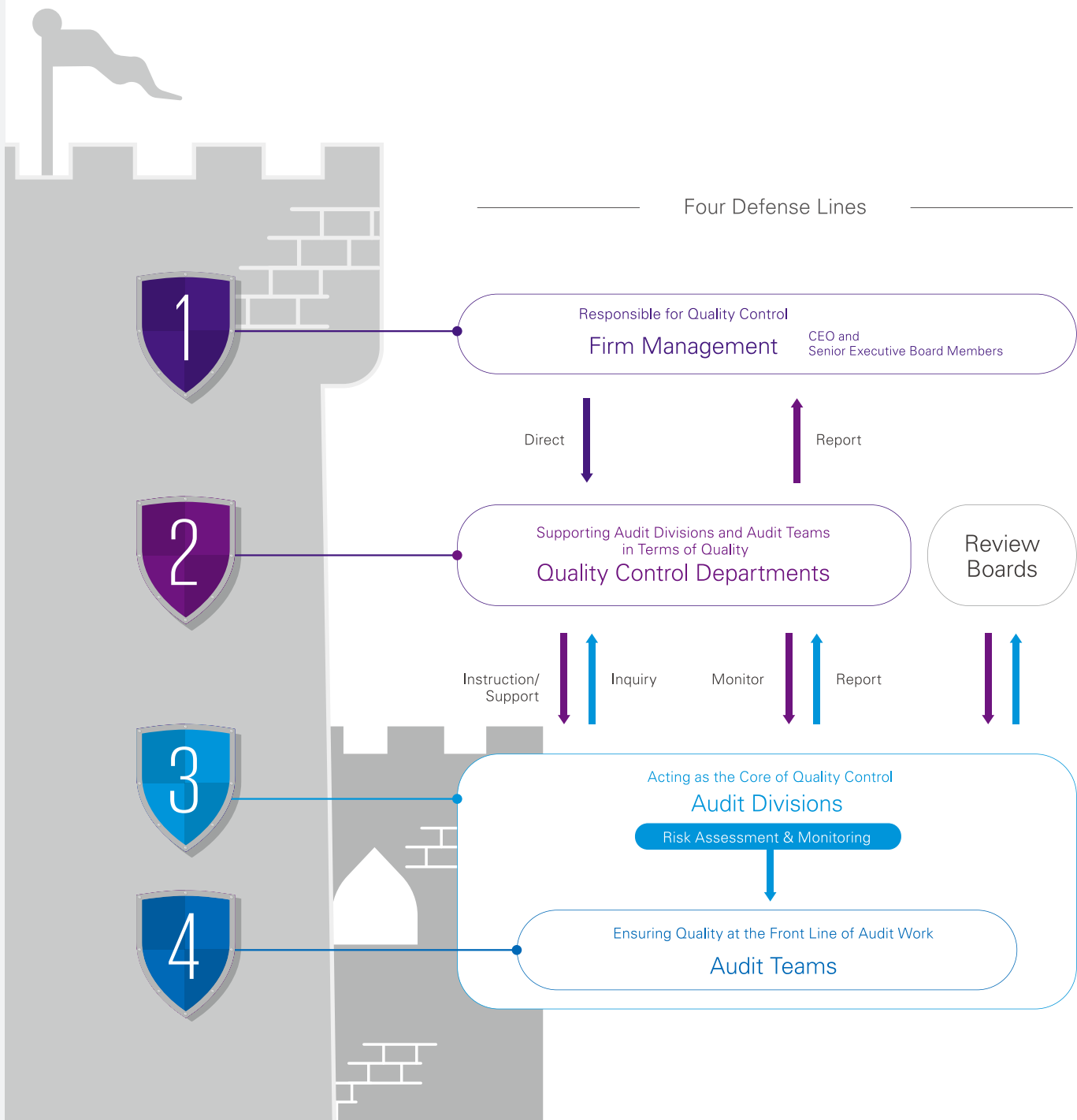
 - Monitoring the status of digital audits for all audit engagements and further implementation support of tools and methods
 - Making efforts to further expand the digital knowledge of partners and employees in order to respond to the advanced digitalization of society and the audit environment
 - Continuous implementation of thorough information security measures

- 5** **Promoting inclusion & diversity**

 - Being open to diverse values and promoting the success of women while further encouraging inclusion & diversity from various viewpoints, including job type, nationality and age, and qualifications in order to increase our competitiveness by utilizing a wide pool of talent
 - Establishing a sustainable work environment for handling increased workload resulting from stricter auditing standards

3. Quality Control Based on Our Four Defense Lines

Our organizational quality control structure, which we call our four defense lines, serves as the foundation for KPMG AZSA’s initiatives for enhancing audit quality.



3-1. A Comprehensive Organizational Control Framework

The four defense lines refer to a system in which the four layers — management (CEO and Senior Executive Board members), quality control departments, audit divisions and audit teams — each fulfill their respective duties in regard to audit quality. We can ensure audit quality by building a comprehensive organizational control system, and consequently, effectively realize high-quality audits that ensure that no matters arise that may surprise the market.

The Four Defense Lines also serve the purpose of disseminating the management policies of the CEO and Senior Executive Board members down to the audit teams and sharing information with management at audit work sites.

Roles as a Defense Line

1 Defense line Firm Management

- Creating a culture in which individuals take the initiative to enhance audit quality, and ensuring this culture permeates audit teams
- Maintenance, operation, and continuous improvement of the system of quality controls and the system for assigning and evaluating human resources
- Identification of significant audit risks to be dealt with as a firm and providing instructions for timely and appropriate actions

2 Defense line Quality Control Departments

- Maintenance, operation and continuous improvement of quality control and support systems to address audit risks
- Development of measures and tools for enhancing audit quality in cooperation with audit divisions
- Evaluation of risk assessments made by audit teams in the audit divisions and firm-wide assessment of monitoring activities

3 Defense line Audit Divisions

- Assigning the right people according to the audit risk assessment
- Ensuring audit teams are thoroughly aware of the measures and tools for enhancing audit quality
- Understanding the material audit risks and status of measures taken through monitoring activities, and organizational response

4 Defense line Audit Teams

- Identification of critical audit risks by exhibiting professional skepticism and implementation of audit procedures
- Review of guidance on audit work papers and human resource development by supervisors
- Timely communication with reviewers



System of Quality Control

KPMG AZSA's initiatives aimed at maintaining and enhancing audit quality are based on our organizational quality control structure of the four defense lines.



1. Responsibility for Quality Control

Management at the highest rank of the four defense lines is responsible for KPMG AZSA's audit quality.

1-1. The CEO Bears Final Responsibility for Audit Quality

The final responsibility for quality control rests with the CEO. The Senior Executive Board member appointed by the CEO to oversee quality control is responsible for developing overall quality control policies and for monitoring how such quality control policies are followed.

Strong messages on the following four points are repeatedly sent by the CEO and other members of management to all partners and staff in order to emphasize that audit quality is the firm's number one priority.

- Reliability of financial information in the capital markets is indispensable to the sound growth of Japanese corporations and the sustainable development of the economy.
- Providing confidence in the financial information of our clients is our mission as certified public accountants.
- Our top priority is to accurately identify risks based on a deep understanding of our client's business and management environment, and to ensure our audits do not result in matters that take the market by surprise. To accomplish this goal, necessary and adequate audit procedures focusing on key audit issues must be devised and implemented. If any new and important audit issues or problems are detected, we are responsible for conveying them to client management in an accurate and thorough manner.



Number of CEO's message
Year ended June 2021

27 / year

1-2. Maintenance and Operation of Organizational Quality Control Structure

In order for our organizational quality control structure based on our four defense lines to function effectively, our CEO and Senior Executive Board member in charge of quality control will be responsible for the development and operation of the necessary structure.

- Responding to changes (P.6-21)

- Maintaining and operating our organizational foundation (P.24)
- Maintaining and operating our quality control system (P.38)
- Promoting talent development (P.68)
- Utilizing the KPMG network (P.79)

1-3. Continuous Initiatives for Audit Quality Enhancement

At KPMG AZSA, we continuously implement activities for enhancing audit quality through an analysis of root causes regarding issues identified in the course of Communication with Stakeholders (see P.42) and Continual Improvement (see P.63) under the leadership of our CEO and other management.

KPMG AZSA aims to be an organization in which each member can develop through engaging in "thinking audits." This refers to audits in which we think autonomously, which have a story, and also provide Insights.

In recent years, initiatives for work style reforms have been promoted robustly as a national initiative, and the proliferation of borderless and digitalized businesses is accelerating. Meanwhile, there is no end to cases of corporate fraud, and demands for enhanced audit quality are also increasing on the international stage. The pursuit of audit quality that meets the expectations of clients and society is a priority management issue for audit firms.

Against this backdrop, KPMG AZSA's Audit Quality Enhancement Project carried out a firmwide analysis of root causes relating to audit quality over a six-month period and clarified the roles of the four defense lines. We further formulated the following improvement measures with the aim of thoroughly promulgating the initiatives of "thinking audits."

- Clarifying and visualizing audit risks
- Clarifying policies regarding new audit contracts or contract renewals, and reallocating audit tasks and resources of divisions

- Clarifying the roles and responsibilities of partners, and reflecting them in evaluations
- Creating an environment for continued promotion of “thinking audits” and monitoring various measures

We will continue to pursue audit quality based on a thorough operation of the above improvement measures, while implementing additional measures as needed.

1-4. Improvement through Feedback from Clients (ACCESS)

The firm has established the ACCESS (AZSA Client Relationship Continuous Enhancement Process) program, which seeks feedback from a client’s management and other personnel on the quality of services provided. ACCESS is intended to provide an understanding of the client’s expectations and any areas of dissatisfaction, as well as areas in need of improvement, all with the objective of enhancing audit quality.

664 clients provided feedback on audits performed in the year ended June 2020, and we held discussions with clients as needed according to the feedback. A comparison of average scores over the three years

since 2018 did not show any major changes. However, where an individual item ranked lower, audit teams are analyzing details and discussing a concrete action plan for continuous improvement.

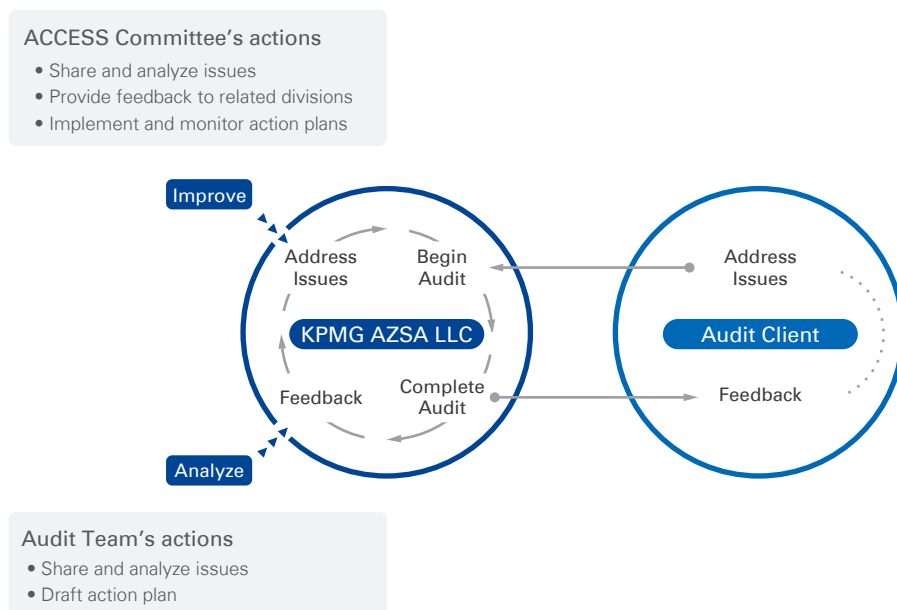
To further facilitate communication, the firm initiated an ACCESS program for receiving evaluations directly from those charged with governance beginning in the year ended June 2016, and received 671 replies in the year ended June 2020.

Evaluations regarding audits improved from the previous year. Evaluations regarding “information sharing,” while showing improvement from previous years, scored lower than the overall average.

We also received feedback from clients regarding our audit response amid the COVID-19 pandemic. While average scores were higher than the overall average, we received requests for further action in the comments section.

We will reflect the feedback in future audits and strive to make firmwide improvements and provide further information of value.

» Flow of ACCESS Activity



2. Audit Contracts

At KPMG AZSA we will thoroughly assess risks at the time of contracting, while establishing a structure for providing high-quality audits through an appropriate assignment of partners.

2-1. Thorough Risk Assessment in Engagement Acceptance and Continuance

We verify compliance with independence requirements before proceeding with an acceptance or continuance of audit contracts. We also conduct a background check of prospective clients in accordance with our risk assessment policy, including consideration for management's integrity, governance status, and that officers and other key figures do not belong to antisocial forces. We then analyze and evaluate audit risks before considering the feasibility of addressing such risks, including securing talent for providing high-quality audits. A contract will then be entered into after completing an approval process.

We review risk assessments at least once a year in order to ensure a constant understanding of the most recent risk status. We also promptly reassess risks if there are signs of change in the risk factors of a client, such as a change in management or shareholders or the emergence of a material incident.

Information related to risk assessment is centrally managed in a database to ensure that significant audit issues, including fraud risk, are communicated to successor partners when there is a change in engagement partners.

2-2. Appropriate Assignment of Partners

At KPMG AZSA we appoint engagement partners with the capabilities, qualities, time and authority required for appropriately fulfilling their assigned roles in engagements.

To ensure high-quality audits are provided to all of our clients, the division head holds discussions with all engagement partners at least once a year, and verifies client portfolios of respective clients.

The capabilities, qualities and qualifications of an engagement partner, and the industry, characteristics and risks of clients, are taken into account in the verification process.

2-3. Change of Auditors

When there is a change of audit firm, departments responsible for quality control will issue instructions and attend meetings between the predecessor and successor auditors, as necessary, to reasonably ensure that the transfer of audit work is appropriately conducted for both the predecessor auditor and successor auditor.

3. Communication with Stakeholders

At KPMG AZSA, we implement appropriate risk assessments through communication with our clients' management and auditors. We are also committed to maintaining and enhancing audit quality through engaging in dialogue with capital market participants.

3-1. Promotion of Understanding through Communication with Management

We communicate with the client's management in order to understand their decisions, and the background to the decision-making process, which have a significant impact on the financial statements of an audit client. This enables us to understand the nature of the audit client's business and carry out appropriate risk assessments without overlooking any risk of material misstatement due to fraud or error.

We share any issues regarding key matters with clients in a timely manner so as to prevent any unexpected issues arising.

Furthermore, we promptly discuss with clients what actions are appropriate or are required to deal with any situations that are identified, including where material misstatements are identified during audits, where misstatements due to suspected fraud are identified or where a significant deficiency in internal controls needs to be disclosed.

3-2. Two-Way Communication with Those Charged with Governance

In order to strengthen corporate governance, cooperation between those charged with governance and external auditors is essential. KPMG AZSA engages in open and frank two-way communication through reporting to those charged with governance and through continuous consultations in order to share issues that have arisen during audits and other information that is useful to those charged with governance. Specifically, if a client is a listed company, reports and briefings are made periodically through formal correspondence, interviews and other means depending on the status of the audit or quarterly review. For situations requiring timely action, communication channels are maintained to allow for ad-hoc consultations.

Two-Way Communication with Those Charged with Governance

- An explanation of the audit plan
- Results of quarterly reviews
- Companies Act audit results
- Financial Instruments and Exchange Act audit results
- Compliance status of laws and regulations, and discussions regarding material misstatement risks including fraud

- Discussions when fraud is identified or there is suspicion of fraud
- Discussions when material deficiencies are identified in internal control

3-3. Communication with Client's Internal Audit Department

Collaboration with a client's internal audit department, which is familiar with the details of the company's business, is important for performing effective and efficient audits in a business environment where drastic changes occur. KPMG AZSA proactively works on appropriate collaboration with internal audit departments.

Communication with Internal Auditors

- Exchange of information on internal audit plan
- Discussion of risk assessment by the internal auditor
- Discussion of internal audit results and conclusions

3-4. Proactive Dialogue with Market Participants

Sharing information more broadly with the public regarding the activities and initiatives of audit firms is an important issue as an audit firm. We also feel it is necessary to have an appropriate understanding of the societal changes and needs, and perform audits that meet such standards of expectation.

KPMG AZSA therefore takes every opportunity to exchange opinions with investors or those involved in the operation of the capital markets. In explaining our initiatives for enhancing audit quality and deepening the understanding of audits, we will listen to the opinions of all those concerned and utilize them to achieve further improvements in organizational operations.

March 2021

<Meeting for exchange of opinions with market participants>
"Disclosure of non-financial information and our firm's response"

We exchanged opinions regarding the disclosure of non-financial information with outside experts, including regulatory authorities, the Japan Audit & Supervisory Board Members Association, and academic experts. We asked participants to share their opinions on the disclosure of narrative information for the year ended March 2020, issues related to future disclosures and expectations they have of audit firms in addressing disclosure expansion. We then explained the current status of our firm's response.

4. Audit Methodology and Audit Team Formation

At KPMG AZSA, we continuously invest in our audit methodology and tools in order to perform high-quality and efficient audits. We have also established and operate a system that allows partners and team members to secure sufficient hours for executing their work.

4-1. Global Audit Methodology

KPMG AZSA conducts audits in accordance with the KPMG Audit Manual, which is the manual used in common by KPMG member firms. The KPMG Audit Manual contains KPMG's audit methodology and audit policies that must be complied with, meeting international audit requirements while including additional requirements for the maintenance and enhancement of audit quality.

KPMG AZSA has added to the KPMG Audit Manual criteria required of professionals that are unique to Japan, as well as applicable laws, regulations, guidelines and other norms. KPMG AZSA also maintains the Combined Audit Manual (CAM) based on the KPMG Audit Manual for audits of internal control, allowing efficient integrated audits of financial statements and internal controls.

4-2. Manual-based Utilization of Electronic Audit Tools

At KPMG AZSA, working papers are created using eAudit, an electronic audit tool. eAudit supports auditing based on the KPMG Audit Manual and can be accessed at all times simultaneously by the members of audit teams. eAudit allows the timely and appropriate preparation of working papers and review by supervisors.

4-3. Introduction of Digital Audit Platform

While the current audit workflow, eAudit, and the audit manual, KAM, are consistent with the requirements of all auditing standards, KPMG International and KPMG AZSA have been working on the development and introduction of a new audit platform, KPMG Clara, with the aim of enhancing audit quality and expanding the use of new technologies. KPMG Clara integrates advanced and automated data analysis, a collaboration platform, and a new audit workflow (KPMG Clara

workflow). This enables us to perform consistent innovative and high-quality audits, and to provide useful insights to our audit clients.

KPMG International and KPMG AZSA have started introducing the KPMG Clara workflow and a corresponding new audit manual, the KPMG Audit Execution Guide, with full deployment scheduled for the 2022 fiscal year.

4-4. Formation of Audit Teams According to Skills and Experience

We have a talent management system comprising a database of skills required for various tasks and scope of experience in the industry and sector to which an audit client belongs. Leaders of the firm's management units, including offices and audit divisions, utilize this system to identify candidates and assign appropriate partners and professionals to form an audit team.

4-5. Appropriate Involvement of Engagement Partners

Audit partners are in a position to bear responsibility regarding all processes and results of an audit. Based on a sufficient understanding of a client, partners will be appropriately involved and exert their leadership in each stage of assessing risk, addressing risk procedures and coordinating audits.

Full participation by the engagement partner is indispensable in identifying critical audit matters, such as areas requiring judgment and significant risks. Full involvement of engagement partners allows for effective and efficient audits.

When multiple partners are involved, the partners clarify the roles they have within an audit team to foster a strong sense of ownership and responsibility. We will work to enhance audit quality by securing appropriate partner resources.

4-6. Involvement of Specialists Such as IT Experts

Where an audit involves complex IT processes, transactions requiring expertise related to tax, finance or pensions, or fraud, experts will be involved.

Specialists belonging to KPMG AZSA or another KPMG member firm, or a specialist from Global, may be involved depending on the risk assessment.

KPMG AZSA's policy is to include IT specialists with expertise in information technology and system audits in audit teams in order to address the increasingly sophisticated and complex information systems of clients. For the year ended June 2020, specialists were involved in 1,468 audit teams.

4-7. Securing Working Hours for Audit Team Members

The assignment of audit team members is decided in such a way as to ensure that sufficient time is allowed for completing essential tasks such as assessing risks and procedures for addressing risks. The streamlining of audit tasks will also be driven through the automation and centralization of various tasks.

Meanwhile, we have also established a mechanism for preventing excessive overwork through measures such as restricting access to internal networks.

» Average Annual Audit Hours According to Title

Title	Year ended June 2021	Standard annual audit hours
Partner	2,003	1,687
Senior Manager, Manager	2,060	
Other professionals	2,028	
Average	2,032	

* Standard annual audit hours are calculated by converting the annual number of working days specified by the firm based on a 7-hour working day.

* Time spent on engagement work, management work and training is included in audit hours, while non-assigned hours or used for leave is not included.

4-8. Promoting Efficient and Consistent Audits Through Work Centralization

At KPMG AZSA, we established the AZSA Delivery Center (ADC) within the Quality Assurance Headquarters to centralize audit tasks. We are also continuously working to create an environment in which our professionals can focus on areas requiring high expertise by embedding audit assistants in our audit teams (323 assistants as of the end of June 2021).

The ADC centralizes tasks including support for reconciling vouchers, checking financial statements, and preparing audit instructions sent to overseas subsidiaries. We will continue to improve efficiency and consistency through further centralization of audit tasks.

We have also been working on the centralization and streamlining of sending and collecting confirmation letters through the establishment of the Audit Confirmation Center GK (ACC) as a joint investment with the other three major audit firms.

As a result, the centralization of confirmation letters for the entire firm for the year ended June 2021 reached 79.3%. ACC has been promoting the digitalization of confirmation letters, and as of the end of the year ended June 2021, over 10,000 confirmation letters at approximately 1,000 audit clients were electronic. We will continue to promote the streamlining of tasks relating to confirmation letters by driving further digitalization.

5. Pursuing a High Level of Expertise and Providing High-quality Services

At KPMG AZSA, the quality control department and support departments liaise to support the implementation of high-quality audits by audit teams. A system has also been developed that is fully capable of addressing IFRS standards and US standards.

5-1. Quality Control Department Comprising Two HQ Functions

The quality control department within KPMG AZSA consists of the Quality Assurance Headquarters and Risk Management Headquarters.

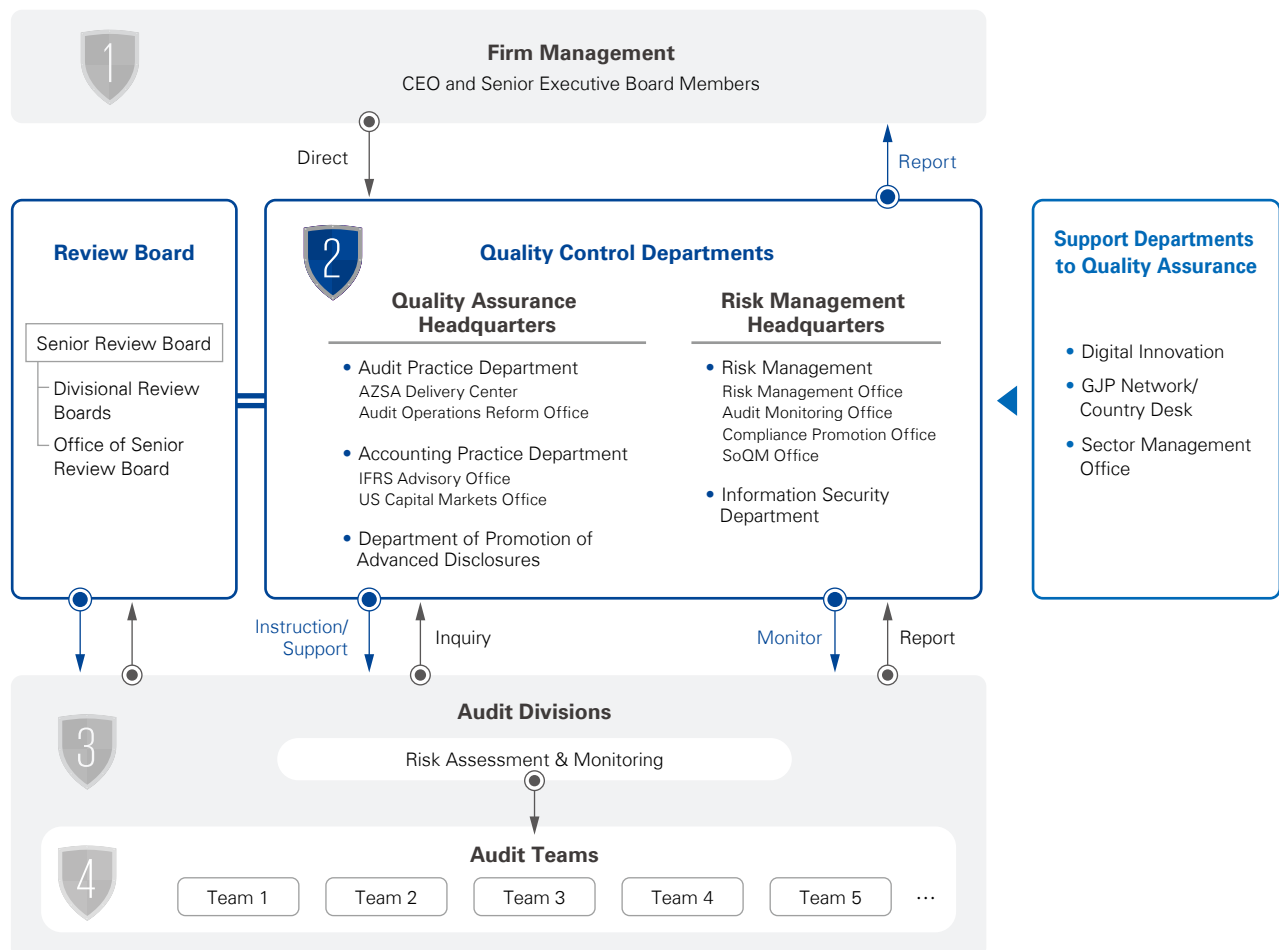
The Quality Assurance Headquarters oversees matters regarding the quality control of audits and accounting treatments and disclosures. The Risk Management

Headquarters oversees matters regarding professional ethics and independence, the supervision of quality control as well as information security.

Both headquarters comprise partners and professionals with experience in the relevant field, and provide appropriate support to audit divisions and audit teams.

In addition to the quality control department, we have also established the Senior Review Board, Divisional

» Quality Control Departments



Review Boards for implementing quality control reviews from a standpoint independent of management, as well as the Review Support Office for supporting operations.

KPMG AZSA's quality control department works closely with the following departments in working towards the enhancement of audit quality.

- Digital Innovation Division (DI) — Carries out research and development for the sophistication and streamlining of audit procedures utilizing AI and digital technologies.
- GJP Network and Country Desks — Support the maintenance and enhancement of audit quality at a global level through collecting information on risks including those relating to accounting, tax, and government regulations, and supporting audits for overseas subsidiaries (see P.50).

» Headcount of Quality Control Departments (including those with concurrent roles)

	as of June 30, 2020	as of June 30, 2021
Audit Assurance Headquarters	149	169
Risk Management Headquarters	111	112
Total	260	281

» Headcount of Review Boards

	as of June 30, 2020	as of June 30, 2021
	212	220

5-2. Monitoring of Audit Tasks by the Audit Divisions and Headquarters

Our audit divisions and Risk Management Headquarters (Audit Monitoring Office) monitor audit tasks with the aim of maintaining and enhancing the quality of all audit tasks.

Through such monitoring we can gain an understanding of particularly significant risks, and support resolving accounting and audit issues as necessary while confirming the response status of audit teams on an ongoing basis. Audit divisions select companies subject to monitoring taking into account overall risks of audits that the division oversees, and inherent accounting and audit topics of the respective financial year.

Audit tasks are monitored by partners with appropriate experience and knowledge from the perspective of a third party, from the viewpoints of whether the planning and audit procedures performed are necessary and sufficient together with the progress of the audit, and whether descriptions in audit work papers are sufficient and clear.

Partners at our headquarters with a wealth of experience and insights monitor key audit areas according to themes across all audit divisions. We have a lateral understanding of the monitoring status of each audit division through communication with audit divisions every three months.

This also serves the purpose of making audit divisions aware of matters that need to be addressed or issues common to many audit tasks in response to changes in the outside environment.



Companies subject to audit monitoring as of June 30, 2021

197 companies

5.3. Establishment of Portal for Professional Opinions

We have established a portal for receiving professional opinions related to individual engagements in order to assist audit engagement professionals in addressing difficult or contentious matters. If review by the Senior Review Board (see P.60) is deemed necessary as a result of a consultation, audit teams will promptly receive such a review. KPMG AZSA accepts advance consultations from audit teams even for cases for which consultations or review by the Senior Review Board are not mandatory, and encourages consultation submissions and quality control reviews where appropriate.

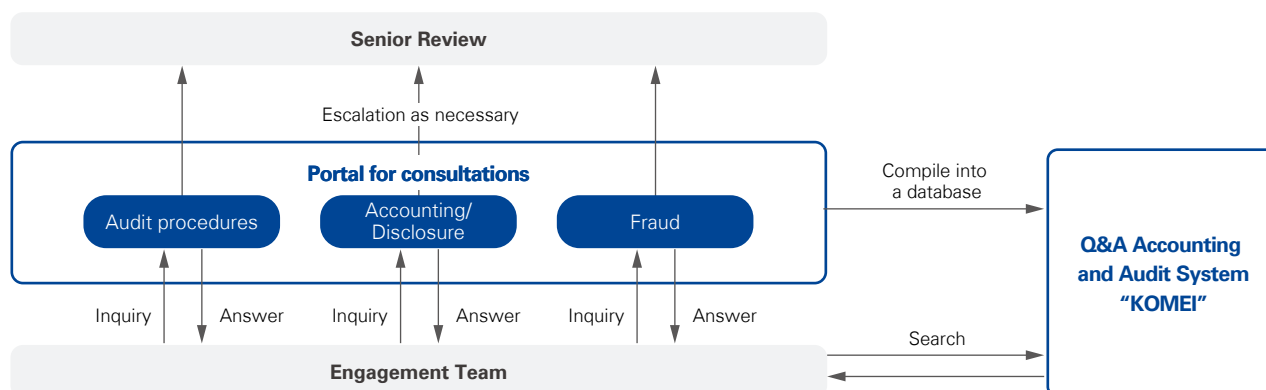
Engagement teams are required to submit professional opinions to the portal when indicators suggesting material misstatements due to fraud are identified (see P.53).

Moreover, we are also progressing with the utilization of our accounting and audit Q&A system (KOMEI) that accumulates and shares insights within the firm through the utilization of AI technologies, in addition to releasing an FAQ page on our website based on a classification of inquiries received from audit teams. Through this process we are able to narrow down our focus on matters of higher priority and secure time for consideration with a focus on these matters.

5-4. Contribution to the Development of Accounting and Audit Standards

KPMG AZSA sends our professionals to accounting standard and audit standard development bodies, thereby contributing to the development of such standards.

» Flow of Inquiries



Examples of transactions that require consultation

- When consideration is required for the accounting treatment of transactions with a complex scheme
- When consideration is required for the accounting treatment of transactions for which business practices are not yet established
- When significant changes occur in the audit plan (e.g. when implementing alternative procedures due to not being able to implement important audit procedures as scheduled due to impacts of COVID-19)
- When fraud is identified (including suspicion of fraud)

5-5. Ensuring a Sufficient Audit Structure for Companies Adopting IFRS Standards

At KPMG AZSA, we have many professionals with a wealth of experience in audits of companies adopting IFRS standards both in and outside of Japan.

KPMG AZSA has continuously seconded our employees to the IFRS-setting body IASB and KPMG’s central organization for IFRS standards (International Standards Group based in London), and has accumulated insights regarding audits for Japanese companies centering on our partners with a wealth of IFRS knowledge.

At KPMG AZSA, we have developed a system for making judgments for ourselves on issues regarding the interpretation and application of IFRS standards in account closing and audits for Japanese companies based on such insights, and have the capability to provide interpretations and judgments appropriate to the practice of Japanese companies in a timely and appropriate manner.

We have also established the IFRS Advisory Office for analyzing topics specific to Japan, and collect and share information relating to recent IFRS trends, while also writing articles or books for publication, and holding seminars.

We have prepared a structure for responding to IFRS standards through practice and training for the continuous growth of talent in anticipation of a further increase in companies adopting IFRS standards.

» Structure for Addressing IFRS Adoption
(as of June 30, 2021)

Companies that have adopted or plan to adopt IFRS Standards	71
Professionals that have completed the IFRS Update training	1,802
Professionals seconded to the IFRS Foundation	6

5-6. Expertise Regarding US Standards

The Department of Professional Practice collects and shares information on the latest trends and developments in IFRS, US and Japanese standards.

Audit teams need to make judgments related to various issues of interpretation and application of US GAAP/ GAAS at Japanese clients that arise during the closing of accounts and during the audit. KPMG AZSA’s US Capital Markets Group, established within the Department of Professional Practice, supports audit teams by interpreting US GAAP/GAAS in the context of business practices of Japanese corporations.

The US Capital Markets Group is organized around those who have experience in the US member firm’s quality control department, US Department of Professional Practice (US-DPP, New York), thereby providing a high degree of expertise in US standards.

The head of the US Capital Markets Group also concurrently serves as the Leader of DPP for the AsPac (Asia Pacific) region, and has a high degree of knowledge and expertise enabling appropriate judgments to be made that suit the actual practices of Japanese companies conducting business globally.

5-7. Restructuring with Managing Divisions to Make Better Use of Sector Insights

The need for timely responses to sector-specific problems and challenges in a social environment where complex changes are occurring at an unprecedented speed has made consolidating sector insights more important than ever. On July 1, 2021, we restructured KPMG AZSA's divisions with the aim of enhancing our expertise by aggregating sector insights. We also assigned a SQP (Sector Quality Partner) and SL (Sector Assurance Leader) for each sector in line with this restructuring. The SQP aims to enhance audit quality based on sector-specific issues while the SL aims to foster talent for strengthening sector insights and to provide value-added information to audit clients.

The enhancement of corporate disclosures including non-financial information is rapidly progressing as companies face a growing demand for sustainable management in recent years. Audit firms are therefore also expected to have more sophisticated insights by sector, and a transition to a structure capable of understanding and addressing sector-specific business risks in audit procedures is essential for meeting such social needs.

We have introduced a structure in which two divisions are established under a managing division, thereby creating a firewall for assigning competing audit clients to separate divisions.

SQP (Sector Quality Partner)

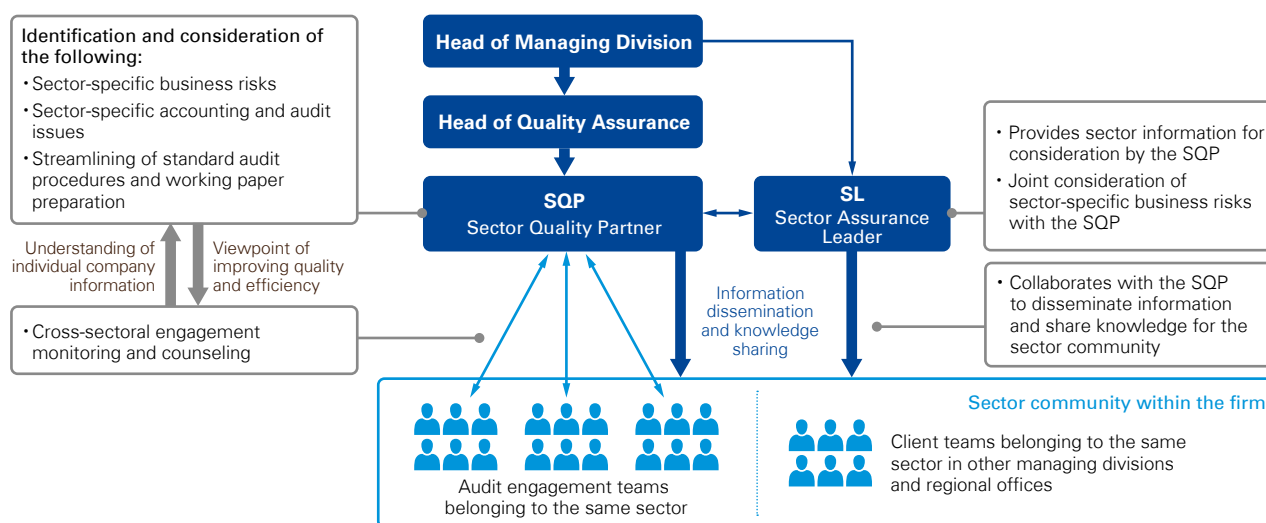
Reporting to the Head of Quality Assurance, the SQP will be involved in understanding audit risks for engagements and decisions on the acceptance, continuance, and termination of audit contracts, in addition to monitoring audit procedures and working papers, and advising on accounting and audit issues for engagements in the sector for which the SQP is responsible.

The SQP will work with the SL to share information on sector-specific industry information and business risks, address accounting and audit issues, and promote streamlining and standardization specific to the sector.

SL (Sector Assurance Leader)

The SL supports audit teams by collecting sector insights and disseminating useful information based on such insights. The SL will first collect sector insights within the managing division and develop sector talent through training, while forming a firmwide sector community for sharing sector insights. The provision of high value-added sector information will become possible by aggregating sector-specific insights obtained from non-financial information and integrated reports.

» Restructuring with Managing Divisions to Make Better Use of Sector Insights



Industry (Sector)	Finance	Telecommunications, Media, General Trading Companies	Service, Technology, Entertainment	Consumer Goods, Logistics, Distribution, Transportation, Public	Life Science, Energy, Chemicals	Automotive, Manufacture, Construction, Heavy Industry
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6. Audit Structure for Addressing the Globalization of Clients

With the global impacts of COVID-19, significant changes are occurring in how to conduct global business. KPMG AZSA has an audit structure and support system in place that goes beyond borders to address the globalization of our clients.

6-1. Implementation of Group Audits According to Materiality

For group audits, the parent company audit team conducts an assessment of financial materiality and degree of risk for consolidated subsidiaries and plans required audit procedures for each company according to materiality.

The subsidiary audit teams perform audits based on instructions from the parent company audit team. The parent company audit team expresses an opinion on consolidated financial statements after receiving reports on audit results from subsidiary audit teams.

» Scoping of Group Audits

Consolidated Subsidiaries etc	Designation	Audit Procedures
Companies with high financial materiality	Significant component unit	Audit procedures addressing financial statement audits or risks of each company
Companies with significant risks in consolidated financial statements		
Companies other than the above	Other component unit	Depending on the risk, financial statement audit, risk-specific audit procedures, or analytical procedures at a group level perform by the parent company auditor

6-2. Parent Company Audit Team Initiatives

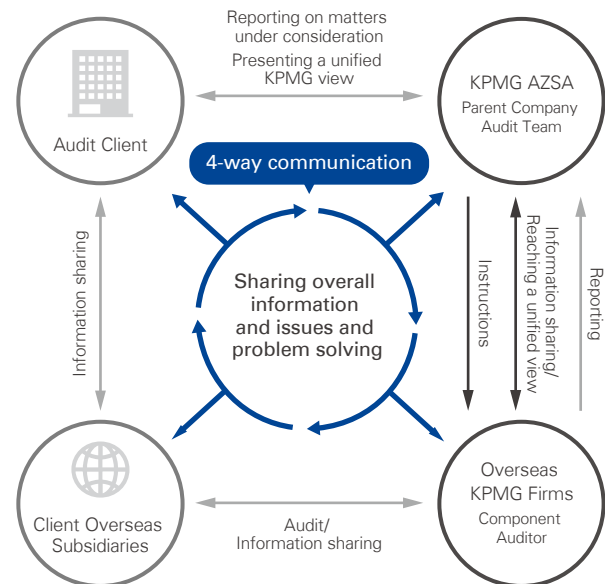
Close cooperation between parent and subsidiary audit teams is important for ensuring the smooth completion of group audits.

Given that material accounting and audit issues arise in subsidiaries located in regions with significantly different accounting practices and business styles,

the parent company audit team in Japan should take ownership to solve problems collaboratively, rather than leaving issues to be resolved by subsidiary audit teams.

KPMG AZSA gains an understanding of issues through appropriate communication utilizing online meeting systems and remote reviews of audit working papers. Engagement partners of the parent company audit team ensure that there is close communication between the parent company, overseas subsidiaries and local audit teams to ensure a smooth resolution of issues even with restrictions imposed on travel amid the COVID-19 pandemic.

» Communication in the Group Audit



6-3. Ensuring Consistent Standards of Auditing at a Global Level

All KPMG member firms strictly comply with prescribed procedures based on a common quality management framework and audit methodologies.

We are therefore able to ensure consistent standards of auditing at a global level by having our KPMG member firms carry out the audits of our clients' overseas subsidiaries.

6-4. Contributing to the Enhancement of Audit Quality at a Global Level

KPMG AZSA fulfills an important role in KPMG’s audit quality enhancement at a global level. KPMG AZSA’s Deputy Managing Partner (Head of Quality Control) is in a position of representing and leading Asia Pacific (AsPac) as the Regional Head of Audit & Assurance, while also serving as a member of the Global Audit Steering Group (GASG) which includes representatives of the top ten countries, and is deeply involved in deciding policies and measures at a global level.

6-5. Collaboration with KPMG Member Firms

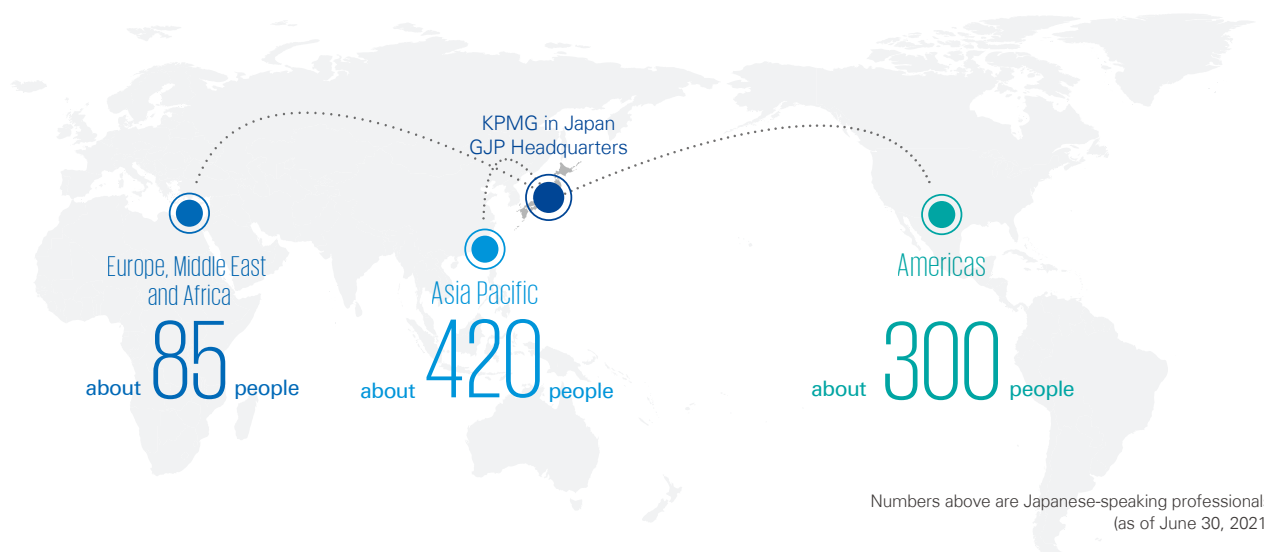
KPMG AZSA participates in KPMG’s Global Board meetings as a leading country and is strengthening our connection with KPMG member firms in all countries through a close exchange of information.

This allows us to take necessary measures appropriately in liaison with KPMG member firms if issues should occur in group audits.

6-6. The GJP Network

The GJP Network (Global Japanese Practice Network) is an organization supporting the provision of optimal services to Japanese Companies by KPMG member firms.

» GJP Network



Numbers above are Japanese-speaking professionals (as of June 30, 2021)

GJP has established a network of Japanese-speaking professionals including professionals on secondment in 89 cities across each of our regions: Americas; Europe, Middle East and Africa (EMA); and Asia Pacific (AsPac).

We implement high-quality group audits and advisory services through this network. The network also provides the latest local information in Japanese and supports the entry of Japanese companies into overseas markets.

6-7. Supporting Local Professionals on Secondment from Japan

KPMG AZSA has established divisions for four regions of high strategic importance for Japanese companies (China, ASEAN, India, Middle East and Africa), as well as Country Desks comprising professionals who have experience working abroad in over 30 countries.

Those in charge of Country Desks support local professionals on secondment from Japan, and liaise with KPMG member firms to coordinate information regarding each region and realize smooth communication in group audits.

7. Initiatives for Improving Transparency of Audit Reports (KAM)

The application of KAM (Key Audit Matters) has been mandatory from the year ended March 2021.*

KPMG AZSA has been continuing efforts to make KAM descriptions more meaningful.

7-1. Enhancement of Audit Report Descriptions in Response to Expectations of Market Participants

In accordance with the “Opinion on the Revision of Auditing Standards” published by the Business Accounting Council of the Financial Services Agency in July 2018, the mandatory application of KAM has been introduced to audits of listed companies under the Financial Instruments and Exchange Act from the year ended March 2021.

KAM was introduced in response to indications from market participants that the audit process was becoming a black box and that the auditors’ work was hard to understand.

KAM is intended to improve the transparency of audits and enhance the information value of audit reports for market participants. This has led to expectations of further improvements in the quality of audits and financial statements based on a shared understanding and appropriate discussion of key audit issues and responses among management, those charged with governance, and auditors.

7-2. Enhancement of Information Disclosure by Companies

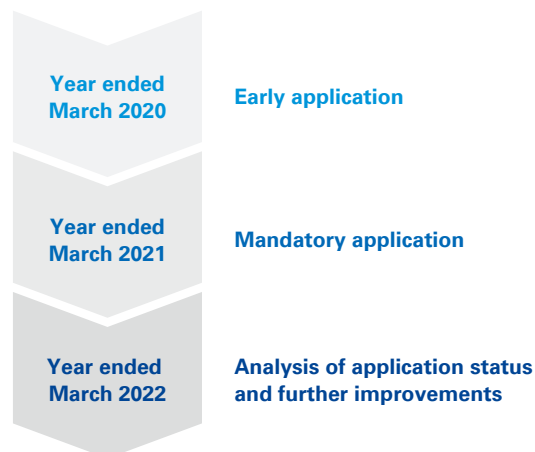
In parallel with the introduction of KAM, efforts are underway to enhance disclosure in securities reports.

Requirements relating to the disclosure of narrative information including risk information and management discussion and analysis (MD&A) have expanded from the year ended March 2020. In addition, the Accounting Standard for Disclosure of Accounting Estimates has been applied regarding information that needs to be disclosed in the financial statements from the year ended March 2021.

7-3. KAM Application Schedule

Against this background, early application of KAM has started from the audits for the fiscal year ended March 2020. KAM application is mandatory from the year ended March 2021 for audits of listed companies under the Financial Instruments and Exchange Act.

» Adoption Schedule of KAM



» KAM Overview

<p>Key Audit Matters (KAM)</p> <p>Definition of KAM</p> <p>Those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period.</p>	<p>Descriptions included for matters selected as KAM</p> <ul style="list-style-type: none"> • Reference to the disclosure in the relevant financial statement • Description of individual KAM • Reason for selecting a matter as a KAM due to its significance in the financial statement audit • Audit response to the matter <p>KAM requirement according to audit report</p> <ul style="list-style-type: none"> • Financial Instruments and Exchange Act audit report (consolidated and non-consolidated): Required • Companies Act audit report (consolidated and non-consolidated): Optional
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7-4. Initiatives Implemented Toward Mandatory KAM Application

KAM application started from audits for the year ended March 2020. While the number of early application cases was limited to about 50 companies as it coincided with the COVID-19 pandemic, initiatives for early application and an analysis of results provided useful insights toward mandatory application.

KPMG AZSA mainly implemented the following initiatives based on an analysis of early application cases.

- Expansion of guidance regarding KAM selection and description and examples of KAM description
- Discussions and additional consideration with audit clients regarding the accounting treatment and disclosure of matters selected as KAM, and confirmation of sufficiency of corresponding audit procedures
- Workshop to consider the description of KAM based on preceding overseas cases
- All drafts were reviewed multiple times by members outside of the audit team (including a review by Japanese language experts and a review of KAM in English). In particular, we made careful judgments regarding matters that required significant auditor attention, including the possibility of the judgment that there are no KAM by involving the relevant persons responsible from headquarters.

7-5. Analysis of KAM Cases in the Year Ended March 2021

KPMG AZSA believes that the description of KAM is extremely important for providing information on audit quality to those charged with governance and users of financial statements to enable an appropriate evaluation of our audit quality. We therefore developed the KAM Analysis Tool for analyzing KAMs in the year ended March 2021 and conducted a detailed analysis. We will further consider the description of KAM by having discussions with our stakeholders based on analysis results.

7-6. Initiatives For Making the Description of KAM More Meaningful

KPMG AZSA will promote the initiatives shown on the right in order to make the description of KAM more meaningful.



Initiative 1

Strengthening our audit response to KAM

In the process of finalizing the description of KAM, there were cases for which our audit was more thorough than in prior years due to a review of our audit approach in response to questions and suggestions from stakeholders to the audit team.

The introduction of KAM was intended to bring about such a cycle in which disclosures lead to the awareness of issues which in turn lead to a more robust audit response.

We believe that it is important for this kind of cycle to function effectively in order to further enhance our audit quality, and we will deepen the dialogue regarding KAM with our stakeholders.

We will deepen the dialogue with relevant parties to provide an opportunity for them to discuss the description of KAM, thereby promoting the enhancement of audit quality.



Initiative 2

Consideration of KAM in line with the expansion of corporate disclosures

KAM are closely related to notes on accounting estimates and the narrative information in securities reports because they often concern estimates of future events, such as the need to recognize impairment losses on fixed assets.

There are also many matters selected as KAM for which the ultimate outcome is uncertain, and which are significant for understanding corporate information.

As part of our initiative to enhance the description of KAM, we will continue to hold in-depth discussions with management and those charged with governance to ensure that information disclosure overall meets user expectations and contributes to constructive dialogue.

We will strive to ensure that information disclosure meets user expectations by discussing the description of KAM in addition to corporate disclosures.



Initiative 3

Detailed descriptions specific to individual clients

Our firm has implemented measures to ensure that the description of KAM is provided in detail in a client-specific manner.

When a matter with a high degree of uncertainty is selected as a KAM, a client-specific detailed description of the matter may be particularly useful to users. A client-specific description is also important for communicating audit quality to financial statement users.

We will continue to make the description of KAM easier to understand and detailed in order to appropriately communicate our audit response to significant audit issues and fulfill our auditor accountability.

We will include client-specific and detailed descriptions of KAM in order to provide information that contributes to the evaluation of audit quality.

8. Actions to Address Fraud and Fraud Risk

KPMG AZSA identifies and assesses fraud risk and formulates audit plans according to risk. We also make the completion of training courses on fraud mandatory for all of our professionals involved in audit services.

8-1. A More Robust Structure for Addressing Fraud Risk

Even after the Financial Services Agency issued the Standard to Address Risks of Fraud in an Audit, accounting scandals continue to occur. Based on this standard, KPMG AZSA develops overall audit plans that ensure sufficient time, assignment of appropriate specialists and implementation of specific audit procedures to address identified fraud risks. In situations where a material misstatement is suspected or identified, it is always reported to the Quality Assurance Headquarters through the portal for professional opinions. Instructions are then received from the Quality Assurance Headquarters on the audit procedures to be implemented and whether or not review by the Senior Review Board is required. Review by the Senior Review Board is mandatory in cases where a material misstatement is suspected.

At KPMG AZSA, all partners and managers engaged in audits are required to attend multiple training sessions on fraud to raise their awareness of fraud. These training sessions explain specific fraud cases and provide reminders for auditors using cases from the Audit Recommendations Guide, which is issued by the Japanese Institute of Certified Public Accountants (JICPA) for practical use in the routine execution of audits.

8-2. Quick Action in the Event of Fraud

Quick action is required when a client has committed fraud. The client needs to make clear all facts and analyze the cause of the fraud, determine any impact on accounting and investigate whether or not other similar situations exist. The client then needs to consider whether financial statements in prior years need to be revised, while implementing measures to prevent a recurrence and taking corrective actions for internal control. It is further necessary to devise and implement measures to prevent a recurrence of similar cases, take corrective actions for internal control and consider whether prior year financial statements must be revised. For such clients, the audit team provides timely and appropriate advice in consideration of the adequacy of the client's investigation, determination of the need for retroactive corrections, and corrective

actions taken with respect to internal controls. Depending on the case, a specialist with insight into fraud and corporate malfeasance investigations may be involved to complete the necessary procedures.

Where fraud takes place at an overseas subsidiary, communication may be inadequate due to differences in business practices, values and cultural norms among various countries. Such situations require careful attention so that adequate investigations and timely reporting may be conducted locally. The audit team of a parent company must collect information and identify and assess the fraud risk in cooperation with auditors of the component. Necessary information is provided and instructions are given to auditors of the component so that the local audit is performed efficiently.

» Examples of Actions Taken to Address Fraud

Client	Audit Team
<ul style="list-style-type: none"> • Suspicion of fraud uncovered through whistleblowing (Indication of material misstatement) 	
<ul style="list-style-type: none"> • Fact finding through internal investigation 	
<ul style="list-style-type: none"> • Reporting to the audit firm, discussion of actions to be taken 	<ul style="list-style-type: none"> • Clarification of all facts, investigation into the cause of the fraud, and investigation into similar situations
	<ul style="list-style-type: none"> • Consultation with Engagement Quality Control (EQC) reviewer • Consulting with the Quality Control Headquarters • Involvement of a fraud specialist
<ul style="list-style-type: none"> • Launch an official internal investigation* • Consideration of the need for retroactive revisions of prior year financial statements; if necessary, revisions to be made 	
<ul style="list-style-type: none"> • Report results of investigation 	<ul style="list-style-type: none"> • Review results of internal investigation, selective conduct of own investigation • Consideration of the need for retroactive revisions of prior year financial statements • Consultation with EQC reviewer • Review by the Senior Review Board
<ul style="list-style-type: none"> • Consideration by the Compliance Committee and decision on disciplinary actions 	
<ul style="list-style-type: none"> • Improvement actions for internal controls 	
	<ul style="list-style-type: none"> • Verification of internal control improvements • Consultation with EQC reviewer

* Depending on the nature of the case and the financial impact, a third-party committee may need to be organized in addition to internal investigation.

9. Independence, Integrity, Ethics and Objectivity

Strict independence is required for the provision of audit services.

At KPMG AZSA, we establish rules and policies regarding independence and implement training and monitoring initiatives.

9-1. Enactment of Code of Ethics on Maintaining Independence

KPMG AZSA stipulates policies and procedures regarding matters including firm independence, independence at an individual level, relationships after retirement, rotation of partners and audit team members, and approvals of audit and non-audit services. Our internal ethics policies regarding the maintenance of independence reflect the requirements of KPMG's independence policies, the Certified Public Accountants Act and other Relevant Ordinances, and the JICPA's Code of Ethics and Independence Guidelines.

In addition, the following matters are implemented for all of our partners and employees.

- The completion of training programs regarding independence and affidavits is mandatory, and thoroughly disseminated.
- Investigations on the economic independence of individuals are conducted, and the compliance status of independence monitored.



Submission rate of written affidavits of independence

100%	100%
FY ended June 2020	FY ended June 2021



Number of violations identified

8	1
FY ended June 2020	FY ended June 2021

- Total number of cases resulting in a violation of independence regulations
- We confirmed that there was no impact on our objectivity and fairness as auditor by carrying out additional procedures immediately after the violation came to light. We are implementing necessary measures to ensure the prevention of similar violations.

The independence of firms from clients also needs to be assured for all services provided by KPMG member firms globally. At KPMG, the engagement partners responsible for audits therefore confirm whether or not services can

be provided by cross-checking against the regulations of professional ethics regarding independence for all audit and non-audit service contracts.

9-2. Rotation of Partners and Audit Team Members

There is a limitation as to the number of years KPMG AZSA partners can be involved with the same client (this includes years before being appointed as the engagement partner for Public Interest Entities).

This limitation complies with the Certified Public Accountants Act and other Relevant Ordinances, the JICPA's Code of Ethics and related regulations, and our firm's policy, "Limitations on the Maximum Period of Involvement of Partners in Audit and Attestation Engagements," which reflects KPMG International's policies in this area.

The following conduct is restricted for partners during the cooling-off period after their involvement in the audit engagement of a particular client is finished.

- Continued involvement in audits of the client
- Appointment as a quality control reviewer
- Involvement in professional consultations
- Having any influence on audit results
- Supervising or coordinating other professional services for the client
- Supervision of the relationship between the firm and the client
- Important or frequent interaction with the management and those charged with governance of the client

There is a risk of impaired independence due to familiarity arising from long-term and consecutive involvement with clients that are Public Interest Entities. Additional rules regarding the independence of partners, audit team members and the audit team as a whole have been established in order to prevent this.

9-3. Clarification of Policy for Providing Non-audit Services

KPMG in Japan is an accounting firm with KPMG AZSA at its core.

With a view toward our social infrastructure role of ensuring the reliability and fairness of the capital markets, we follow a policy of providing services that are worthy of the trust placed in us by society by contributing to the sound development and transformation of companies, rather than only pursuing profit.

When providing non-audit services to our clients, we limit our services to those that allow us to retain our independence as auditors without assuming management responsibilities or performing work that we would go on to audit (i.e. self-audit).

Governance of Group Companies

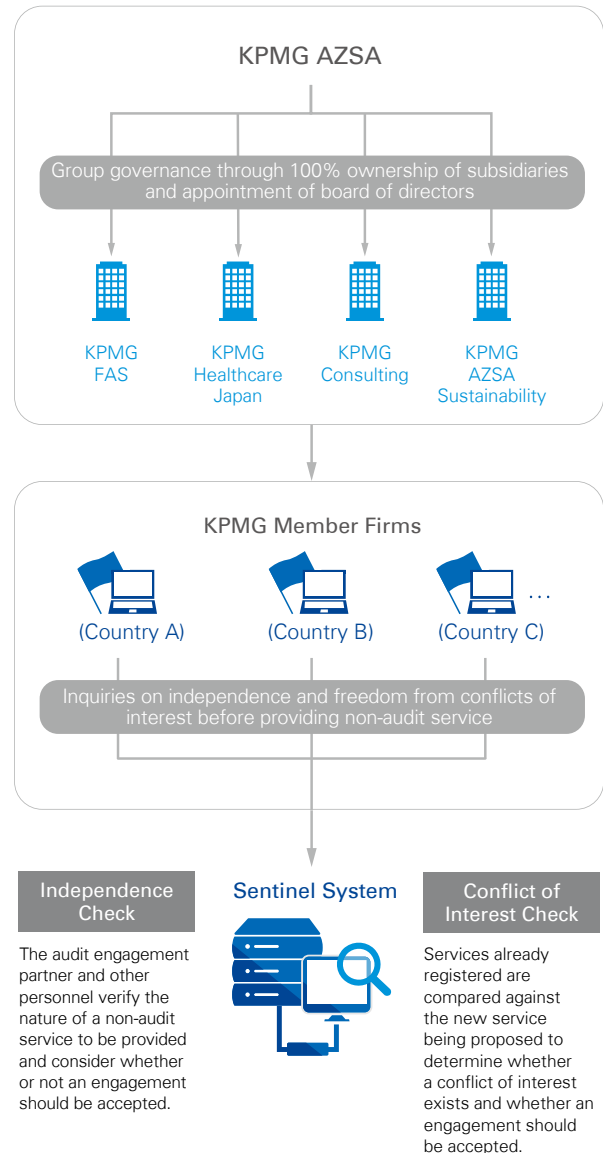
KPMG AZSA manages group companies that provide advisory services as 100%-owned subsidiaries. Senior Executive Board members of the audit corporation act as directors of group companies and participate in their management in order to reinforce governance of the group by KPMG AZSA. The firm has established the KPMG Japan Management Committee (see P.82) with participation by representatives of the group entities of KPMG in Japan in order to unify the management policies of its advisory subsidiaries.

Checking Independence and Conflicts of Interest

KPMG member firms are required to register proposed audit and non-audit services prior to commencing work within Sentinel, a system that checks independence and identifies conflicts of interest.

The verification process within Sentinel enables audit engagement partners, who are responsible for managing client relationships, to determine which services are provided. The firm's Risk Management department further confirms that the proposed service does not present a conflict of interest. This process prevents the acceptance of engagements for services that may impair the firm's independence or cause a conflict of interest.

» Group Governance and System for Checking Independence and Identifying Conflicts of Interest



10. Initiatives for Compliance and Information Security

The strict handling demanded by society with regard to compliance matters and information security is increasing year by year. KPMG AZSA works conscientiously towards the maintenance and operation of a compliance organization and information security structure.

10-1. Basic Principle of Our Compliance Activities

KPMG AZSA believes it is essential to embody our purpose of inspiring confidence and empowering change in our compliance activities.

We established our Code of Ethics to clearly define our corporate culture based on the basic principles of our purpose, values and vision.

10-2. An Organization That Leads the Way on Compliance Activities

1. Management

The CEO of the firm is responsible for all firm activities including compliance activities. Significant matters relating to the areas of responsibility of the Senior Executive Board members are designated as topics for discussion at the Senior Executive Board Meeting (pursuant to the Regulations for the CEO and Senior Executive Board Meeting), and important compliance matters are reported to the Senior Executive Board for decisions by management.

2. Compliance Committee

We established the Compliance Committee as a standing committee of the firm. The committee has 15 members, 14 from inside and one from outside the firm (a lawyer). In accordance with the Compliance Committee's Operational Guidelines, the Committee reviews and implements the following matters, and reports results to the Senior Executive Board in a timely manner.

- Compliance with relevant domestic and overseas laws and regulations, rules set forth by the JICPA, firm regulations and norms, and formulation of various measures to improve professional ethics
- Understanding the status of compliance with and violations of relevant domestic and overseas laws and regulations, rules set forth by the JICPA, firm regulations and norms, and issuing warnings and recommendations in response to violations
- Other compliance matters in our firm

We are also actively working to raise compliance awareness among our members and to ensure compliance with our Code of Conduct through the following activities.

- Revision of the Code of Conduct
- Implementation of ethics and compliance training
- Distribution of email letters to raise awareness
- Establishment of compliance hotline for reporting power harassment and other compliance violations by our members

3. Risk Management Department

The Risk Management Department serves as the Compliance Committee Secretariat.

4. Compliance Promotion Office

The Compliance Promotion Office is responsible for raising and disseminating awareness of compliance, and for detecting and preventing legal violations and misconduct.

5. Strategy and Planning Department

The Strategy and Planning Department is responsible for the firm's crisis response.

It will also serve as the secretariat for the crisis response team formed for crisis events led by the Chief Crisis Response Officer (designated as the CEO) according to the Crisis Response Regulations and Crisis Response Guidelines.

6. Office of General Counsel

The Office of General Counsel provides support when adherence to laws or compliance becomes a legal matter.

7. Talent Development Department

The Talent Development Department is responsible for matters related to talent development including training. It will work on preparing various training programs to promote an awareness of compliance.

10-3. Thorough Information Security Measures

The maintenance of information security is an important challenge for audit firms that handle confidential client information. KPMG AZSA has established an Information Security Department within the Risk Management Headquarters, while also setting a clear policy for the wide-ranging domains of information security.

The importance of handling confidential client information is communicated to all partners and employees by providing training on the Code of Conduct and annual processes including a compliance affidavit.

The policy for retention periods and methods of handling working papers is decided in accordance with ethics rules, standards of regulatory authorities, laws and regulations for handling of audit working papers and other policies related to auditing.

The firm's policy on data privacy for managing the handling of personal information complies with the Act on the Protection of Personal Information, and all partners and employees are required to receive training on data privacy.

The Security Operation Center run by KPMG International and the Japan firm monitors internal and external communications in real time 24 hours a day as a cybersecurity measure for our internal network.

VDI (Virtual Desktop Infrastructure)

Due to the nature of audit work, personal computers are often carried outside company premises. The firm therefore introduced VDI (Virtual Desktop Infrastructure) with PC storage limited to ROM so that data cannot be stored on a PC as a security measure. In a VDI environment, data including eAudit and KPMG Clara workflow (see P.12) is not saved on firm-issued PCs but is saved instead on the server. This means client data is stored on a server in a data center managed by KPMG AZSA, rather than on the hard drive of a firm-issued PC, thereby further enhancing information security.

10-4. Establishment of Compliance Day

We designated September 7 of every year as Compliance Day to create an opportunity to reaffirm the importance of ethical standards and awareness of the compliance that we are expected to maintain as CPAs and professionals.

» Image of online discussion on Compliance Day



Inappropriate Completion of e-Learning Courses

In accordance with the Certified Public Accountants Act, CPAs are obligated to continually complete training courses and acquire required credits. In 2020, it became evident that some of our firm's partners and professionals were involved in inappropriate conduct relating to the completion of e-Learning courses within the firm, and consequently did not satisfy credit requirements.

We believe that the root causes of this incident were a lack of ethical standards expected of CPAs and professionals, together with an inadequate internal control system in our firm. We will further strengthen and disseminate an awareness of compliance based on the preventative measures outlined below.

► Initiatives for Preventing a Recurrence

Ensure everyone is informed and aware of "Tone at the Top"

- Communication of messages from the firm's senior management regarding ethics and compliance
- Implementation of individual training for those involved in inappropriate completion of courses
- Reinforcement of ethical values through compliance training
- Establishment of Compliance Day and holding events to regularly reflect on compliance

Strengthening our internal management structure

- Securing time to complete training based on regular reviews of assignment status
- Identifying inappropriate conduct through regular monitoring of training completion records
- Thoroughly implementing comprehensive checks when changing systems
- Strengthening monitoring by means of a department newly established for compliance (the Compliance Promotion Office)

We also monitor the above measures by conducting internal audits. The Senior Executive Board and the Management Oversight Committee are committed to ensuring continuity of a system that prevents the recurrence of inappropriate training, based on reports from relevant departments and from the Internal Audit Office.

Compliance with the Code of Professional Ethics as Members of the Auditing and Accounting Profession

It is the mission of CPAs, as auditing and accounting professionals, to ensure the reliability of financial statements and other financial information from an independent standpoint, thereby protecting the fair business activities of companies, investors and creditors, and contributing to the sound development of the national economy.

In order to achieve this mission, CPAs are expected to fulfill their professional responsibility based on an awareness of their social role and self-discipline, and by contributing to the public interest while meeting the requests of individual clients.

Audits are conducted exclusively by CPAs. While CPAs perform audits in accordance with quality control standards for audits and generally accepted auditing standards, appropriate audits can only be completed if individual CPAs performing the audit have an accurate understanding of the Code of Professional Ethics for fulfilling their responsibilities and acting accordingly. It is of the utmost importance that all members of an audit firm, including both partners and employees, comply with the Code of Professional Ethics. In Japan, ethical standards in the Code of Professional Ethics include the following five fundamental principles regarding expected conduct, which are similar to international standards.

Principle 1 Integrity

Principle 2 Objectivity (maintaining an objective point of view when making decisions)

Principle 3 Professional competence and due care

Principle 4 Confidentiality

Principle 5 Professional behavior

Companies are required to address information other than financial information as a result of the revised auditing standards from the year ending March 2022. CPAs must be able to maintain a level of professional competence required for providing appropriate audit services to clients according to Principle 3.

We need to understand the latest professional trends relating to our area of expertise in order to maintain professional competence. As CPAs, we will be able to improve and maintain our professional competence for performing audits by constantly refining our capabilities.

We are committed to the acquisition of expertise as a significant factor that supports our audits.



Executive Board Member
(in charge of JICPA)

Kanako Ogura

11. Review Structure

KPMG AZSA aims to maintain and improve audit quality by implementing quality control reviews at two levels, according to the degree of significance. We also mitigate the risk of surprises through our open corporate culture which encourages early consultation and review.

11-1. Two-layer Review Structure According to Degree of Significance

At KPMG AZSA, we implement two layers of quality control reviews. All of our audit services undergo divisional reviews, and those engagements with significant audit judgments are further subject to review by the Senior Review Board.

Senior Review Board

The Senior Review Board comprises a Chairman who is appointed by a vote of confidence by partners, and a Vice-Chairman appointed by the Chairman.

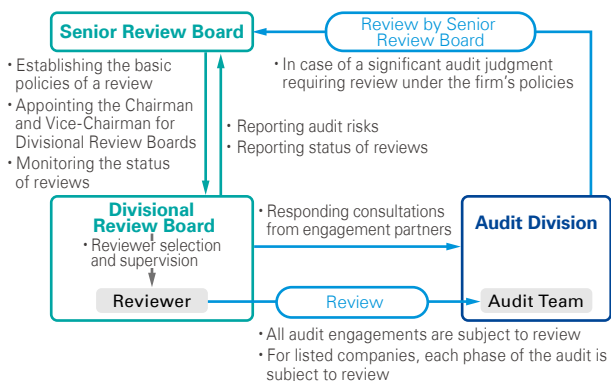
Roles

- Establishing the basic policies for quality control reviews
- Appointing the Chairman and Vice-Chairmen for Divisional Review Boards
- Monitoring the status of divisional reviews
- Making final judgments on significant audit issues

Divisional Review Boards

Review boards are set up by audit division units and to address the expertise and special nature of certain industries across all of the firm's areas nationwide.

» Review Structure



Roles

- Addressing engagement partner consultations
- Appointing and guiding divisional review board members
- Understanding audit risks and monitoring divisional reviews
- Reporting review results to the Senior Review Board

11-2. Divisional Reviews Implemented for All Audits

When audit reports are issued for all audit services, it is mandatory that a partner with the experience and capabilities required to conduct a review and who is in a position independent of the audit team conducts a quality control review within the Divisional Review Board.

» Quality Control Review Schedule (March year-end company)

Timing	Review Subject	Details
Early Aug	Q1 Review	Review plan and conclusions for the first quarter
End of Sept (goal)	Audit Plan Review 1	Basic approach for the annual audit
Early Nov	Q2 Review	Review plan and conclusions for the second quarter
End of Dec (goal)	Audit Plan Review 2	Detailed plan for the annual audit
Early Feb	Q3 Review	Review plan and conclusions for the third quarter
Mar to Early Apr	Review Prior to the year-end audit	Discussion regarding key audit issues prior to the year-end audit
Early May	Companies Act Audit	Opinion on the Companies Act Audit
Mid June	Fin Inst & Exchange Act Audit	Opinion on the Financial Instruments & Exchange Act Audit

For the audits of listed companies in particular, a strict review is implemented with regard to judgments made by the audit team from accepting an engagement, preparing an audit plan to forming an audit opinion.

If the divisional review for listed companies is for a company with a March year-end, the following schedule will be implemented. Additional reviews will be conducted as necessary if audit risk is high or there are significant issues for consideration.

11-3. The Senior Review Board Renders Final Judgment on Significant Audit Issues

In situations where the audit team and reviewer have a difference of opinion, or significant audit judgments are involved, the review is escalated from the relevant Divisional Review Board to the Senior Review Board, which renders the firm's final judgment.

The number of cases considered by the Senior Review Board for the year ended June 2021 totaled 361.

11-4. Comprehensive Understanding of Risk Information Based on Risk Survey Forms

Audit teams of clients subject to certain requirements, such as listed companies, prepare a risk survey form twice a year and submit these to the Divisional Review Boards.

The Divisional Review Boards review the risk survey forms and conduct hearings with audit teams and Divisional Review Board members to comprehensively understand audit risk information.

Risks are reported to the Senior Review Board, which then conducts a review if they deem it necessary.

» Status of Consultations and Reviews

(From July 2019 to June 2020)

	Number of in advance consultations and reviews	Number of final consultations and reviews
Review	643	82
Accounting	296	107
Audit	402	361
Total	1,341	550

* Of the requests for review by the Senior Review Board, those for which the Board convened are categorized as "final" and those which were handled primarily on a documentation basis are categorized as "in advance."

11-5. Smooth and Timely Communication

KPMG AZSA considers our open corporate culture which encourages smooth and timely communication as a particular strength.

We accept consultations as needed when audit teams are unsure of judgments, and encourage early consultation and review.

We mitigate the risk of new issues, unexpected outcomes, or surprises occurring near the account closing date by providing such support in advance.

11-6. Allocation of Reviewers with Expertise on IFRS and US Standards

Audits of companies that have adopted IFRS or US accounting standards are subject to a divisional review by reviewers who have experience auditing clients that use these standards and are fully competent in conducting reviews.

The same applies for the Senior Review Board, where partners who are experts in IFRS and US GAAP audits are selected as reviewers and address complex and difficult issues.

For SEC filings, Japanese SEC reviewing partners review and approve related documents, and audits are completed within the firm. For audits involving highly sensitive matters, reviewing partners consult with KPMG US-DPP as necessary and take prompt action.

Message from the Chairman of the Senior Review Board

Objective Assessment of the Auditor's Judgment

The application of KAM (Key Audit Matters) has led to a clear and concise demonstration to the market of how engagement partners identify audit risks and get thoroughly involved in the audit procedures on which the auditor's opinion is then based. In terms of business performance, the environment for individual companies varies as the COVID-19 pandemic continues to impact companies. Some industries are still far from recovering to pre-COVID levels. I believe these circumstances will lead to heightened expectations for auditors among market participants.

Performing an audit from an independent standpoint and with professional skepticism, all while engagement partners communicate closely with the client's management, is fundamental to an audit. A quality control review is important for providing an additional objective evaluation, from a standpoint independent of the auditor, of judgments by engagement partners and of the final audit opinion. It therefore remains one of the most essential functions for maintaining and enhancing audit quality.

At KPMG AZSA, we have been continuing to work on the maintenance and enhancement of audit quality based on an objective awareness of the circumstances for individual clients. In order for a reviewer to operate effectively, we have established Divisional Review Boards to which individual reviewers belong and a Senior Review Board as the supreme authority, with the aim of preventing deficiencies in audit procedures and errors in audit judgments particularly in key audit areas.

Specifically, we establish basic principles and priority items for review every year, and disseminate them throughout the firm. We have also placed more emphasis on the four defense lines from the current fiscal year. Audit divisions, the Risk Management Department, the Senior Review Board and Divisional Review Boards jointly address audit risks by conducting regular interviews regarding relevant audit client risks, identify any matters that require attention in the review at a firm level, and make sure that the matters are appropriately disseminated and a review is implemented.

Our firm aims to be the Clear Choice, and to be chosen by the market on the basis of trust. To do this, we will continue to maintain and enhance our audit quality while devising new audit procedures for individual audits according to the revision of audit standards.



The Chairman of The
Senior Review Board
Ryoji Fujii

12. Continual Improvement

KPMG AZSA is committed to the maintenance and enhancement of audit quality by utilizing the results of both our firm's voluntary quality monitoring program and inspections conducted by external institutions to continually improve quality.

12-1. Utilization of Results of Voluntary Quality Monitoring Programs for Quality Improvement

KPMG requires all member firms to undergo an integrated monitoring program to verify that quality control policies and procedures are fit for purpose, appropriate and operating effectively. Based on this monitoring program, KPMG AZSA conducts Quality Performance Reviews at the engagement level and the Risk Compliance Program at the firm level.

Any areas for improvement that are identified by this monitoring program are reported to the Senior Executive Review Board and the required action plans are implemented.

Quality Performance Reviews

We conduct an annual review at the operational level based on instructions from KPMG International.

All engagement partners are subject to a quality performance review at least once every three years.

The results are subject to a second round of reviews by partners from other KPMG member firms before ratings are finalized.

Results of this review for the past two years are given below. None of the review results included cases that required a revision of audit opinion.

» Quality Performance Review Results

		Year ended June 2020	Year ended June 2021
S	No deficiencies, or clearly immaterial deficiencies only	55 (59%)	77 (69%)
P	Mainly deficiencies in documentation	29 (31%)	22 (20%)
U	Mainly deficiencies in audit procedures	9 (10%)	13 (11%)
	Number of reviews (partner coverage)	93 43.8%	112 49%

Risk Compliance Program

KPMG member firms annually self-assess the status of their compliance with quality control requirements.

KPMG International's Global Compliance Review team reviews the self-assessments of firms, in principle, once every three years. The team reviews the procedures conducted as part of the self-assessment and the appropriateness of judgments in order to achieve consistency of procedures and judgment criteria at a global level.

The most recent review resulted in no objections to KPMG AZSA's self-assessment results.

12-2. Inspection by External Bodies as Verification of the Status of Our Firm's Quality Control

The Japanese Institute of Certified Public Accountants (JICPA), the Certified Public Accountants and Auditing Oversight Board (CPAAOB) and the Public Company Accounting Oversight Board (PCAOB) conduct external inspections of KPMG AZSA.

We have a structure in place for conducting root cause analysis and taking corrective measures for any deficiencies that are identified in our audits.

Review by the Japan Institute of Certified Public Accountants (JICPA)

Quality control reviews by the JICPA are performed for audit firms that audit listed companies and other designated entities. Quality control reviews of the largest audit firms are normally undertaken once every two years. Additionally, where circumstances are identified that could damage the public's trust in audits, special reviews are conducted, for example reviews of a limited population of audit firms.

The results of the regular quality control reviews are reported to audit firms as a conclusion of the quality control review. Depending on the conclusion of the quality control review or the progress of improvement relating to any improvement orders, the JICPA may take actions including issuing a warning, a strict warning, or a recommendation to resign from an audit engagement. Depending on the nature of such actions, the JICPA may additionally add a disclosure to the Register of Listed Company Audit Firms* explaining any qualifications or may have the firm in question removed from the register.

KPMG AZSA has not been subject to any such actions resulting from quality control reviews made in the past — neither disclosure of qualifications to the Register of Listed Company Audit Firms nor removal from the register.

*The JICPA operates a registration system for audit firms that conduct audits of listed companies and publishes on its website the Register of Listed Company Audit Firms including an overview of firm systems of quality control.

Certified Public Accountants and Auditing Oversight Board (CPAAOB)

The CPAAOB receives reports from the JICPA on quality control reviews and examines, from a public interest standpoint independent of the JICPA, whether the quality control review system is operating appropriately and whether audits by audit firms are being conducted appropriately. The CPAAOB also conducts on-site inspections of audit firms as necessary.

If it becomes clear that a quality control review by the JICPA was not conducted appropriately, an audit firm's quality control was found to be materially insufficient, or audit work did not comply with a law or regulation, the CPAAOB will recommend to the Commissioner of the Financial Services Agency administrative sanctions necessary to ensure the proper operation of the JICPA and audit firms.

In response to such a recommendation made by the CPAAOB, the Financial Services Agency may impose administrative sanctions (disciplinary actions), including

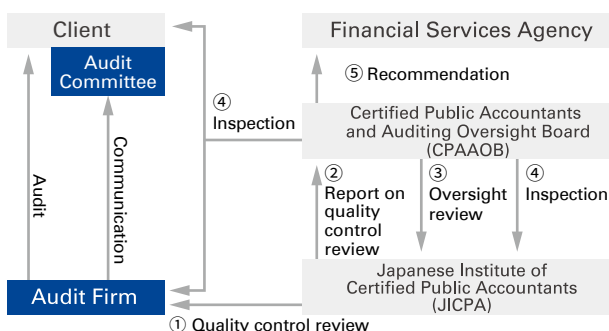
issuing an order to improve business operations, whole or partial suspension of business, or a fine.

In the past five years, KPMG AZSA received no administrative sanctions from the Financial Services Agency.

Action required based on JICPA review results In the past five years 

Administrative sanctions from the Financial Services Agency In the past five years 

» Quality Control Review by JICPA and Inspection by CPAAOB



- ① Quality control review: JICPA examines the state of operations of an audit firm.
- ② Report on quality control review: JICPA reports the results of a review to the CPAAOB.
- ③ Oversight review: CPAAOB conducts an oversight review primarily on the appropriate operation of the quality control review system and of the audit work of the audit firm.
- ④ Inspection: CPAAOB inspects the JICPA, the audit firm or the audit client.
- ⑤ Recommendation: CPAAOB recommends administrative sanctions or other measures to the Financial Services Agency.

Inspection by the Public Company Accounting Oversight Board (PCAOB)

It is mandatory for accounting firms performing audits of publicly listed companies in the US to register with the PCAOB.

The PCAOB conducts a regular inspection of both the systems of quality control and quality of individual audit engagements of registered accounting firms in accordance with PCAOB standards.

Inspection reports that have been conducted by the PCAOB to date are available on its website.

13. Addressing New Quality Management Standards

There is demand for further improvement of quality management in audits. KPMG AZSA has been working to meet international standards prior to the introduction of standards in Japan.

13-1. Publication of International Standards Demanding Enhancement of Quality Management

It is important first and foremost that audit teams and reviewers take appropriate action in order to ensure the quality of audits. This alone however is not sufficient to fully assure audit quality, and it is essential that appropriate action is taken at a firm level.

From this perspective, the International Auditing and Assurance Standards Board (IAASB) published the following three new standards on quality management for audit firms in December 2020.

- ISQM1 Quality Management for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements
- ISQM2 Engagement Quality Reviews
- ISA220 Quality Management for an Audit of Financial Statements

Of the three new standards, the application of ISQM1 has significant impact on the quality management of audit firms.

» Relations by Standard

Standard	Scope
ISQM1	Firm level
ISQM2	Firm and engagement level
ISA220	Engagement level

There is demand for further enhancement of audit quality based on a unified response to all three standards.

13-2. KPMG Network Response

KPMG sees the application of ISQM1 as an opportunity for promoting measures to ensure consistent and high-quality audits throughout the network.

Specifically, we analyze risk factors that hinder the achievement of quality objectives set forth in ISQM1. All audit firms belonging to the KPMG network then establish and operate necessary controls. KPMG AZSA actively participates in the discussions of the KPMG network.

» KPMG Network Response

Global	<ul style="list-style-type: none"> • Establishing controls at the network level/ Consideration and approval of controls that member firms should establish and operate
By region	<ul style="list-style-type: none"> • Exchange of information on method of building specific controls in each region/ Consideration of whether controls can be tested at a regional level
By country	<ul style="list-style-type: none"> • Establishing controls based on three components determined at the global level (process description, detailed control description and flowchart) • Consideration of additional measures based on the laws and standards of each country

13-3. Response in Japan based on ISQM1 and other standards

Overview

The Business Accounting Council of the Financial Services Agency is considering revisions to the quality control standards for audit (“Quality Control Standards”) based on ISQM1, ISQM2 and ISA220 and has published an exposure draft (“Exposure Draft”) in June 2021.

The Exposure Draft proposes the introduction of a quality management system based on a risk approach. Rather than establishing predetermined quality management policies and procedures, it proposes individual audit firms establish their own quality objectives according to each system of quality management component and determine policies and procedures for identified and assessed risks that may hinder the achievement of such quality objectives.

Components of the System of Quality Management

According to the Exposure Draft, the system of quality management should comprise the following components:

- (1) Audit firm risk assessment process
- (2) Governance and leadership
- (3) Relevant ethical and independence requirements
- (4) Acceptance and continuance of audit contracts
- (5) Engagement performance
- (6) Resources related to the services of an audit firm
- (7) Information and communication
- (8) Monitoring and remediation process of the system of quality management
- (9) Succession between audit firms

When an Audit Firm Belongs to a Network

If a firm belongs to a global network and performs audits, the Exposure Draft stipulates that individual firms shall apply or use the resources provided by the network based on an understanding of the firm’s responsibilities in relation to the network.

In addition, when a network monitors the quality management system of an audit firm, the impact of such monitoring on the audit firm’s processes should be considered.

Evaluation of the System of Quality Management

The Exposure Draft stipulates that, at least annually, the individual assigned ultimate responsibility and accountability for the firm’s system of quality management evaluates the system of quality management as of a specified date and concludes whether it provides reasonable assurance that the objectives of the system are being achieved.

It also recommends audit firms issue a public release of the status of their firm’s system of quality management, including the conclusion of such evaluations and reasons for reaching the conclusion, to enable an appropriate evaluation of audit quality by users of audit reports.

Applicable Date

The Exposure Draft proposes the timing of audits based on the revised quality management standards as follows.

- The revised quality management standards will be introduced from the audit of financial statements for the fiscal year or accounting period beginning on or after 1 July 2023.
- The system of quality management can be evaluated from the last day of the audit firm’s accounting year beginning after the revised quality management standards have been introduced.
- The revised standards can be applied for audits of financial statements prior to the above period.

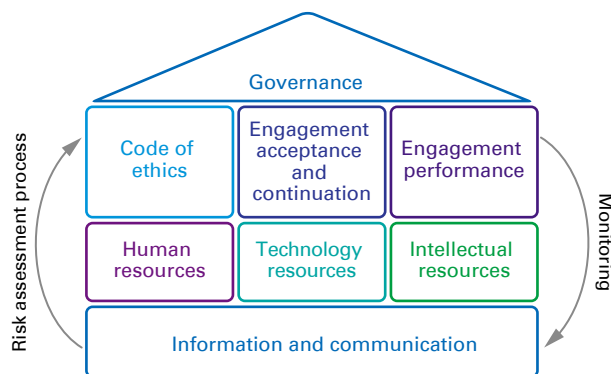
13-4. Response of KPMG AZSA

As a member firm of the KPMG network, KPMG AZSA is taking the necessary steps to apply the revised quality management standards on the application date of ISQM1 and other standards, without waiting for the finalization of the revised quality management standards in Japan.

(1) Overall Process

KPMG will consider its approach according to the specific procedures presented in (2) for each of the components that we have outlined as follows based on our network policy.

» ISQM1 Components



KPMG AZSA has set up a project team for this matter and is proceeding with consideration of the specifics while collaborating with KPMG’s global network.

(2) Specific Procedures for Each Component

At KPMG AZSA, we are undertaking an examination of each component according to the following procedures.

Item	Procedure
1. Identification of quality objectives	<ul style="list-style-type: none"> Identify quality objectives for each of the components based on standard requirements.
2. Identification of significant quality risks	<ul style="list-style-type: none"> Evaluate likelihood and magnitude to identify risks that may hinder the achievement of quality objectives.
3. Identification of process risk points	<ul style="list-style-type: none"> Identify where and how risk can occur in a process.
4. Confirm controls and gap analysis	<ul style="list-style-type: none"> Confirm what kind of controls are in place and operating for each risk. Identify deficiencies relative to expected controls.
5. Establish additional controls	<ul style="list-style-type: none"> For controls that are judged to be inadequate, establish and operate new controls.
6. Design of controls and tests of operational effectiveness	<ul style="list-style-type: none"> Third parties other than the control operators conduct tests on the implementation and operation of controls.
7. Report of evaluation results	<ul style="list-style-type: none"> Report to superiors based on test results for each component. Report from the individual responsible at KPMG AZSA to the individual responsible at KPMG International.



Human Resource Development

At KPMG AZSA we have created an environment in which our people can acquire professional knowledge and skills for proving high-quality services, based on an understanding that the basis of audit quality is the quality of our people.



1. KPMG AZSA's Professionals

Regardless of how much technology evolves, the source of providing high-quality audits and value-added services is our people. KPMG AZSA is enhancing the diversity of our people and organization in order to address the various expectations placed on audit firms in a timely manner.

1-1. Diverse Professionals Responsible for High-quality Audits

Nowadays, the involvement of specialists outside of accounting is essential for the provision of audit services.

Our professionals comprise not only certified public accountants but also experts in various fields including IT experts and data scientists, and consultants who deliver advisory services.

» Composition of Professional Workforce, Average Year of Experience (as of June 30, 2021)



1-2. Active Recruitment of Talent with Diverse Backgrounds

At KPMG AZSA we employ professional staff based on the firm's management policy and in accordance with a personnel plan.

We actively recruit talent with diverse expertise and backgrounds in addition to regular recruitment of individuals who have passed the CPA exam.

Our partners interview applicants directly in the final stage of recruitment, following a document screening and selection of candidates based on competence and professional aptitude tests. We are committed to identifying talent who are capable of executing tasks appropriately in accordance with KPMG AZSA's management policy.

1-3. Evaluation System Emphasizing Audit Quality Enhancement

We believe that the appropriate assessment of professional staff and feedback on performance and results assists them in accelerating their further growth, which results in an enhancement in audit quality.

Assessments emphasize the ability to make appropriate judgments utilizing professional skills based on a high level of comprehension, logical thinking and problem solving skills, founded on ethics and integrity.

Assessments of partners involved in audit engagements are heavily focused on quality control, and a comprehensive rating is given based on the guidance for Quality and Compliance. Non-audit services provided to clients are not subject to evaluation.

2. Human Resource Development at KPMG AZSA

At KPMG AZSA we place an emphasis on human resource development based on an understanding that the basis of audit quality is the quality of our people. We will foster true professionals who contribute to society through the “Three O’s” — OJT, Off-JT and Opportunity.

2-1. Fostering True Professionals Who Contribute to Society

KPMG AZSA understands that the basis of audit quality is the quality of our people, and we have set our Human Resource Development Principle as follows.

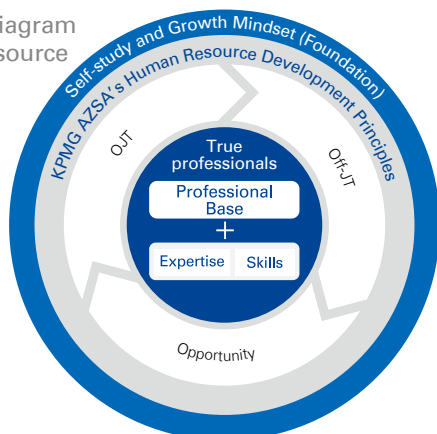
“In order for KPMG AZSA to realize the firm’s basic principles and to fulfill its responsibilities as a public institution, we must develop true professionals who make a contribution to society by systematically building and maintaining an environment that allows our people to acquire the expertise and skills necessary to provide high-quality services.”

We define true professionals as persons who not only possess both expertise and skills, but also have high ethical standards, integrity, and a sense of responsibility, and are capable of solving problems based on their own powers of understanding and logical thinking.

We believe that decision-making and conduct rooted in high ethical standards and integrity are essential for providing high-quality services and for compliance.

While the individual’s own diligent self-study and high aspirations are the foundation of developing such true professionals, we also believe that true professionals can be developed by enhancing OJT, by supplementing practical expertise and human skills through Off-JT, and by providing wide-ranging opportunities in accordance with the firm’s Human Resource Development Principle described above.

» Conceptual Diagram of Human Resource Development



2-2. Human Resource Development by Means of the “Three O’s”

OJT | Improving Skills and Abilities through Practical Experience

OJT is the basis of developing talent. Professional skills and abilities are acquired through the guidance of supervisors and through practical experiences, such as consultations with clients.

KPMG AZSA has been providing planned and consistent OJT at both the firm and division levels through the introduction of a PDCA cycle for talent development. We seek to foster a growth mindset through discussions regarding OJT and an introduction of successful cases, and provide guidance to junior staff based on a tutoring system.

We are committed to promoting team management that addresses environmental changes to ensure that we foster talent through OJT in any environment.

Off-JT | Providing Practical and Pragmatic Training

Of the Off-JT we offer, our headquarters hosts training regarding mandatory knowledge for those involved in audit engagements, as well as training for addressing firm issues. In responding to the needs at audit sites, our divisions also implement training in line with professional knowledge and practice as training to supplement OJT.

We also provide training for acquiring digital skills and skills necessary for working in an online environment.

During the year ended June 2021, training hours per trainee averaged 67.3 hours. With a focus on technical training, questionnaires completed after the training are used for continuous improvement of training courses.

Average annual training hours per trainee

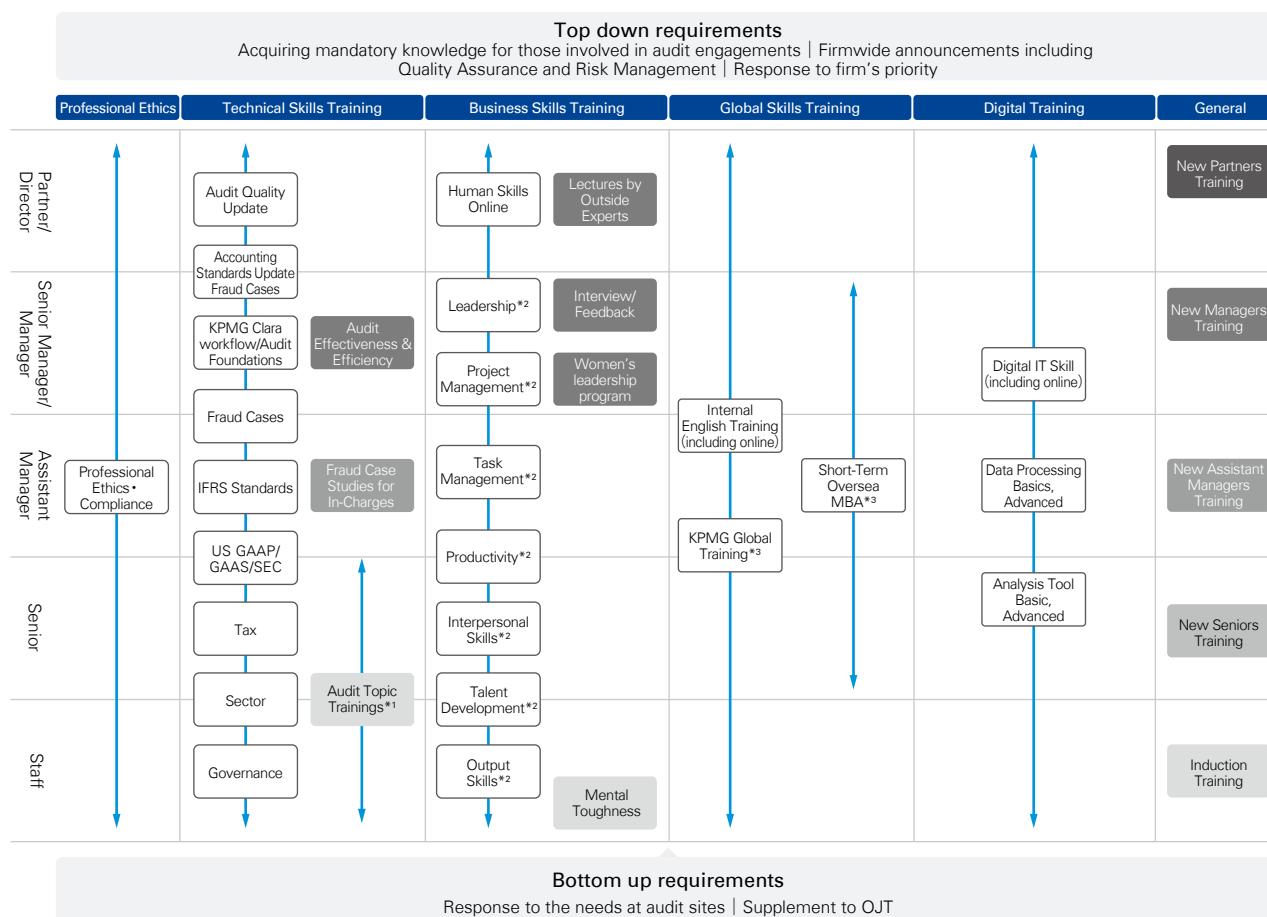
67.3 hours

Results of questionnaire regarding training

4.4 / 5 points

4.5 / 5 points

» Training System (overview)



*1 Training Programs such as Internal Control Audit, Corporate Tax and Tax Effect Accounting *2 Conducted on Milestone Training
*3 Conducted by on-line due to COVID-19 on the year ended June 2021

Opportunity | Providing Wide-ranging Work Opportunities

In order to become audit professionals, our talent need to deepen their insights for specific tasks while also expanding the range of their insights by engaging in a variety of tasks, thereby improving their objectivity and problem-solving skills.

We seek to develop true professionals with diverse experience by transferring staff members not only between audit divisions but also to departments responsible for quality control, to our advisory divisions and among different offices. Staff members are also actively seconded to external public institutions and corporations, in an effort to develop true professionals by providing diverse experience.

» Number of Persons Transferred within KPMG AZSA

Transfer to	Year ended June 2020	Year ended June 2021
HQ (Quality Control Departments)	124	169
Other Audit Divisions and Offices	189	189
Advisory Divisions	68	45
Total	381	403

» Number of Persons Loaned to External Public Institutions and Corporations

Loan to	as of June 30, 2020	as of June 30, 2021
JICPA, FASF etc.	28	30
Other (corporations)	40	37
Total	68	67

Message from Senior Executive Board Member — Head of People

At KPMG AZSA we understand that fostering true professionals capable of providing professional support for our clients' social responsibilities and operations is a top priority in our pursuit of enhancing audit quality. We have therefore been working continuously on talent development.

We have continued to develop talent through the Three O's — OJT, Off-JT, and Opportunity. We also established an environment in which our professionals can focus on audits, while striving to enhance communication and project management skills of our people in the new normal.

In particular, we have been working on enhancing the content of Off-JT by conducting continuous reviews and securing time for our people to complete training based on an understanding that fostering and improving ethical standards and professional skills and expertise are the foundations that support audit quality. This year, we will further strengthen the career manager system and introduce one-on-one communication to clarify future careers, and we will implement initiatives that contribute to the growth of individual professionals based on more timely and accurate feedback.

We will enhance training programs for improving accounting and auditing insights and skills. At the same time, we will provide continuous opportunities to acquire new skills that are required of professionals in line with the changing times. In particular, we need to maintain and further improve our global capabilities, a strength of KPMG AZSA, and we will develop capable talent through global skills training. We will also focus on developing digital talent through the ADA (AZSA Digital Academy) to achieve the digital transformation of audits and to provide added value to society and clients. In order to achieve enhanced audit quality in a rapidly changing environment, and in response to diversifying values and work styles, our professionals need to have still higher ethical standards, to self-study, to identify and take on new challenges, and to think about how problems can be solved. We will therefore focus on creating an environment in which individual professionals can attain their full potential.



Executive Board Member
in charge of HR

Michitaka Shishido

3. Responsiveness to Change

At KPMG AZSA we believe that having the resilience, or strength to respond to the constant changes in companies and society in a timely manner, demonstrates true growth, and we are focused on fostering talent who can address the recent acceleration in digitalization and globalization.

3-1. Common Talent Development for All KPMG Firms

KPMG adopts a common approach to talent development among member firms by disseminating a global leadership framework to all regions — the Americas, EMA (Europe, Middle East and Africa), and AsPac (Asia Pacific) — and in individual countries. We are also continuously developing leadership programs for training talent capable of taking an active role on the global stage, regardless of country or region.

3-2. Global Talent Who Understand Different Cultures and Diversity

As the globalization of Japanese corporations accelerates, KPMG AZSA is continuously nurturing global talent to build an infrastructure system that enables us to support the globalization of our clients. We define global talent as “professionals who understand different cultures and diversity, who have a certain level of linguistic ability and who perform work on the global playing field.” Global talent is fostered through the global skills training which includes language training and short-term study-abroad opportunities, as well as the overseas secondment programs. The cumulative number of globally capable professionals we have developed through the global skills training and overseas secondment programs is 2,295.

Due to difficulties in realizing study-abroad and overseas secondment programs due to COVID-19 in 2021, we have enhanced our online training.

Global Skills Training

As a basis for overseas secondments and for working in Japan on international audit work, KPMG AZSA is implementing various programs, such as English training in Japan, short-term study-abroad opportunities and new manager training programs held by KPMG in other countries to develop wide-ranging global skills, in addition to English as a linguistic skill.

KPMG AZSA has maintained good relations with the Central University of Finance and Economics in Beijing. Based on this relationship, the firm sends professionals to study at the university on both a two-week program in Chinese and a four-month intensive program for the purpose of developing candidates for future assignment to China.

» Global Skills Training

	Year ended June 2020	Year ended June 2021 ^{*1}
English Training in Japan	888	839
Short Term study abroad program	131	23
Training at overseas KPMG firms	60	27 ^{**2}
One Week MBA training	6	0
Others	5	0
Number of participants	1,090	889

*1 Temporary decline in participants for the year ended June 2021 due to COVID-19

*2 Online training implemented as an alternative to training hosted by overseas KPMG firms

Overseas Secondment Programs

KPMG AZSA is developing global professionals who have a global mindset through business experience gained abroad. The firm is therefore actively promoting the assignment of its personnel to other KPMG member firms.

» Overseas Secondment Program

	Target	Period
GJP (Global Japanese Practice)	Above the manager level	Principle 3 years
JUMP (Junior Upskill Mobility Program)	Assistant manager, Senior, Staff	18-24 months
STAR (Short-Term Assignment Resources)	Senior, Staff	3-6 months
HIT (Highly-motivated Internship Program)	Staff year 1, Part-time student	1 month

KPMG AZSA has two primary overseas secondment programs, the Global Japanese Practice (GJP) program and the Senior Development Program.

We have additionally been sending many personnel who are managers or above to KPMG Global Solutions Group (KGSG), a research institution of KPMG International, as well as to International Standards Group (ISG) in the UK and Department of Professional Practice (DPP) in the US, both of which formulate interpretations and application guidelines for accounting standards.

» Global Opportunities Program

	Year ended June 2020	Year ended June 2021*
Global Japanese Practice	147	127
Senior Development Program	53	51
Secondments to KPMG International	13	6
Others	13	2
Number of participants	226	186

* Temporary decline in participants for the year ended June 2021 due to COVID-19

The cumulative number of participants in these programs is 620. The ratio of partners and managers who have overseas secondment experience is shown below. One in every four partners and managers have secondment experience.

Next Generation Leader Development Program

The annual Chairman's 75 Program hosted by KPMG brings together successful partners across the globe and provides leaders from individual countries and regions the opportunity to interact directly with the Chairman of KPMG International and members of global management. Many partners from KPMG in Japan also participate in the annual Chairman's 25 Program which is held in the Americas, EMA, and AsPac regions, to stimulate the development of a global mindset through exposure to the thinking of global leadership, while strengthening relationships with the regions.

Global New Partners' Conference

KPMG holds the Global New Partners' Conference on an annual basis in principle for those promoted to the partnership in member firms around the world that year. KPMG in Japan sends many young partners to the conference as a valuable opportunity for building a network within KPMG and meeting new partners from around the world. In addition to partners who have just been promoted, many management and senior partners from Japan and other major countries also attend the conference, providing an opportunity to interact with different generations of partners.

» Partners and Managers with Overseas Secondment Experience

(as of June 30, 2021)

	Number	Percent
Partner, Director	264	37.5%
Senior Manager, Manager	301	23.9%
Total	565	28.7%

3-3. Improvement in Digital Literacy

KPMG AZSA is focused on improving the digital literacy of our professionals.

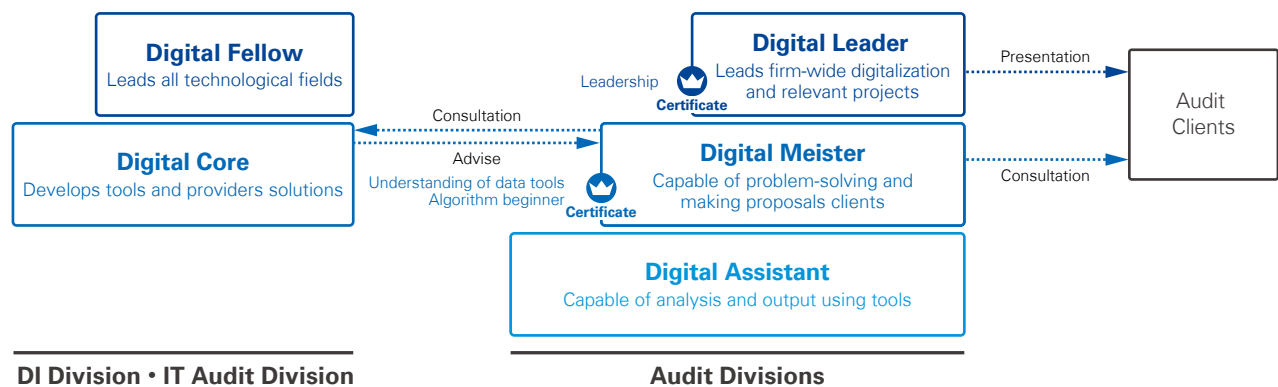
We established the AZSA Digital Academy (ADA), a program for fostering digital talent, in 2020 with the aim of realizing 3C x Impacts & Insights in our audit teams by utilizing rapidly evolving technologies and data.

The ADA has defined the future audit team image and the classes of digital talent and their respective roles. After clarifying the roles and required skillset for each

class, we establish an environment for organizational training or OJT. The certification of digital talent involves business experience requirements in addition to the completion of specific training programs.

We provide basic training for all professionals involved in audit engagements to become digital assistants. We also aim to train over 2,500 Digital Meisters in the short term, who will be at the core of our digital transformation.

» Classes and Roles of Digital Talents



The Voice of Our People

After joining KPMG AZSA and engaging in audits for several years, I took advantage of the Senior Development Program and was seconded to KPMG Netherlands for two years. In the Netherlands, I was assigned to an international department and had the opportunity to work and spend time outside of the office with not only Dutch but also Italian, Australian, Brazilian, Indian, and other colleagues of various nationalities. It was a very valuable experience that helped me foster a global mindset, including empathy for different cultures and diversity.

After returning to Japan and taking maternity and childcare leave twice, I am now a member of the Digital Innovation Division (DI Division).

In the DI Division, I provide opinions from the perspective of Japan on audit tools developed at the global level. I also analyze the functions of audit tools used overseas and apply them to

audit engagements in Japan. My current work is challenging and rewarding, as I learn about the world's most advanced technologies and apply them to audits based on the recognition that KPMG's global network is One KPMG with the same values and objectives.

I feel that I have grown significantly through my work experience at KPMG AZSA.

Digital Innovation Department Manager

Aki Inden



4. Creating a Friendly Working Environment

At KPMG AZSA we believe that in order to effectively develop talent it is also important to create a working environment in which all of our people find it easy to work and achieve results. Our firm is active in further improving its working environment through the execution of work style reform, including the promotion of remote working under New Normal, the promotion of inclusion & diversity, the firm’s Global People Survey (GPS, an attitude survey) and other means.

4-1. An AZSA Work Style for a Fulfilling Work Life and Personal Life

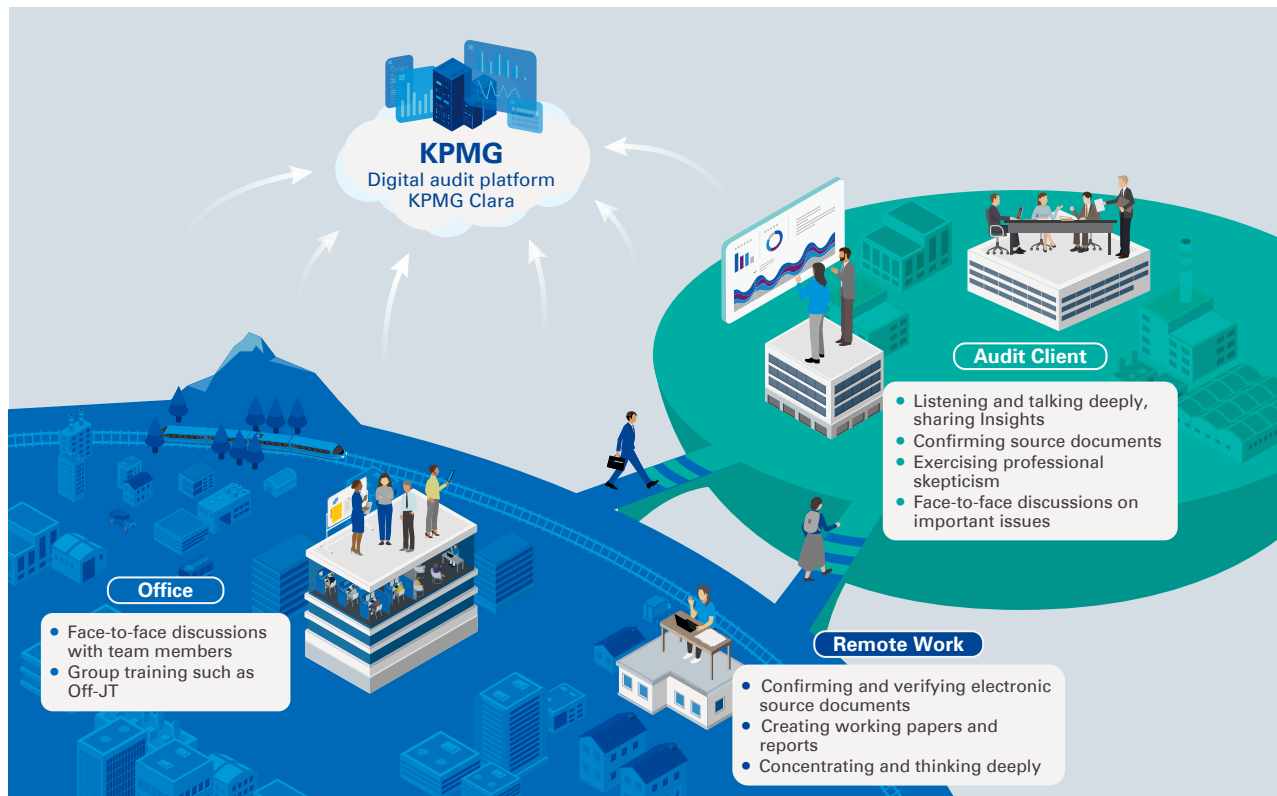
At KPMG AZSA, we have been promoting improvements in the work environment based on the three frameworks of audit services, policy and culture, with the aim of our people achieving growth as professionals while maintaining good physical and mental health.

We have also introduced the “AZSA Work Style” to exemplify a work style of professional awareness, productivity and communication. We have implemented various initiatives including morning and evening

division meetings, “kaeru meetings” (with the dual meaning of “going home” and “changing” work style), preparing various manuals to improve efficiency, and providing opportunities for learning to promote self-improvement. Recent initiatives to rebuild work style in a way that suits environmental changes due to COVID-19 have led to the promotion of remote working and a further enhancement of work style.

We are committed to carrying out reforms with the aim of becoming an organization in which a fulfilling work life and personal life are the norm by firmly rooting the AZSA Work Style in our culture.

» Location of Activity According to the Purpose of Audit Services



4-2. Promotion of Inclusion and Diversity

KPMG AZSA is composed of a wide variety of talent, including people with expertise in different areas, such as digital, cyber, finance and real estate, as well as employees including foreign colleagues with differing values. In addition, some of our people have restrictions on their working time due to the provision of nursing care to family members or child rearing. We believe that an inclusive working environment where individuals respect each other's differences, inspire each other, and demonstrate their individual abilities as much as possible can foster various perspectives. This contributes to the improvement of audit and advisory services and solutions that we provide to address complicated issues confronting society and our clients. KPMG AZSA promotes Inclusion & Diversity as a way of achieving our common goal of contributing to clients and society through the provision of high-quality services.

Main Inclusion and Diversity Initiatives

- Established Key Performance Indicators (KPI) for promoting the success of women. The ratio of women in management roles is 13.4% as of July 1, 2021. The goal is for this ratio to reach 15% by 2023
- Activities of the Working Women's Network (WWN) as a network of female staff working at KPMG AZSA
- A "Flexible Work Program" offering choices in work style
- Supporting career development through regular interviews with employees relating to childbirth, child rearing and nursing care
- Expanding the number of childbirth leave days and applicable period for spouses
- Clarifying in the firm's Code of Ethics that any kind of human rights violations will not be tolerated, including discrimination based on sexual orientation and gender identity
- Acquired the "Platinum Kurumin," a certification for companies with high standards of providing support to families raising children, the first of its kind for a large audit firm



Platinum Kurumin

Feedback from a user of Flexible Work Program

After giving birth to the first child and taking maternity leave, I returned to work with reduced working hours through the Flexible Work Program (FWP) in June 2020. The audit team I participated had just overcome the last audit in COVID-19 by using both site visiting and remote working, and I naturally decided to use remote working. At first, I was worried about balancing work and childcare for the first time. However, working from home has not only reduced the amount of travel time, but also made it possible to respond flexibly to work hours. As a result, I was able to secure sufficient time for childcare and work, and I was able to increase my productivity even by working shorter hours. Thanks to that, my anxiety was gradually relieved. Considering the travel time, it is possible to participate in evening meetings that cannot be attended face-to-face as long as they are remote meetings, which reduces physical constraints for FWP users and helps to secure growth opportunities.

For remote working, I use tools such as Microsoft Teams to visualize and share tasks and regularly hold morning and evening meetings so that teams can work effectively and efficiently. As a result, we have been able to work on the same level of quality as when teams actually gather to work.

By realizing flexible working styles regardless of place or time, I feel that not only working mothers but also all people respect working styles according to their life events and life stages, and that diverse human resources can play active roles.



Assistant Manager
Yurika Hirai

4-3. VOICE — Realizing the Ideas of Our People

VOICE (Valuable Opinions and Ideas to Change Effectively) is an intranet tool for collecting feedback on issues at work, requests and improvement suggestions, in order to incorporate the voice of our people into the firm's operations.

VOICE contributes to the review and standardization of existing work methods and the establishment of an efficient business infrastructure. It also provides an opportunity for communication between the staff and management of KPMG AZSA.

Topics raised by staff are studied by the responsible departments with a view to implementing changes, and the results are made public.

4-4. GPS — Attitude Survey for Continuous Improvements in Our Firm

The Global People Survey (GPS) is an attitude survey conducted by KPMG member firms worldwide covering all partners and personnel as a continuous improvement exercise. The survey includes items on leadership and communication, as well as staff career development, compensation and benefits and working environment. We then compare the scores our people give to each of these items with scores from other regions of KPMG and from other professional services firms. The survey results are shared with all personnel and are used in considering and implementing measures aimed at continuously improving the organization and at creating a friendly workplace in which people collaborate across offices, divisions, and infrastructure departments.

For KPMG AZSA's most important GPS indicator "Engagement Index (voluntary willingness to serve the firm and satisfaction with the firm)," the ratio of positive responses rose by 14% from for the past five years to 74%.

Feedback from a user of the paternity leave system

KPMG AZSA has been working to create a comfortable working environment for all employees. I feel that the COVID-19 pandemic has led to the establishment of a more flexible work style, including the promotion of remote working. When my first child was born, I used the paternity leave system to take childcare leave.

At the time, I had just started a new engagement in July, and was extremely busy compared to previous years. But the audit team members were supportive regarding my leave.

My wife had returned to work, so during my childcare leave, I spent the whole day taking care of our son and taking him to and from daycare. This made me realize firsthand the difficulties of child rearing that my wife faces. To be honest my son had not taken to me because I was away for work most of the time, so it made me happy when he was able to fall asleep in my arms. It was also great to see his daily growth up close.

After returning to work, I have been utilizing remote working to continue looking after our son, such as daycare drop-offs and pickups, despite my busy schedule. Thanks to the understanding of my audit team, I am able to concentrate on childcare until my son is bathed and asleep, and communicate with audit team members through remote meetings at other times. I make use of digital tools to take full advantage of the benefits of remote working, and am able to have both a fulfilling personal and professional life.



Manager
Isamu Hatori

IV.

KPMG Network

At KPMG AZSA, we utilize our KPMG global network based in nearly 150 countries worldwide and our broad industry knowledge to provide valuable services.



1. KPMG International

KPMG is a global network of professional firms providing audit, tax and advisory services. We operate in nearly 150 countries and have more than 227,000 people working in member firms around the world.

1-1. Member Firms Comprising Independent Entities

All KPMG member firms are legally independent and separate entities.

KPMG International* has developed a system for providing consistent services on a global scale, and supports the provision of high-quality audit, tax and advisory services by its member firms.

*KPMG International Limited is a private English company limited by guarantee. KPMG International Limited and its related entities do not provide services to clients.

1-2. Involvement of Japan in Key Governance Bodies

Eight major countries — the United States, United Kingdom, Japan, Germany, Canada, France, Australia and China — currently lead discussions of KPMG’s operations, and decide investment areas and service offering strategies. Japan actively shares its opinions which are reflected in the global management of KPMG.

Japan also leads the KPMG AsPac (Asia Pacific) region along with Australia and China, with Japanese partners participating in the operations of AsPac headquarters.

The key governance and management bodies of KPMG International are the Global Council, the Global Board, and the Global Management Team.

The Global Council — Equivalent to a Shareholders’ Meeting

The Global Council is composed of 56 representatives of member firms and is a body equivalent to a shareholders’ meeting in ordinary corporations; it is the supreme decision-making body responsible for the annual accounts, revision of the firm’s statutes and election of the Global Chairman and Global Board members. Japan is a member of the Global Council.

The Global Board — Equivalent to a Board of Directors

The Global Board is the principal governance and oversight body comprising up to 28 representatives of member firms, the Global Chairman and Regional Chairmen (representatives of the three regions), and is equivalent to a “board of directors” in ordinary corporations.

The key responsibilities of the Global Board include approving strategy, protecting and enhancing the KPMG brand, overseeing the management of KPMG International and approving policies and regulations.

As of end of September 2021, Toshiya Mori (CEO of KPMG AZSA and Chairman of KPMG in Japan) represents Japan as a member of the Global Board, thus playing an important role in KPMG International’s management.

The Global Management Team Supervising the Execution Status of Plans

The Global Management Team is led by the Global Chairman and includes the Global Chief Operating Officer, global function heads (audit, tax and advisory functions), and the global heads of functions including quality & risk, people, clients & markets, technology & knowledge, corporate affairs, and the General Counsel; it supports member firms in their execution of the global strategy and is responsible for holding them accountable for commitments made.

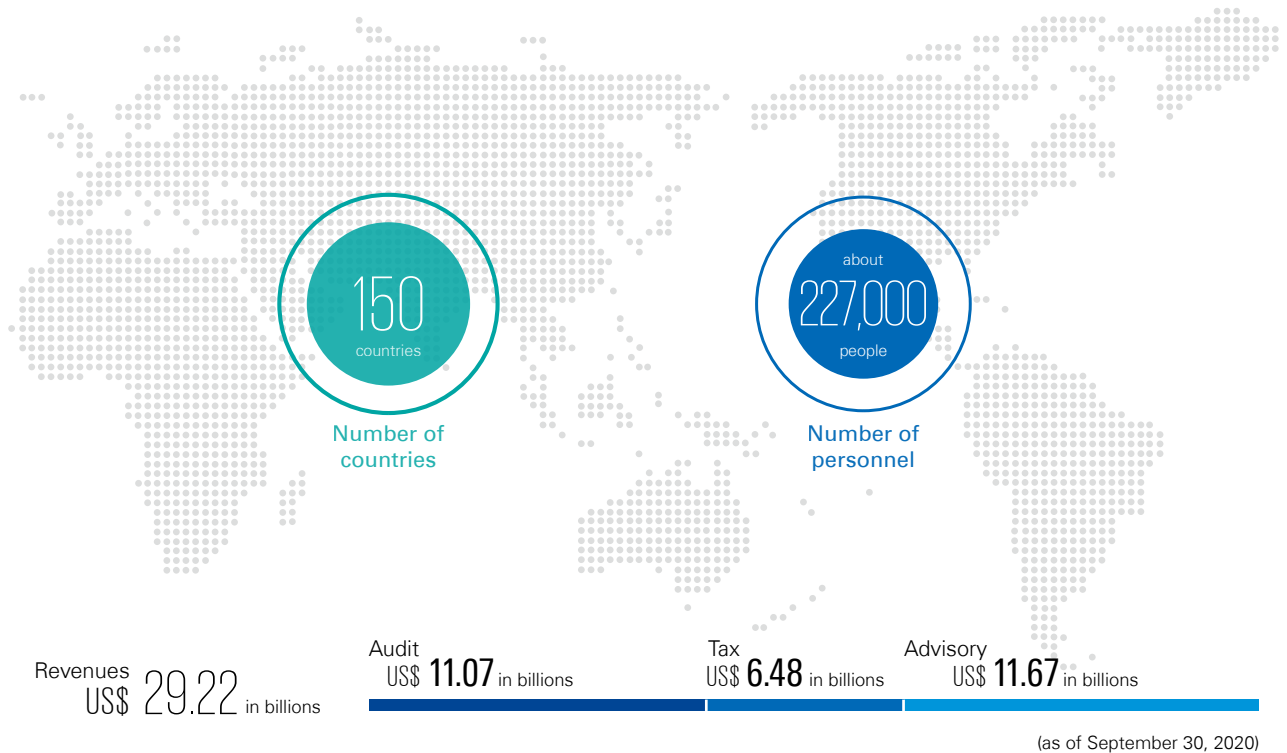
The Global Management Team also supervises 10 steering committees, which have the role of promoting practical discussions and matters for resolution in each region. Japan actively participates in all steering committees.

1-3. Regional Structure Composed of Three Regions

KPMG maintains a regional structure composed of three regions: the Americas, EMA (Europe, Middle East, and Africa), and AsPac (Asia Pacific). Japan belongs to the AsPac region. Under the regional chairman of each region there is a board, which acts as a decision-making body.

As of September 2021, the following members of KPMG AZSA participate in the operation of KPMG AsPac. Through these roles, KPMG AZSA contributes to the KPMG global network. These arrangements allow for the situation in Japan to be conveyed and discussed in advance so that KPMG’s various methodologies can be applied to the audit practice in Japan.

Board Member Toshiya Mori CEO, The chairman of KPMG in Japan	Head of Audit & Assurance Takuji Kanai Partner
Head of DPP Eiichi Fujita Head of Accounting Practice Department	Audit Quality Leader Simon Dobbins Partner
AAS Leader Yoshihiro Kurokawa Partner	



Message from Chairman of KPMG International

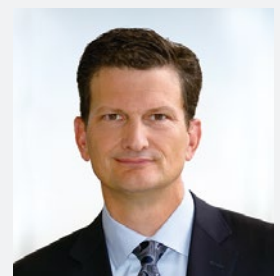
KPMG is powered by great people doing great things. We do what matters, leading projects of great consequence, and delivering positive results for clients and stakeholders. We have done it for more than a century guided by a higher Purpose and shared Values.

Our Purpose — to Inspire confidence and Empower change — matters more than ever, especially after the past year and a half. We find ourselves in a unique moment of time with the world at a place it has never been before and incredible challenges to overcome. With the world changing, people, business and society need a trusted partner to help lead the way.

KPMG in Japan and our colleagues at KPMG AZSA are doing just that. They are reorganizing themselves to meet the urgency of today, while ensuring cross-border and multi-disciplinary teams understand our clients' industries and aspirations. They have also brought together environmental, social and governance (ESG) specialists to embed practical knowledge and creativity across all of our services.

As Global Chairman, I am fully confident that KPMG in Japan and KPMG AZSA are committed to building that future by always doing the right thing, providing the highest quality assurance, and ensuring our clients receive the very best that KPMG has to offer — wherever and whenever it is needed.

As the world looks to emerge from this health crisis, we all have an opportunity and responsibility to help build a stronger and more resilient future. We look forward to building that future together with you.



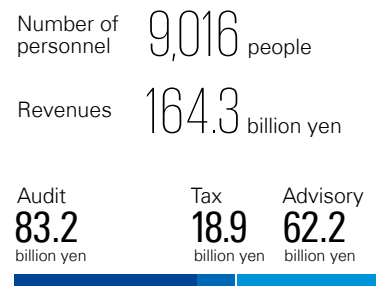
Global Chairman
KPMG International
Bill Thomas

2. KPMG in Japan

KPMG in Japan represents a group of eight professional firms providing audit, tax, and advisory services and comprising approximately 9,000 personnel. We are committed to providing services to our clients through seamless collaboration, utilizing the expertise and skills of a wide range of professionals, and maximizing the value of KPMG’s global network.

2-1. Discussing the Management of KPMG in Japan Among the Main Member Firms

The KPMG Japan Management Committee comprises representatives from the major KPMG in Japan firms including KPMG AZSA, KPMG Tax Corporation, KPMG Consulting and KPMG FAS. The committee discusses the most important topics related to management of KPMG in Japan, including the firms’ collaborative structure, talent development and continual improvement of the quality of our services. This allows the firm to bring together the best resources KPMG has to offer and deliver the best possible service to address the management issues of our clients. KPMG AZSA’s Senior Executive Board members act as directors on the boards of our advisory subsidiaries, thereby ensuring a consistent approach to operational management. Additionally, these advisory subsidiaries are also subject to monitoring and audit by the Management Oversight Committee and Internal Control office.



(as of June 30, 2021)
*Tax revenue as of September 30, 2020

KPMG in Japan

CEO: Toshiya Mori

Audit

KPMG AZSA LLC

CEO: Hiroyuki Takanami

Professional services including audit, assurance and attestation services, financial advisory and Initial Public Offering support services.

Tax

KPMG Tax Corporation

Representative: Yuichi Komakine

A team of tax specialists with expertise in various fields provides accurate tax advice to Japanese companies and Japanese subsidiaries of foreign companies. Tax advice includes preparation of tax returns, domestic and international taxation, transfer pricing, BEPS compliance, customs duties and indirect taxes, M&A, organizational restructuring and corporate revitalization, global mobility and business succession.

KPMG Social Insurance & Labor Advisors Corporation

Representative: Wataru Koshida

KPMG Social Insurance & Labor Advisors Corporation provides Japanese and English bilingual HR and labor-related services to multinational Japanese companies and Japanese subsidiaries of foreign companies. Services include support for new social insurance application procedures, payroll calculations, various social insurance procedures, social security agreements, and employment regulations.

Advisory

KPMG Consulting Co., Ltd.

President and CEO: Masahiro Miyahara

Support for overall improvement of management including planning of business strategies, improvement of business efficiency, enhancement of profit management capability, and strengthening governance and risk management.

KPMG FAS Co.,Ltd.

Representative Partners: Masahiko Chino, Osamu Matsushita, Hikaru Okada

Services including M&A and business restructuring advisory, management strategy consulting and fraud investigations.

KPMG Healthcare Japan Co., Ltd.

Managing Partners: Keiichi Ohwari, Jun Matsuda

Business and financial services (strategy, risk assessment, M&A, etc.) for the healthcare industry including medical and nursing care facilities.

KPMG AZSA Sustainability Co., Ltd.

Managing Partners: Junichi Adachi, Kazuhiko Saito

Third party assurance services to enhance the reliability of non-financial information.

KPMG Ignition Tokyo, Inc.

President and CEO, Masayuki Chatani

Development of digital technology solutions for KPMG in Japan’s audit, tax and advisory functions.

2-2. Fostering Unity Among Constituents Through Various Activities

KPMG in Japan engages in a number of activities to ensure all personnel understand the firm's basic principles and develop a sense of oneness.

KPMG Japan Kickoff

KPMG in Japan holds the KPMG Japan Kickoff every year, bringing all personnel together under one roof. The meeting is a valuable opportunity to foster a sense of oneness across all functions including audit, tax and advisory.

The theme for the 2021 Kickoff held online was "Our Community." It gave members the opportunity to deepen their understanding of their individual involvement in our community amidst the drastic changes in the social environment.

KPMG Japan Partners Meeting

The KPMG Japan Partners Meeting, attended by the partners and directors of KPMG in Japan, is held bi-annually to share information and discuss the direction of KPMG in Japan as a whole, as well as the audit, tax, and advisory functions, and serves to deepen mutual understanding among the partners and directors of KPMG in Japan.

Chairman Award

The Chairman Award is an accolade system for all of KPMG in Japan to recognize accomplishments and contributions at work, and to demonstrate timely appreciation for the efforts of our people. Announcing the awards within the firm contributes to a feeling of accomplishment and enhances motivation.

2-3. Contributing to Society Through CSR Activities Utilizing Our Knowledge and Experience

By taking advantage of our experience and insights gained through our core business as a professional firm we are committed to share our values with society and contribute to the development of a sustainable society.

Contribution to Lifelong Learning

By placing emphasis on the fourth UN Sustainable Development Goal (SDG), "Quality education," KPMG AZSA provides activities aimed at fostering the next generation of leaders to university, high school and junior-high students.

We help students broaden their career options by providing accounting and audit classes which show how accounting knowledge is useful in society, by supporting members of the younger generation who wish to solve social issues through business, and by sponsoring HELLO VISITS*.

* A career education service operated by VISITS Technologies Inc.

Support with Expertise

We seek to solve social issues by taking advantage of skills and experiences gained through our businesses, such as providing free audits to the US-Japan Council. We also hold charity seminars and donate all participation fees to support areas affected by the Great East Japan Earthquake (2011) and children orphaned by the disaster.

Environment-friendly Firm

KPMG has set a global goal of achieving net zero carbon emissions by 2030. In Japan, we have also been compiling data to give us an understanding of actual carbon emissions associated with our business activities, and are continuing our efforts to reduce emissions.

Support for Blind Soccer

We entered into a partnership contract with the NPO Japan Blind Football Association and have held the Club Championship event each year since 2016. We have also been sponsoring the Japan men's national blind soccer team since January 2020.

To provide teams with the opportunity to play, we hosted the AXA x KPMG Blind Soccer 2020 Cup and the AXA x KPMG Spring Cup (2021) while implementing strict COVID-19 measures for preventing infection.

Corporate Overview

1. Corporate Overview

as of June 30, 2021

CEO	Toshiya Mori	
Offices	Headquarters 1-2 Tsukudo-cho, Shinjuku-ku, Tokyo	
	Supervising Offices: Tokyo, Osaka, Nagoya] 12 offices
	Regional Offices: Sapporo, Sendai, Hokuriku, Kita-Kanto, Yokohama, Kyoto, Kobe, Hiroshima, Fukuoka	
Number of Employees (Full-time)	CPAs	3,083 (Includes 28 Representative Partners and 531 Partners)
	Passed the CPA exam	1,266
	Professionals	1,075 (Includes 36 Specified Partners and 1 Representative Partner)
	Administration Staff	749
] 6,173 people	
Number of Clients	Audit Engagements: 3,638	
	Financial Instruments and Exchange Act and Companies Act: 782 / Financial Instruments and Exchange Act: 32	
	Companies Act: 1,375 / Incorporated Educational Institutions: 44 / Labor Unions: 15 / Other statutory audits: 583 / Other voluntary audits: 807	
	Other engagements: 2,037 (the number of clients with other engagement contracts for the year ended June 2021)	
History	July 1969	Asahi & Co. was established
	July 1985	Asahi & Co. and Shinwa Audit Corporation merged to form Asahi Shinwa & Co.
	October 1993	Asahi Shinwa & Co. merged with Inoue Saito Eiwa Audit Corporation to form Asahi & Co.
	February 2003	KPMG audit division spun off from Shin Nihon & Co. to form AZSA & Co.
	April 2003	Asahi & Co. became a member firm of KPMG
	January 2004	Asahi & Co. merged with AZSA & Co. to form KPMG AZSA & Co.
	July 2010	KPMG AZSA & Co. became limited liability company and changed its name to KPMG AZSA LLC

2. Financial Information

The financial status of KPMG AZSA LLC for the years ended June 2020 and June 2021 is summarized below. The financial statements of KPMG AZSA are subject to audit by another audit corporation.

» Summary Income Statement (Million yen)

	Year ended June 30, 2020	Year ended June 30, 2021
Revenue	105,970	105,281
Operating expense	103,517	102,483
Operating income	2,452	2,798
Non-operating income	1,086	1,344
Non-operating expense	1,163	1,842
Ordinary income	2,374	2,300

» Summary Balance Sheet (Million yen)

	June 30, 2020	June 30, 2021
Current assets	54,650	57,833
Non-current assets	22,464	23,591
Total assets	77,115	81,425
Current liabilities	29,997	32,380
Non-current liabilities	18,973	19,734
Total liabilities	48,971	52,115
Partners' capital	28,144	29,310
Valuation and translation adjustments	(0)	(0)
Total net assets	28,144	29,309
Total liabilities and net assets	77,115	81,425

3. Principal Clients

The clients of KPMG AZSA include the following companies listed on the First Section of the Tokyo Stock Exchange, national universities, and local governments (568 corporations).

as of June 30, 2021

Fishery, Agriculture & Forestry/Mining

- Maruha Nichiro Corporation
- SAKATA SEED CORPORATION
- K&O Energy Group Inc.

Construction

- Hinokiya Group Co., Ltd.
- MIRAIT Holdings Corporation
- Nippon Aqua Co., Ltd.
- Besterra Co., LTD.
- Daiseki Eco. Solution Co., Ltd.
- Hazama Ando Corporation
- Takamatsu Construction Group Co., Ltd.
- Oriental Shiraishi Corporation
- Taisei Corporation
- Fudo Tetra Corporation
- TEKKEN CORPORATION
- DAIHO CORPORATION
- TOTETSU KOGYO CO., LTD.
- P.S. Mitsubishi Construction Co., Ltd.
- MAEDA ROAD CONSTRUCTION CO., LTD.
- WAKACHIKU CONSTRUCTION CO., LTD.
- NIPPON RIETEC CO., LTD.
- TOENEC CORPORATION
- SUMITOMO DENSETSU CO., LTD.
- JGC HOLDINGS CORPORATION
- YAMATO CORPORATION
- Takasago Thermal Engineering Co., Ltd.
- SANKO METAL INDUSTRIAL CO., LTD.
- DAI-DAN CO., LTD.
- HIBIYA ENGINEERING, LTD.
- Takenaka Corporation

Foods

- TOYO SUGAR REFINING CO., LTD.
- Nippon Beet Sugar Manufacturing Co., Ltd.
- Meito Sangyo Co., Ltd.
- CALBEE, Inc.
- Marudai Food Co., Ltd.
- S Foods Inc.
- Itoham Yonekyu Holdings Inc.
- Asahi Group Holdings, Ltd.
- Kirin Holdings Company, Limited
- DyDo GROUP HOLDINGS, INC.
- ITO EN, LTD.
- Japan Foods Co., Ltd.
- FUJI OIL HOLDINGS INC.
- AJINOMOTO CO., INC
- TOYO SUISAN KAISHA, LTD.
- DAIREI CO., LTD.
- KENKO MAYONNAISE CO., LTD.
- Riken Vitamin Co., Ltd.

Textiles and Apparels/Pulp and Paper

- TOYOBO CO., LTD.
- TEIJIN LIMITED
- SUMINOE TEXTILE CO., LTD.
- NIPPON FELT CO., LTD.
- DYNIC CORPORATION
- SOTOH CO., LTD.
- KOMATSU MATERE CO., LTD.
- TSI HOLDINGS CO., LTD.
- Sanyo Shokai Ltd.
- DESCENTE, LTD.
- Tokushu Tokai Paper Co., Ltd.
- Hokuetsu Corporation
- TOMOEGAWA CO., LTD.
- RENGO CO., LTD.

Chemicals

- Showa Denko K.K.
- SUMITOMO CHEMICAL COMPANY, LIMITED
- Sumitomo Seika Chemicals Company, Limited
- TOSOH CORPORATION
- AIR WATER INC.
- Toho Acetylene Co., Ltd.
- TODA KOGYO CORP.
- KANEKA CORPORATION
- JSR Corporation
- Sumitomo Bakelite Company, Limited
- DaikyoNishikawa Corporation
- MORIROKU HOLDINGS COMPANY, LTD.
- DKS Co. Ltd.
- NICCA CHEMICAL CO., LTD.
- Dai Nippon Toryo Company, Limited
- Nippon Paint Holdings Co., Ltd.
- Kansai Paint Co., Ltd.
- SHINTO PAINT COMPANY, LIMITED
- SAKATA INX CORPORATION
- FUJIFILM Holdings Corporation
- Shiseido Company, Limited
- TAKASAGO INTERNATIONAL CORPORATION
- KONISHI CO., LTD.
- OAT Agrio Co., Ltd.
- Taisei Lamick Co., Ltd.
- NITTO DENKO CORPORATION
- SANKO GOSEI LTD.
- TOLI Corporation
- Nifco Inc.

Pharmaceutical

- Kyowa Kirin Co., Ltd.
- Takeda Pharmaceutical Company Limited
- Sumitomo Dainippon Pharma Co., Ltd.
- CHUGAI PHARMACEUTICAL CO., LTD.
- HISAMITSU PHARMACEUTICAL CO., INC.
- SANTEN PHARMACEUTICAL CO., LTD.
- Nichi-Iko Pharmaceutical Co., Ltd.
- Fuji Pharma Co., Ltd.
- Zeria Pharmaceutical Co., Ltd.
- DAIICHI SANKYO COMPANY, LTD
- Taiko Pharmaceutical Co., Ltd.
- Daito Pharmaceutical Co., Ltd.
- Otsuka Holdings Co., Ltd.
- PeptiDream Inc.
- SAWAI PHARMACEUTICAL CO., LTD.

Oil and Coal/Rubber/Glass and Ceramics Products

- Fuji Oil Company, Ltd.
- Cosmo Energy Holdings Co., Ltd.
- Toyo Tire Corporation
- Sumitomo Rubber Industries, Ltd.
- Sumitomo Riko Company Limited
- Bando Chemical Industries, Ltd.
- AGC Inc.
- Nihon Yamamura Glass Co., Ltd.
- Nippon Electric Glass Co., Ltd.
- TAIHEIYO CEMENT CORPORATION
- TOKAI CARBON CO., LTD.
- NORITAKE CO., LIMITED
- NGK SPARK PLUG CO., LTD.
- MARUWA CO., LTD.
- SHINAGAWA REFRACTORIES CO., LTD.
- KROSAKI HARIMA CORPORATION
- Isolite Insulating Products Co., Ltd.
- NICHIIHA CORPORATION

Iron and Steel

- NIPPON STEEL CORPORATION
- Kobe Steel, Ltd.
- NAKAYAMA STEEL WORKS, LTD.
- Godo Steel, Ltd.
- TOKYO STEEL MANUFACTURING CO., LTD.
- KYOEI STEEL LTD.
- TOKYO TEKKO CO., LTD.
- OSAKA STEEL CO., LTD.
- MARUICHI STEEL TUBE Ltd.
- Nippon Koshuha Steel Co., Ltd.
- Sanyo Special Steel Co., Ltd.
- PACIFIC METALS CO., LTD.
- NICHIA STEEL WORKS, LTD.

Nonferrous Metals/Metal Products

- MITSUI MINING & SMELTING CO., LTD.
- MITSUBISHI MATERIALS CORPORATION
- Sumitomo Metal Mining Co., Ltd.
- Sumitomo Electric Industries, Ltd.
- ALPHA Corporation
- RS Technologies Co., Ltd.
- Shinwa Co., Ltd.
- CORONA CORPORATION
- TAKADAKIKO Co., Ltd.
- Sankyo Tateyama, Inc.
- ALINCO INCORPORATED
- NORITZ CORPORATION
- SANYO INDUSTRIES, LTD.

Machinery

- Takuma Co., Ltd.
- TAKISAWA MACHINE TOOL CO., LTD.
- FUJI CORPORATION
- DISCO CORPORATION
- NC Holdings Co., Ltd.
- IWAKI CO., LTD.
- HIRATA Corporation
- Nabtesco Corporation
- MODEC, Inc.
- HOSOKAWA MICRON CORPORATION
- SATO HOLDINGS CORPORATION
- GIKEN LTD.
- OKADA AIYON CORPORATION
- KOMATSU LTD.
- SUMITOMO HEAVY INDUSTRIES, LTD.
- NIKKO CO., LTD.
- KITAGAWA IRON WORKS CO., LTD.
- TAKAKITA CO., LTD.
- Organo Corporation
- DAIDO KOGYO CO., LTD.
- SAMCO Inc.
- RISO KAGAKU CORPORATION
- DAIKOKU DENKI CO., LTD.
- MAX CO., LTD.
- SEGA SAMMY HOLDINGS INC.
- TSUBAKI NAKASHIMA CO., LTD.
- MAEZAWA KYUSO INDUSTRIES CO., LTD.
- NIPPON PILLAR PACKING CO., LTD.
- Makita Corporation
- Hitachi Zosen Corporation
- Mitsubishi Heavy Industries, Ltd.

Electric Appliances

- IBIDEN CO., LTD.
- KONICA MINOLTA, INC.
- MINEBEA MITSUMI Inc.
- MITSUBISHI ELECTRIC CORPORATION
- SINFONIA TECHNOLOGY CO., LTD.
- Meidensha Corporation
- TOREX SEMICONDUCTOR LTD.
- W-SCOPE Corporation
- DAIHEN Corporation
- YA-MAN LTD.
- Nissin Electric Co., Ltd.
- NITTO KOGYO CORPORATION
- GS Yuasa Corporation
- NEC CORPORATION
- Iwatsu Electric Co., Ltd.
- Japan Display Inc.
- NOHMI BOSAI LTD.
- Panasonic Corporation
- ANRITSU CORPORATION
- TDK Corporation
- NIHON DEMPYA KOGYO CO., LTD.
- Meiko Electronics Co., Ltd.
- NIHON TRIM CO., LTD.
- YOKOWO CO., LTD.
- HIROSE ELECTRIC CO., LTD.
- SUMIDA CORPORATION
- HORIBA, Ltd.
- MegaChips Corporation
- COSEL CO., LTD.
- Stanley Electric Co., Ltd.
- OKAYA ELECTRIC INDUSTRIES CO., LTD.
- Zuken Inc.
- CASIO COMPUTER CO., LTD.
- TAIYO YUDEN CO., LTD.
- SCREEN Holdings Co., Ltd.
- ZOJIRUSHI CORPORATION
- TOKYO ELECTRON LIMITED

Transportation Equipment

- Mitsui E&S Holdings Co., Ltd.
- Kawasaki Heavy Industries, Ltd.
- THE KINKI SHARYO CO., LTD.
- F-TECH INC.
- Lecip Holdings Corporation
- KYB Corporation
- PRESS KOGYO CO., LTD.
- Mazda Motor Corporation
- Imasen Electric Industrial Co., Ltd.
- Honda Motor Co., Ltd.
- SUBARU CORPORATION
- TBK Co., Ltd.
- MEIWA INDUSTRY CO., LTD.
- NIHON PLAST CO., LTD.
- TS TECH CO., LTD.

Precision Instruments

- TERUMO CORPORATION
- CREATE MEDIC CO., LTD.
- JMS Co., Ltd.
- Mani, Inc.
- A&D Company, Limited
- DAIKEN MEDICAL Co., LTD.
- Sincere Co., LTD.
- SEIKO HOLDINGS CORPORATION

Other Products

- TRANSACTION CO., LTD.
- Eidai Co., Ltd.
- BANDAI NAMCO Holdings Inc.
- TOMY COMPANY, LTD.
- TOPPAN PRINTING CO., LTD.
- TSUTSUMI JEWELRY CO., LTD.
- OLIVER CORPORATION
- KING JIM CO., LTD.
- ITOKI CORPORATION
- Mitsubishi Pencil Co., Ltd.
- KOKUYO CO., LTD.
- OKAMURA CORPORATION

Electric Power and Gas

- Chubu Electric Power Company, Incorporated
- The Chugoku Electric Power Company, Incorporated
- RENOVA, Inc.
- Tokyo Gas Co., Ltd.
- OSAKA GAS CO., LTD.
- TOHO GAS CO., LTD.
- HIROSHIMA GAS CO., LTD.

Land/Marine/Air Transportation

- TOBU RAILWAY CO., LTD.
- Sotetsu Holdings, Inc.
- Keio Corporation
- East Japan Railway Company
- Kintetsu Group Holdings Co., Ltd.
- HANKYU HANSHIN HOLDINGS, INC.
- Nankai Electric Railway Co., Ltd.
- Kobe Electric Railway Co., Ltd.
- Nagoya Railroad Co., Ltd.
- NIKKON Holdings CO., LTD.
- JAPAN OIL TRANSPORTATION CO., LTD.
- FUKUYAMA TRANSPORTING CO., LTD.
- SEINO HOLDINGS CO., LTD.
- S LINE CO., LTD.
- Mitsui O.S.K. Lines, Ltd.
- IINO KAIUN KAISHA, LTD.
- Japan Airlines Co., Ltd.
- Pasco Corporation

as of June 30, 2021

Warehousing and Harbor Transportation

- NISSIN CORPORATION
- MITSUBISHI LOGISTICS CORPORATION
- Mitsui-Soko Holdings Co., Ltd.
- The Sumitomo Warehouse Co., Ltd.
- Toyo Logistics Co., Ltd.
- JAPAN TRANSCITY CORPORATION
- Utoc Corporation
- SANRITSU CORPORATION
- Kintetsu World Express, Inc.
- Azuma Shipping Co., Ltd.

Information & Communication

- NEC Networks & System Integration Corporation
- Systema Corporation
- NS Solutions Corporation
- KOEI TECMO HOLDINGS CO., LTD.
- Densan Co., Ltd.
- Broadleaf Co., Ltd.
- SYSTEM INFORMATION CO., LTD
- MEDIA DO HOLDINGS Co., Ltd.
- V-cube, Inc.
- Encourage Technologies Co., Ltd.
- Fixstars Corporation
- CARTA HOLDINGS, INC.
- TechMatrix Corporation
- ZAPPALLAS, INC.
- Internet Initiative Japan Inc.
- I'LL INC
- MarkLines Co., Ltd.
- TERRASKY CO., LTD.
- PiPEDO HD, Inc.
- Internetworking & Broadband Consulting Co., Ltd.
- NEOJAPAN Inc.
- RAKUS Co., Ltd.
- Akatsuki Inc.
- Kanamic Network Co., LTD
- ORO Co., Ltd.
- Needs Well Inc.
- Signpost Corporation
- PROTO CORPORATION
- INFOCOM CORPORATION
- EduLab, Inc.
- Serverworks Co., Ltd.
- Sansan, Inc.
- Trend Micro Incorporated
- Toukei Computer Co., Ltd
- XNET Corporation
- Cybozu, Inc.
- Information Services Intl - Dentsu
- ACCESS CO., LTD.
- Computer Institute of Japan, Ltd.
- Marvelous Inc.
- TBS HOLDINGS, INC.
- TV Asahi Holdings
- Vision Inc.
- CROPS CORPORATION

- NIPPON TELEGRAPH AND TELEPHONE CORPORATION
- HIKARI TSUSHIN, INC.
- Fibergate Inc.
- NTT DATA CORPORATION
- PCA CORPORATION
- CAPCOM CO., LTD.
- SCSK Corporation
- NSD CO., LTD.
- JBCC Holdings Inc.
- NTT DOCOMO, INC.
- The Asahi Shimbun Company

Wholesale Trade

- OLBA HEALTHCARE HOLDINGS, Inc.
- JALUX Inc.
- TOKYO ELECTRON DEVICE LIMITED
- Sojitz Corporation
- ALFRESA HOLDINGS CORPORATION
- SHINYEI KAISHA
- gremz, Inc.
- Yashima Denki Co., Ltd.
- JUTEC Holdings Corporation
- Cominix CO., LTD
- WIN-Partners Co., Ltd.
- SHIP HEALTHCARE HOLDINGS Co., Ltd
- MEIJI ELECTRIC INDUSTRIES CO., LTD.
- FUJI KOSAN COMPANY, LTD.
- SATORI ELECTRIC CO., LTD.
- HAKUTO CO., LTD.
- MEDIPAL HOLDINGS CORPORATION
- HAGIWARA ELECTRIC HOLDINGS CO., LTD.
- SUZUDEN CORPORATION
- DOSHISHA CO., LTD.
- HASHIMOTO SOGYO HOLDINGS CO., LTD.
- SIIX CORPORATION
- TAKASHIMA & CO., LTD.
- TSUBAKIMOTO KOGYO CO., LTD.
- SUMITOMO CORPORATION
- Uchida Yoko Co., Ltd.
- SATO SHOJI CORPORATION
- Ryoyo Electro Corporation
- Tokyo Sangyo Co., Ltd.
- Shinsho Corporation
- HANWA CO., LTD.
- IWATANI CORPORATION
- SHOKO CO., LTD.
- Kyokuto Boeki Kaisha, Ltd.
- SAN-AI OIL CO., LTD.
- Inabata Co., Ltd.
- Mitsuuroko Group Holdings Co., Ltd.
- MOS FOOD SERVICES, INC.
- SODA NIKKA CO., LTD.
- PALTAC Corporation
- MITANI SANGYO CO., LTD.
- KOA Shoji Holdings corporation
- KATO SANGYO CO., LTD.
- ZAOH COMPANY, LTD.

Retail Trade

- ASKUL Corporation
- PAL GROUP HOLDINGS CO., LTD
- Halows CO., LTD.
- Alpen Co., Ltd.
- Qol Holdings Co., Ltd.
- DOUTOR NICHIRETS Holdings Co., Ltd.
- BRONCO BILLY CO., LTD.
- Treasure Factory Co., LTD.
- MarketEnterprise Co., Ltd.
- Torikizoku Holdings Co., Ltd.
- Yossix Co., Ltd.
- ASAHI CO., LTD.
- Seven & i Holdings Co., Ltd.
- TSURUHA HOLDINGS INC.
- TORIDOLL Holdings Corporation
- FOOD & LIFE COMPANIES LTD.
- Right-on Co., Ltd.
- Ryohin Keikaku Co., Ltd.
- G-7 HOLDINGS Inc.
- MARCHE CORPORATION
- SRS HOLDINGS CO., LTD.
- Totenko Co., Ltd.
- LIFE CORPORATION
- TEN ALLIED CO., LTD.
- AOYAMA TRADING CO., LTD.
- SHIMAMURA CO., Ltd.
- Takashimaya Company, Limited
- H2O RETAILING CORPORATION
- Kintetsu Department Store Co., Ltd.
- IZUMI CO. LTD.
- K'S HOLDINGS CORPORATION
- YAMADA HOLDINGS CO., LTD.
- AIGAN CO., LTD.
- Sagami Holdings Corporation
- SAC'S BAR HOLDINGS INC.

Banks

- The Shimane Bank, Ltd.
- JAPAN POST BANK Co., Ltd.
- San ju San Financial Group, Inc.
- Daishi Hokuetsu Financial Group, Inc.
- Hirogin Holdings, Inc.
- Sumitomo Mitsui Trust Holdings, Inc.
- Sumitomo Mitsui Financial Group, Inc.
- Tsukuba Bank, Ltd.
- The Bank of Iwate, Ltd.
- The Ogaki Kyoritsu Bank, Ltd.
- The Fukui Bank, Ltd.
- THE SHIMIZU BANK, LTD.
- THE NANTO BANK, LTD.
- The Hyakugo Bank, Ltd.
- The Kiyo Bank, Ltd.
- The Chugoku Bank, Limited
- The Iyo Bank, Ltd.
- THE AWA BANK, LTD.
- Seven Bank, Ltd.
- THE BANK OF KOCHI, LTD.
- Yamaguchi Financial Group, Inc.
- The Bank of Nagoya, Ltd.
- North Pacific Bank, Ltd.
- The Aichi Bank, Ltd.

Securities and Commodities Futures/ Insurance/Other Financing Business

- Mercuria Holdings Co., Ltd.
- Daiwa Securities Group Inc.
- TOYO SECURITIES CO., LTD.
- THE KOSEI SECURITIES CO., LTD.
- Monex Group, Inc.
- AIZAWA SECURITIES CO., LTD.
- Japan Post Insurance Co., Ltd.
- MS&AD Insurance Group Holdings, Inc.
- Dai-ichi Life Holdings, Inc.
- JACCS CO., LTD.
- ORIX CORPORATION
- NEC Capital Solution Limited
- Aflac Life Insurance Japan Ltd.
- SUMITOMO LIFE INSURANCE COMPANY
- Meiji Yasuda Life Insurance Company

Real Estate

- Star Mica Holdings Co., Ltd.
- The Global Ltd.
- Sansei Landic Co., Ltd.
- Tenpo Innovation CO., LTD.
- Mitsui Fudosan Co., Ltd.
- HEIWA REAL ESTATE CO., LTD.
- DAIBIRU CORPORATION
- Sumitomo Realty & Development Co., Ltd.
- Sunnexta Group Inc.

Services

- CHUCO CO., LTD.
- TAKEEI CORPORATION
- EJ Holdings Inc.
- Artner Co., Ltd.
- GCA Corporation
- COOKPAD Inc.
- SAINT-CARE HOLDING CORPORATION
- DIP Corporation
- DIGITAL HOLDINGS, Inc.
- Shin Nippon Biomedical Laboratories, Ltd.
- Brass Corporation
- Hakuodo DY Holdings Inc.
- Gurunavi, Inc.
- F@N Communications Inc.
- LIKE Co., Ltd.
- Adways Inc.
- Dentsu Group Inc.
- TAKE AND GIVE. NEEDS Co., Ltd.
- Nippon Air Conditioning Services Co., Ltd.
- ORIENTAL LAND CO., LTD.
- RESORTTRUST, INC.
- USS CO., LTD.
- Interworks, Inc.
- KeePer Technical Laboratory Co., Ltd.
- SANKI SERVICE CORPORATION
- JAPAN MATERIAL Co., Ltd.
- CAREERLINK Co., Ltd.
- ERI HOLDINGS CO., LTD.
- WILL GROUP, INC.
- Escrow Agent Japan, Inc.
- Japan Post Holdings Co., Ltd.
- Strike Co., Ltd.
- Solasto Corporation
- GameWith, Inc.
- SoldOut, Inc.
- RPA Holdings, Inc.
- SPRIX co., ltd.
- Forum Engineering Inc.
- Frontier Management Inc.
- PIALA Inc.
- COPRO-HOLDINGS. Co., Ltd.
- TOSHO CO., LTD.
- NOMURA Co., Ltd.
- KNT-CT Holdings Co., Ltd.
- SECOM CO., LTD.
- Daiseki Co., Ltd.

Cities

- Sendai City
- Shizuoka City
- Hamamatsu City

National Universities

- HOKKAIDO UNIVERSITY
- Hirosaki University
- Miyagi University of Education
- Ibaraki University
- University of Tsukuba

- Utsunomiya University
- SAITAMA UNIVERSITY
- Tokyo University of Foreign Studies
- Niigata University
- UNIVERSITY OF FUKUI
- Hamamatsu University School of Medicine
- Aichi University of Education
- TOYOHASHI UNIVERSITY of TECHNOLOGY
- Tokai National Higher Education and Research System
- Shizuoka University
- Mie University
- SHIGA UNIVERSITY OF MEDICAL SCIENCE
- Kyoto University of Education
- KYOTO INSTITUTE OF TECHNOLOGY
- Osaka University
- Osaka Kyoiku University
- Hyogo University of Teacher Education
- Kobe University
- Nara University of Education
- Nara Women's University
- Nara Institute of Science and Technology
- Wakayama University
- Okayama University
- HIROSHIMA UNIVERSITY
- Yamaguchi University
- UNIVERSITY OF TOKUSHIMA
- Naruto University of Education
- Kochi University
- Kyushu Institute of Technology
- Oita University
- University of Miyazaki
- Kagoshima University
- Inter-University Research Institute Corporation, National Institutes for the Humanities
- Inter-University Research Institute Corporation, Research Organization of Information and Systems
- Inter-University Research Institute Corporation, National Institutes of Natural Sciences

Incorporated Administrative Agencies etc.

- Organization for Postal Savings, Postal Life Insurance and Post Office Network.
- Japan External Trade Organization
- Japan Water Agency
- National Printing Bureau
- Japan Mint
- Organization for Small & Medium Enterprises and Regional Innovation, JAPAN
- RIKEN Institute of Physical and Chemical Research
- New Energy and Industrial Technology Development Organization
- Japanese Red Cross Society

* The companies listed on the First Section of the Tokyo Stock Exchange are presented in the order of securities code.

Compliance with the Audit Firm Governance Code

KPMG AZSA has adopted the Audit Firm Governance Code. We are implementing further improvements to our governance in order to fulfill our social responsibility of supporting the capital markets and continuously enhance audit quality.

[The Role of the Audit Firm]

	Principle and Guidance	Status of Action Taken	AZSA Quality 2021/22
Principle 1	An audit firm has the public interest role to ensure the credibility of corporate financial information through the audits, seek to protect stakeholders such as participants in the capital market and thereby contribute to the sound development of the national economy. In order to accomplish this role, the audit firm should encourage its personnel to have frank and openminded dialogue, enhance mutual development, promote their full competence, and continuously enhance the audit quality on a firm-wide basis.		
Guidance 1-1	An audit firm should recognize its public interest role and clearly express the tone at the top so that the top management and the firm personnel will proactively accomplish their respective roles, as well as so that all partners of the firm duly undertake their responsibilities to develop the operational structure of the firm.	CEO repeatedly issues messages on continuous activities to maintain and enhance audit quality. An organizational system of quality control is in place wherein each hierarchical layer of the Four Defense Lines carries out its respective responsibility for audit quality.	P.36 Quality Control Based on Our Four Defense Lines P.39 Responsibility for Quality Control
Guidance 1-2	An audit firm should define the values to be commonly maintained by its personnel and also develop the code of conduct to put these values into practice.	A sense of oneness as an organization is established by sharing our firm's basic principles of Purpose, Values, Vision and Strategy. ▶ Point for further reinforcement We will ensure that all individual members of the firm are aware that the maintenance of high ethical standards and constant self-improvement as professionals are the basis of the trust placed in our firm. We will also steadily implement various measures for compliance with the firm's Code of Ethics. In particular, we will conscientiously work on preventing the recurrence of inappropriate conduct relating to e-Learning by strengthening our internal control system, and strive to restore trust.	P.25 Shared Basic Principles That are the Foundation of Our Audit Quality P.56 Initiatives for Compliance and Information Security
Guidance 1-3	An audit firm should appropriately motivate its personnel in order to raise their morale and help them to fully maintain and demonstrate their professional competence and skepticism.	The firm fosters true professionals in accordance with our Human Resource Development Principles and conducts appropriate evaluations with a focus on performance and efforts related to audit quality. For partner evaluations the most important evaluation areas are quality and quality control. Provision of non-audit services to audit clients is excluded from evaluation.	P.68 Human Resource Development
Guidance 1-4	An audit firm should develop an organizational culture of openness which encourages its personnel to share issues, knowledge and experiences related to audits and proactively participate in a dialogue and discussion.	Through repeated reorganizations an open organizational culture is created, sharing the firm's principles regardless of former affiliation. Fostering an organizational culture of openness among all of the organization's people and making it stick is an ongoing challenge. We are working as an organization to address this through internal communications and more sophisticated knowledge sharing techniques.	P.26 Management from Diverse Backgrounds P.26 A Corporate Culture Encouraging Free and Open Communication
Guidance 1-5	An audit firm should clarify its stance toward non-audit services (provided by the firm and its group organizations).	With respect to the provision of non-audit services, the firm maintains a system to strengthen governance of not only KPMG AZSA but also the entire group including subsidiaries that provide advisory services, as well as a mechanism to appropriately monitor independence and conflicts of interest.	P.55 Clarification of Policy for Providing Non-audit Services P.82 Discussing the Management of KPMG in Japan Among the Main Member Firms

[Organizational Structure]

	Principle and Guidance	Status of Action Taken	AZSA Quality 2021/22
Principle 2	An audit firm should have effective management in order to develop its organizational operations as a whole for the continuous enhancement of the audit quality.		
Guidance 2-1	<p>An audit firm should establish an effective management structure to ensure its effective management and operations.</p>	<p>The firm clarified responsibility for management by designating its Senior Executive Board and Executive Board as the decision-making and executive bodies respectively. We are working to strengthen the firm's organizational management foundation in order to respond to the challenges represented by the firm's increasing size and changes in the external environment.</p> <p>▶ Point for further reinforcement We will strengthen discipline in the allocation of resources and the implementation timing of initiatives to ensure the effectiveness of initiatives and improve corporate governance.</p>	<p>P.28 Management/ Execution, Supervision and Evaluation</p> <p>P.28 Decision-making Management and Execution</p>
Guidance 2-2	<p>An audit firm should clarify the role of the management in important operations, including the following matters, in order to meet the public expectations of audits and ensure its effective management and operations:</p> <ul style="list-style-type: none"> Development of organizational structure to ensure appropriate judgments of the audit firm on important issues that potentially have a significant influence on the reliability of audit quality from the capital market, and proactive involvement in those significant issues by utilizing the structure mentioned above; 	<p>An organizational system of quality control is in place wherein each hierarchical layer of the Four Defense Lines carries out its respective responsibility for audit quality. The final responsibility for quality control rests with the CEO; however, the Senior Executive Board member appointed by the CEO to oversee quality control is responsible for developing overall quality control policies and for monitoring how such quality control policies are followed.</p> <p>▶ Point for further reinforcement We are making appropriate preparations for the application of revised standards in response to the scheduled revision of practical guidelines on quality management for audits in Japan.</p>	<p>P.36 Quality Control Based on Our Four Defense Lines</p> <p>P.39 The CEO Bears Final Responsibility for Audit Quality</p>
	<ul style="list-style-type: none"> The development of an environment that allows audit teams to conduct a macroscopic analysis based on an understanding of the economic environment and frank and in-depth dialogue with audited companies in order to identify the risks of material misstatements and to respond to the assessed risks appropriately; 	<p>Frank and in-depth exchanges of opinions are enabled through two-way communication with audit committees and by receiving feedback from clients on the quality of services provided.</p>	<p>P.40 Improvement through Feedback from Clients (ACCESS)</p> <p>P.42 Communication with Stakeholders</p>
	<ul style="list-style-type: none"> Setting an appropriate environment for people development, human resources management and performance evaluation in order to raise the morale of the firm personnel and help them to maintain and demonstrate their professional competence; and 	<p>The firm fosters true professionals in accordance with our Human Resource Development Principles and conducts appropriate evaluations with a focus on performance and efforts related to audit quality. For partner evaluations the most important evaluation areas are quality and quality control. Provision of non-audit services to audit clients is excluded from evaluation.</p> <p>▶ Point for further reinforcement We will develop a sustainable work environment to address increased workloads resulting from stricter auditing standards.</p>	<p>P.68 Human Resource Development</p>
Guidance 2-3	<ul style="list-style-type: none"> Consideration and development of the effective utilization of information technology (IT) in order to enhance the efficiency and effectiveness of audits, with a view to accommodating the anticipated advanced utilization of IT by audited companies. 	<p>In addition to introducing electronic audit tools, we are working on developing and introducing audit methods utilizing cutting-edge digital technologies such as advanced statistical analysis, AI/RPA, and infrastructure technologies. We are also continuously improving our IT infrastructure to support remote working.</p> <p>▶ Point for further reinforcement We will monitor the status of digital audits for individual audit engagements and support the further introduction of tools and methods. We will also continue efforts for robust implementation of information security measures.</p>	<p>P. 6 Audit Transformation</p> <p>P.43 Manual-based Utilization of Electronic Audit Tools</p>
	<p>An audit firm should appoint members of its management team not only by taking into account their thorough knowledge and experience of audit practice but also by ensuring the effectiveness of the management function for its organizational operations as the team.</p>	<p>All officers including the CEO, Senior Executive Board members and Executive Board members are selected through direct election by all partners thereby ensuring the firm's organizational operation.</p>	<p>P.28 Election System</p>

[Organizational Structure] Continued

	Principle and Guidance	Status of Action Taken	AZSA Quality 2021/22
Principle 3	An audit firm should have a function to supervise and evaluate the effectiveness of its management from the independent viewpoint and thereby support to enhance the effectiveness of the management.		
Guidance 3-1	An audit firm should establish a function to supervise and evaluate the effectiveness of its management and thereby support to enhance its effectiveness, and clarify the role of the function.	The firm established the Management Oversight Committee comprising partners who are not involved in firm management.	P.28 Management/ Execution, Supervision and Evaluation P.30 Supervision and Evaluation of Effectiveness of Management Functions
Guidance 3-2	An audit firm should appoint independent third persons as the members of the function responsible for the supervision and evaluation, and effectively utilize their knowledge and experience to deal with the issues recognized by the firm from the perspective to ensure the effective management and organizational operations and accomplish its public interest role.	The firm established the Public Interest Oversight Committee as an independent supervisory body.	P.28 Management/ Execution, Supervision and Evaluation P.30 Supervision and Evaluation of Effectiveness of Management Functions
Guidance 3-3	An audit firm should clarify the role of independent third persons to participate in the supervision and evaluation structure within the firm considering that those persons are expected to be involved in the following matters, for example: <ul style="list-style-type: none"> • Oversight of the evaluation of the effectiveness of the management; • Oversight of the process of the election or appointment, retirement, evaluation and remuneration of the management team members; • Oversight of developing the policies for people development, human resources management, performance evaluation and remuneration; • Oversight of the evaluation of the status of development of policies and procedures regarding whistle-blowing from within the audit firm and external sources, and the status of verification and utilization of provided information; and • In fulfilling their oversight role, independent third persons should also be involved in dialogue with audited companies, shareholders and other participants in the capital market. 	The Public Interest Oversight Committee receives reports from the Management Oversight Committee on important firm activities and projects and engages CEO or Senior Executive Board members in discussion. The Committee also supervises from a public interest standpoint whether or not the supervisory and evaluation processes of the Nomination Committee and Compensation Committee are appropriately carried out.	P.28 Management/ Execution, Supervision and Evaluation P.30 Supervision and Evaluation of Effectiveness of Management Functions
Guidance 3-4	An audit firm should develop an environment in which necessary information is provided to the members of the function responsible for supervision and evaluation in a timely and appropriate manner, and in which assistance is provided in the execution of its operations so that the members can effectively fulfill their responsibilities.	The firm established a secretariat to assist the effective execution of the activities of the Management Oversight Committee and Public Interest Oversight Committee and maintains an environment to support its smooth operation including the provision of any necessary information.	P.30 Supervision and Evaluation of Effectiveness of Management Functions

[Operation]

	Principle and Guidance	Status of Action Taken	AZSA Quality 2021/22
Principle 4	An audit firm should develop an operational structure to effectively manage its organizational operations. The audit firm should also strengthen its people retention and development and proactively engage, in dialogue and discussion within the firm and with audited companies about the possible enhancement of audit quality.		
Guidance 4-1	An audit firm should develop a structure that allows its management to share necessary information from each audit team in a timely manner and also disseminate their philosophy and defined values throughout the organization. The management should effectively utilize such a structure in the operations of the firm. In addition, a proactive dialogue and discussion for improvement of the audit quality should be encouraged within the firm.	Management policies are disseminated and information shared at audit work sites through two-way internal communication facilitated by the Four Defense Lines. Point for further reinforcement We will incorporate issues and improvement measures identified in the Audit Quality Enhancement Project into our firm policies and implement them. In order to appropriately address sector-specific audit risks and key audit matters amid the COVID-19 pandemic, we will ensure the proper functioning of the quality management structure established through the organizational restructuring to enhance expertise by consolidating sector insights.	P.36 Quality Control Based on Our Four Defense Lines P.39 Responsibility for Quality Control
Guidance 4-2	An audit firm should develop and operate policies for managing people development, human resources management and performance evaluation in order to raise the motivation of the firm personnel and help them to maintain and demonstrate their professional competence. In doing so, whether the firm personnel sufficiently exercised their professional skepticism should be fully taken into consideration.	The firm fosters true professionals in accordance with our Human Resource Development Principles and conducts appropriate evaluations with a focus on performance and efforts related to audit quality. For partner evaluations the most important evaluation areas are quality and quality control. Provision of non-audit services to audit clients is excluded from evaluation.	P.68 Human Resource Development
Guidance 4-3	An audit firm should pay particular attention to the following points: <ul style="list-style-type: none"> Well-balanced assignment of the firm personnel to respective teams in terms of the extensive knowledge and experience to allow the teams to exercise their professional skepticism; 	An organizational system of quality control is in place wherein each hierarchical layer of the Four Defense Lines carries out its respective responsibility for audit quality. The audit divisions are responsible for appropriately assigning personnel. Point for further reinforcement We will aim to further promote diversity from various viewpoints such as gender, job type, nationality and age, in order to increase our competitive-edge through the acceptance of a diversity of values and broad-based utilization of our people.	P.36 Quality Control Based on Our Four Defense Lines P.41 Audit Contracts
	<ul style="list-style-type: none"> Providing the firm personnel with opportunities to gain extensive knowledge and experience relevant to audit, such as experience in non-audit service and/or temporary transfer to companies outside the audit industry; and Appropriate evaluation and well-planned utilization of the firm personnel with extensive knowledge and experience. 	True professionals are fostered based on the firm's Human Resource Development Principles. Human resources are actively developed by providing diverse work experiences including secondments to outside public institutions and companies in addition to job rotation inside KPMG AZSA. Point for further reinforcement We will aim to further expand the digital knowledge of our partners and employees to address the advanced digitalization occurring in society and in our audit environment.	P.68 Human Resource Development P.14 Talent transformation
Guidance 4-4	An audit firm should make efforts for audit teams to have candid and in-depth dialogue about audit risks with the top management of audited companies, such as the CEO and CFO, and those charged with governance including the members of the audit and supervisory board as well. It should also ensure to have sufficient dialogue and discussion with audited companies at each audit team level.	Sufficient opportunities for discussion with client management and audit committees are provided.	P.42 Communication with Stakeholders
Guidance 4-5	An audit firm should develop and disclose policies and procedures regarding whistleblowing from within the firm and external sources, and appropriately make use of the provided information. In doing so, the audit firm should pay particular attention to ensure that a whistleblower does not have to be concerned about the risk of disadvantage.	The firm has established an internal compliance hotline and contact for whistleblowing by outside informants.	P.56 Initiatives for Compliance and Information Security

[Ensuring Transparency]

	Principle and Guidance	Status of Action Taken	AZSA Quality 2021/22
Principle 5	An audit firm should ensure such transparency as to allow stakeholders in the capital market to appropriately assess its audit quality, by explaining the status of the Code's implementation. The audit firm should also effectively utilize the internal and external assessment of its initiatives for improvement in its management and operations.		
Guidance 5-1	An audit firm should explain the status of the Code's implementation and its initiatives for the enhancement of audit quality in plain language, in the form of publicly available documents such as "Transparency Report," to allow audited companies, shareholders and other stakeholders in the capital market to appropriately assess its audit quality.	The firm issues AZSA Quality annually to introduce our initiatives for enhancing audit quality.	AZSA Quality 2021/22
Guidance 5-2	An audit firm should explain the following matters as well: <ul style="list-style-type: none"> The tone at the top toward the continuous enhancement of the audit quality in order for the management and the firm personnel of the firm proactively fulfill their respective roles; 	The CEO repeatedly issues messages on continuous activities to maintain and enhance audit quality. An organizational system of quality control is in place wherein each hierarchical layer of the Four Defense Lines carries out its respective responsibility for audit quality.	P.36 Quality Control Based on Our Four Defense Lines P.39 Responsibility for Quality Control
	<ul style="list-style-type: none"> The defined values to be commonly maintained by the firm personnel, and way of thinking and code of conduct to put these values into practice; 	A sense of oneness as an organization is established by sharing our firm's basic principles of Purpose, Values, Vision and Strategy.	P.25 Shared Basic Principles That are the Foundation of Our Audit Quality
	<ul style="list-style-type: none"> The stance toward non-audit services (provided by the firm and its group organizations); 	With respect to the provision of non-audit services, the firm maintains a system to strengthen governance of not only KPMG AZSA but also the entire group including subsidiaries that provide advisory services, as well as a mechanism to appropriately monitor independence and conflicts of interest. The firm is working to promote a sense of unity among the KPMG entities in Japan that goes beyond a focus on compliance and the maintenance of independence.	P.55 Clarification of Policy for Providing Non-audit Services P.82 Discussing the Management of KPMG in Japan Among the Main Member Firms
	<ul style="list-style-type: none"> The composition and role of the management; 	The firm clarified responsibility for management by designating its Senior Executive Board and Executive Board as the decision-making and executive bodies respectively.	P.28 Management/ Execution, Supervision and Evaluation P.28 Decision-making Management and Execution
Guidance 5-2	<ul style="list-style-type: none"> The composition and role of the function to supervise and evaluate the effectiveness of the management and organizational operations, as well as the reasons for the appointment, role and contribution of independent third persons appointed as the members of the function; and 	The firm established the Management Oversight Committee comprising partners who are not involved in firm management. The firm established the Public Interest Oversight Committee as an independent supervisory body.	P.28 Management/ Execution, Supervision and Evaluation P.30 Supervision and Evaluation of Effectiveness of Management Functions
	<ul style="list-style-type: none"> The assessment with respect to the effectiveness of the initiatives for the enhancement of the audit quality, which is carried out by the firm including the members of the function responsible for the supervision and evaluation. 	The Management Oversight Committee are responsible for supervising and evaluating the management and execution by CEO and the Senior Executive Board Members. Results of the supervision and evaluation are reported to the Partners Meeting and to investors and other parties through AZSA Quality.	P.30 Supervision and Evaluation of Effectiveness of Management Functions P.34 Evaluation of Effectiveness of Management Functions
Guidance 5-3	An audit firm should strive for proactive dialogue about its initiatives for enhancement of the audit quality with audited companies, shareholders and other stakeholders in the capital market. In doing so, the audit firm should effectively utilize the knowledge and experience of independent third persons.	The firm seeks to enhance communication with audited companies by sharing information through marketing activities and seminars, and by periodically holding stakeholder dialogues. The Public Interest Oversight Committee (independent members) attend such events, providing management with feedback from the perspective of an independent third party.	P.42 Communication with Stakeholders
Guidance 5-4	An audit firm should periodically assess the Code's implementation and the effectiveness of its initiatives for enhancement of the audit quality.	The Management Oversight Committee are responsible for supervising and evaluating the management and execution by CEO and the Senior Executive Board Members. Results of the supervision and evaluation are reported to the Partners Meeting, and beginning next year our management and executive bodies will consider improvement measures.	P.30 Supervision and Evaluation of Effectiveness of Management Functions P.34 Evaluation of Effectiveness of Management Functions
Guidance 5-5	An audit firm should effectively utilize the useful information obtained through the dialogue with stakeholders such as participants in the capital market and the results of the assessment of the Code's implementation for improving its effective management and organizational operations.	We periodically hold stakeholder dialogues. Through these events we received feedback on the capital markets' expectations for audit firms, and we are making use of this information to improve our organizational operations. Going forward we will strive to continue this active exchange of opinions with participants in the capital markets.	P.42 Proactive Dialogue with Market Participants

AZSA Quality and Related Publications

In addition to AZSA Quality: Initiatives for Enhancing Audit Quality, KPMG AZSA also issues a Transparency Report publication to explain KPMG's audit quality framework. KPMG in Japan, which includes KPMG AZSA, also issues annual publications that showcase our activities and initiatives.



AZSA Quality 2021/22

Intended to deepen readers' understanding of the current state of our firm's audit quality by describing the initiatives underway to enhance audit quality.

home.kpmg/jp/azsa-quality

Issued | October 2021



Transparency Report 2021/22

Describes the audit quality framework of KPMG, which serves as a basis for our firm's audit quality.

home.kpmg/jp/transparency-report

Issued | October 2021



Scope of Reporting

Data for the period July 2020 to June 2021 are reported as results and achievements for the year ended June 2020. The report includes certain data arising before or after this period as well as descriptions of the firm's planned approaches and activities.

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October 2021

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