



Transparency Report 2021/22

October 2021

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1. Message from the local Senior Partner

As a member of the KPMG network, KPMG AZSA LLC shares a common Purpose - to Inspire Confidence, Empower Change – with member firms around the globe. Based on this Purpose, we aim to establish the reliability of information through auditing and accounting services and support the change of companies and society towards sustainable growth.

AZSA Quality 2021/22 describes efforts at KPMG AZSA LLC to improve audit quality, the foundation of which is KPMG’s globally consistent audit quality. In this transparency report, we will additionally describe KPMG’s system for ensuring audit quality.

October 1, 2021
KPMG AZSA LLC
CEO

Toshiya Mori

2. Who we are

2.1. Our business

KPMG AZSA LLC, a member firm of KPMG International, comprises approximately 6,000 people in major cities in Japan, providing audit, attestation, and advisory services such as accounting advisory services, financial advisory services, IT advisory service and other advisory services for initial public offerings and the public sector.

We also offer highly specialized professional services that address the unique needs of sectors such as finance, information/communication/media, public sector, consumer/retail, manufacturing, automotive, energy and life sciences.

As a member firm of KPMG International, KPMG AZSA LLC provides clients with a consistent set of professional services globally through a network in more than 146 countries and territories.

2.2. Our strategy

KPMG AZSA believes that it is our unchanging mission to ensure the reliability of information through our audit and accounting services, and to support corporate and social changes for sustainable growth.

To fulfill this mission, we aim to be an audit firm that always chosen by society, clients and relevant people (The Clear Choice) and establish strategies to realize this aim.

Our strategy is set by the KPMG AZSA Board and demonstrates a commitment to quality and trust.

3. Our structure and governance

3.1. Legal structure

Legal structure and ownership until 30 September 2020

KPMG AZSA LLC is affiliated with KPMG International Cooperative (“KPMG International”). KPMG International is a Swiss cooperative which is a legal entity formed under Swiss law.

Prior to 1 October 2020 it was the coordinating entity for the network and the entity with which all the member firms of the KPMG organization were required to be affiliated with. Further details about KPMG International and its business activities, including our relationship with it for the financial year ending 30 September 2020, are

available in the ‘Governance and leadership’ section of the [2019 KPMG International Transparency Report](#).

Legal structure and ownership from 1 October 2020

On 1 October 2020, KPMG AZSA and all other KPMG firms entered into new membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organization became members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee. KPMG International Limited acts as the coordinating entity for the overall benefit of the KPMG member firms. It does not provide professional services

to clients. Professional services to clients are exclusively provided by member firms.

Further detail on the revised legal and governance arrangements for the KPMG global organization from 1 October 2020 can be found in section 'Governance and leadership' of the [2020 KPMG International Transparency Report](#).

KPMG International Limited and the KPMG member firms are not a global partnership, single firm, multinational corporation, joint venture, or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International Limited, any of its related entities or any other member firm vis-à-vis third parties, nor does KPMG International or any of its related entities have any such authority to obligate or bind any member firm.

KPMG AZSA is part of the KPMG global organization of professional services firms providing Audit and Advisory services to a wide variety of public and private sector organizations. The KPMG organization structure is designed to support consistency of service quality and adherence to agreed Values wherever its member firms operate.

KPMG AZSA LLC is a limited liability company incorporated under the Certified Public Accountant Law.

During the year to 30 June 2021, there was an average of 595 partners in KPMG AZSA (2020: 592 partners).

A list of the entities which form KPMG AZSA, together with details of their legal structure, regulatory status, the nature of their business and area of operation is set out in Appendix A.1.

3.2. Name, ownership and legal relationships

KPMG is the registered trademark of KPMG International and is the name by which the member firms are commonly known. The rights of member firms to use the KPMG name and marks are contained within agreements with KPMG International.

Member firms are generally locally owned and managed. Each member firm is responsible for its own obligations and liabilities. KPMG International and other member firms are not responsible for a member firm's obligations or liabilities.

Member firms may consist of more than one separate legal entity. If this is the case, each separate legal entity

will be responsible only for its own obligations and liabilities, unless it has expressly agreed otherwise.

3.3. Responsibilities and obligations of member firms

Pursuant to their membership agreements with KPMG International, member firms are required to comply with KPMG International's policies, procedures and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools.

Each member firm takes responsibility for its management and the quality of its work.

Member firms commit to a common set of KPMG Values (see section 4.1).

KPMG International's activities are funded by a annual payment paid to it by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the member firms. A firm's status as a KPMG member firm and its participation in the KPMG organization may be terminated if, among other things, it has not complied with the policies, procedures and regulations set by KPMG International or any of its other obligations owed to KPMG International.

3.4. Governance structure

Our governance structure is composed of the Partners' Meeting, which is the highest decision-making body, the Senior Executive Board, which make decisions concerning firm management, and the Executive Board as an executive body. In addition, the Senior Review Board conducts reviews of audit opinions as necessary.

Furthermore, in order to monitor the firm management, we have established the Management Oversight Committee and the Public Interest Oversight Committee, which is an independent supervisory body.

The Managing Partner, Senior Executive Board members, and Executive Board members, all of whom are responsible variously for firm management and execution, as well as the members of the Management Oversight Committee, who are responsible for supervision and evaluation, are selected through direct election or a vote of confidence by all partners.

Details of key governance bodies are given below. (As of July 1, 2021)

Partners Meeting

Make decisions on significant matters related to management. Comprises all partners with capital contributions. Regular meetings are held four times a year.

Senior Executive Board

Make decisions on matters related to management. Comprises the Managing Partner and Senior Executive Board members. Held at least twice a month.

Executive Board

Discuss execution of duties by Executive Board members. Comprises the Managing Partner, Deputy Managing Partner, and Executive Board members. Meetings are held monthly.

Senior Review Board

The Senior Review Board comprises a Chairman selected through a vote of confidence by all partners, as well as vice-chairmen who are nominated by the Chairman of the Senior Review Board. The Senior Review Board develops the basic policy for reviews of audit and attestation engagements and renders the firm's final judgment on audit opinions where there is an issue flagged by Divisional Review Boards as requiring careful consideration or where there are significant audit matters that meet designated review requirements.

Besides being held every time a senior review matter occurs, meetings are held at least once a month for decision-making related to the firm's review system (shinsa) and for sharing information related to the matters subject to senior review (jokyu shinsa).

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 following sub-committees are established within the committee, the Nomination Committee, Audit Committee and Compensation Committee to oversee the processes of selecting management and determination of compensation.

The members of the committee attend meetings covering management and execution and express their opinions, and regularly report to and exchange opinions with Public Interest Oversight Committee. They are empowered to request to hold a Partner Meeting to express their opinions. Held at least once a month.

Public Interest Oversight Committee

Independent outside and internal members who oversee firm management with a view to the public interest. The Committee is chaired by an outside member. To accomplish this, the members receive reports from the Management Oversight Committee on important firm activities and projects and discuss them with the Managing Partner and Senior Executive Board members. The Committee members also oversee the supervision and evaluation by the Management Oversight Committee of the appropriate conduct of the Nomination Committee, Audit Committee, and Compensation Committee. Meetings are held monthly.

4. System of quality control

Overview

Tone at the top, leadership, and a clear set of Values and conduct are essential to set the framework for quality. However, these are required to be backed up by a system of quality control that ensures our performance meets the highest professional standards.

To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver a quality audit, KPMG has developed the Audit Quality Framework, based on International Standards on Quality

Control (ISQC 1), issued by the International Auditing and Assurance Standards Board (IAASB) and on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which apply to professional services firms that perform audits of financial statements.

KPMG International has quality control policies that apply to all member firms. These are included in KPMG's Global Quality & Risk Management Manual (GQRMM) which applies to all KPMG personnel. KPMG AZSA is required to establish and maintain a system of quality

control and design, implement, and test the operating effectiveness of quality controls.

KPMG AZSA is required to implement KPMG International policies and procedures and also adopts additional policies and procedures that are designed to address rules and standards issued by the Business Accounting Council of the Financial Service Agency, Japanese Government and the Japanese Institute of Certified Public Accountants (JICPA), and other regulators as well as local laws, such as the Certified Public Accountants Law, Companies Act, Financial Instruments and Exchange Law, other applicable related regulations, the Auditing Standards and Quality Control Standards related auditing by laws of the JICPA, and the Code of Ethics and practical guidance on auditing from the JICPA.

Quality control and risk management are the responsibility of all KPMG AZSA partners and employees. This responsibility includes the need to understand and adhere to firm policies and associated procedures in carrying out their day-to-day activities. The system of quality control applies to all KPMG partners and employees wherever they are based.

We are implementing our program to adopt the new international standard on quality management (ISQM 1), which was approved by the IAASB in September 2020 and is expected to be effective from December 2022. ISQM 1 requires each KPMG firms to design, implement and operate a system of quality management to consistently deliver quality audits, and to evaluate the effectiveness of the system on an annual basis.

While this Transparency Report summarizes KPMG’s approach to audit quality, it may also be useful for stakeholders interested in member firms’ Tax and Advisory services, as many KPMG quality control procedures and processes are cross-functional and apply equally to all services offered.

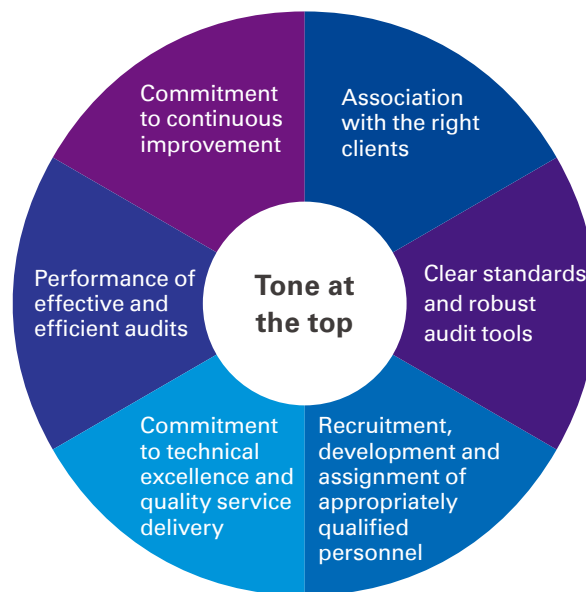
Audit quality framework

At KPMG AZSA, audit quality is not just about reaching the right opinion, but how that opinion is reached. It is about the processes, thought and integrity behind the auditors’ report. The outcome of a quality audit is the delivery of an appropriate and independent opinion in compliance with relevant professional standards and applicable legal and regulatory requirements. To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver a quality audit, KPMG International has developed the

Audit Quality Framework.

KPMG’s audit quality framework introduces a common language that is used by all KPMG firms to describe what drives audit quality and to help highlight to their audit professionals how they contribute to its delivery.

Tone at the top’ sits at the core of the Audit Quality Framework’s seven drivers of audit quality and helps ensure that the right behaviors permeate all KPMG firms. All of the other drivers create a virtuous circle because each driver is intended to reinforce the others.



4.1. Tone at the top

KPMG global leadership, working with regional and member firm leadership, plays a critical role in establishing our commitment to quality and the highest standards of professional excellence. A culture based on quality, integrity and ethics is essential in an organization that carries out audits and other services on which stakeholders rely.

At KPMG AZSA, we promote a culture in which consultation is encouraged and recognized as a strength.

Tone at the top means that KPMG AZSA leadership demonstrates commitment to quality, ethics and integrity and communicates its commitment to clients, stakeholders, and society at large to earn public trust.

The Our Values are set out in Appendix A.3.

Outlined in [KPMG’s Global Code of Conduct](#) are the responsibilities all KPMG personnel have to each other, our clients, and the public. It shows how our Values inspire our greatest aspirations and guide all of our behaviors and actions. It defines what it means to work

at and be part of KPMG, as well as our individual and collective responsibilities.

Our Values lie at the heart of the way we do things. To do the right thing, the right way. Always. They drive our daily behaviors, guide our decisions, and shape our admissions. They form the foundation of a resilient culture ready to meet challenge with integrity, so we never lose sight of our principal responsibility to protect the public interest. And they propel us forward — through our work and the example we set — as we inspire confidence and empower change throughout the world.

Everyone at KPMG is required to comply with the Global Code of Conduct.

KPMG AZSA Code of Conduct

In addition, the KPMG AZSA Code of Conduct lays out the expectations of ethical behavior for all partners and employees at KPMG AZSA and is built on the foundation of the KPMG values. The KPMG AZSA Code of Conduct emphasizes that each partner and employee is personally responsible for following the legal, professional, and ethical standards that apply to his or her job function and level of responsibility. The KPMG AZSA Code of Conduct sets out our commitments and includes provisions that require KPMG AZSA partners and employees, in summary to:

- comply with all applicable laws, regulations, professional standards and KPMG AZSA policies
- work with the right clients and third parties
- focus on quality
- maintain our objectivity and independence
- not tolerate any illegal or unethical acts, committed within KPMG AZSA, by clients or suppliers, or public officials with whom we deal
- protect information
- compete fairly
- help our people to be extraordinary
- be responsible corporate citizens
- build public trust
- confirm their compliance with the Code

Everyone at KPMG is also required to take regular training covering the Code. We are committed to holding ourselves accountable for behaving in a way that is consistent with the Code. Individuals are encouraged to speak up if they see something that makes them uncomfortable or that is inconsistent with our Values.

Moreover, everyone at KPMG is responsible for reporting — and is required to report - any activity that could potentially be illegal or in violation of our Values, KPMG policies, applicable laws, regulations or professional standards.

To safeguard this, each KPMG firm is required to have procedures and established channels of communication so that anyone working there can report suspected ethical and quality issues or concerns.

In addition, the KPMG International hotline is a mechanism for KPMG personnel, clients and other third parties to confidentially report concerns they have relating to certain areas of activity by any KPMG International entity, activities of KPMG firms or KPMG personnel.

All KPMG firms and personnel are prohibited from retaliating against individuals who have the courage to speak up in good faith. Retaliation is a serious violation of the Code, and any person who takes retaliatory action will be subject to their firm's disciplinary policy.

At KPMG AZSA, we regularly monitor the extent to which our people feel that the firm lives the KPMG Values through the Global People Survey (refer to section 4.5.6).

Inappropriate use of an internal e-learning system

The Certified Public Accountants Act and other regulations require all certified public accountants to undergo training on an ongoing basis and meet the credit requirements for Continuing Professional Education (CPE). In 2020, we became aware that certain individuals inappropriately used an internal e-learning system that our firm employs to meet such training requirements and therefore failed to meet the credit requirements.

We recognize that the root causes of this conduct are both a failure to maintain the high ethical standards expected of us as accountants and professionals, as well as inadequate internal management system from the perspective of organizational structure and policies and procedures. We are implementing measures to prevent a recurrence of this conduct and strengthening our internal management systems to enhance compliance awareness.

Measures to prevent recurrence

- raise awareness through Tone at the Top
- issue firmwide communications on compliance from top management

- provide those who engaged in this conduct with targeted training
- strengthen ethical awareness through compliance training
- establish Compliance Day of the year and hold events periodically to reflect on the importance of maintaining high ethical standards

Strengthen internal management systems

- secure time for training courses through periodic review of assignments
- perform regular monitoring to identify instances of inappropriate training completion
- implement comprehensive and thorough reviews of IT system changes
- establish a department (Compliance Promotion Office) responsible for firmwide compliance to strengthen monitoring

The above measures are monitored through internal audits. Additionally, based on reports prepared by the responsible departments and the Internal Control Office, our Senior Executive Board and Management Oversight Committee are working to ensure that our systems to prevent the recurrence of inappropriate e-learning conduct are sustainable.

4.2. Leadership responsibilities for quality and risk management

KPMG AZSA demonstrates commitment to quality, ethics and integrity, and communicates our focus on quality to clients, stakeholders and society. Our leadership plays a critical role in setting the right tone and leading by example - demonstrating an unwavering commitment to the highest standards of professional excellence and championing and supporting major initiatives.

Our leadership team is committed to building a culture based on quality, integrity and ethics, demonstrated through their actions - written and video communications, presentations to teams and one-to-one discussions.

The following individuals have leadership responsibilities for quality and risk management at KPMG AZSA.

Senior Partner

In accordance with the principles in ISQC 1, our Senior Partner Toshiya Mori assumed ultimate responsibility for KPMG AZSA's system of quality control including audit response to fraud risk. Details of some of the

Board have taken to ensure that a culture of quality prevails within KPMG AZSA are set out in section 3.4 (Governance structure).

The Executive Board member in charge of Quality

Operational responsibility for the system of quality control, risk management, and compliance in KPMG AZSA has been delegated to the Executive Board member in charge of Quality who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for the firm.

Senior Partner and the Executive Board member in charge of Quality communicate our internal policy about our system of quality control, and behavior and message prioritizing audit quality to professionals, through internal meetings and newsletters.

Engagement partner is responsible for quality and risk management of each engagement involved.

Risk Management Partner

The Risk Management Partner (RMP) is responsible for setting overall professional risk management and quality control policies and monitoring compliance for KPMG AZSA. The RMP consults with the appointed Area Quality and Risk Management Leader.

The RMP is supported by a team of partners and professionals in each of the functions.

Ethics and Independence Partner (EIP)

The Ethics and Independence Partner has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG AZSA.

The Audit and Advisory functions - Function Heads

The two heads of the client service functions (Audit and Advisory) are accountable to the Senior Partner for the quality of service delivered in their respective functions. They are responsible for the execution of the risk management, quality assurance and monitoring procedures for their specific functions within the framework set by the Risk Management Partner. These procedures make it clear that, at the engagement level, risk management and quality control is ultimately the responsibility of all professionals in the firm.

KPMG AZSA Head of Audit is responsible for leading a sustainable high-quality Audit practice. This includes:

- setting the right 'tone at the top' by demonstrating an unwavering commitment to the highest standards of

professional excellence, including scepticism, objectivity, and independence;

- developing and implementing strategies to monitor and maintain knowledge and skills required of partners and employees to fulfil their professional responsibilities; and
- working with the Risk Management Partner to monitor and address audit quality and risk matters as they relate to the Audit practice, including an annual evaluation of activities considered to be key to audit quality.

Senior Executive Board

Senior Executive Board of KPMG AZSA is held at least twice a month and these meetings included regular discussions about current and emerging audit quality issues arising from external and internal quality review processes, queries being raised by audit teams, root cause analysis procedures and other quality matters identified from a variety of sources. These are debated, other observations collected from client-facing teams were considered, and actions agreed. Typically, most of these actions are short term, in which case they are developed and communicated through the regular meetings issued to the whole Audit function of KPMG AZSA and also, if considered of sufficient magnitude, included in the mandatory training.

For more complex issues (which might require amendments to KPMG's global audit methodology or audit tools) these will be raised with the KPMG International Global Audit groups for consideration and potential development of solutions by the KPMG Global Solutions Group (KGSG) and the International Standards Group (ISG). For more information about the KGSG and the ISG refer to section 4.6.4.

Investing in continuous improvement

KPMG continues to invest significantly in audit quality across the global organization. We are building on our sound audit quality foundations, both in terms of how we manage our firms and how we execute audit engagements.

This means ongoing investment in our system of quality management, global monitoring of audit quality, enhanced support, and providing best-in class technology and tools for engagement teams.

Our global audit quality program supports consistent deployment of investments to enhance and drive a common approach.

4.3. Association with the right clients

4.3.1. Acceptance and continuance of clients and engagements

Rigorous global client and engagement acceptance and continuance policies are vital to being able to provide high-quality professional services.

KPMG's client and engagement acceptance and continuance policies and processes are designed to identify and evaluate any potential risks prior to accepting or continuing a client relationship, or performing a specific engagement.

KPMG firms are required to evaluate whether to accept or continue a client relationship, or perform a specific engagement. Where client/engagement acceptance (or continuance) decisions pose significant risks, additional approvals are required.

4.3.2. Client and engagement acceptance process

Client evaluation

KPMG AZSA undertakes an evaluation of every prospective client.

This involves obtaining sufficient information about the prospective client, its key management and significant beneficial owners and then properly analyzing the information to be able to make an informed acceptance decision. This evaluation includes completion of a questionnaire to assess the client's risk profile and obtaining background information on the client, its key management, directors and owners. In addition, we obtain additional information required to satisfy our local legal or regulatory requirements.

Engagement evaluation

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors are considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel™, KPMG's conflicts and independence checking system), intended purpose and use of engagement deliverables, public perception, as well as factors specific to the type of engagement. For audit services, these include the competence of the client's financial management team and the skills and experience of partners and employees assigned to staff the engagement and fraud risk. The evaluation is made in consultation with other senior KPMG AZSA partners and employees and includes review by quality and risk management leadership as required.

Where audit services are to be provided for the first time, the prospective engagement team is required to perform additional independence evaluation procedures, including a review of any non-audit services provided to the client and of other relevant business, financial and personal relationships.

Similar independence evaluations are performed when an existing audit client becomes a public interest entity or additional independence restrictions apply following a change in the circumstances of the client.

Depending on the overall risk assessment of the prospective client and engagement, additional safeguards may be introduced to help mitigate the identified risks. Any potential independence or conflict of interest issues are required to be documented and resolved prior to acceptance.

A prospective client or engagement will be declined if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional standards and our policies, or if there are other quality and risk issues that cannot be appropriately mitigated.

4.3.3. Continuance process

KPMG AZSA undertakes an annual re-evaluation of all its audit clients. The re-evaluation identifies any issues in relation to continuing association and any mitigating procedures that need to be put in place (this may include the need to involve additional specialists on the audit).

Recurring or long running non-audit engagements are also subject to periodic re-evaluation.

In addition, clients and engagements are required to be re-evaluated if there is an indication that there may be a change in their risk profile, and as part of the continuous independence evaluation process, engagement teams are required to identify if there have been any changes to previously identified threats or if there are new threats to independence. The threats are then evaluated and, if not at an acceptable level, are eliminated or appropriate safeguards are applied to reduce the threats to an acceptable level.

4.3.4. Withdrawal process

Where KPMG AZSA comes to a preliminary conclusion that indicates that we should withdraw from an engagement or client relationship, we consult internally and identify any required legal, professional and regulatory responsibilities. We also communicate as necessary with those charged with governance and any other appropriate authority.

4.3.5. Client portfolio management

KPMG AZSA leadership appoints engagement partners who have the appropriate competence, capabilities, time and authority to perform the role for each engagement.

We review each audit partner's client portfolio in individual discussions with the audit partner. The reviews consider the industry, nature and risk of the client portfolio as a whole along with the competence, capabilities and capacity of the partner to deliver a quality audit for every client.

4.4. Clear standards and robust audit tool

All KPMG AZSA professionals are expected to adhere to KPMG International and KPMG AZSA policies and procedures, including independence policies, and are provided with a range of tools and guidance to support them in meeting these expectations. The KPMG AZSA policies and procedures set for audit engagements incorporate the relevant requirements of accounting, auditing, ethical and quality control standards, and other relevant laws and regulations.

4.4.1. Our approach to audit

The KPMG organization has been investing significantly in evolving its audit capabilities and will continue to do so in the coming years including a new global electronic audit workflow delivered through KPMG Clara platform - KPMG's smart, modular audit platform – capable of continually integrating new and emerging technologies, with advanced capabilities embedded that leverage data science, audit automation, data visualization and more. Digital audit is integral to the way how KPMG member firms obtain audit evidence and interact with clients in the digital era.

KPMG's high-quality audit process will continue to include:

- timely partner and manager involvement throughout the engagement
- access to the right knowledge including involvement of specialists, training and experience requirements and relevant industry expertise
- critical assessment of all audit evidence obtained during the audit, exercising appropriate professional judgment
- ongoing mentoring, supervision and review of the engagement team managing and documenting the audit.

KPMG's commitment to audit quality during the COVID-19 pandemic

The COVID-19 pandemic has forced us all to think differently, we continue to respond to and embrace this

challenge. Most organizations are likely to be impacted by the COVID-19 pandemic, either directly or indirectly, and the increased economic uncertainty and risk may have significant financial reporting implications. Issues including going concern, asset impairments and valuations will require careful judgment as organizations deal with a high degree of uncertainty and market volatility. KPMG firms' role as auditors is to evaluate these judgements.

Since the start of the pandemic we have maintained an online COVID-19 Financial reporting resource center to assist companies and other stakeholders understand potential accounting and disclosure implications.

KPMG International has issued extensive guidance to assist teams in addressing the various accounting, financial reporting and audit related matters arising from the impacts of the COVID-19 pandemic including going concern, asset impairments, valuations and related disclosures, materiality, risk assessment, group audits, inventory, subsequent events, audit evidence communications with Those Charged With Governance, and considerations for remote working environments.

KPMG's guidance has been continually updated throughout the pandemic as other significant auditing, accounting and reporting issues have been identified.

KPMG is a technology-enabled organization, with all audit technical accounting and auditing resources, guidance and audit platforms and tools available electronically, enabling the conversion to a remote working environment.

Communication has been increasingly important to everyone during the COVID-19 pandemic. We have leveraged our investments in technology to provide KPMG firms with more regular updates, including virtual meetings to share best practices and guidance.

4.4.1.1. Consistent audit methodology and tools

Bringing consistency through our methodology

Our audit methodology, tools and guidance are:

- globally consistent and fully compliant with the applicable standards, including International Standard on Auditing (ISA), Public Company Accounting Oversight Board (PCAOB) and the American Institute of CPAs (AICPA) and are supplemented to comply with local auditing standards and regulatory or statutory requirements by member firms

- inclusive of KPMG methodology interpretations that drive consistency in areas where the applicable standards are not prescriptive in the approach to be followed
- centered on identifying risk, focusing on risks of material misstatements and the necessary audit response
- made available to all KPMG audit professionals and required to be used, where necessary
- applied even where local auditing standards may be less demanding than the ISAs

The KPMG audit methodology is set out in KPMG's Audit Manual (currently used with eAudit) and the KPMG Audit Execution Guide (for use with the KPMG Clara workflow) and includes additional requirements that go beyond the ISAs, which we believe enhance audit quality.

The methodology emphasizes applying appropriate professional skepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence.

Enhancements to the audit methodology, guidance and tools are made regularly to maintain compliance with standards and address emerging auditing areas of focus and audit quality results (internal and external). For example, as a result of the COVID-19 pandemic, many companies are experiencing significant financial uncertainty. We have issued guidance to our auditors on conducting audit procedures in a remote-working environment, raising awareness of key audit risks such as going concern and impairments and provided reminders of the importance of exercising professional skepticism taking appropriate actions if information is identified that is unexpected or unusual and may be indicative of potential management bias, a fraud risk or fraud.

KPMG firms may add local requirements and/or guidance in the Audit manual to comply with additional professional, legal, or regulatory requirements.

Delivering through our current audit workflow

The current KPMG audit is enabled through eAudit, an activity-based workflow and electronic audit file. eAudit is KPMG's audit documentation workflow that allows professionals to complete quality and consistent audits. eAudit integrates KPMG's audit methodology, guidance and industry-specific, and the tools needed to execute and document the audit work performed.

eAudit can be "scaled" to present the relevant requirements and guidance, depending on the nature of

the entity to be audited and in accordance with professional standards and applicable legal and regulatory requirements. It provides direct access to KPMG’s audit guidance, professional standards and documentation templates.

Investing for the future

While our current audit workflow and methodology are robust and consistent with all auditing standards’ requirements, the changes we are making will enable us to execute on our objective of a relentless focus on audit quality and provide us with the platform to build in continuous enhancements as the power of new technologies develops.

We have laid the groundwork for this already with the launch of our smart audit platform, KPMG Clara, in 2017.

Audit solutions for today’s world

We recognize that in order to deliver quality audits, we need to continually evolve and develop our technology solutions to keep pace with today’s digital world.

That is why we embarked on a process of reimagining our audit platform, workflow and methodology to provide enhanced consistency and support to our audit engagement teams, deliver more detailed insights to our clients, and future-proof our systems for the expected continued development of new technologies such as robotic process automation, machine learning and cognitive technologies.

The continuation of this process will see a new workflow and revised audit methodology embedded into the

KPMG Clara platform. Limited deployment of the new “KPMG Clara workflow” took place during 2019, and full deployment globally started in 2020, and is expected to be completed in 2022.

The release of the KPMG Clara workflow and revised audit methodology is an important milestone in KPMG’s journey to innovate, digitalize and transform the audit experience for our people.

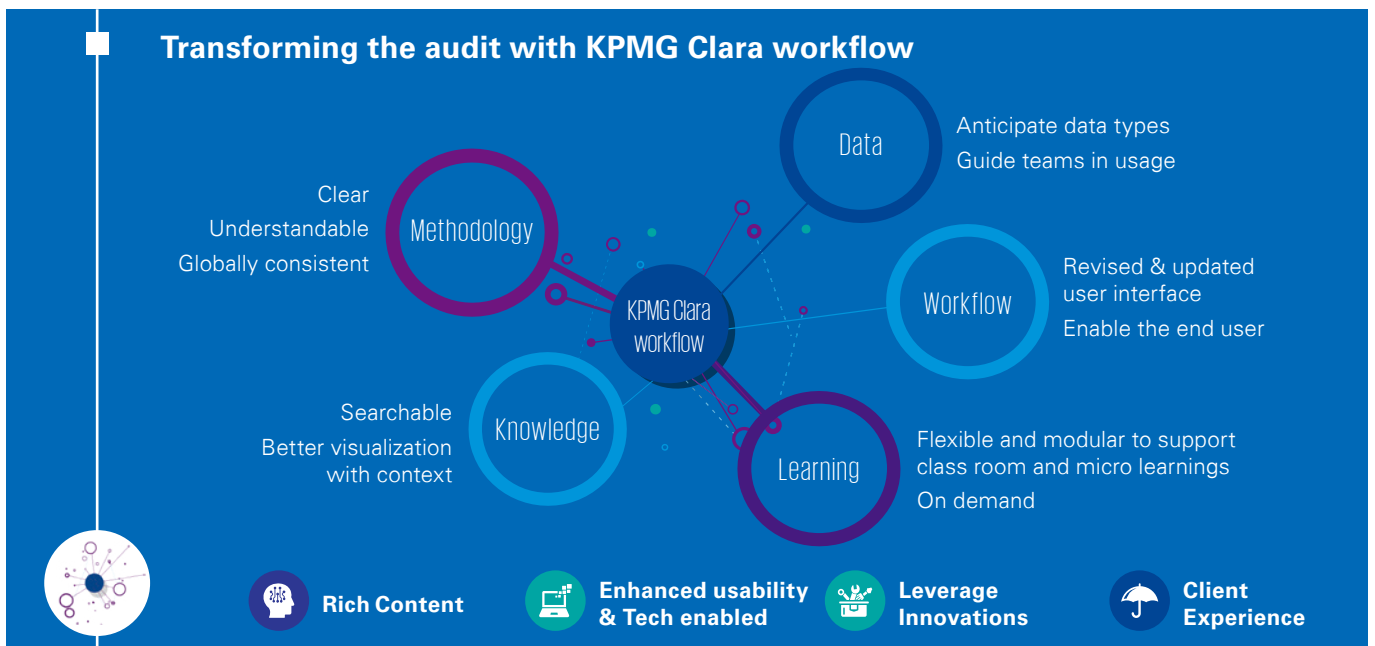
It is a significant investment that underlines our commitment to audit quality, consistency and innovation.

Bringing it all together in KPMG Clara

The KPMG Clara smart audit platform brings together KPMG’s digital audit capabilities, innovative new technologies, collaboration capabilities and our new KPMG Clara workflow.

Creating the new KPMG Clara workflow

The new KPMG Clara workflow will be used by our audit teams to execute and document KPMG audits. It will guide audit teams through a series of steps in a logical sequence aligned to the applicable auditing standards with a clear display of information, visuals, and guidance available at the moment of need, and with embedded advanced digital audit capabilities. The workflow and revised audit methodology will also be scalable – adjusting the requirements to the size and complexity of the audit engagement. This globally-driven project will significantly overhaul and redesign the execution of an audit by KPMG professionals and clearly drive audit quality and global consistency.



Through the use of data mining and tracking of relevant engagement level data indicators, the KPMG Clara workflow will also facilitate member firms' monitoring of audit execution at the engagement level.

Once the KPMG Clara workflow has been fully deployed our predecessor audit workflow tool, eAudit, will be retired.

Strategically embedding the use of data through digital audit capabilities

KPMG Clara also allows us to more seamlessly build digital audit capabilities into our audits. Digital audit routines are capable of interrogating and analyzing vast quantities of data.

KPMG's audit is designed to:

- enhance audit quality; by providing a deeper understanding of data populations, giving focus to higher risk transactions;
- be secure; by restricting access to data both in transit and within KPMG's IT environments; and
- be transparent; by facilitating detailed analysis to uncover the reasons behind, and root causes of, outliers and anomalies and provide increased visibility into higher risk transactions and process areas.

Digital audit capabilities and routines are built on principles and professional standards underlying an audit and do not relieve auditors of their responsibilities.

Current capabilities in this area facilitate the performance of planning and risk assessment activities and substantive procedures, and include capabilities that:

- enable the analysis of account balances and journal entry data
- automate 'period on period' balances comparison and 'time series' evolution information
- enable the analysis of sub-ledger, transactional data over certain business processes and accounts.

Together with our KPMG Clara platform, we are significantly investing in digital audit capabilities and paving the way for the increasing use of emerging technologies such as robotic process automation and machine learning - which will take the power of technology applied in the audit to an even greater level.

4.4.2. Independence, integrity, ethics and objectivity

4.4.2.1. Overview

Auditor independence is a cornerstone of international professional standards and regulatory requirements.

KPMG International has detailed independence policies and procedures, incorporating the requirements of the IESBA Code of Ethics. These are set out in KPMG's GQRMM, which applies to all KPMG firms. Automated tools, which are required to be used for every prospective engagement to identify potential independence and conflict of interest issues, facilitate compliance with these requirements.

These policies are supplemented by other processes to ensure compliance with the standards issued by the Certified Public Accountant Law and Code of Ethics issued by the JICPA. These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services.

The Partner-in-Charge of the Global Independence Group is supported by a core team of specialists to help ensure that robust and consistent independence policies and procedures are in place at KPMG firms, and that tools are available to help the firms and their personnel to comply with these requirements.

KPMG AZSA has a designated Ethics and Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG AZSA. The EIP is responsible for communicating and implementing KPMG global policies and procedures and ensuring that local policies and procedures are established and effectively implemented when they are more stringent than the global requirements. The EIP fulfills this responsibility through:

- implementing/monitoring the ethics and independence quality control process and structure within the firm;
- approving/appointing partners responsible for ethics and independence within the firm;
- overseeing the processes related to the evaluation of specific independence threats in connection with clients and prospective clients;
- participating in the development and delivery of training materials,

- monitoring compliance with policies;
- implementing procedures to address non-compliance; and
- overseeing the disciplinary process for ethics and independence matters.

Amendments to KPMG International's ethics and independence policies in the course of the year are included in regular quality and risk communications with all KPMG firms. KPMG firms are required to implement changes as specified in the communications, and this is checked through the internal monitoring programs described in 4.8.1.

KPMG AZSA partners and employees are required to consult with the EIP on certain matters as defined in the GQRMM. The EIP may also be required to consult with the Global Independence Group, depending upon the facts and circumstances.

4.4.2.2. Personal financial independence

KPMG International policies require that KPMG firms and KPMG professionals are free from prohibited financial interests in, and prohibited financial relationships with, KPMG firm assurance and audit clients (by definition, 'audit client' includes its related entities or affiliates), their management, directors, and, where required, significant owners. All KPMG partners - irrespective of their firm or function - are generally prohibited from owning securities of any audit client of any KPMG firm.

KPMG firms use a web-based independence compliance system (KICS) to assist KPMG professionals in complying with personal independence investment policies. This system contains an inventory of publicly available investments and provides a tracking mechanism for required users to report acquisitions and disposals of their financial interests. The system facilitates monitoring by identifying and reporting impermissible investments and other non-compliant activity (i.e., late reporting of an investment acquisition).

All partners and all manager grade and above client-facing employees are required to use the KICS system prior to entering into an investment to identify whether they are permitted to do so. They are also required to maintain a record of all of their investments in publicly traded entities in KICS, which automatically notifies them if any investment subsequently becomes restricted. Newly restricted investments are required to be disposed of within five business days of the notification. KPMG monitors partner and manager

compliance with this requirement as part of our program of independence compliance audits of professionals. The Global Independence Group provides guidance and required procedures relating to the audit and inspection by KPMG firms of personal compliance with KPMG's independence policies. This includes sample criteria including the minimum number of professionals to be audited annually.

4.4.2.3. Employment relationships

Any KPMG AZSA partners and personnel are professional providing services to an audit client irrespective of function is required to notify our EIP if they intend to enter into employment negotiations with that audit client. For partners, this requirement extends to any audit client of any KPMG firm that is a public interest entity.

Former members of the audit team or former partners of KPMG AZSA are prohibited from joining an audit client in certain roles unless they have disengaged from all significant connections to KPMG AZSA, including payments which are not fixed and predetermined and/or would be material to KPMG AZSA and ceased participating in KPMG AZSA business and professional activities.

Key audit partners and members of the chain of command for an audit client that is a public interest entity are subject to time restrictions (referred to as 'cooling-off' periods) that preclude them from joining that client in certain roles until a defined period of time has passed.

We communicate and monitor requirements in relation to employment and partnership of KPMG AZSA professionals by audit clients.

4.4.2.4. Firm financial independence

KPMG firms are required to also be free from prohibited interests in, and prohibited relationships with, audit clients, their management, directors and, where required, significant owners.

In common with other KPMG firms, KPMG AZSA uses KICS to record its own direct and material indirect investments in listed entities and funds (or similar investment vehicles) as well as in non-listed entities or funds. This includes investments held in associated pension and employee benefit plans.

Additionally, KPMG AZSA is required to record in KICS all borrowing and capital financing relationships, as well as

custodial, trust and brokerage accounts that hold member firm assets.

On an annual basis, KPMG AZSA confirms compliance with independence requirements as part of the Risk Compliance Program.

4.4.2.5. Business relationships/suppliers

KPMG AZSA has policies and procedures in place that are designed to ensure its business relationships with audit clients are maintained in accordance with the IESBA Code of Ethics and other applicable independence requirements, such as those promulgated by the JICPA and SEC.

4.4.2.6. Independence clearance process

KPMG AZSA follows specific procedures to identify and evaluate threats to independence related to prospective audit clients that are public interest entities; these procedures, also referred to as 'the independence clearance process,' required to be completed prior to accepting an audit engagement for these entities.

4.4.2.7. Independence training and confirmations

All KPMG AZSA partners and professionals, as well as certain other individuals, are required to complete independence training that is appropriate to their grade and function upon joining KPMG AZSA and on an annual basis thereafter.

New partners and employees who are required to complete this training should do so by the earlier of (a) thirty days after joining KPMG AZSA or (b) before providing any services to, or becoming a member of the chain of command for, any audit client.

We also provide all partners and employees with annual training on:

- the Global Code of Conduct or the KPMG AZSA Code of Conduct and ethical behavior, including KPMG's anti-bribery policies, compliance with laws, regulations, and professional standards; and
- reporting suspected or actual non-compliance with laws, regulations, professional standards, and KPMG's policies.

New partners and employees are required to complete this training within three months of joining KPMG AZSA.

All KPMG partners and employees are required to sign, upon joining KPMG AZSA and thereafter, an annual confirmation stating that they have remained in

compliance with applicable ethics and independence policies throughout the year.

4.4.2.8. Non-audit services

All KPMG firms are required, at a minimum, to comply with the IESBA Code of Ethics and applicable laws and regulations related to the scope of services that can be provided to audit clients.

KPMG AZSA is required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG AZSA. KPMG AZSA's EIP is involved in the review of potential independence issues related to these new or modified services.

In addition to identifying potential conflicts of interest, Sentinel™ facilitates compliance with independence requirements. Certain information on all prospective engagements, including detailed service descriptions, deliverables and estimated fees are required to be entered into Sentinel™ as part of the engagement acceptance process. When the engagement is for an audit client, an evaluation of potential independence threats and safeguards is also required to be included in the Sentinel™ submission.

Lead audit engagement partners (LAEPs) are required to maintain group structures for their publicly traded and certain other audit clients including their related entities or affiliates in Sentinel™. They are also responsible for identifying and evaluating any independence threats that may arise from the provision of a proposed non-audit service and the safeguards available to address those threats. For entities for which group structures are maintained, Sentinel enables LAEPs to review and request revision, approve, or deny, any proposed service for those entities worldwide. For approved proposed services, Sentinel designates a timeframe during which the approval remains valid. Upon expiration of the established timeframe, the services are required to be complete or be re-evaluated for permissibility; otherwise, the services are required to be exited.

KPMG global independence policies prohibit member firm audit partners from being evaluated on, or compensated based on, their success in selling non-assurance services to their audit clients.

4.4.2.9. Fee dependency

KPMG International's policies recognize that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total

fees of the KPMG firm expressing the audit opinion. These policies require firms to consult with their Area Quality & Risk Management Leader where it is expected that total fees from an audit client will exceed 10 percent of the annual fee income of the member firm for two consecutive years. In the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10 percent of the total fees received by a particular member firm for two consecutive years, these policies further require that:

- This be disclosed to those charged with governance at the audit client; and
- A partner from another KPMG member firm be appointed as the engagement quality control (EQC) reviewer.

No audit client accounted for more than 10 percent of the total fees received by KPMG AZSA over the last two years.

4.4.2.10. Resolving conflicts of interest

Conflicts of interest can arise in situations where KPMG AZSA partners or employees have a personal connection with the client which may interfere, or be perceived to interfere, with their ability to remain objective, or where they are personally in possession of confidential information relating to another party to a transaction. Consultation with the Risk Management Partner (RMP) or the EIP is required in these situations.

KPMG International policies are also in place to prohibit KPMG partners and staff from offering or accepting inducements, including gifts and hospitality to or from audit clients, unless the value is trivial and inconsequential, is not prohibited by relevant law or regulation and is not deemed to have been offered with the intent to improperly influence the behavior of the recipient or which would cast doubt on the individual's or the member firm's integrity, independence, objectivity or judgment.

All KPMG firms and personnel are responsible for identifying and managing conflicts of interest, which are circumstances or situations that have, or may be perceived to have an impact on a firm's and/or its partners' or employees' ability to be objective or otherwise act without bias.

All KPMG firms are required to use Sentinel™ for potential conflict identification so that these can be addressed in accordance with legal and professional requirements.

KPMG AZSA has risk management resources who are responsible for reviewing any identified potential conflict

and working with the affected member firms to resolve the conflict, the outcome of which are required to be documented.

Escalation and dispute resolution procedures are in place for situations in which agreement cannot be reached on how to manage a conflict. If a potential conflict issue cannot be appropriately mitigated, the engagement is declined or terminated.

4.4.2.11. Independence breaches

All KPMG AZSA personnel are required to report an independence breach as soon as they become aware of it to the EIP. In the event of failure to comply with our independence policies, whether identified in the compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy. All breaches of independence rules are required to be reported to those charged with governance as soon as possible except where alternative timing for less significant breaches has been agreed to with those charged with governance.

KPMG AZSA has a documented and communicated disciplinary policy in relation to breaches of independence policies, incorporating incremental sanctions reflecting the seriousness of any violations. Our Disciplinary Committee oversees policies and procedures in relation to ethical matters and breaches of requirements.

Matters arising are factored into our promotion and compensation decisions and, in the case of engagement leaders are reflected in their individual quality and risk metrics.

4.4.2.12. Compliance with laws, regulations, and anti-bribery and corruption

Compliance with laws, regulation and standards is a key aspect for everyone at KPMG AZSA. In particular, we have zero tolerance of bribery and corruption.

We prohibit involvement in any type of bribery - even if such conduct is legal or permitted under applicable law or local practice. We also do not tolerate bribery by third parties, including by our clients, suppliers or public officials.

Further information on KPMG International anti-bribery and corruption policies can be found on the [anti-bribery and corruption site](#).

4.4.2.13. Long association of personnel (including partner rotation) with an audit client

KPMG International partner rotation policies are consistent

with or exceed the requirements of the IESBA Code of Ethics and require all member firms to comply with any stricter local applicable rotation requirements.

Our rotation policies, which are consistent with the Certified Public Accountant Law and JICPA Code of Ethics, require our firm to comply with any stricter local applicable rotation requirements.

KPMG AZSA partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG International policy.

These requirements place limits on the number of years that partners in certain roles may provide audit services to a client, followed by a “time-out” period during which time these partners may not;

- in any way influence the outcome of the audit;
- oversee the relationship of the firm with the audit client; or
- have any other significant or frequent interaction with senior management or those charged with governance at the client

Other audit team members are also evaluated to determine whether the threat to independence can be reduced to an acceptable level based on their period of association.

KPMG AZSA has established an additional policy regarding long association related to audits of public interest entities with significant impact to the capital market based on guidance issued by the JICPA in 2020.

KPMG AZSA monitors the rotation of audit engagement leaders (and any other key roles, such as the Key Audit Partner and Engagement Quality Control Reviewer, where there is a rotation requirement) and develops transition plans to enable the allocation of partners with the necessary competence and capability to deliver a consistent quality of service to clients.

The partner rotation monitoring is subject to compliance testing.

4.4.2.14. Insider trading prevention

In order to prevent insider trading, KPMG AZSA has internal rules and procedures that aim to establish information credibility in the capital markets. These include the prohibition of holding or trading in the securities of audited entities and registration on a web-based independence tracking system to monitor

personal investments in publicly traded companies in Japan and other jurisdictions.

All partners and employees understand our insider trading policy through appropriate training and provide an annual confirmation that they have remained in compliance with applicable policies throughout the period.

4.5. Recruitment, development, and assignment of appropriately qualified people

One of the key drivers of quality is ensuring that KPMG professionals have the appropriate skills and experience, passion and purpose, to deliver high quality audits. This requires the right recruitment, development, reward, promotion, retention and assignment of professionals.

4.5.1. Recruitment

KPMG AZSA is committed to building an extraordinary people experience for all current and prospective KPMG partners and employees.

Our recruitment strategy is focused on drawing entry-level talent from a broad talent base, including working with established universities, colleges and business schools, but also working with secondary schools, helping build relationships with a younger, diverse talent pool at an early age.

All candidates submit an application and are employed following a variety of selection processes, which may include application screening, competency-based interviews, and if necessary, psychometric and ability testing, and qualification/reference checks. These leverage fair and job-related criteria to ensure that candidates possess the appropriate skills and experience to perform competently, are suitable and best placed for their roles.

Where individuals are recruited for senior grades, a formal independence discussion is conducted with them by the Ethics and Independence Partner or a delegate. KPMG AZSA does not accept any confidential information belonging to the candidate’s former firm/employer.

4.5.2. Personal development Development

KPMG AZSA has been nurturing the authentic professionals under the HRD philosophy in line with ‘The Everyone a Leader performance principles’ of KPMG.

In relation to audit, opportunities are provided for professionals to develop the skills, behaviors, and personal qualities that form the foundations of a career in auditing. Courses are available to enhance personal effectiveness and develop technical, leadership, and business skills.

In addition, training sessions are successively provided for each partner and employee to ensure the importance of enhancing, keeping and exhibiting professional skepticism throughout the audit and also to provide member the appropriate opportunities of instruction and training about fraud.

KPMG AZSA professionals are also developed for high performance through access to coaching on the job, stretch assignments, and country rotational and global mobility opportunities.

Furthermore, KPMG AZSA has been making relentless efforts to enhance the audit quality by introducing the goal setting and performance evaluation scheme consistent with Our Values, both which include the items relating to audit quality, and by clearly and constantly outlining the code of behavior to attain success as each individual and an organization then by rewarding all the constituent members who act up to the code.

KPMG AZSA monitors quality and compliance incidents and maintains quality and compliance metrics in assessing the overall evaluation, promotion and remuneration of partners and employees. These evaluations are conducted by performance managers and partners who are in a position to assess performance.

4.5.3. Inclusion and Diversity programs

KPMG AZSA is committed to fostering an inclusive culture for all. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and perspectives.

We encourage each partner and employee with diverse personalities to achieve high performance toward the common goal of “contributing to audit clients and society through the provision of high-quality services”, while respecting and making the most of each other’s differences. KPMG AZSA adopts a variety of approaches to establish an environment conducive to more diverse and flexible work styles. Specific initiatives include: developing globally minded personnel; promoting women’s participation in the workforce; supporting our people as they balance work and childbirth, childcare, and nursing care; promoting employment of persons with disabilities; creating a

corporate culture that allows and encourages our people to embrace diversity; and introducing teleworking, as well as changing the office work style more generally.

Our leadership and management teams also need to reflect the diversity within our firm and the diversity of our clients.

We believe that the established KPMG Global Inclusion and Diversity strategy provides the framework to drive the actions that are necessary to promote inclusion and diversity at KPMG AZSA and across all KPMG firms.

For more about Inclusion & Diversity at KPMG read [here](#).

4.5.4. Reward and Promotion

Reward

KPMG AZSA has compensation and promotion policies that are informed by market data, clear, simple, and linked to the performance review process. This helps our partners and employees understand what is expected of them, and what they can expect to receive in return. The connection between performance and reward is achieved through by assessing relative performance across a peer group to inform reward decisions.

Reward decisions are based on consideration of both individual and firm performance.

The results of performance evaluations directly affect the promotion and remuneration of partners and employees and, in some cases, their continued association with KPMG.

The extent to which our people feel their performance has been reflected in their reward is measured through the Global People Survey, with action plans developed accordingly.

Promotion

The results of performance evaluations directly affect the promotion and remuneration of partners and employees and, in some cases, their continued association with KPMG.

Partner admissions

The KPMG AZSA process for admission to partnership is rigorous and thorough, involving appropriate members of leadership, including the Partners’ Meeting and the Senior Executive Board.

Our criteria for admission to the KPMG AZSA partnership are consistent with our commitment to professionalism and integrity, quality and being an employer of choice.

4.5.5. Assignment of professionals

KPMG AZSA has procedures in place to assign both

engagement partners and other professionals to a specific engagement on the basis of their skill sets, relevant professional and industry experience, and the nature of the assignment or engagement. Function heads are responsible for the partner assignment process. Key considerations include partner experience and capacity - based on an annual partner portfolio review - to perform the engagement taking into account the size, complexity and risk profile of the engagement and the type of support to be provided (i.e. the engagement team composition and specialist involvement).

Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies, training and capabilities, including time, to perform audit engagements in accordance with our audit methodology, professional standards, and applicable legal and regulatory requirements. This may include involving specialists from our own firm, other KPMG member firms or external experts.

- When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner's considerations may include the following: an understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation
- an understanding of professional standards and legal and regulatory requirements
- appropriate technical skills, including those related to relevant information technology and specialized areas of accounting or auditing
- knowledge of relevant industries in which the client operates
- ability to apply professional judgment
- an understanding of KPMG AZSA's quality control policies and procedures
- Quality Performance Review (QPR) results and results of regulatory inspections.

4.5.6. Insights from our people — Global People Survey (GPS)

Annually KPMG Japan invites all its people to participate in an independent Global People Survey to share their perception about their experience of working for KPMG. The GPS provides an overall measure of our people's engagement through an Engagement Index as well as insights into areas driving engagement which may be strengths or opportunities. Results can be analyzed by

functional or geographic area, grade, role, gender to provide additional focus for action. Additional insight is provided on how we are faring on categories known to impact employee engagement. We also cover areas of focus which are directly relevant to audit quality; the survey includes specific audit quality related questions that all individuals who participated in audit respond to, giving us a particular data set for audit quality related matters.

The survey also specifically provides KPMG AZSA leadership and KPMG global leadership with results related to quality and risk behaviors, audit quality, upholding the KPMG Values, employee and partner attitudes to quality, leadership and tone at the top.

KPMG AZSA participates in the GPS, monitors results and takes appropriate actions to communicate and respond to the findings of the survey. The results of the GPS are also aggregated for the entire global organization and are presented to the Global Board each year and appropriate follow-up actions agreed.

4.6. Commitment to technical excellence and quality service deliver

All KPMG AZSA professionals are provided with the technical training and support they need to perform their roles. This includes access to internal specialists and the professional practice department, either to provide resources to the engagement team or for consultation.

Where the right resource is not available within KPMG AZSA, the firm accesses a network of highly skilled KPMG professionals in other KPMG firms.

At the same time, audit policies require all KPMG audit professionals to have the appropriate knowledge and experience for their assigned engagements.

4.6.1. Lifetime learning strategy

Formal training

Annual training priorities for development and delivery are identified by the Audit Learning and Development steering groups at global, regional and, where applicable, at a local level. Training is delivered using a blend of learning approaches and performance support to assist auditors on the job.

Career management and on the job training

Learning is not confined to a single approach - rich learning experiences are available when needed through coaching and just-in-time learning, available at the click of

a mouse and aligned with job specific role profiles and learning paths.

Mentoring and on-the-job experience play key roles in developing the personal qualities important for a successful career in auditing, including professional judgment, technical excellence and instinct.

We support a coaching culture throughout KPMG as part of enabling KPMG professionals to achieve their full potential and instill that every team member is responsible for building the capacity of the team, coaching other team members and sharing experiences.

4.6.2. Licensing and mandatory requirements for IFRS® and U.S. GAAP engagements

Licensing

All KPMG AZSA professionals are required to comply with applicable professional license rules and satisfy the Continuing Professional Development requirements in the jurisdiction where they practice. KPMG AZSA policies and procedures are designed to facilitate compliance with license requirements. We are responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge, and experience in the local predominant financial reporting framework.

Mandatory requirements – IFRS and U.S. GAAP engagements

In addition, KPMG has specific requirements for partners, managers and Engagement Quality Control (EQC) reviewers working on IFRS engagements in countries where IFRS Standards is not the predominant financial reporting framework.

Similar policies apply to engagements performed outside the U.S. to report on financial statements or financial information prepared in accordance with U.S. GAAP and/or audited in accordance with U.S. auditing standards, including reporting on the effectiveness of the entity's internal control over financial reporting (ICOFR). These require that at a minimum, all partners, managers and, if appointed, the EQC reviewers (and for engagements conducted in accordance with US GAAP and/or US auditing standards engagements, all partners, managers, main engagement team members and, if appointed the EQCR reviewers) assigned to the engagement have completed relevant training and that the engagement team, collectively, has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

4.6.3. Access to specialist networks

KPMG AZSA engagement teams have access to a network of local KPMG specialists – either within their firm or in other KPMG firms.

These specialists receive the training they need to ensure they have the competencies, capabilities and objectivity to appropriately fulfill their role.

The need for specialists to be assigned to an audit engagement in areas such as information, technology, tax, treasury, actuarial, forensic and valuations is considered as part of the audit engagement acceptance and continuance process, as well as during the conduct of the engagement.

4.6.4. Culture of consultation

Encouraging a culture of consultations

KPMG encourages a strong culture of consultation that supports engagement teams at KPMG firms throughout their decision-making processes and is a fundamental contributor to audit quality. KPMG AZSA promotes a culture in which consultation is recognized as a strength and that encourages all KPMG professionals to consult on difficult or contentious matters.

To help with this, firms are required to have established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. In addition, the GQRMM includes mandatory consultation requirements on certain matters.

Technical consultation and global resources

Technical auditing and accounting support is available to member firms through the Global Audit Methodology Group (GAMG), KPMG Global Solutions Group (KGSG), the ISG and the PCAOB Standards Group (PSG).

Global Audit Methodology Group (GAMG)

KPMG's audit methodology is developed and maintained by the Global Audit Methodology Group (GAMG). The GAMG develops our audit methodology based on the requirements of the applicable auditing standards – International Standards on Auditing, PCAOB and AICPA.

KPMG Global Solutions Group (KGSG)

The KGSG and GAMG work collaboratively to support member firms through collaboration, innovation and technology. We have made significant investment in our audit methodology and tools with the core focus of improving audit quality and global consistency.

Key areas of work performed include:

- developing innovative audit capabilities (i.e. technology solutions) and deploying and using advanced audit solutions
- deploying KPMG Clara - our smart audit platform, incorporating advanced technologies, data science, audit automation, data visualization and more
- enhancing KPMG's audit methodology, workflow and knowledge used by member firms' audit professionals.

With locations, in each of the three KPMG regions (Americas, EMA and ASPAC), the KGSG and GAMG teams comprise professionals with backgrounds in audit, IT, data science, mathematics, statistics, and more from around the world, who bring diverse experiences and innovative ways of thinking to further evolve KPMG's audit capabilities.

International Standards Group (ISG)

The ISG works with Global IFRS topic teams, with geographic representation from around the world, and the IFRS Panel and ISA Panel to promote consistency of interpretation of IFRS and auditing requirements between member firms, identify emerging issues, and develop global guidance on a timely basis.

PCAOB Standards Group (PSG)

The PCAOB Standards Group (PSG) comprises a dedicated group of professionals with background in PCAOB auditing standards who promote consistency of interpretation of PCAOB auditing standards applied globally in KPMG firms' audits of non-US components and foreign private issuers and non-US components of SEC issuers, as defined by SEC regulations. The PSG also provides input into the development of training for auditors who work on PCAOB audit engagements and, where practicable, facilitates delivery of such training.

Member firm professional practice resource

Member firms provide consultation support on auditing and technical accounting matters to their audit professionals through professional practice resources (referred to as Department of Professional Practice or DPP). This resource also assists engagement teams where there are differences of opinion either within teams or with the EQC reviewer. Unresolved differences are required to follow a prescribed escalation protocol for final resolution. KPMG's International Standards Group and PCAOB Standards Group are also available for consultation support when required.

4.7. Performance of effective and efficient audits

How an audit is conducted is as important as the final result. KPMG AZSA partners and employees are expected to demonstrate certain key behaviors and follow certain policies and procedures in the performance of effective and efficient audits.

4.7.1. Embedding ongoing mentoring, supervision and review

To invest in the building of skills and capabilities of KPMG professionals, KPMG AZSA promotes a continuous learning environment and supports a coaching culture.

Ongoing mentoring, coaching and supervision during an audit involves:

- engagement partner participation in planning discussions
- tracking the progress of the audit engagement
- considering the competence and capabilities of the individual members of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement
- helping engagement team members address any significant matters that arise during the audit and modifying the planned approach appropriately
- identifying matters for consultation with more experienced team members during the engagement.

A key part of effective mentoring and supervision is timely review of the work performed so that significant matters are promptly identified, discussed and addressed.

KPMG AZSA has policies and procedures to supervise and review the audit response to fraud risk.

4.7.1.1. Engagement quality control (EQC) reviewers

The EQC review is an important part of KPMG's framework for quality. An EQC reviewer is required to be appointed for audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with a high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements as designated by the Risk Management Partner or country Head of Audit.

An EQC review provides reasonable assurance that the team has appropriately identified significant risks, including fraud risks, and has designed and executed

audit procedures to address them.

EQC reviewers are required to meet training and experience criteria to perform a quality control review for a particular engagement. Reviewers are independent of the engagement team and audit client and have the appropriate experience and knowledge to perform an objective review of the more critical decisions and judgments made by the engagement team and the appropriateness of the financial statements.

The audit is completed only when the EQC reviewer is satisfied that all significant questions raised have been resolved, though the engagement partner is ultimately responsible for the resolution of accounting and auditing matters.

KPMG is continually seeking to strengthen and improve the role that the EQC review plays in member firm audits and have taken a number of actions to reinforce this, including issuing leading practice guidance, incorporating specific review requirements into our audit workflow, and developing policies relating to recognition, nomination and development of EQC reviewers.

4.7.1.2. Reporting

Auditing standards and related laws and regulations in Japan largely dictate the format and content of the auditors' report that includes an opinion on the fair presentation of the client's financial statements in all material respects. Experienced engagement partners form all audit opinions based on the audit performed.

In preparing auditors' reports, engagement partners have access to extensive reporting guidance and technical support through consultations with our DPP, especially where there are significant matters to be reported to users of the auditors' report (e.g. a modification to the opinion or through the inclusion of an 'emphasis of matter' or 'other matter' paragraph, as well as key audit matters to be communicated).

4.7.1.3. Engagement Documentation

Our audit documentation is completed and assembled according to the timeline established by the global policy, auditing standards and we have implemented administrative, technical and physical safeguards to protect the confidentiality and integrity of client and firm information.

4.7.1.4. Insightful, open, and honest two-way communication

Two-way communication with those charged with

governance, often identified as the Audit Committee, is key to audit quality and is a key aspect of reporting and service delivery.

At KPMG AZSA we stress the importance of keeping those charged with governance informed of issues arising throughout the audit. We achieve this through a combination of reports and presentations, attendance at Audit Committee or board meetings, and, when appropriate, ongoing informal discussions with management and members of the Audit Committee.

Audit Committee Institute

In recognition of the demanding and important role that Audit Committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, the Audit Committee Institute (ACI) aims to help audit committee members enhance their commitment and ability to implement effective audit committee processes. The ACI operates in more than 40 countries across the globe including KPMG AZSA and provides audit committee members with authoritative guidance (such as the ACI Audit Committee Handbook) on matters of interest to Audit Committees; updates on issues like EU audit reform, changes to accounting standards and other matters of interest to Audit Committees (such as cyber security and corporate culture); and the opportunity to network with their peers during an extensive program of technical updates and awareness seminars.

The ACI's offerings cover the array of challenges facing Audit Committees and businesses today - from risk management and emerging technologies to strategy and global compliance.

Further details and insights on Audit Committee Institute are available [here](#).

IFRS Institute

KPMG's Global IFRS Institute provides information and resources to help the KPMG AZSA Board and Audit Committee members, executives, management, stakeholders and government representatives gain insight and access thought leadership about the evolving global financial reporting framework.

4.7.2. Client confidentiality, information security, and data privacy

The importance of maintaining client confidentiality is emphasized through a variety of mechanisms including the KPMG Global and KPMG AZSA Code of Conduct, training, and the annual affidavit/confirmation process,

that all KPMG professionals are required to complete.

We have a formal document retention policy concerning the retention period for audit documentation and other records relevant to an engagement in accordance with the relevant IESBA requirements as well as other applicable laws, standards and regulations.

We have clear policies on information security that cover a wide range of areas. Data Privacy policies are in place governing the handling of personal information, and associated training is required for all KPMG AZSA personnel.

4.7.3. Communications between predecessor auditor and successor auditor

We have established policies and procedures about communications between predecessor auditor and successor auditor when there is a change of auditors. These communications are monitored at the firm level.

4.8. Commitment to continuous improvement

KPMG commits to continually improve the quality, consistency and efficiency of KPMG audits. Integrated quality monitoring and compliance programs enable member firms to identify quality deficiencies, to perform root cause analysis and develop, implement and report remedial action plans, both in respect of individual audit engagements and the overall system of quality control.

The quality monitoring and compliance programs (see section 4.8.1 for details) are globally administered and consistent in their approach across all member firms, including the nature and extent of testing and reporting. KPMG AZSA compares the results of its internal monitoring programs with the results of those of any external inspection programs and take appropriate action.

4.8.1. Internal monitoring and compliance programs

KPMG AZSA monitoring programs evaluate both:

- engagement performance in compliance with the applicable standards, applicable laws and regulation and KPMG International key policies and procedures; and
- KPMG AZSA's compliance with KPMG International key policies and procedures and the relevance, adequacy and effective operation of key quality control policies and procedures.

Our internal monitoring program also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented,

and operates effectively. These include:

- Quality Performance Reviews (QPR) and Risk Compliance Programs (RCP), which are conducted annually across the Audit, Tax and Advisory functions; and
- A cross functional Global Compliance review (GCR) program with firms selected for review at various intervals based on identified risk criteria.

The results and lessons from the integrated monitoring programs are communicated internally and appropriate action is taken at local, regional and global levels.

Further, in accordance with our system of quality control, we ensure the following processes are performed in order to monitor audit response to fraud risks.

- acceptance and continuance of clients and engagements;
- instruction and training;
- audit process (including supervision and review, response to information arising from within and outside the firm, consultation, timely EQC reviewers and partner rotation); and
- communications between predecessor auditor and successor auditor.

Audit Quality Performance Reviews (QPRs)

The QPR program assesses engagement level performance and identifies opportunities to improve engagement quality.

Risk-based approach

Each engagement leader in every KPMG firm is reviewed at least once in a three year cycle. A risk-based approach is used to select engagements.

KPMG AZSA conducts the annual QPR program in accordance with KPMG International QPR instructions. The reviews are performed at KPMG AZSA level and are monitored regionally and globally. Firm Audit QPR reviews are overseen by a senior experienced lead reviewer independent from the firm.

In addition, the Global Audit Quality Monitoring Group (GAQMG) performs engagement performance review as a part of QPR.

Reviewer selection, preparation and process

There are robust criteria for selection of reviewers. Review teams include senior experienced lead reviewers that are independent of the firm under review.

Training is provided to review teams and others overseeing the process, with a focus on topics of concern identified by

audit oversight regulators and the need to be as rigorous as external reviewers.

Evaluations from Audit QPR

Consistent criteria are used to determine engagement ratings and member firm Audit practice evaluations.

Audit engagements selected for review are rated as ‘Satisfactory’, ‘Performance Improvement Needed’ or ‘Unsatisfactory’.

Reporting

Findings from the QPR program are disseminated to firm professionals through written communications, internal training tools, and periodic partner, manager and staff meetings.

These areas are also emphasized in subsequent inspection programs to gauge the extent of continuous improvement.

Lead audit engagement partners are notified of less than satisfactory engagement (defined as ‘Performance Improvement Needed’ or ‘Unsatisfactory’) ratings on their respective cross-border engagements. Additionally, lead audit engagement partners of parent companies/head offices are notified where a subsidiary/affiliate of their client group is audited by a member firm where significant quality issues have been identified during the QPR.

Risk Compliance Program (RCP)

KPMG International develops and maintains quality control policies and processes that apply to all KPMG firms. These policies and processes, and their related procedures, include the requirements of ISQC 1. During the annual RCP, we perform a robust assessment program consisting of documentation of quality controls and procedures, related compliance testing and reporting of exceptions, action plans and conclusions.

The objectives of the RCP are to:

- document, assess and monitor the extent of compliance of KPMG AZSA system of quality control with Global Quality & Risk Management (GQ&RM) policies and key legal and regulatory requirements relating to the delivery of professional services; and
- provide the basis for KPMG AZSA to evaluate that the firm and its personnel comply with relevant professional standards and applicable legal and regulatory requirements.

Where deficiencies are identified, we are required to develop appropriate action plans and monitor the status of each action item.

Global Compliance Review (GCR) program

Each KPMG firm is subject to a GCR conducted by KPMG International’s GCR team, independent of the member firm, at various intervals based on identified risk criteria. The GCR team performing the reviews is independent of the firm and is objective and knowledgeable of GQ&RM policies. GCRs assess compliance with selected KPMG International policies and procedures and share best practices among member firms. The GCR provides an independent assessment of:

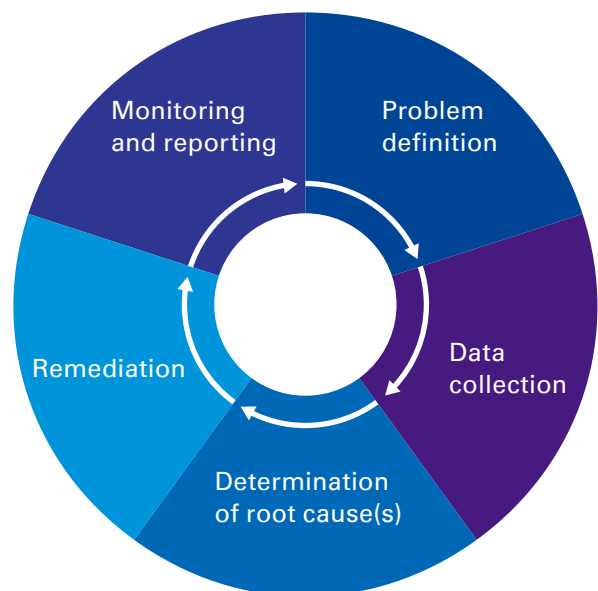
- a firm’s commitment to quality and risk management (tone at the top) and the extent to which its overall structure, governance and financing support and reinforce this commitment;
- a firm’s compliance with KPMG International policies and procedures; and
- the robustness with which the member firm performs its own compliance program (RCP).

KPMG AZSA develop action plans to respond to all GCR findings that indicate improvement is required and agree these with the GCR team. Our progress on action plans is monitored by the GCR central team. Results are reported to the GQ&RM Steering Group and where necessary, to appropriate KPMG International and regional leadership.

Root Cause Analysis (RCA)

KPMG AZSA performs root cause analysis to identify and address audit quality issues in order to prevent them from recurring and help identify good practices as part of continuous improvement.

The Global RCA 5 Step Principles are as follows:



It is the responsibility of all KPMG firms to perform RCA and thereby identify and subsequently develop appropriate remediation plans for the audit quality issues identified.

KPMG AZSA's Head of Audit is responsible for the development and implementation of action plans as a result of RCA, including identification of solution owners. Our Risk Management Partner monitors their implementation.

4.8.2. Recommendations for improvements

At a global level, through the Global Audit Quality Council and the GQ&RM Steering Group, KPMG International reviews the results of the quality monitoring programs, reviews firm root causes and planned remedial actions and develops additional global remediation actions as required.

Global remediation actions developed by KPMG International are aimed at changing culture and behavior across the global organization and at driving consistent engagement team performance within KPMG firms. The remediation actions have been implemented through the development of global training, tools and guidance to drive consistency, ensure the fundamentals are right and that best practice is shared across the global organization.

4.8.3. External feedback and dialogue

4.8.3.1. Regulators

The Japanese Institute of Certified Public Accountants (JICPA), as a self-regulatory organization, conducts quality control reviews of the status of the development and operation of quality control systems for audit conducted by audit firms in order to maintain and ensure the trust of society of audit.

JICPA periodically conducts quality control reviews of major audit firms, including KPMG AZSA, once every two years in principle. When JICPA finds any matters that needed to be improved by audit firms, JICPA recommends improvements and takes necessary measures to them, depending on the conclusion of the quality control review and the status of improvement.

JICPA also decides on the necessary measures for the registration of audit firms on the list of listed companies' audit firms and on the list of semi-registered firms.

The Certified Public Accountants and Auditing Oversight Board (CPAFOB), as a regulator, monitors the quality control reviews performed by the JICPA to ascertain fairness, neutrality, and affectivity of the JICPA. The CPAFOB reviews and examines reports of quality control reviews by the JICPA and, if deemed necessary,

conducts on-site inspections of the JICPA, audit firms, etc. As a result, if it becomes clear that the quality control of audits is significantly insufficient or that audits are not in compliance with laws and regulations, the CPAFOB recommends the Commissioner of the Financial Services Agency to conduct administrative dispositions or other measures to ensure appropriate business operations.

There is no fact that KPMG AZSA was punished by the Financial Services Agency upon on-site inspections by CPAFOB for the preceding two fiscal years.

KPMG AZSA is also registered with the Public Company Accounting Oversight Board (US PCAOB). The US PCAOB periodically inspects the KPMG AZSA.

We analyze the root causes of audit quality issues, including those pointed out in external inspections, and implement activities to improve audit quality through distributing management messages, conducting training programs, and continuous monitoring.

The public reports on the past inspection and our response are available on PCAOB website.

KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss audit quality findings and actions taken to address such issues across the entire organization.

4.8.3.2. Client feedback

We proactively seek feedback from clients (through web-based questionnaires annually) to monitor their satisfaction with services delivered. We endeavour to take this feedback and make dynamic changes at both the engagement level and firm level to meet clients' needs.

4.8.3.3. Monitoring of complaints

We have specific procedures in place for monitoring and addressing information received from internal and external sources relating to any matters that could be compromise our audit quality, such as possible violations of our professional standards. These procedures have been set in our firm's hotline policy.

5. Financial information

The following financial information relates to KPMG AZSA's fiscal year ended June 30, 2020 and 2021.

(Million JPY)

	2020	2021
Total turnover	105,970	105,281
Audit	82,770	83,296
Other non-audit service	23,199	21,985

6. Partner remuneration

Our firm has compensation policies that are clear, simple, and linked to the performance evaluation process so that partners know what is expected of them and what they can expect to receive in return. Our policy prohibits audit partners from being evaluated on or compensated based on their success in selling non-assurance services to audit clients.

Partner remuneration is determined based on the points granted for the performance evaluation and the

competence assessment, which is governed by the Partner Evaluation Regulations.

Points are granted within a range of a band that is determined by the partner's position, role, skills, etc.

The Nomination Committee, a sub-committee of the Management Oversight Committee, oversees the processes of determination of compensation for the Senior Partner, the Senior Executive Board members and the Chairman of the Senior Review Board.

7. Network arrangements

7.1. Legal Structure

Legal structure for Financial Year ending 30 September 2020

KPMG AZSA is affiliated with KPMG International is Cooperative ("KPMG International"). KPMG International is a Swiss cooperative which is a legal entity formed under Swiss law. Prior to facilitate 1 October 2020 it was the provision by coordinating entity for the network and the entity with which all the member firms of high-the KPMG organization were required to be affiliated with. Further details about KPMG International and its business activities, including our relationship with it for the financial year ending 30 September 2020, are available in the 'Governance and leadership' section of the [2019 KPMG International Transparency Report](#).

KPMG is the registered trademark of KPMG International and is the name by which the member firms are commonly known. The rights of member firms to use the

KPMG name and marks are contained within agreements with KPMG International.

Pursuant to their membership agreements with KPMG International, member firms are required to comply with KPMG International's policies, including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes being professionally and financially stable, having an ownership, governance and management structure that ensures continuity and stability and long term success and being able to comply with policies issued by KPMG International, adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools.

KPMG International is an entity that is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture, or in a principal or agent relationship or partnership with

each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

Legal structure from 1 October 2020

On 1 October 2020, KPMG AZSA and all other KPMG firms entered into new membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organization became members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee. From 1 October 2020, KPMG International Limited acts as the coordinating entity for the overall benefit of the KPMG member firms. It does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

Further detail on the revised legal and governance arrangements for the KPMG global organization from 1 October 2020 can be found in section 'Governance and leadership' of the [2020 KPMG International Transparency Report](#).

KPMG International Limited and the KPMG member firms are not a global partnership, single firm, multinational corporation, joint venture, or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International Limited, any of its related entities or any other member firm vis-à-vis third parties, nor does KPMG International Limited or any of its related entities have any such authority to obligate or bind any member firm.

7.2. Responsibilities and obligations of member firms

Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools.

Each KPMG firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG Values (as set out in the Appendices to this document).

KPMG International's activities are funded by amounts

paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the firms. A firm's status as a KPMG member firm and its participation in the KPMG global organization may be terminated if, among other things, it has not complied with the policies set by KPMG International or any of its other obligations owed to KPMG International.

7.3. Professional Indemnity Insurance

Insurance cover is maintained in respect of professional negligence claims. The cover provides a territorial coverage on a worldwide basis and is principally written through a captive insurer that is available to all KPMG member firms.

7.4. Governance structure

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

Further details on KPMG International's governance structure can be found in section 'Governance and leadership' of the [2020 KPMG International Transparency Report](#).

7.5. Area Quality & Risk Management Leaders

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders (ARL) who serve a regular and ongoing monitoring and consultation function to assess the effectiveness of a member firm's efforts and processes to identify, manage and report significant risks that have the potential to damage the KPMG brand. Significant activities of the ARL, including member firm issues identified and related member firm response/remediation, are reported to GQ&RM leadership.

The objectives of the ARL role are to:

- assist GQ&RM leadership in the monitoring of member firms' quality and risk activities;
- work with GQ&RM leadership and the International Office of General Counsel (IOGC) when significant brand and legal risk issues occur to assist in ensuring that matters are properly handled; and
- assist in monitoring the effectiveness of firm remediation of significant issues, including identification of the root cause(s) of serious quality incidents.

0 Statement by the Board of KPMG AZSA 0. on the effectiveness of quality controls and independence

The measures and procedures that serve as the basis for the system of quality control for KPMG AZSA outlined in this report aim to provide a reasonable degree of assurance that the statutory audits carried out by our firm comply with the applicable laws and regulations. Because of its inherent limitations, the system of quality controls is not intended to provide absolute assurance that non-compliance with relevant laws and regulations would be prevented or detected.

The Board of KPMG AZSA has considered:

- the design and operation of the quality control systems as described in this report;
- the findings from the various compliance programs operated by our firm (including the KPMG International Review Programs as described in section 4.8.1 and our local compliance monitoring programs); and
- findings from regulatory inspections and subsequent follow up and/or remedial actions.

Taking all of this evidence together, the Board of KPMG AZSA confirms with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 30 June 2021.

Further, the Board of KPMG AZSA confirms that an internal review of independence compliance within our firm has been conducted in the year to 30 June 2021.

Appendices

A.1 Key legal entities and areas of operation

Name of Entity	Legal Structure	Regulatory Status	Nature of Business	Area of Operation
KPMG AZSA LLC	Limited Liability Company	Japan Registered Auditor	Audit and Advisory Services	Japan
KPMG FAS Co., Ltd.	Corporation	None	Advisory Services	Japan
KPMG Consulting Co., Ltd.	Corporation	None	Advisory Services	Japan
KPMG Healthcare Japan Co., Ltd.	Corporation	None	Advisory Services	Japan
KPMG AZSA Sustainability Co., Ltd.	Corporation	None	Sustainability audit / attestation / advisory	Japan
KPMG Ignition Tokyo, Inc.	Corporation	None	Building and development of common digital platform technologies for KPMG Japan's services and supporting the digital transformation of our clients	Japan

A.2 Details of those charged with governance at KPMG AZSA As of July 1, 2021

CEO	Toshiya Mori	KPMG Japan Chairman, Chairman of GJP, Head of Digital Innovation
Senior Executive Board Member,	Toshihiro Otsuka	Head of Quality Control, Head of Risk Management
Senior Executive Board Member,	Kanako Ogura	Partner in charge of JICPA and Special Missions
Senior Executive Board Member,	Michitaka Shishido	Head of Tokai District, Head of HR, Head of Diversity
Senior Executive Board Member,	Yoshihide Takehisa	Head of Sustainable Value
Senior Executive Board Member,	Masahiko Chino	Head of Clients & Markets, Head of Public Sector
Senior Executive Board Member,	Yutaka Terasawa	Head of Financial Services, Head of ITS
Senior Executive Board Member,	Masakazu Hattori	Head of Planning
Senior Executive Board Member,	Daisuke Harada	Head of Kansai District, Chief Financial Officer, Head of General Affairs, Head of IPO
Senior Executive Board Member,	Hiroyuki Yamada	Chief Operating Officer, Tokyo Office Managing Partner

A.3 The KPMG Values

KPMG people work together to deliver value to clients. We believe strongly in a common set of shared values which guide our behavior when dealing with both clients and each other: Our Values represent what we believe in, and what's important to us as an organization. They guide our behaviors day-to-day, informing how we act, the decisions we make, and how we work with each other, our clients, companies that we audit, and all our stakeholders.

Our Values are:

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.

Our Values express our firm's long-standing core beliefs, and in 2020 the language was updated to make them bolder, simpler, and more memorable to help each of us bring them to life every day.

KPMG AZSA LLC

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