



# Transparency Report 2022/23

September 2022

---

[home.kpmg/jp/azsa](https://home.kpmg/jp/azsa)

あずさ監査法人

# Contents

1. Message from the CEO	3	5.4.3	Licensing and mandatory requirements for IFRS® Standards and U.S.GAAP engagements	14
2. Living our culture and Values	3	5.5.	Recognizing quality	14
2.1. Fostering the right culture, starting with tone at the top	3	5.5.1.	Personal development	14
2.1.1. Tone at the top	3	6.	Associating with the right clients and engagements	15
2.1.2. System of quality control	4	6.1.	Following the client and engagement acceptance and continuance policies	15
2.1.3. Leadership responsibilities for quality and risk management	5	6.2.	Accepting appropriate clients and engagements	15
2.2. Clearly articulated strategy focused on quality, consistency, trust and growth	6	6.2.1.	Client evaluation	15
2.2.1. Our business	6	6.2.2.	Engagement evaluation	15
2.2.2. Our strategy	7	6.2.3.	Continuance process	16
2.2.3. KPMG member firms in Japan	7	6.2.4.	Withdrawal process	16
2.3. Defined accountabilities, roles and responsibilities, including for leadership	7	6.3.	Managed portfolio of clients	16
2.3.1. Legal structure	7	7.	Being independent and ethical	16
2.3.2. Name, ownership and legal relationships	7	7.1.	Acting with integrity and living our Values	16
2.3.3. Responsibilities and obligations of member firms	7	7.2.	Maintaining an objective, independent and ethical mindset, in line with our code of conduct and policies	17
2.4. Overseen using robust governance structures	8	7.2.1.	Personal financial independence	17
2.4.1. Governance structure	8	7.2.2.	Employment relationships	17
3. Applying expertise and knowledge	9	7.2.3.	Firm financial independence	17
3.1. Methodology aligned with professional standards, laws and regulations	9	7.2.4.	Business relationships/suppliers	18
3.1.1. Consistent audit methodology and tools	9	7.2.5.	Independence clearance process	18
3.2. Deep technical expertise and knowledge	9	7.2.6.	Independence training and confirmations	18
3.2.1. Access to specialist networks	9	7.2.7.	Non-audit services	18
3.2.2. KPMG's commitment to audit quality during the COVID-19 pandemic	10	7.2.8.	Fee dependency	19
3.3. Quality and risk management manual	10	7.2.9.	Resolving conflicts of interest	19
4. Embracing digital technology	10	7.2.10.	Independence breaches	19
4.1. Intelligent, standards-driven audit workflow	10	7.2.11.	Partner rotation	19
4.1.1. Evolving our audit workflow	10	7.2.12.	Insider trading prevention	20
4.2. KPMG Clara	11	7.3.	Zero tolerance of bribery and corruption	20
4.2.1. Client confidentiality, information security, and data privacy	12	8.	Performing quality engagements	20
5. Nurturing diverse skilled teams	12	8.1.	Consulting where necessary	20
5.1. Recruiting appropriately qualified and skilled people, including specialists, with diversity of perspective and experience	12	8.1.1.	Encouraging a culture of consultation	20
5.1.1. Recruitment	12	8.1.2.	Technical consultation and global resources	21
5.1.2. Inclusion, Diversity & Equity programs	12	8.2.	Critically assessing audit evidence, using professional judgement and skepticism	21
5.1.3. Reward and Promotion	13	8.3.	Direct, coach, supervise and review	21
5.2. Assigning an appropriately qualified team	13	8.3.1.	Embedding ongoing mentoring, supervision and review	21
5.3. Investing in data centric skills – including data mining, analysis and visualization	13	8.3.2.	Engagement quality control (EQC) reviewers	22
5.4. Focused learning and development on technical expertise, professional acumen and leadership skills	14	8.4.	Appropriately support and document conclusions	22
5.4.1. Commitment to technical excellence and quality service delivery	14	8.4.1.	Reporting	22
5.4.2. Lifetime learning strategy	14	8.4.2.	Engagement documentation	22
		9.	Assessing risks to quality	23

<b>10. Communicating effectively</b>	<b>23</b>
10.1. Provide insights, and maintain open and honest two-way communication	23
10.2. Communications between predecessor auditor and successor auditor	23
10.3. Conduct and follow-up on the Global People Survey (GPS)	23
<b>11. Monitoring and remediation</b>	<b>24</b>
11.1. Rigorously monitor and measure quality at the local and global level	24
11.1.1. Commitment to continuous improvement	24
11.1.2. Internal monitoring and compliance programs	24
11.1.3. Area Quality & Risk Management Leaders	25
11.2. Obtain, evaluate and act on stakeholder feedback	25
11.2.1. Regulators	25
11.2.2. Client feedback	26
11.2.3. Monitoring of complaints	26
11.3. Perform root cause analysis	26
<b>12. Financial Information</b>	<b>27</b>
<b>13. Partner remuneration</b>	<b>27</b>
<b>14. Network arrangements</b>	<b>27</b>
14.1. Legal structure	27
14.2. Responsibilities and Obligations of Member Firms	28
14.3. Professional Indemnity Insurance	28
14.4. Governance structure	28
<b>15. Statement by the Board of KPMG AZSA on the effectiveness of quality controls and independence</b>	<b>28</b>
<b>Appendix</b>	
<b>A.1. Key legal entities and areas of operation</b>	<b>29</b>
<b>A.2. Details of those charged with governance at KPMG AZSA As of July 1, 2022</b>	<b>29</b>
<b>A.3. The KPMG Values</b>	<b>30</b>

## 1. Message from the CEO

As a member of the KPMG network, KPMG AZSA 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 2022/23 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.

September 30, 2022

KPMG AZSA LLC

CEO,

**Toshiya Mori**

## 2. Living our culture and Values

It's not just what we do at KPMG that matters: we also pay attention to how we do it. Our Values are our core beliefs, guiding and unifying our actions and behaviors. Shared across every level and in every country, jurisdiction and territory in which we operate, they are the foundation of our unique culture.

### 2.1. Fostering the right culture, starting with tone at the top

#### 2.1.1. 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 accountability, quality, objectivity, independence, 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.

We communicate our commitment to clients, stakeholders, and society at large to earn the public's trust.

The KPMG Values are set out in Appendix A.

Our Values lie at the heart of the way we do things. To do the right thing, the right way, at the right time. Always. They drive our daily behaviors, guide our decisions, and shape our character. 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.

Outlined in KPMG's Global Code of Conduct ("the Code") are the responsibilities all KPMG personnel have to each other, the public and our clients. 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.

Everyone at KPMG is held accountable to behave consistent with the Code and is required to confirm their compliance. All KPMG personnel are required to take annual 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 is not in compliance with the Code, or our Values.

#### 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

### Establishment of Compliance Day

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

We concluded that the root causes of this conduct are both a failure to maintain the ethical standards expected of us as public accountants and professionals, and inadequate management system from the perspective of organizational structure and policies and procedures.

As implementing measures to prevent a recurrence of this conduct and enhance compliance awareness, we have established Compliance Day of the year and hold events to reflect on the importance of maintaining high ethical standards.

Moreover, everyone at KPMG 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 principle of holding each other accountable, each KPMG firm is required to establish, communicate and maintain clearly defined channels to allow KPMG personnel and third parties to make inquiries about, raise concerns in relation to, provide feedback on, and notify, reportable matters, without fear of reprisal, in accordance with applicable law or regulation.

The KPMG International hotline is a further mechanism for KPMG personnel, clients and other third parties to confidentially report concerns they have relating to certain areas of activity by KPMG International, 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.

The Global People Survey provides KPMG leadership and KPMG International leadership with results related to upholding the KPMG Values. KPMG and KPMG International monitor the results and take appropriate actions to communicate and respond to any findings.

### 2.1.2. System of quality control

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 holds us accountable to meet the highest professional standards.

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 KPMG firms and how KPMG firms execute audit engagements.

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

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

A robust and consistent system of quality control is essential to delivering quality services. KPMG



International has quality control policies that apply to all KPMG firms. These are included in KPMG's Global Quality & Risk Management Manual (GQRMM), which applies to all KPMG personnel.

To adopt the new international standard on quality management (ISQM1) which was approved by the IAASB and will be effective from December 2022, KPMGI initiated a program to redesign the network-wide requirements for member firms' systems of quality management. ISQM1 requires each KPMG firm 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.

As we prepare for ISQM1, we have adopted a new Global Quality Framework to better outline how we deliver quality at KPMG, and how everyone at KPMG is accountable for its delivery. The principle of 'Perform quality engagements' sits at the core along with our commitment to continually monitor and remediate our processes as necessary.

The Global Quality Framework also meets the requirements of the current International Standards on Quality Control (ISQC1), issued by the International Auditing and Assurance Standards Board (IAASB) and the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA), which apply to professional services firms that perform audits of financial statements.

KPMG AZSA is required to implement KPMG International policies and procedures and KPMG AZSA 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.

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.

### 2.1.3. Leadership responsibilities for quality and risk management

KPMG AZSA demonstrates commitment to quality, objectivity, independence, 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, objectivity, independence, integrity and ethics, demonstrated through their actions - written and video communications, presentations to teams and one-to-one discussions.

KPMG AZSA is required to seek input from the chair of the relevant Global Steering Group or his/her delegatee on the performance of certain leaders within KPMG AZSA whose role most closely aligns with the activities of the Global Steering Group. Input is sought as part of the annual performance process and is based on an assessment of the leader's performance, which includes matters of public interest, audit quality and risk management activities.

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

#### CEO

In accordance with the principles in ISQC1, our CEO Toshiya Mori has assumed ultimate responsibility for KPMG AZSA's system of quality control including audit response to fraud risk. Details of some of the measures that he and the rest of the Board have taken to ensure that a culture of quality prevails within KPMG AZSA are set out in section 2.4.1 (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 the direction and execution of risk, compliance, and quality control in 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 and reports on ethics and independence issues to the RMP.

### **The Audit and Advisory functions – Function Heads**

The two heads of the client service functions (Audit and Advisory) are accountable to the CEO for the quality of service delivered in their respective functions. They are responsible for the execution of the risk management and quality assurance 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's Head of Audit is responsible for the effective management and control of the Audit Function. This includes:

- setting a strong tone and culture supporting audit quality through communication, engagement support and commitment to the highest standards of professional excellence, including professional skepticism, objectivity, and ethics and integrity;
- developing and implementing an audit strategy which is aligned with KPMG AZSA's audit quality requirements; and
- working with the Risk Management Partner to monitor and address audit quality and risk matters as they relate to the Audit practice.

### **Senior Executive Board**

Senior Executive Board of KPMG AZSA has regular discussions to agree actions about current and emerging audit quality issues arising from external and internal quality review processes, queries being raised by engagement teams, root cause analysis procedures and

other quality matters identified from a variety of sources.

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 8.1.2 of the member firm transparency report.

### **Audit Quality Council**

Within the Audit function our Audit Quality Council considers matters related to the maintenance and improvement of audit quality. The Audit Quality Council comprises the CEO, Senior Executive Board members, and Heads of the Quality Assurance and Risk Management Headquarters and their respective Departments. The Council met eight times during the year, discussing policies regarding developing and operating controls based on the requirements of ISQM1. The Council also considered the detailed findings and related actions from external regulatory inspections and reviews, the internal Quality Performance Review program and other quality control programs, thus allowing us to critically consider our measures for the improvement of audit quality from various angles.

## **2.2. Clearly articulated strategy focused on quality, consistency, trust and growth**

### **2.2.1. 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 telecommunications, general trading companies, technology, entertainment, service, public, chemicals, consumer goods, retail, tourism, leisure, logistics, transportation, energy, life science, automotive, steel, heavy industry, finance, construction etc.

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 144 countries and territories.

### 2.2.2. 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. Our focus is to invest significantly in priorities that form part of a multi-year collective strategy implementation that is taking place across the global organization.

### 2.2.3. KPMG member firms in Japan

KPMG AZSA has the following five subsidiaries.

- KPMG Consulting Co., Ltd.
- KPMG FAS Co., Ltd.
- KPMG AZSA Sustainability Co., Ltd.
- KPMG Healthcare Japan Co., Ltd.
- KPMG Ignition Tokyo, Inc.

Furthermore, the following entities are also KPMG member firms in Japan.

- KPMG Tax Corporation
- KPMG Social Insurance and Labor Advisors

KPMG AZSA, its five subsidiaries and two entities listed above operate together as KPMG Japan.

A list of the entities which form KPMG Japan, 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.

## 2.3. Defined accountabilities, roles and responsibilities, including for leadership

### 2.3.1. Legal structure

#### Legal structure and ownership from October 1, 2020

Effective October 1, 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 October 1, 2020 can be found in section 'Governance and leadership' of the [2021 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.

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 June 30, 2022, there was an average of 594 partners in KPMG AZSA (2021: 595 partners).

### 2.3.2. 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.

### 2.3.3. 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 2.1.1).

KPMG International's activities are funded by an 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.

## 2.4. Overseen using robust governance structures

### 2.4.1. Governance structure

KPMG AZSA's 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 Consultation Board renders the firm's judgment on significant audit matters 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, 2022)

#### 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 Consultation Board

The Senior Consultation 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 Consultation Board. The Senior Consultation Board develops the basic policy for EQC reviews of audit and attestation engagements and renders the firm's judgment on audit opinions where there is an issue flagged by Divisional EQC Review Boards as requiring careful consideration or where there are significant audit matters that meet designated consultation requirements.

Besides being held every time a senior consultation matter occurs, meetings are held at least once a month for decision-making related to the firm's EQC review system (shinsa) and for sharing information related to the matters subject to senior consultation (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 supervising and evaluating the effectiveness of initiatives to enhance audit quality. The following sub-committees are established within the 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.

#### ● Nomination Committee

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

- **Audit Committee**

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

- **Compensation Committee**

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

#### **Public Interest Oversight Committee**

Independent four outside and two internal members

(Chairman and Vice-Chairman of Management Oversight Committee) 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.

## 3. Applying expertise and knowledge

We are committed to continue to build on our technical expertise and knowledge recognizing its fundamental role in delivering quality audits.

### **3.1. Methodology aligned with professional standards, laws and regulations**

#### **3.1.1. Consistent audit methodology and tools**

##### **Bringing consistency through our methodology**

Our audit methodology, tools and guidance enable a consistent approach to planning, performing and documenting audit procedures over key accounting processes:

- globally consistent and fully compliant with the applicable standards, including International Standards 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 KPMG 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
- focused on the international assurance methodology and the alignment of assurance products in response to growth of Environmental, Social and Governance (ESG reporting).

The KPMG audit methodology is set out in the KPMG Audit Manual (for use with eAuditIT) and the KPMG Audit Execution Guide (for use with the KPMG Clara workflow) and includes KPMG interpretation of how to apply 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 businesses 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 to the KPMG Audit Manual and the KPMG Audit Execution Guide to comply with additional local professional, legal, or regulatory requirements.

### **3.2. Deep technical expertise and knowledge**

#### **3.2.1. Access to specialist networks**

Specialist expertise is an increasingly important part of the modern audit. KPMG AZSA engagement teams have

access to a network of 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 fulfil their role on our audits. They also receive a global annual update on global quality performance issues.

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 planning and conduct of the engagement.

### 3.2.2. 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.

Since the start of the pandemic, KPMG AZSA has 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 and audit evidence of communications with Those Charged With Governance. Additionally, KPMG International has issued specific

guidance for remote working environments which addresses how teams work together, communications with management and the design and performance of audit procedures.

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 technical accounting and auditing resources, guidance and audit platforms and tools all available electronically, which greatly enabled the conversion to a remote working environment.

Enhanced communication has been increasingly important to everyone during the COVID-19 pandemic. We have leveraged our investments in technology to provide KPMG firms with regular communications, including virtual meetings to share best practices and guidance. In addition, we have enhanced our listening strategy to include specific COVID-19 pulse surveys to allow us to hear from our people in real time and shape our response accordingly.

### 3.3. Quality and risk management manual

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.

## 4. Embracing digital technology

At KPMG, we are committed to serving the public interest and create value through continuous innovation. By leveraging leading technologies, we are transforming the audit experience for our professionals and our clients – enabling us to provide an even higher quality audit by increasing our ability to focus on the issues that matter through the data and insights it provides.

### 4.1. Intelligent, standards-driven audit workflow

All KPMG AZSA's professionals are expected to adhere to KPMG International and KPMG AZSA's 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.

### 4.1.1. Evolving our audit workflow

We recognize that 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 KPMG embarked on a process of reimagining our audit platform, workflow and methodology to provide

enhanced consistency and support to our audit engagement teams, deliver detailed insights, and future-proof our systems for the expected continued development of new technologies such as robotic process automation, machine learning and cognitive technologies.

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

## 4.2. KPMG Clara

KPMG Clara is our smart and intuitive technology platform that is driving globally consistent audit execution. As a fully integrated, scalable, cloud-based platform, it enables the enhanced audit methodology through a data-enabled workflow.

The platform integrates new and emerging technologies, with advanced capabilities that leverage data science, audit automation, and data visualization.

The digital audit is increasingly integral to how KPMG member firms perform quality audits and interact with their clients. Policies and guidance are in place to establish and maintain appropriate processes and controls regarding the development, evaluation and testing, deployment and support of technology in our audits.

KPMG Clara is helping auditors see meaningful patterns across a business, whether conducting risk assessment, tracing transactions through a complex revenue process, or simply adding up the accounts. Examples of current capabilities include:

- 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.

### Our vision of the future

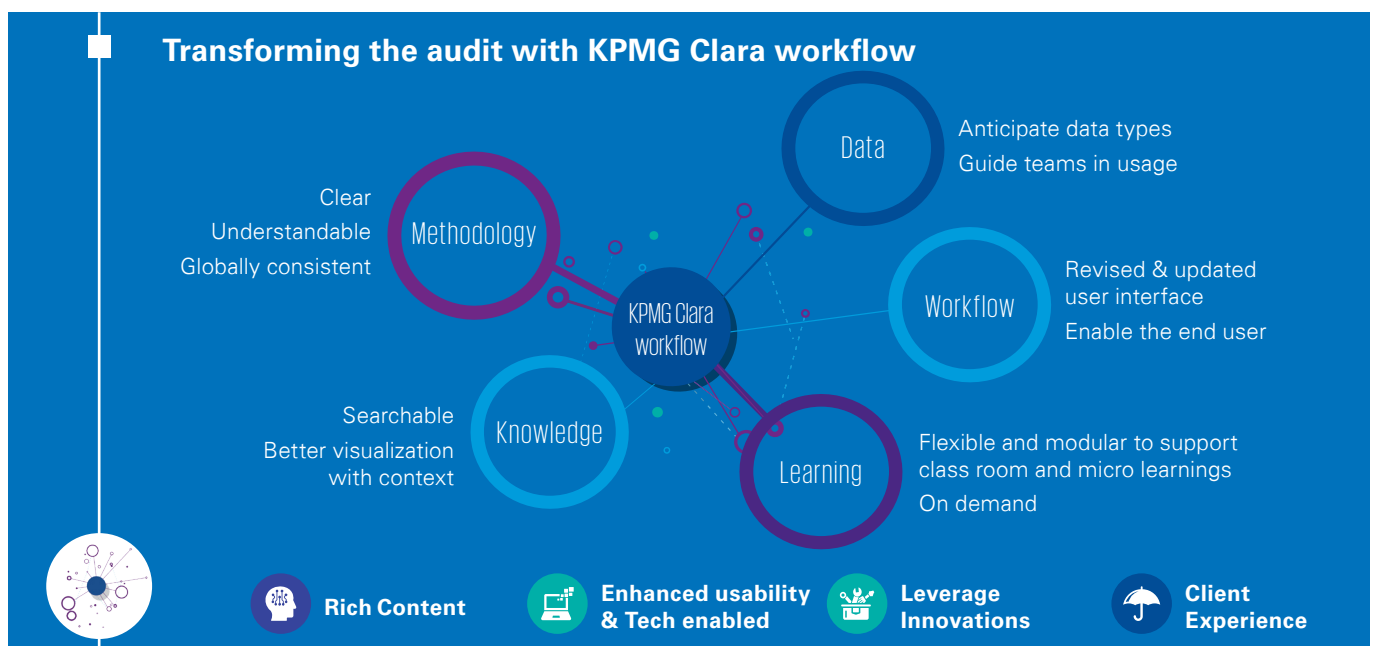
KPMG Clara was developed to be KPMG's foundational technology platform to deliver audit quality. It delivers this by being the base technology delivering new capabilities in a globally consistent way, enabling the audit workflows and a fully digital experience for our audit professionals.

The KPMG Clara platform evolves as technologies such as artificial intelligence, blockchain and cognitive capabilities transform how audits are delivered.

### KPMG Clara workflow

We are replacing eAuditIT with a new workflow and revised audit methodology embedded into the KPMG Clara smart audit platform. Phased full deployment of KPMG Clara workflow commenced globally in 2020 with planned completion of full global transition for the 2022 fiscal period-end audits.

The web-enabled KPMG Clara workflow guides audit teams through a series of steps in a logical sequence aligned to the applicable professional auditing standards with a clear display of information, visuals, and guidance available, and with embedded advanced digital audit and project management capabilities. The workflow and



revised audit methodology are scalable – adjusting the requirements to the size and complexity of the audit engagement. KPMG Clara workflow significantly enhances the execution of an audit by KPMG professionals and clearly drives audit quality and global consistency.

Using data mining and tracking of relevant engagement level data indicators, the KPMG Clara workflow can also facilitate monitoring of audit execution at the engagement level.

We continue to enhance the KPMG Clara smart audit platform to accommodate accelerating security demands, integrate existing audit applications into a single platform, and develop new capabilities to digitize additional audit processes.

#### **4.2.1 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.

We have policies on information security, confidentiality, personal information and data privacy. We have a 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, regulations, and professional standards.

We provide training on confidentiality, information protection and data privacy requirements to all KPMG AZSA's personnel annually.

## **5. Nurturing diverse skilled teams**

---

KPMG AZSA's people make the real difference and are instrumental in shaping the future of audit at KPMG. We put quality and integrity at the core of our audit practice. Our professionals have diverse skills and capabilities to address complex problems.

### **5.1. Recruiting appropriately qualified and skilled people, including specialists, with diversity of perspective and experience**

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

#### **5.1.1. Recruitment**

KPMG AZSA has invested in understanding how we can attract the talent we need across the organization in the future. This requires the right recruitment, development, reward, promotion and assignment of professionals. This includes building an extraordinary people experience for all current and prospective 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. KPMG AZSA also recruits significant numbers at an experienced hire and partner level.

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. 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.

#### **5.1.2. Inclusion, Diversity & Equity programs**

KPMG AZSA is committed to building a diverse and equitable firm that is inclusive to all.

Inclusion, diversity and equity (IDE) is core to our very



existence – helping us build great teams with diverse views that represent the world we live in. It leads to better decision making, drives greater creativity and innovation, and encourages us to stand up, live our Values, and do what is right.

We recognize our firms' global position working with clients around the world affords us a privileged place. With that comes an opportunity and responsibility to achieve more and push for a fairer, more equitable society.

Our KPMG Global Inclusion, Diversity & Equity Collective Action Plan outlines the actions that are necessary to advance inclusion, diversity and equity at KPMG AZSA and across all KPMG firms.

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

### 5.1.3. Reward and Promotion

#### Reward

KPMG AZSA has compensation and promotion policies that are clear, simple, fair 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 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 extent to which our people feel their performance has been reflected in their reward is measured through the annual Global People Survey, with action plans developed as required.

#### 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.

### 5.2. Assigning an appropriately qualified team

KPMG AZSA has procedures in place to assign 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. KPMG AZSA's 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.

### 5.3. Investing in data centric skills – including data mining, analysis and visualization

KPMG is strategically investing in our talent pipeline by partnering with world-class institutions to sustain our strong leadership, while also looking forward to cultivating the skills and capabilities that will be needed in the future. We are recruiting and training professionals who specialize in software, cloud capabilities. and artificial intelligence and who can bring leading technology capabilities to our smart audit platform. We provide training on a wide range of technologies to ensure that field professionals not only meet the highest professional standards but are also upskilled in new technology. With this approach we are bringing together the right people with the right skills and the right technology to perform exceptional audits.



## 5.4. Focused learning and development on technical expertise, professional acumen and leadership skills

### 5.4.1. Commitment to technical excellence and quality service delivery

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 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.

### 5.4.2. 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, KPMG firm level.

Mandatory learning requirements for audit professionals across the KPMG organization are established annually. Training is delivered using a blend of learning approaches and performance support.

#### Mentoring 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 instil that every team member is responsible for building the capacity of the team, coaching other team members and sharing experiences.

### 5.4.3. Licensing and mandatory requirements for IFRS Standards and U.S. GAAP engagements

#### Licensing

All KPMG AZSA professionals are required to comply

with applicable professional licence 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 licence requirements. KPMG AZSA is 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 Standards and U.S.GAAP engagements

In addition, KPMG has specific requirements for partners, managers and Engagement Quality Control (EQC) reviewers working on IFRS Standards engagements in countries where IFRS Standards are 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, the engagement partner, engagement manager and, if appointed, the EQC reviewer (and for engagements conducted in accordance with US GAAP and/or US auditing standards engagements, all partners, managers, engagement in-charges and, if appointed the EQC reviewer) 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.

## 5.5. Recognizing quality

### 5.5.1. Personal 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.

## 6. Associating with the right clients and engagements

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

### 6.1. Following the client and engagement acceptance and continuance policies

KPMG's client and engagement acceptance and continuance policies and processes are designed to identify and evaluate 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.

### 6.2. Accepting appropriate clients and engagements

#### 6.2.1. 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 an assessment of the client's risk profile and obtaining background information on the client, its key management, directors and owners. If necessary, we obtain additional information required to satisfy our local legal or regulatory requirements.

#### 6.2.2. 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, whether the services would be unethical or inconsistent with our Values, 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 KPMG professionals assigned to staff the engagement. The evaluation is made in consultation with other senior KPMG AZSA personnel 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 KPMG AZSA's policies, or if there are other quality and risk issues that cannot be appropriately mitigated.

### 6.2.3. 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 assignment of additional professionals or 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 to the 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.

### 6.2.4. 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.

## 6.3. Managed portfolio of clients

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

They 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 and wider team to deliver a quality audit for every client.

## 7. Being independent and ethical

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

### 7.1. Acting with integrity and living our Values

KPMG International's detailed independence policies and procedures, incorporate 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 policies and 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, 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 International policies and procedures and ensuring that local independence policies and procedures are established and effectively implemented when they are more stringent than the KPMG International requirements. The EIP fulfils 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;
- 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 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 11.1.2.

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.

## **7.2. Maintaining an objective, independent and ethical mindset, in line with our code of conduct and policies**

### **7.2.1. 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 manager grade or 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.

### **7.2.2. Employment relationships**

Any KPMG AZSA partners and personnel 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.

An assurance team member is also required to notify the EIP when they enter into employment negotiations with the assurance client during the course of the engagement. Former assurance team members or former partners of KPMG AZSA who join an assurance client in certain roles cannot continue to participate in KPMG AZSA's business or professional activities.

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

### **7.2.3. 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.

#### **7.2.4. Business relationships/suppliers**

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

#### **7.2.5. Independence clearance process**

In addition to the standard acceptance evaluation performed for every engagement, which includes an evaluation of independence, KPMG AZSA follows specific procedures to identify and evaluate threats to independence related to prospective audit clients; these procedures, also referred to as 'the independence clearance process, are required to be completed prior to accepting an audit engagement for these entities.

#### **7.2.6. Independence training and confirmations**

All KPMG AZSA partners and client facing 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 client facing employees who are required to complete this training are required to 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 and the KPMG AZSA Code of Conduct ; and
- bribery and compliance with laws, regulations, and

professional standards.

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.

#### **7.2.7. 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.

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 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.

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



### 7.2.8. 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 addition, if 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.

### 7.2.9. 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 personnel 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 is 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.

### 7.2.10. 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 requirements of the IESBA Code or other external independence requirements 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.

### 7.2.11. Partner rotation

#### Partner rotation

KPMG International partner rotation policies are consistent with the requirements of the IESBA Code of Ethics and require all member firms to comply with any stricter local applicable rotation requirements.

KPMG AZSA's 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 consecutive 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:

- participate in the audit;
- provide quality control for the audit;
- consult with the engagement team or the client regarding technical or industry-specific issues;
- in any way influence the outcome of the audit;
- lead or coordinate professional services at the client;
- 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 (such as the engagement partner, the engagement quality control reviewer and any other key audit partner role, where there is a rotation requirement) and develops transition plans to enable allocation of partners with the necessary competence and capability to deliver a consistent quality of service to clients.

### 7.2.12. 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.

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.

## 7.3. Zero tolerance of bribery and corruption

Compliance with laws, regulations and standards is a key aspect for everyone at KPMG AZSA. 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. KPMG International requires KPMG firms to have appropriate internal controls in place to mitigate the risk of involvement in bribery by the firm and its partners and employees.

All KPMG firm partners and employees are required to take training covering compliance with laws, regulations and professional standards relating to anti-bribery and corruption, including the reporting of suspected or actual non-compliance.

Further information on KPMG International anti-bribery and corruption policies can be found on the anti-bribery and corruption site.

## 8. Performing quality engagements

How an audit is conducted is as important as the 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.

### 8.1. Consulting where necessary

#### 8.1.1. Encouraging a culture of consultation

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 GORMM includes mandatory consultation requirements on certain matters.

KPMG AZSA provides consultation support on auditing and technical accounting matters to their audit professionals through professional practice resources.

### 8.1.2. Technical consultation and global resources

Technical accounting and auditing 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 is responsible for the envisioning, development and deployment of global audit solutions, including new technology and automation innovations.

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, global consistency and standardization.

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 Standards topic teams, with geographic representation from around the world, and the IFRS Standards Panel and ISA Panel to promote consistency of interpretation of IFRS Standards 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 backgrounds in PCAOB auditing standards who promote consistency of interpretation of PCAOB auditing standards in KPMG firms' audits of non-US components of US companies and of 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.

## 8.2. Critically assessing audit evidence, using professional judgement and skepticism

On all KPMG audits, the nature and extent of the audit evidence we gather is responsive to the assessed risks. We consider all audit evidence obtained during the course of the audit including contradictory or inconsistent audit evidence. Each team member is required to exercise professional judgement and maintain professional skepticism throughout the audit engagements. Professional skepticism involves a questioning mind and alertness to contradictory or inconsistencies in the audit evidence. Professional judgement encompasses the need to be aware of and alert to biases that may pose threats to good judgements.

## 8.3. Direct, coach, supervise and review

### 8.3.1. 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.

### 8.3.2. 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.

We are 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 best practice guidance, incorporating specific review requirements into our audit workflow, and developing policies relating to recognition, nomination and development of EQC reviewers.

## 8.4. Appropriately support and document conclusions

### 8.4.1. Reporting

Auditing standards and relevant Japanese legislations and regulations 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).

### 8.4.2. Engagement documentation

KPMG AZSA's audit documentation is completed and assembled according to the timeline established by the firm policy and auditing standards, and KPMG AZSA has implemented administrative, technical and physical safeguards to protect the confidentiality and integrity of client and firm information. KPMG International recently adopted policies to apply to all KPMG firms to reduce the time period allowed to assemble audit documentation, which is significantly less than required by the applicable auditing standards.

## 9. Assessing risks to quality

Through the Global Audit Quality Council and the Global Quality & Risk Management Steering Group (GQRMSG), 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 are aimed at actions around culture and behavior across the global organization and at driving consistent engagement team performance within KPMG firms.

## 10. Communicating effectively

We recognize that another important contributor to upholding audit quality is to obtain and act upon feedback from key stakeholders.

### 10.1. Provide insights, and maintain open and honest two-way communication

At KPMG AZSA we stress the importance of keeping those charged with governance informed of issues arising throughout the audit through guidance and supporting resources. KPMG AZSA achieves this through a combination of reports and presentations, attendance at audit committee or board meetings, and, when appropriate, ongoing discussions with management and members of the audit committee.

The role of audit committees is key in supporting quality auditing by overseeing the relationship between company and auditor and challenging what auditors do and how they do it.

#### 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 guidance on 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 the ACI 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 and sustainability reporting frameworks.

### 10.2. Communications between predecessor auditor and successor auditor

KPMG AZSA has 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.

### 10.3. Conduct and follow-up on the Global People Survey (GPS)

Only with engaged, talented people can KPMG deliver audits in line with our audit quality expectations. Annually KPMG personnel are invited to participate in KPMG's Global People Survey (GPS) to share their perception about their experience of working for KPMG. The GPS provides a measure of our people's engagement and insights into areas driving engagement. Results can be analyzed by several factors, for example functional or geographic area, grade and gender to provide additional focus for action. Through the GPS, KPMG AZSA gains additional insight 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 an audit in the previous 12 months are asked to respond to, giving

us a particular data set for audit quality related matters.

The survey also provides KPMG AZSA leadership and KPMG International 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.

Audit specific analysis of GPS results is also undertaken, with a particular focus on audit quality. Results and key themes are presented to the Global Audit Steering Group on an annual basis for consideration of appropriate remedial action, if needed.

## 11. Monitoring and remediation

Integrated quality monitoring and compliance programs enable KPMG 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.

### 11.1. Rigorously monitor and measure quality at the local and global level

#### 11.1.1. Commitment to continuous improvement

KPMG commits to continually improve the quality, consistency and efficiency of KPMG firm audits.

The quality monitoring and compliance programs are globally 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.

#### 11.1.2. Internal monitoring and compliance programs

KPMG AZSA monitoring programs are created by KPMG International and applied across KPMG firms. The programs evaluate both:

- engagement performance in compliance with the applicable standards, applicable laws and regulations, 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 programs also contribute 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 and Advisory functions.

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

#### Audit Quality Performance Reviews (QPRs)

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

#### Risk-based approach

Each engagement leader 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.

From May 2022 QPR, we will extend the three-year cycle to the four-year cycle and increase engagement selections based on the risk approach.

#### 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 (LAEPs) are notified of unsatisfactory ratings on their respective cross-border engagements. Additionally, LAEPs 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 ISQC1. 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; 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 then monitor the status of each action item.

### Global Quality & Compliance Review (GQ&CR) program

Each KPMG firm is subject to a GQ&CR conducted by

KPMG International's GQ&CR team, independent of the member firm, at various intervals based on identified risk criteria

The GQ&CR team performing the review is independent of the firm and is objective and knowledgeable of GQ&RM policies. GQ&CRs assess compliance with selected KPMG International policies and procedures and share best practices among member firms. The GQ&CR 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 KPMGI policies and procedures; and
- the robustness with which the member firm performs its own compliance program (RCP).

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

### 11.1.3. Area Quality & Risk Management Leaders

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders (ARLs) who serve a regular and ongoing monitoring 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.

## 11.2. Obtain, evaluate and act on stakeholder feedback

### 11.2.1. 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 (CPAAOB), as a regulator, monitors the quality control reviews performed by the JICPA to ascertain fairness, neutrality, and affectivity of the JICPA. The CPAAOB 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 CPAAOB recommends the Commissioner of the Financial Services Agency to conduct administrative actions 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 CPAAOB 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. The public reports on the past inspection and our response are available on PCAOB website.

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.

KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR), principally through its Global Audit Quality Working Group (GAQ WG), to discuss thematic audit quality issues along with targeted strategies for improvement. We value the open, honest and transparent dialogue that IFIAR facilitates on global audit quality issues.

Every KPMG firm is expected to maintain professional and respectful relationships with regulators, including proactively engaging, responding to questions in a timely manner and taking appropriate remedial actions.

### 11.2.2. Client feedback

KPMG AZSA proactively seeks feedback from clients

through in-person conversations and third-party surveys to monitor their satisfaction with services delivered. KPMG AZSA endeavours to take this feedback and make dynamic changes at both the engagement level and firm level to meet clients' needs.

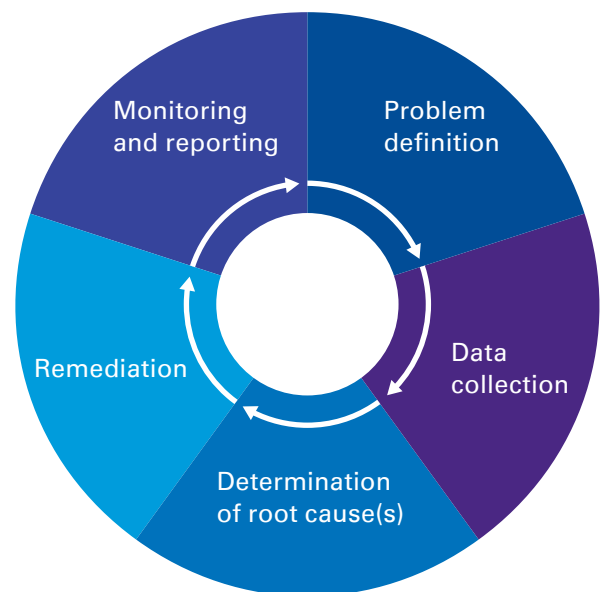
### 11.2.3. Monitoring of complaints

KPMG AZSA has procedures in place for monitoring and addressing complaints received relating to the quality of our work. These procedures are detailed in KPMG AZSA's internal rules.

### 11.3. Perform root cause analysis

KPMG AZSA conducts Root Cause Analysis (RCA) in respect of audit quality issues. In 2021, RCA training based on KPMG AZSA's Global RCA 5 Step Principles was attended by those individuals at KPMG AZSA who will be performing RCA or directing those performing RCA. The training provides a common platform for advancing the practices and skills associated with resourcing, planning and conducting RCA.

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 audit quality including the remediation of audit quality issues. The firm's Risk Management Partner monitors the remediation plan(s) implementation.

## 12. Financial Information

The following financial information relates to KPMG AZSA's fiscal year ended June 30, 2021 and 2022.

(Million JPY)

	2021	2022
Total turnover	105,281	111,098
Audit	83,296	85,432
Other non-audit service	21,985	25,665

## 13. Partner remuneration

KPMG AZSA 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. KPMG AZSA's 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, the Chairman of KPMG AZSA and the Chairman of the Senior Consultation Board.

## 14. Network arrangements

### 14.1. Legal structure

#### Legal structure

On October 1, 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.

Since October 1, 2020, KPMG International Limited has been 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.

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 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.

Further detail on the revised legal and governance arrangements for the KPMG global organization from October 1, 2020 can be found in section 'Governance and leadership' of the [2021 KPMG International Transparency Report](#).

## 14.2. 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 KPMG International 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.

## 14.3. Professional Indemnity Insurance

Insurance cover is maintained in respect of professional negligence claims. The cover provides a territorial coverage on a worldwide basis.

## 14.4. 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 the [2021 KPMG International Transparency Report](#).

# 15. Statement by the Board of KPMG AZSA 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 KPMG AZSA 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 KPMG AZSA (including the KPMG International review programs as described in section 11.1.2 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 June 30, 2022.

Further, the Board of KPMG AZSA confirms that an internal review of independence compliance within our firm has been conducted in the year to June 30, 2022.

September 30, 2022  
KPMG AZSA LLC  
CEO,  
**Toshiya Mori**

## Appendix

## 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 Consulting Co., Ltd.	Corporation	None	Advisory Services	Japan
KPMG FAS Co., Ltd.	Corporation	None	Advisory Services	Japan
KPMG AZSA Sustainability Co., Ltd.	Corporation	None	Sustainability audit / attestation / advisory	Japan
KPMG Healthcare Japan Co., Ltd.	Corporation	None	Advisory Services	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
KPMG Tax Corporation	Tax Corporation	the Certified Tax Accountants Law in Japan	Tax Services	Japan
KPMG Social Insurance and Labor Advisors	Non-limited liability company	Social Insurance and Labor Consultant Law in Japan	Services on social security law related to payroll	Japan

## A.2 Details of those charged with governance at KPMG AZSA As of July 1, 2022

CEO	Toshiya Mori	KPMG Japan Chairman, Chairman of GJP, Head of Digital Innovation
Senior Executive Board Member,	Hiroyuki Yamada	Chief Operating Officer, Tokyo Office Managing Partner
Senior Executive Board Member,	Toshihiro Otsuka	Head of Quality Control, Head of Risk Management
Senior Executive Board Member,	Daisuke Harada	Head of Kansai District, Chief Financial Officer, Head of General Affairs, Head of IPO
Senior Executive Board Member,	Yoshihide Takehisa	Head of Sustainable Value
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,	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

## A.3 The KPMG Values

---

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:

---

<b>Integrity</b>	We do what is right.
------------------	----------------------

---

<b>Excellence</b>	We never stop learning and improving.
-------------------	---------------------------------------

---

<b>Courage</b>	We think and act boldly.
----------------	--------------------------

---

<b>Together</b>	We respect each other and draw strength from our differences.
-----------------	---

---

<b>For Better</b>	We do what matters.
-------------------	---------------------

---

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

[home.kpmg/jp/azsa](https://home.kpmg/jp/azsa)

Throughout this document, “KPMG”, “we”, “our” and “us” refers to the global organization or to one or more of the member firms of KPMG International Limited, each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients.

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

Throughout this document, references to “Firm”, “KPMG firm”, “member firm” and “KPMG member firm” refer to firms which are either: members of KPMG International Limited; sublicensee firms of KPMG International Limited; or entities that are wholly or dominantly owned and controlled by an entity that is a member or a sublicensee. The overall governance structure of KPMG International Limited is provided in the ‘Governance and leadership’ section of the 2021 KPMG International Transparency Report.

### Scope of Reporting

Data for the period July 2021 to June 2022 are reported as results and achievements for the year ended June 2021. The report includes certain data arising before or after this period.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2022 KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. 22-8028

KPMG refers to the global organization or to one or more of the member firms of KPMG International Limited (“KPMG International”), each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. For more detail about our structure please visit [home.kpmg/governance](https://home.kpmg/governance)

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

This report contains copyright © material of the IFRS® Foundation. All rights reserved. Reproduced by KPMG AZSA LLC with the permission of the IFRS Foundation. Reproduction and use rights are strictly limited. For more information about the IFRS Foundation and rights to use its material please visit [www.ifrs.org](https://www.ifrs.org)

Disclaimer: To the extent permitted by applicable law, the Board and the IFRS Foundation expressly disclaims all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise (including, but not limited to, liability for any negligent act or omission) to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs.

Information contained in this publication does not constitute advice and should not be substituted for the services of an appropriately qualified professional.

IFRS® is a registered Trade Mark of the IFRS Foundation and is used by KPMG AZSA LLC under licence subject to the terms and conditions contained therein. Please contact the IFRS Foundation for details of countries where its Trade Marks are in use and/or have been registered.