



あずさ監査法人

Transparency Report 2023/24

September 2023

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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 transformation of companies and society towards sustainable growth.

Consistent with the previous year, this report focuses on efforts at KPMG AZSA to improve audit quality, the foundation of which is KPMG's globally consistent quality management framework.

In addition, in this transparency report, we also provide information on how we promote our audit quality, based on the principles set forth in the Audit Firm Governance Code of Japan, which was revised in March 2023. We have also updated the explanation regarding our system of quality management, because we have started to operate a strengthened system of quality management, to be in compliance with the new standards of quality management of audit firms (ISQM 1 and its equivalent national standards) for the period ending September 30, 2023.



KPMG AZSA LLC CEO,
Hiroyuki Yamada

September 30, 2023

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 integrity, accountability, quality, objectivity, independence, 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.

Our Values lie at the heart of the way we do things. To do the right thing, the right way. Always. 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.

KPMG is committed to quality and service excellence in all that we do, helping to bring our best to clients and earning the public's trust through our actions and behaviors both professionally and personally.

Our Values 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 of our stakeholders.

Integrity: We do what is right.

Excellence: We never stop learning and improving.

Courage: We think and act boldly.

Together: We respect each other and draw strength from our differences.

For Better: We do what matters.

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 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 for behavior consistent with the Code and is required to confirm their compliance with it. 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 that 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; and
- confirm their compliance with the Code.

Compliance Day

To commemorate the critical importance of compliance, KPMG AZSA has designated September 7 of each year as “Compliance Day”, to provide opportunities to reflect on the importance of maintaining high ethical standards.

In addition, KPMG AZSA seeks to foster the mindset to appreciate the importance of compliance of its partners and employees by periodically referring to the past conducts such as inappropriate use of the internal e-learning system, misrepresentation of Certified Public Accountant qualification etc.

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. We take reports received by the international hotline seriously, and for each of them we respond, and take appropriate action.

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 Japan leadership and KPMG International leadership with results related to upholding the KPMG Values. KPMG Japan and KPMG International monitor the results and take appropriate actions to communicate and respond to any findings.

2.1.2. System of quality management

Audit quality is foundational to instilling confidence and public trust in the capital markets and it remains our highest priority.

Tone at the top, leadership, and a clear set of Values and conduct are essential to set the framework for quality. The quality of each audit rests on a foundational system of quality management.

Across our global organization, we have strengthened the consistency and robustness of our system of quality management that enables compliance with the International System on Quality Management Standard 1 (ISQM 1), issued by the International Auditing and Assurance Standards Board (IAASB), which took effect on 15 December 2022. We consider this a transformational and fundamental change for KPMG firms.

Our globally consistent approach to ISQM 1 drives the robustness of our responses to the risks of achieving the quality objectives set out in the standard. For each component in the standard, we have established minimum required quality objectives, quality risks and responses for all KPMG firms.

KPMG International has established a risk assessment process required to be used by KPMG firms in identifying additional firm specific quality objectives, quality risks, and responses and requirements for testing and evaluation of their system of quality management together with guidance, tools and templates to support the consistent implementation of ISQM 1 across KPMG firms.

The new requirements apply to all KPMG firms within our global organization. The objective of this centralized approach is to drive the consistency, robustness, and accountability of responses within KPMG firm's processes.

In preparation for ISQM 1, we adopted a new Global Quality Framework to better outline how we deliver quality at KPMG, and how everyone at KPMG is accountable to 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 (ISQC 1), 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 Act, Companies Act, Financial Instruments and Exchange Act, 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.

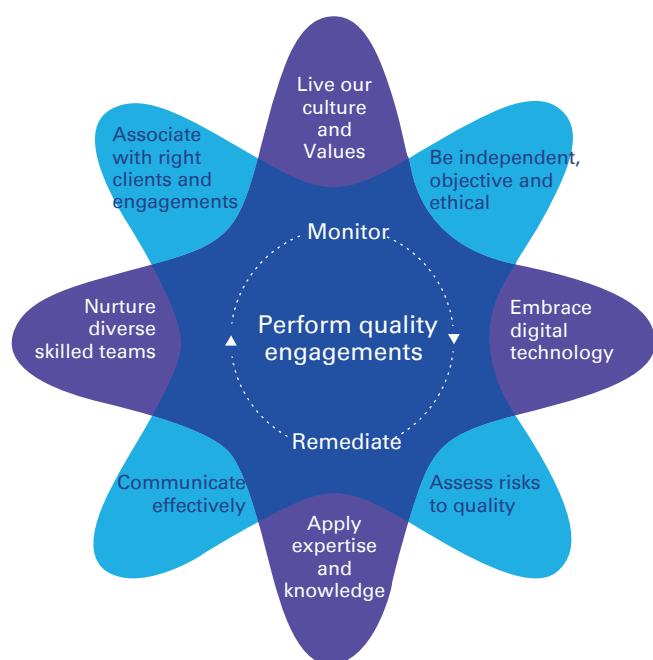
This Transparency Report summarizes KPMG's approach to audit quality, it may also be useful for stakeholders interested in member firms' Tax and Advisory services, as many KPMG quality control procedures and processes are cross-functional and apply equally to all services offered.

2.1.3. Leadership responsibilities for quality and risk management

KPMG AZSA demonstrates commitment to integrity, quality, objectivity, independence, and ethics, 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 integrity, quality, objectivity, independence, and ethics, demonstrated through their actions.

KPMG AZSA is required to seek input from the chair of the relevant Global Steering Group or his/her delegee 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.

(Further detail on Global Steering Group can be found in section 'Governance and leadership' of the [2022 KPMG International Transparency Report](#).)

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

CEO

In accordance with the principles in ISQC 1, our CEO Hiroyuki Yamada 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.

Senior Executive Board member in charge of Quality Management

Responsibility regarding design and implementation of the system of quality control was delegated to the Senior Executive Board member in charge of Quality Management.

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

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

Risk Management Partner (RMP)

The Senior Executive Board member (in charge of Risk Management) acts as the RMP and is responsible for the direction and execution of risk and compliance at KPMG AZSA.

The RMP is required to consult, as appropriate, with the Senior Partner, the Regional Risk Management Partner, Global Quality & Risk Management resources, and the general counsel or external counsel. The RMP is supported by a team of partners and professionals in each of the functions.

Ethics and Independence Partner (EIP)

The EIP 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 (Heads of 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 RMP. 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 RMP 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 is charged with making decisions important to the firm including 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.

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 (and about 3,000

CPAs) in major cities in Japan, providing audit, other assurance, and advisory services such as accounting advisory services, financial advisory services, IT advisory service and middle market development.

We also offer highly specialized professional services that address the unique needs of sectors such as finance, technology, media and telecommunications, consumer and retail, government and public, healthcare, manufacturing, automotive, life science, energy, private enterprise, infrastructure etc. As a member firm of KPMG International, KPMG AZSA provides clients with a consistent set of professional services globally through a network in more than 143 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 transformation that supports sustainable corporate 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 reflecting a commitment to quality and trust. Our focus is to invest significantly in priorities that form part of a global strategy execution.

2.2.3. KPMG member firms in Japan

Under the CPA Act of Japan, the scope of services that can be provided by audit firms is limited to audit and advisory services that relate to financial matters. Due to the restrictions created by such provisions, KPMG in Japan consists of several entities with different business lines. Specifically, KPMG AZSA has the following six subsidiaries.

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

The following entities are also KPMG member firms in Japan.

- KPMG Tax Corporation
- KPMG Social Insurance and Labor Advisors Corporation

KPMG AZSA, its six 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 1.

2.2.4. Ensuring quality across KPMG member firms in Japan

The nine entities shown in the previous section share the KPMG's core values, and cooperate to ensure and promote quality services across KPMG in Japan. KPMG AZSA as the parent company of the six entities, holds the majority of seats on the board of directors and board of corporate auditors of these entities, thereby ensures that conflict of interests would not arise between KPMG AZSA and its group entities. Through these involvement in the governance bodies, KPMG AZSA also ensures that services rendered by its group entities satisfy the level of quality that KPMG in Japan strives to achieve collectively. In addition, KPMG AZSA periodically confirms that its group entities provide sufficient resources in a timely manner and meet the level of quality that KPMG AZSA seeks to meet, when the group entities are involved in performance of audit of financial statements.

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

2.3.1. Legal structure

KPMG AZSA and all other KPMG member firms are party to membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organization are 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 can be found in section 'Governance and leadership' of the [2022 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 Act.

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 Fostering the right culture, starting with tone at the top).

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. Oversight using robust governance structures

2.4.1. Governance structure

KPMG AZSA's applies high standards of corporate governance.

KPMG AZSA's key governance bodies include the Partners' Meeting, which is the highest decision-making body, the Senior Executive Board, which make decisions concerning firm management 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. In July 2023, KPMG AZSA established the Supervisory Board as the body responsible for approving the matters that require the most significant management decisions, so as to further strengthen the oversight mechanism.

The CEO, 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, 2023)

Partners Meeting

The Partners Meeting makes decisions on significant matters related to management (such as, matters requiring management decision and matters relevant to organization and high-level HR matters). It comprises all partners with capital contributions. Regular meetings are held four times a year.

The Supervisory Board

On July 1, 2023, the Supervisory Board was established to further strengthen governance arrangement of KPMG

AZSA. Majority of the Supervisory Board members are from members who are not responsible for day-to-day operation of the firm (non-executive members). Specifically, the Supervisory Board comprises of three non-executive members (Chair and two Vice-Chairs of Management Oversight Committee) and two executive members (the CEO and SEB member in charge of Quality Management).

The Supervisory Board has authority to approve certain matters that require the most significant management decisions.

Senior Executive Board

The Senior Executive Board (SEB) makes decisions on matters related to management. It comprises the CEO and Senior Executive Board members as set out in Appendix 2, and held at least twice a month.

Audit Quality Council

Within the Audit function, our Audit Quality Council considers matters relevant to audit quality such as discussion of budget allocated to audit quality initiatives and consideration of whether and how root cases are identified and assessed. 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.

Four Defense Lines

At KPMG AZSA, we have developed a structure which clarifies responsibilities of each of our four functions relevant to our performance of quality audit. This structure (called the “four defense lines” in our firm) ensures the effective communication and dissemination of information throughout the organization, as it allows on-site information to be feed into management in a timely manner. At the same time, management provide detailed explanations of the background and reasons of why specific measures are considered necessary in a timely manner.

Senior Consultation Board

The Senior Consultation Board comprises the chair selected through a vote of confidence by all partners considering his/her special knowledge and expertise, and vice-chairs who are nominated by the chair 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 in an objective manner,

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 (MOC) is composed of members selected through a vote of confidence by all partners, 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

The committee screens candidates for members of the SEB, the Executive Board, the Chair, the Chair of the Senior Consultation Board, members of the MOC and members of the Public Interest Oversight Committee.

• Audit Committee

The committee performs audit of the firm’s operations and finances (including subsidiaries), liaising with the firm’s external auditors and Office of Internal Audit.

• Compensation Committee

The committee evaluates whether the compensation of the CEO, members of SEB, Chair and the Chair of the Senior Consultation Board is decided appropriately in accordance with the firm’s system for determining partner compensation.

Public Interest Oversight Committee

The Public Interest Oversight Committee (PIOC) regularly receives information from the MOC on the firm’s management and holds discussions with the CEO and SEB members. The Committee is comprised of four independent external members and three internal members. The external members are required to comply with relevant independence requirements. For example,

they must not have been a firm's personnel, and they must maintain relevant provisions including insider trading prohibitions. The Committee is chaired by an outside member.

The members receive reports from the MOC on important firm activities and projects and discuss them with the CEO and SEB members. The Committee members also oversee the supervision and evaluation by the MOC of the appropriate conduct of the Nomination Committee, Audit Committee, and Compensation Committee.

Receiving different perspectives from persons with deep knowledge and experiences is expected to improve our governance quality and help us fulfil our accountability. Hence, we selected a person with perspectives of capital market participants, persons with running business as top managements and a person with expertise in legal matters as external members of the PIOC.

Compliance Committee

KPMG AZSA maintains the Compliance Committee as a standing committee of the firm. The committee has 16 members. 15 from inside and one from outside the firm (a lawyer). In accordance with the Compliance Committee's operational guidelines, the Committee reviews and implements the following matters, and reports results to the Senior Executive Board in a timely manner.

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

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

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

3. Applying expertise and knowledge

We are committed to continuing 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 and assurance methodology and tools

Bringing consistency through our methodology

In performing audit engagements, KPMG member firms are required to comply with the requirements set out in the KPMG audit methodology.

Our audit and assurance 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 and assurance professionals and required to be used, where necessary;
- Applied even where local auditing standards may be less demanding than the ISAs; and

- Based on the requirements of the International Standard on Assurance Engagements (ISAE) and aligned to assurance products in response to the growth of ESG reporting.

The KPMG audit methodology is set out in the KPMG Audit Manual (for use with eAudit) and the KPMG Audit Execution Guide (for use with the KPMG Clara workflows) and includes KPMG's interpretation of how to apply ISAs, which we believe enhance audit quality.

The KPMG's Assurance Manuals including KPMG Execution Guide for Assurance (KEGA) released in June 2023 provide the requirements and guidance for a consistent approach to performing assurance engagements, in accordance with the International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information. The audit and assurance methodologies emphasize applying appropriate professional skepticism in the execution of procedures and require compliance with relevant ethical requirements, including independence.

Enhancements to the audit and assurance methodologies, guidance and tools are made regularly to maintain compliance with the applicable standards and address emerging auditing and assurance areas of focus and audit quality results (internal and external). For example, the current focus on ESG assurance is driving updates to our assurance methodologies, tools and guidance.

KPMG firms may add local requirements and/or guidance to the globally prescribed requirements in the KPMG Audit Manual (KAM), the KPMG Audit Execution Guide (KAEG) and the KPMG Assurance Manuals 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. Our commitment to audit quality during significant external events

Matters such as going concern, asset impairments and valuations will likely require careful judgment as organizations deal with elevated uncertainty and market volatility. KPMG firms' role as auditors is to evaluate these judgments.

We maintain an online financial reporting resource center to assist financial statement preparers and other stakeholders in understanding the potential accounting and disclosure implications of significant external events.

KPMG International issues extensive guidance to assist engagement teams in addressing the financial reporting, auditing and reporting related matters arising from the impacts of these external events, addressing the potential implications for going concern, asset impairments, valuations and related disclosures, materiality, risk assessment, group audits, subsequent events, audit evidence and communications with those charged with governance.

KPMG's guidance is continually updated as new significant accounting, auditing, and reporting issues emerge.

KPMG is a technology-enabled organization, with technical accounting and auditing resources, guidance and audit platforms and tools available electronically, which enable our engagement teams to effectively operate in office and remote working environments.

3.3. Quality and risk management manual

KPMG International has quality and risk management policies that apply to all member firms. These are included in KPMG's Global Quality & Risk Management Manual (GQ&RM Manual) which applies to all KPMG firms and all KPMG personnel. KPMG AZSA is required to establish and maintain a system of quality management; and in doing so, design, implement, and test the operating effectiveness of its controls.

4. Embracing digital technology

At KPMG, we are committed to serving the public interest and creating value through continuous innovation. We are transforming the audit experience for our professionals and clients by leveraging the data and insights of leading technologies and enhancing audit quality by increasing our ability to focus on the issues that matter. In addition, KPMG AZSA has developed its scoring model that helps audit teams identify areas of fraud risks early in the performance of audit.

4.1. Intelligent, standards-driven audit workflows

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 workflows

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 we reimagined our audit platform, workflows 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 workflows and revised audit methodology is an important milestone in KPMG's journey to innovate, digitalize and transform the audit experience. 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 data-enabled workflows.

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:

- Analysis of account balances and journal entry data;
- Automation of 'period on period' balances comparison and 'time series' evolution information;
- Analysis of sub-ledger, transactional data over certain business processes and accounts; and
- Integration (where applicable) with industry-specific digital procedures and solutions.

Our vision of the future

KPMG Clara was developed to be a foundational technology platform for KPMG to deliver audit quality. It delivers this by being the base technology providing new capabilities in a globally consistent way, enabling the audit workflows and providing 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 workflows

Our previous platform, eAudit, was replaced with new workflows embedded with our revised audit methodology and enabled by the KPMG Clara smart audit platform.

The web-enabled KPMG Clara workflows guide 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 workflows and revised audit methodologies are scalable – adjusting the requirements to the size and complexity of the audit

engagement. KPMG Clara workflows significantly enhance the execution of an audit by KPMG professionals and drive audit quality and global consistency.

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

We continue to enhance the KPMG Clara smart audit platform to accommodate evolving security demands, further integrate existing audit applications, and develop new capabilities to digitalize additional audit processes.

4.2.1 Client confidentiality, information security, and data privacy

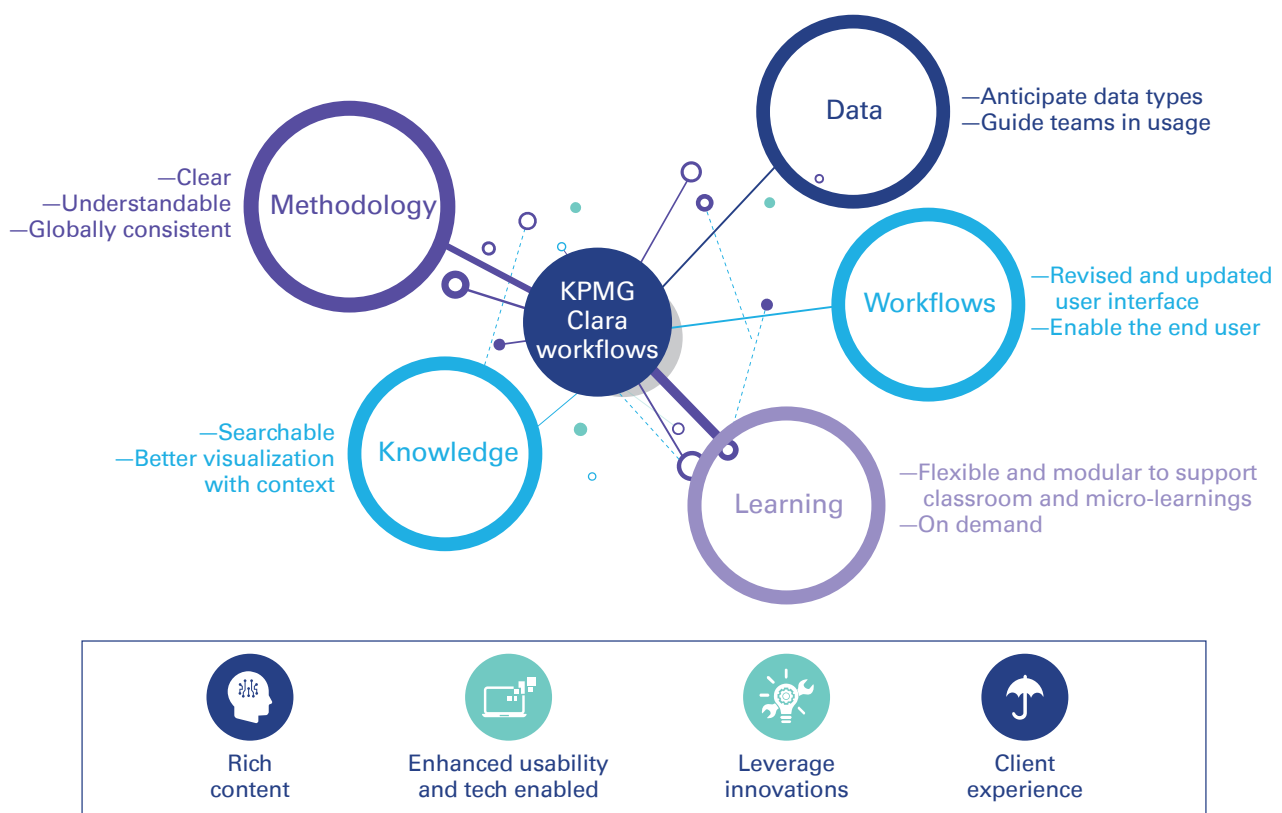
The importance of maintaining client confidentiality is repeatedly communicated to its persons through a variety

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 applicable laws, regulations, and professional standards.

KPMG provides training on confidentiality, information protection and data privacy requirements to all KPMG AZSA personnel annually.

As a cybersecurity measure, KPMG International's Security Operation Center provides 24x7 real-time monitoring of suspicious behavior on KPMG network, PCs and servers.



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

KPMG AZSA recruited approximately 330 new graduates in the year ended 30 June 2023 (2022: approximately 350).

Where individuals are recruited for senior grades, a formal independence discussion is conducted with them by the EIP 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 informed by market data, 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 SEB and 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:

- Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation;
- 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;
- Understanding of KPMG AZSA's quality control policies and procedures; and
- 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 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, and aligned with job specific role profiles and learning paths.

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

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

5.4.3. Licensing and mandatory requirements for IFRS® Accounting Standards and US GAAP engagements

Licensing

All KPMG AZSA professionals are required to comply with applicable professional license rules and satisfy the Continuing Professional Development requirements in the jurisdiction where they practice. KPMG AZSA policies and procedures are designed to facilitate compliance with license requirements. 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 Accounting Standards and US GAAP engagements

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

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

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 considers 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 able 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

The KPMG 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 applicable legal and 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's

personnel and includes additional reviews 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 risks in relation to continuing association and any mitigating procedures that need to be put in place (this may include the assignment of additional professionals such as an Engagement Quality Control (EQC) reviewer 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 the KPMG GQRM, 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 Act 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 Head 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 comply with these requirements.

KPMG AZSA has a designated 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 GQRM. 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 the Code

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 audit and assurance 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 available funds and securities registered on recognized or regulated exchanges 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 the KPMG 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 is required to notify the firm EIP if they intend to enter into employment negotiations with that 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 or assurance team or former partners of KPMG AZSA are prohibited from joining an audit or assurance 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 has passed.

We communicate and monitor requirements in relation to employment and partnership of KPMG AZSA's 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 KPMG Quality & Compliance Evaluation 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 that are public interest entities; these procedures, also referred to as 'the independence clearance process,' are required to be completed prior to accepting an audit engagement for these entities.

The 'KPMG Independence Checkpoint' tool is used to automate and standardize the procedures that comprise the independence clearance process.

7.2.6. Independence training and confirmations

All KPMG AZSA partners, managers and professionals, as well as certain other individuals, are required to complete independence training that is appropriate to

their grade and function upon joining KPMG AZSA and on an annual basis thereafter.

New partners and employees who are required to complete this training 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 or 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

KPMG AZSA provides non-audit services in so far as necessary resources are available to perform quality audit. Provision of non-audit services are limited to the extent that independence is maintained in performance of audit.

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 public interest entity 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 to, 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 significantly 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-audit 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 Regional Risk Management Partner 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 that 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 RMP or the EIP is required in these situations.

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.

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.

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 of Ethics 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 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 Act 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 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 behaviors consistent with our Values and follow all policies and procedures in the performance of effective and efficient audits.

8.1. Consulting when appropriate

8.1.1. Encouraging a culture of consultation

KPMG encourages a 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 matters, including procedures to facilitate resolution of differences of opinion on engagement issues. KPMG audit, assurance and reporting manuals also include required consultations. GQRMM 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, auditing and assurance support is available to member firms through the Global Audit Methodology Group (GAMG), KPMG Global Solutions Group (KGSG), the International Standards Group (ISG) and the PCAOB Standards Group (PSG), all of which report directly to the Global Head of Audit.

Global Audit Methodology Group (GAMG)

KPMG's audit and assurance methodology are developed and maintained by the Global Audit Methodology Group (GAMG). The GAMG develops our audit and assurance methodology based on the requirements of the applicable audit and assurance standards of the IAASB, 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 and assurance 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, assurance, 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 KPMG ISG works with Global IFRS Accounting Standards topic teams, with geographic representation from around the world, and the IFRS Standards Accounting Panel and Methodology Advisory Group (MAG) to promote consistency of interpretation of IFRS Accounting Standards and auditing requirements between member firms, identify emerging issues, and develop global guidance on a timely basis. The ISG recently has expanded its remit to encompass the activities of the International Sustainability Standards Board (ISSB), including providing global thought leadership and guidance as the ISSB issues standards.

PCAOB Standards Group (PSG)

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

In order to gain cutting-edge knowledge and contribute to activities of KPMG Global, we send secondments to global units including KGSG and ISG.

Member firm professional practice resources

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 ISG and PSG 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 coaching, 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 direction, 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 engagement team, including whether they have sufficient time to carry out their work;
- Considering whether the team understands its instructions and 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; and
- Identifying matters to review and discuss with more experienced team members during the engagement.

The timely review of the work performed so that significant matters are promptly identified, discussed and addressed is also used as a coaching opportunity.

8.3.2. Engagement quality control (EQC) reviewers

The EQC review is an important part of KPMG's approach to quality. An EQC reviewer is required to be appointed for audit engagements, 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, including certain assurance engagements, as designated by the RMP or country Head of Audit.

An EQC review is an objective evaluation of significant judgments made by the engagement team and its related conclusions, performed by the EQC reviewer, and completed on or before the date of the report. The EQC reviewer's evaluation of significant judgements includes an evaluation of the engagement team's assessment of significant risks, including fraud risks, the related responses and whether the related conclusions are appropriate. The EQC review is completed only after the EQC reviewer is satisfied that all significant matters they raised have been resolved, though the engagement partner is ultimately responsible for the resolution of accounting and auditing matters.

EQC reviewers are required to meet training, knowledge and experience criteria to perform the EQC review for a

particular engagement. Reviewers must be objective, cannot be members of the engagement team and must be independent of the audit client.

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 which includes an opinion on the fair presentation of the reporting entity's financial statements in all material respects. Engagement leaders form all audit opinions based on the audit performed and evidence obtained.

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).

8.4.2. Engagement documentation

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

9. Assessing risks to quality

KPMG International reviews the results of the quality monitoring programs and develops additional global remediation actions as needed.

Global remediation actions developed by KPMG International are aimed at changing behavior and driving quality and consistency across the global organization. Remediation actions may be implemented through the development of global policies, procedures, training, tools and guidance.

Audit quality is our number one priority, and we are committed to delivering consistently high-quality audits.

Although audit quality is inherently difficult to measure, the following indicators (commonly referred to as “Audit Quality Indicators”) could shed light on the state of our audit quality. We selected these indicators, considering the common indicators shown in the publication Research Report on Audit Quality Indicator issued by the Japanese Institute of Certified Public Accountants (November 2018).

(State of the Firm)

(1) Composition of professionals classified by job titles within the firm

(2) Ratio of partners, managers and other professionals involved in audit engagement

(3) Number of professionals charged with quality management of the audit function

(4) Hours incurred by partners and other professionals involved in audit engagement

(5) Result of our people survey

(Investments in Human Resources)

(6) Training hours of partners and other professionals

(7) Employee survey on satisfaction with training

(8) Diverse experiences

(Audit Results)

(9) Inspections by external organizations

(10) Internal quality performance reviews

(11) Review of compliance with independence rules

(12) Disciplinary actions against the firm

Details for respective indicators are shown below.

State of the Firm

(1) Composition of professionals classified by job titles within the firm

An audit engagement is conducted by an audit team consisting of multiple professional members with different job titles.

The composition of our professionals classified by job title is as follows:

Category	June 2022		June 2023	
	Number	Ratio	Number	Ratio
Partners	694	13%	696	12%
Managers	1,251	22%	1,307	22%
Other professionals	3,630	65%	3,976	66%
Total	5,575	100%	5,979	100%

(Note 1) In this AQI section, we have used the following definitions throughout.

- “Partners” include partners, associate partners, managing directors and directors as referred to in KPMG AZSA.
- “Managers” include senior managers and managers as referred to in KPMG AZSA.
- “Other professionals” include senior professionals and staff as referred to in KPMG AZSA.

(2) Ratio of partners, managers and other professionals involved in audit engagements

Engagement partners have ultimate responsibility for the performance of audit engagements. In fulfilling the role, engagement partners delegate the work to other partners and managers, while they are responsible for reviewing the work of managers. Managers delegate work to other professionals, while they maintain responsibility to review the work of other professionals.

At KPMG AZSA, the relative composition of partners, managers and other professionals of an audit engagement is shown below.

Category	June 2022	June 2023
	Ratio(※)	Ratio(※)
Partners	1.0	1.0
Managers	1.5	1.5
Other professionals	6.2	6.7

※ The ratio of respective categories are calculated with a ratio of a partner being set at 1.0.

(3) Number of professionals charged with quality management of the audit function

Ensuring quality is critical for audit firms. To ensure audit quality, firms establish a quality management system for areas such as, ethical and independence matters as well as implementation and interpretations of professional standards.

At KPMG AZSA, the Quality Assurance Headquarters and Risk Management Headquarters are charged with these matters.

Number of professionals working for Quality Assurance and Risk Management Headquarters

Category	GPS-2021	GPS-2022
Quality Assurance HQ	180	227
Risk Management HQ	109	114
Total	289	341

(4) Hours incurred by partners and other professionals involved in audit engagements

Maintaining a sound working environment is critical to ensure audit quality, because imposing an excessive amount of work could pose challenging in ensuring sufficient amount of time for performing audit work and reduce the level of professional skepticism in performing their work.

At KPMG AZSA, the average annual working hours of audit professionals are 2,013 (June 2023), and 2,034 (June 2022).

(Note 2) The hourly figure above includes hours directly attributable to audit engagements and time spent on other purposes such as training and administration. In addition, the figures are based on the persons that was enrolled in the firm throughout the year.

(5) Result of our people survey

Audit quality is supported by all of the professionals in the audit firm. Gaining the employee confidence is critical to ensure audit quality.

The KPMG network conducts an annual Global People Survey to confirm whether what they are doing is considered right from the perspective of individuals throughout the network. Among other factors, a sense of personal growth and a professional's confidence in their work are critical to support audit quality.

At KPMG AZSA, the following are the results of the Global People Survey relevant to such matters.

Relevant results of Global People Survey

Question items	Survey-2021	Survey-2022
Confidence in management	71%	72%
Commitment to high quality audit	73%	75%
Open and two-way dialogue	68%	71%
Sense of motivation through engagement	66%	69%

(Note 3) Global People Survey (GPS)

KPMG conducts Global People Survey (GPS) in autumn every year. The percentages in the table reflect our professionals who indicated they agree or strongly agree with items stated in respective question items. The GPS provides an opportunity for our people to feed back to us how they are feeling about their experience at KPMG and measure their levels of engagement. Gaining these insights from our people is critical to building the world class experience our people want and helping us become the Clear Choice. We use the responses to gather insight and identify issues that affect colleagues both locally and globally.

For example, by referring to the figures, we launched a platform to have an open and two-way dialogue between the leadership and other professionals, scheduled to take place on every week (normally, Friday). The leadership believes that such an open two-way dialogue together with timely response to the comments received will help fill the gap that may exist between the leadership and our people. We expect that these figures will eventually improve based on such steps.

Investments in Human Resources

(6) Training hours of partners and other professionals

Maintaining and nurturing professional skills is critically important, especially where business activities are changing dynamically and relevant laws, regulation and standards are constantly evolving.

Training is a critically component to maintain and nurture professional skills in this dynamically changing environment.

KPMG AZSA provides training courses covering various areas. The following indicators cover the key aspects of its training.

Category	FY 2022	FY 2023
Average hours of training per person	67 hours	62 hours

Category	March 2022	March 2023
Ratio of meeting CPE requirements	100%	100%

(7) Employee survey on satisfaction with training

As stated in "(5) Result of people survey", the KPMG network conducts global people survey to confirm whether what they are doing is considered right from the perspective of individuals throughout the network. Among other factors, a sense of personal growth and confidence in their work are critical to support audit quality.

At KPMG AZSA, the following are the results of the survey conducted by us relevant to training and related areas during respective years.

Survey results (in 5-point scale)

Questions	Survey-2021	Survey-2022
Does the firm provide sufficient system for human development?	3.5	3.7
Are you feeling the sense of growth with the three Os?	3.7	3.8

(Note 4) This survey is conducted by us. The term “three Os” represents the OJT, Off-JT, and Opportunities, which we believe are the key drivers to promote professional growth.

(8) Diverse experiences

Maintaining diversity is important to ensure audit quality collectively as a firm. At the same time, diverse experience at the individual level is critically important to ensure individuals can perform their work with refreshed perspectives.

To promote diversity, KPMG AZSA regularly rotates individuals within the firm. Rotation includes the transfer of people between different audit divisions, and between headquarters and audit divisions, including those divisions performing advisory functions. In addition, we send individuals to external organizations in order to contribute to society and gain unique experiences.

The following indicators are relevant in relation to gaining diverse experiences.

Internal rotation

Classification	FY 2022	FY 2023
Transfer between audit divisions	124	94
Transfer between head quarter and audit divisions	89	65
Transfer involving advisory functions	80	55
Total	293	214

Secondment to external organizations

Classification	FY 2022	FY 2023
JICPA, FASF	32	31
Others	39	39
Total	71	70

Number of partners and managers having experience working overseas

Category	June 2022		June 2023	
	Number	Ratio	Number	Ratio
Partners	275	40%	284	40%
Managers	313	25%	312	24%
Total	588	30%	596	30%

Audit Results

(9) Inspections by external organizations (see below)

In Japan, external inspection of large audit firms is performed by the CPAAOB every year (a regular inspection and the follow-up inspection, one after the other), and quality assurance review is regularly performed by the JICPA every three years. Between each inspection and review, the CPAAOB and JICPA monitor if remedial actions are appropriately conducted based on their inspection or review results.

The results of CPAAOB inspection and JICPA review are helpful for stakeholders to understand the state of quality management of audit firms, because they review engagement files on a selected basis and assess aspects of overall quality management. When referring to the results of such inspection and review, it would be important to understand what remedial actions are planned to be taken (or have been taken), because audit quality is improved through an iterative cycle of root cause analysis and remedial actions.

Result of JICPA's Quality Control Review

Classification	FY 2022	FY 2023
Date of the latest report	March 23, 2022	Not subject to JICPA's Quality Control Review
Conclusion of the review	No significant deficiencies noted	N/A
Measures as a result of the Quality Control Review.	No measures received	N/A
Exceptions noted with respect to quality controls of the firm	N/A	N/A

We do not disclose the information related to CPAAOB inspection results, because we need to obtain permission from CPAAOB in advance if we disclose the details of inspection results to a third party.

(10) Internal quality performance reviews

A quality performance review is conducted within the audit firms as well as within the network to which the firm belongs.

As with the inspection and reviews by external organizations, these internal quality performance reviews do not intend to rate the quality management of firms, but the result provides relevant information regarding the state of the firm's quality management system.

The KPMG network has established the quality performance review (QPR) program for internal quality performance review.

Result of KPMG's internal quality performance reviews

Classification	FY 2022	FY 2023
Number of audit engagements selected for QPR program	101	101
Number of audit engagements that would require modifications to audit opinions	0	0
Number of audit engagements rated "Not Compliant - severe" (Note 5)	N/A	1
Coverage of engagement partners	41%	39%

(Note 5) Under KPMG's quality performance review program, engagements are reviewed to conclude on the quality of the engagement and compliance by the engagement team with applicable professional standards and the firm's policies and procedures. In reaching the conclusion on the results of the engagement review, there are three possible ratings:

(a) Compliant, (b) Compliant – Improvement Needed, and (c) Not Compliant (NC).

From this year, an engagement is classified NC when a review finds that relevant auditing, assurance, accounting, and professional standards were not complied with in respect of a significant matter(s), and remediation of the engagement file subject to review related to the significant matter(s) is required. The NC category is further classified into NC-Limited and NC-Severe, depending on whether the number, nature and extent of issues driving the "NC" rating are deemed to be severe.

Although engagements are classified according to the rating categories which include NC-Limited, we focus on the category "NC-severe" whose degree of severity is greater in relative terms.

(11) Review of compliance with independence rules

Compliance with independence requirements is the cornerstone for audit to be trusted by the society. Hence, compliance with relevant rules is critically important for audit firms.

KPMG AZSA requires all professionals to submit a confirmation of compliance with independence rules for

a given period. During the year ended June 2022 and June 2023, we received 100% positive confirmations.

However, subsequently we discovered three cases where there was non-compliance with independence rules (Note 6). In these cases, we investigated the causes and took follow on actions, and determined that the objectivity of audits was not impaired.

(Note 6) The three cases shown above are cases where non-compliance with independence rules (such as, bank deposit amount exceeding national insured limit) were discovered. This figure does not include violation of our internal rules (such as, our requirements to provide timely updates onto KICS database).

(12) Disciplinary actions against the firm

If serious irregularities are found, the FSA or the JICPA would impose disciplinary actions against the firms.

The following are the key relevant indicators for the year ended June 2022 and June 2023.

- Disciplinary actions by the FSA regarding irregularities from audit engagements: None
- Disciplinary actions by the JICPA regarding irregularities from audit engagements (Note 7): None
- Other actions by the JICPA regarding poor performance of audit engagements based on its review: None

(Note 7) On September 13, 2023, KPMG AZSA received a disciplinary order from the JICPA, which suspended our membership rights of the JICPA for a month, owing to one of our audit engagements of a listed entity's financial statements for the fiscal period from 2012 to 2016, where audit evidence to support industry-specific revenue items was found to be insufficient subsequently. This measure, by nature, does not restrict provision of audit firms; hence, it does not affect our ability to provide services including performance of audit engagements. See section "11.2. Obtain, evaluate and act on stakeholder feedback" for more details.

10. Communicating effectively

We recognize that another important contributor to upholding audit quality is to obtain and promptly 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 39 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. As described in section 9. (5), annually KPMG Japan personnel are invited to participate in KPMG's Global People Survey (GPS) to share their perception about their experience of working at 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 that 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 insights 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.

10.4. Communication with market participants

The Audit Firm Governance Code of Japan (revised in March 2023) encourages audit firms to promote effective communications with market participants. Considering this provision, we hold periodic meetings with market participants at least annually. In the most recent period, we held discussions with market participants recognized for expertise in financial reporting matters (namely, an audit committee member, an academia, and an attorney in law) to discuss how we could improve our governance model. Based on the inputs received, we will continue to explore how our governance model can be improved within the context of the changing environments.

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 management.

11.1. Rigorously monitor and measure quality

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 takes 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 professional 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 management has been appropriately designed, effectively implemented, and operates effectively. These include Quality Performance Reviews (QPR), the KPMG Quality & Compliance Evaluation program (KQCE) and the Global Quality & Compliance Review (GQ&CR) program.

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) program

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

Risk-based approach

Each engagement leader in every KPMG firm is reviewed at least once in a four-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.

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 engagement 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 'Compliant', 'Compliant- Improvement Needed' or 'Not Compliant'.

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 not compliant 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 program.

Global Audit Quality Monitoring Group (GAQMG)

KPMG Quality & Compliance Evaluation (KQCE) program (formerly known as Risk Compliance Program (RCP))

KPMG International develops and maintains quality management policies and processes that apply to all KPMG firms. These policies and processes, and their related procedures, include the requirements of the GQ&RM Manual, ISQC 1, and the implementation requirements of ISQM 1 for this transition period.

The objectives of the KQCE program are to:

- Document, assess and evidence KPMG AZSA's implementation of ISQM 1, extent of compliance of KPMG AZSA system of quality management with the 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 exceptions 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 quality and compliance program (former RCP and, current, KQCE program).

KPMG AZSA develop action plans to respond to all GQ&CR findings that indicate improvement is required and agree 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.

11.2. Obtain, evaluate and act on stakeholder feedback

11.2.1. Self-regulatory organization and 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 societal trust in audit.

JICPA periodically conducts quality control reviews of major audit firms, including KPMG AZSA, once every three 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.

In addition, JICPA also decides on the necessary measures for relevant matters, such as instruction and supervision of specific cases, investigation and deliberation of cases that may result in disciplinary actions, taking disciplinary measures on individual incidents, and the registration of audit firms on the list of listed companies' audit firms and on the list of semi-registered firms.

For the past five years until the period end (June 30, 2023), KPMG AZSA did not receive disciplinary actions relevant to performance of audit from the JICPA. However, during its fiscal year starting July 1, 2023, we received a disciplinary measure (dated September 13, 2023) from the JICPA which imposed suspension of its rights of membership (Note) for one-month period, due to its audit of financial statements of a listed entity for the periods of FY2012 to FY2016. This measure, by nature, does not restrict provision of audit firms; hence, it does not affect our ability to provide services including performance of audit engagements. Upon the discovery of the incident in 2018, we immediately examined accounting practices of other audited entities in the same industry and distributed an audit quality reminder to its personnel. In addition, we persistently conducted the root cause analysis based on audit-related findings, to consider whether and how its audit quality could be improved.

(Note) The right of the JICPA's membership includes the rights to vote on resolutions at its general assembly, to participate in election of senior positions, to advise the Chair, and to participate in its formal meetings.

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 past five 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 IFIAR's 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 seek feedback from clients through in-person conversations and third-party surveys

to monitor their satisfaction with services delivered.

KPMG AZSA endeavors 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.

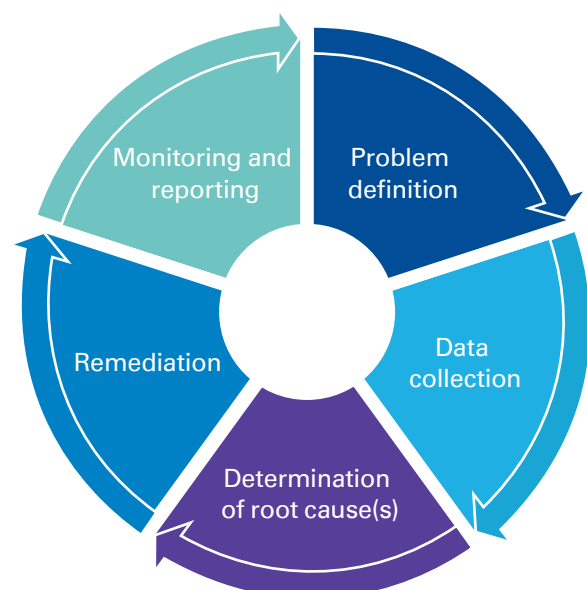
11.3. Perform root cause analysis

KPMG AZSA routinely conducts Root Cause Analysis (RCA) in respect of audit quality issues. In 2022, 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 RMP monitors the remediation plan(s) implementation.



12. Financial information

The following financial information relates to KPMG AZSA's fiscal year ended June 30, 2022 and 2023.

(Million JPY)

	FY 2022	FY 2023
Total turnover	111,098	111,734
Audit	85,432	87,532
Other non-audit service	25,665	24,202

For more detailed information, please refer to the audited financial statements for the year ended June 30, 2023 included as part of the Explanatory Document published in accordance with the provision under the CPA Act of Japan.

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 Chair of the Senior Consultation Board.

14. Network arrangements

14.1. Legal structure

Legal structure

KPMG AZSA and all other KPMG firms are party to membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organization are members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee.

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 can be found in section 'Governance and leadership' of the [2022 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.

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 [2022 KPMG International Transparency Report](#).

Senior management of KPMG AZSA represent our firm on the key governance bodies of the KPMG network charged with ensuring and promoting audit quality. Such bodies include the Global Council, the Global Board, the Global Audit Steering Group, and the Global Quality and Risk Management Steering Group.

14.5. Purpose of Being a Member of the KPMG Network

As explained throughout this report, the KPMG network maintains a robust system to ensure and promote audit quality. As a member firm of the KPMG network, KPMG AZSA benefits from the network's robust global governance and system of quality management (including monitoring and remediation process), which is critically important to ensuring quality group audits.

However, there is also a risk that network policy may not be fully consistent with Japanese regulatory requirements as well as expectations of Japanese stakeholders. To address this risk, management of KPMG AZSA proactively participate in policy discussions of the KPMG network, and ensure that KPMG network policy is fully aligned with relevant regulatory requirements and stakeholders' expectations.

In addition, where KPMG's network policy does not fully address such requirements and expectations, we establish additional policies locally to ensure that we are fully compliant with both KPMG network policy as well as Japanese regulatory requirements and stakeholders' expectations.

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 management 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, we confirm with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to September 30, 2023.

In addition, we had our each relevant internal function review whether it complies with the principles set forth in the Audit Firm Governance Code of Japan (revised in March, 2023) and confirm its compliance with the provisions (For details, please see Appendix 3).

Further, we confirm that an internal review of independence compliance within our firm has been conducted in the year to September 30, 2023.

KPMG AZSA LLC CEO,
Hiroyuki Yamada

September 30, 2023

Appendix 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 related assurance / advisory	Japan
KPMG Healthcare Japan Co., Ltd.	Corporation	None	Advisory Services	Japan
KPMG Advisory Lighthouse, Inc.	Corporation	None	CoE function to centralize R&D for advancing advisory services	Japan
KPMG Ignition Tokyo, Inc.	Corporation	None	Building and development of common digital platform technologies for KPMG Japan's audit, tax and advisory services and supporting the digital transformation of clients	Japan
KPMG Tax Corporation	Tax Corporation	the Certified Tax Accountants Act in Japan	Tax Services	Japan
KPMG Social Insurance and Labor Advisors Corporation	Non-limited liability company	Social Insurance and Labor Consultant Act in Japan	Services on social security law related to payroll	Japan

Appendix 2. Composition of the SEB at KPMG AZSA As of July 1, 2023

CEO	Hiroyuki Yamada	KPMG Japan Co-Chairman
Senior Executive Board Member,	Kanako Ogura	Partner in charge of JICPA
Senior Executive Board Member,	Isao Kamizuka	Head of HR, Head of Brand & Communication, Chief Financial Officer, Head of General Affairs, Head of IPO
Senior Executive Board Member,	Reiji Kobayashi	Head of Public Sector, Head of Kansai District
Senior Executive Board Member,	Takashi Kondo	Chief Operating Officer, Head of Audit Transformation
Senior Executive Board Member,	Kenji Tanaka	Head of Quality Control, Head of Risk Management
Senior Executive Board Member,	Hiroataka Tanaka	Head of Sustainable Value, Head of Digital & Assurance, Head of ITS
Senior Executive Board Member,	Masahiko Chino	KPMG Japan Co-Chairman, Head of Clients & Markets, Head of GJP, Head of Advisory
Senior Executive Board Member,	Yutaka Terasawa	Head of Financial Services, Head of Tokai District
Senior Executive Board Member,	Masakazu Hattori	Head of Planning, Partner in charge of KPMG entities in Japan

Appendix 3. What we do in response to the Audit Firm Governance Code of Japan

The Audit Firm Governance Code of Japan was published in March 2017, and subsequently revised in March 2023. Article 96 of Ordinance for Enforcement of the CPA Act of Japan requires an entity to “comply” with or “explain” its positions regarding the principles set forth in the Code. The following table explains how KPMG AZSA complies with each of the principles.

Principle 1 Role of Audit Firms

An audit firm has the public interest role to ensure the credibility of corporate financial information through the audits, seek to protect stakeholders such as participants in the capital market and thereby contribute to the sound development of the national economy. In order to accomplish this role, the audit firm should encourage its personnel to have frank and open-minded dialogue, enhance mutual development, promote their full competence, and continuously enhance the audit quality on a firm-wide basis

Principles		How we respond
1-1	An audit firm should recognize its public interest role and clearly express the tone at the top so that the top management and the firm personnel will proactively accomplish their respective roles, as well as so that all partners of the firm duly undertake their responsibilities to develop the operational structure of the firm.	We give the highest priority to the delivery of quality audit in order to fulfil the public interest mandate to support the integrity of capital markets. For us to constantly meet the mandate, our CEO regularly communicates messages to urge our personnel to maintain and improve audit quality by various measures such as holding events and disseminating e-mails.
1-2	An audit firm should define the values to be commonly maintained by its personnel and also develop the code of conduct to put these values into practice.	We define our purpose, values and vision as our core principles, so that all partners and employees share a common goal. We also developed a Code of Ethics which we maintain and communicate to all partners and employees to put out values into practice.
1-3	An audit firm should appropriately motivate its personnel in order to raise their morale and help them to fully maintain and demonstrate their professional competence and skepticism.	We perform our personnel evaluation giving greater weight to audit-quality related initiatives and performance in a way to incentivize improving professional competence and demonstrating skepticism in performing audits. Our evaluation mechanism does not appraise non-audit services provided to audit clients.
1-4	An audit firm should develop an organizational culture of openness which encourages its personnel to share issues, knowledge and experiences related to audits and proactively participate in a dialogue and discussion.	We have developed an organizational culture with openness that shares our core principles regardless of pre-merger entities, through a series of large-scale reorganizations. In addition, we have adopted measures to promote in-depth discussion of audit quality by encouraging internal communications and more effective knowledge sharing. For example, "Voice", a posting system, is for collect views from our personnel.
1-5	An audit firm should clarify not only its stance toward non-audit services (provided by the firm and its group organizations), but also what specific measures are being taken, based on the size and characteristics etc. of the firm, to address concerns related to conflicts of interest or independence. Furthermore, if employees of the audit firm are allowed to hold concurrent or secondary jobs, the firm should clarify what specific measures are being taken to address concerns related to conflicts of interest or independence, including the firm's approach to the people retention and development.	<p>We provide non-audit services in so far as necessary resources are available to perform quality audit.</p> <p>In addition, the provision of non-audit services is limited to the extent that independence is maintained in the performance of audit. We maintain a mechanism to safeguard risks of conflicts of interest at the onset of an engagement, regardless of whether an engagement is to provide audit or non-audit service.</p> <p>Furthermore, we do not allow our personnel to hold concurrent or secondary jobs, to strictly ensure compliance with non-compete obligation and independence requirements. However, we permit limited cases such as accepting public roles or activities contributing to social welfare, provided that independence requirements are not breached.</p>
1-6	In the event that an audit firm participates in a global network or conducts group management through comprehensive business alliances with other firms etc., such an audit firm should clarify how it seeks to manage its business with regard to its relationship to and positioning within the global network or its group.	We maintain a robust audit quality platform based on the quality management program developed by the KPMG network, through participating in its global network arrangement. In addition, we ensure the same level of engagement quality in our group entities by having our management personnel be involved in the governance bodies of these entities.

Principle 2 Organizational Structure #1

An audit firm should have effective management in order to develop its organizational operations as a whole for the continuous enhancement of the audit quality.

	Principles	How we respond
2-1	<p>An audit firm should establish an effective management structure to ensure its effective management and operations.</p> <p>Furthermore, in the event that an audit firm decides not to establish a management structure in view of its size and characteristics etc., the firm should ensure it has effective management functions.</p>	<p>The Senior Executive Board (SEB) is charged with making significant management decisions of the firm. Based on the SEB's decisions, executive officers make operating decisions. This mechanism enables us to respond more effectively to the increasing scale of our firm and changing environments.</p>
2-2	<p>An audit firm should clarify the role of the management in important operations, in order to meet the public expectations of audits and ensure its effective management and operations</p>	
	<ul style="list-style-type: none"> Development of organizational structure to ensure appropriate judgments of the audit firm on important issues that potentially have a significant influence on the reliability of audit quality from the capital market, and proactive involvement in those significant issues by utilizing the structure mentioned above; 	<ul style="list-style-type: none"> We maintain an organizational quality management system by ensuring that each of the firm's layers fulfils that respective responsibilities to ensure audit quality. While the CEO has the ultimate responsibility to ensure the audit quality within the firm, he delegates his role to the SEB member in charge of quality management, so that he is responsible for designing, implementing, and operating a system of quality management to ensure and promote the audit quality.
	<ul style="list-style-type: none"> The development of an environment that allows audit teams to conduct a macroscopic analysis based on an understanding of the economic environment and frank and in-depth dialogue with audited companies in order to identify the risks of material misstatements and to respond to the assessed risks appropriately; 	<ul style="list-style-type: none"> The Quality Management and Risk Management divisions are responsible for consultations on important issues so that audit engagements are performed in compliance with laws, regulations and professional standards. In case of audit engagements of listed entities, our audit teams hold periodic communications with the management and those charged with governance of the entities. In addition, during interviews with management, we seek to ask questions about how an entity can adapt to changing environments. We also receive feedback on our services from them and hold frank interactions.
	<ul style="list-style-type: none"> Setting an appropriate environment for people development, human resources management and performance evaluation in order to raise the morale of the firm personnel and help them to maintain and demonstrate their professional competence; and 	<ul style="list-style-type: none"> With the recognition that human capital is the key element to ensure our quality audit, we have designed and implemented a measure that encourages our personnel to obtain greater professional knowledge and skills of personnel involved in audit engagements. For example, we provide training courses, on-the-job training opportunities, and other opportunities to engage in various types of work. The mechanism of our engagement performance evaluation and timely feedback also promote growth of our personnel as professionals, thereby promoting audit quality.

	Principles	How we respond
2-2	<ul style="list-style-type: none"> Consideration and development related to the implementation of IT infrastructure (including the proactive and effective utilization of technology) in order to enhance the efficiency and effectiveness of audits, in consideration of the improvement of the efficiency of audit-related operations and the advancement of technologies, including digitalization, at audited companies. 	<ul style="list-style-type: none"> We seek to go through audit transformation (such as, through greater use of technology), to promote quality of audit performance in line with the changing expectations from our stakeholders. Virtually, all our audit engagements are performed on a digital audit platform, and we seek to improve the quality and efficiency of our audit procedures by introducing new audit tools. We have also designed and implemented IT infrastructure that enables more effective teleworking.
2-3	An audit firm should appoint people who can perform the management functions not only by taking into account their thorough knowledge and experience of audit practice but also by ensuring the effectiveness of the management functions for its organizational operations of the firm.	Our CEO, the SEB members and executive officers are selected through direct election from all partners. They are assigned to respective roles, taking into account their knowledge and experience of the audit practice as well as competence necessary to carry out the management function.

Principle 3 Organizational Structure #2

An audit firm should have a function to supervise and evaluate the effectiveness of its management from the independent viewpoint and thereby support to enhance the effectiveness of the management.

	Principles	How we respond
3-1	An audit firm should establish a structure to supervise and evaluate the effectiveness of its management etc. and thereby support to enhance its effectiveness, and clarify the role of the structure. In the event that an audit firm decides not to establish a structure responsible for supervision and evaluation in view of its size and characteristics etc., the firm should ensure the function of supervising and evaluating the effectiveness of its management functions and thereby supporting the enhancement of its effectiveness.	In our firm, the Management Oversight Committee (MOC) consisting of those who are not involved in management roles is in place to oversee and evaluate the effectiveness of the management function. In July 2023, the Supervisory Board (consisting of the chair and two vice-chairs of the MOC, as well as the CEO and the SEB member in charge of the risk management function) was established to further strengthen the oversight of the management function.
3-2	An audit firm should appoint independent third persons as the members of the function responsible for the supervision and evaluation, and effectively utilize their knowledge and experience to deal with the issues recognized by the firm from the perspective to ensure the effective management and organizational operations and accomplish its public interest role.	<p>In our firm, the Public Interest Oversight Committee (PIOC) is in place as an independent oversight body.</p> <p>The PIOC comprised four independent external members and three internal members. The external members are required to comply with relevant independence requirements. For example, they must not have been a firm's personnel, and they must maintain relevant provisions including insider trading prohibitions.</p> <p>The PIOC regularly receives information from the MOC on the firm's management and holds discussions with the CEO and SEB members. Through such interactions, the PIOC monitors if our operation maintains soundness from the public interest perspectives.</p>

	Principles	How we respond
3-3	<p>An audit firm should clarify the role of independent third persons to participate in the supervision and evaluation structure within the firm considering that those persons are expected to be involved in the following matters</p> <ul style="list-style-type: none"> • Advice and recommendations that contribute to improving the effectiveness of its management functions; • Oversight of the evaluation of the effectiveness of the management; • Oversight of the process of the election or appointment, retirement, evaluation and remuneration of the people who can perform the management functions or independent third persons; • Oversight of developing the policies for people development, human resources management, performance evaluation and remuneration; • Oversight of the evaluation of the status of development of policies and procedures regarding whistle-blowing from within the audit firm and external sources, and the status of verification and utilization of provided information; and • In fulfilling their oversight role, independent third persons should also be involved in dialogue with audited companies, shareholders and other participants in the capital market. 	<p>The PIOC receives information about major developments and issues of the firm from the MOC. It also holds discussion with the CEO and SEB based on the information received.</p> <p>The PIOC receives information about major activities and incidents (if any) of the firm from the MOC and hold discussions with the CEO and the SEB members.</p> <p>The PIOC's roles include advising on the following matters from the public interest perspectives:</p> <ul style="list-style-type: none"> • Effectiveness of the management function; • Appointment and evaluation of the management via the oversight of the Nomination and Compensation Committees; • Development of HR-related policies for key management; and • Addressal of irregularities found through internal and external channels. <p>The PIOC members are also involved in a dialogue between our management and capital market participants.</p>
3-4	<p>An audit firm should develop an environment in which necessary information is provided to the members of the structure responsible for supervision and evaluation or independent third persons in a timely and appropriate manner, and in which assistance is provided in the execution of their operations so that the supervision and evaluation structure etc. can effectively fulfill their responsibilities.</p>	<p>The secretariat supports the proper functioning of the Supervisory Board, MOC and PIOC. It also supports effective operation of the committees by providing necessary information in a timely manner.</p>

Principle 4 Operation

An audit firm should, based on the size and characteristics etc., develop an operational structure to effectively manage its organizational operations. The audit firm should also strengthen its people retention and development and proactively engage, in dialogue and discussion within the firm and with audited companies about the possible enhancement of audit quality.

Principles		How we respond
4-1	An audit firm should develop a structure that allows its management etc. to share necessary information from each audit team in a timely manner and also pervade their philosophy and defined values throughout the organization. The management should effectively utilize such a structure in the operations of the firm. In addition, a proactive dialogue and discussion for improvement of the audit quality should be encouraged within the firm.	<p>We have developed a structure which clarifies the responsibilities of each function relevant to our performance of quality audit. This structure (called the “four defense lines” in our firm) ensures the effective communication and dissemination of information throughout the organization, as it allows on-site information to be feed into the management in a timely manner. At the same time, the management provide detailed explanations of the background and reasons of why specific measures are considered necessary in a timely manner.</p> <p>In addition, periodic meetings of persons responsible for quality management take place, seeking further improvement of the audit quality.</p>
4-2	An audit firm should develop and operate policies for managing people development, human resources management and performance evaluation in order to raise the motivation of the firm personnel and help them to maintain and demonstrate their professional competence. In doing so, whether the firm personnel sufficiently exercised their professional skepticism should be fully taken into consideration.	<p>We maintain policies relevant to training, evaluation, and compensation of our personnel, to improve their professional competence.</p> <p>We encourage exercising professional skepticism by giving priority to ethical mindset and integrity in performing evaluations.</p>
4-3	<p>An audit firm should pay particular attention to the following points:</p> <ul style="list-style-type: none"> • Well-balanced assignment of the firm personnel to respective teams in terms of the extensive knowledge and experience to allow the teams to exercise their professional skepticism; • Providing the firm personnel with opportunities to gain extensive knowledge and experience relevant to audit, such as experience in non-audit service and/or temporary transfer to companies outside the audit industry; • Appropriate evaluation and well-planned utilization of the firm personnel with extensive knowledge and experience; and • Developing an environment in which the firm personnel can fully engage in capacity building alongside their work. 	<ul style="list-style-type: none"> • In designing audit teams, we assign our personnel in a way that is responsive to the assessed risks of audit engagements, so that they exercise professional skepticism in an effective manner. • We provide our personnel with opportunities to build knowledge and experience of matters necessary to perform quality audit. Such opportunities include working at the quality and risk management functions, secondments to external organizations, as well as working at KPMG member firms overseas. • We ensure that the knowledge and expertise of our personnel are effectively considered in planning personnel allocation by referring to a database of personnel information. • We have developed a training curriculum that specifies subjects that our personnel should learn. We reserve a period of time during which our personnel can prioritize spending their time on taking training courses and ensure that our personnel can devote sufficient time to taking training courses. Through such measures, we have developed an environment in which our personnel can fully engage in capacity building alongside their work.

Principles		How we respond
4-4	An audit firm should make efforts for audit teams to have candid and in-depth dialogue about audit risks with the top management of audited companies, such as the CEO and CFO, and those charged with governance including the members of the audit and supervisory board as well. It should also ensure to have sufficient dialogue and discussion with audited companies at each audit team level	We conduct frank, insightful, and effective dialogues on audit risks with the top management and those charged with governance of audited entities. This is enabled, for example, by ensuring sufficient time for discussions and improving discussion agenda materials.
4-5	An audit firm should develop and disclose policies and procedures regarding whistleblowing from within the firm and external sources, and appropriately make use of the provided information. In doing so, the audit firm should pay particular attention to ensure that a whistleblower does not have to be concerned about the risk of disadvantage.	We develop and disclose our policies and procedures relevant to whistleblowing, whether information is received internally or externally. We ensure the privacy and secrecy of whistleblowers, as we have established a compliance hotline both internally and through the web-site of a third party attorney at law. In addition, we dismiss any detrimental or discriminatory treatments against whistleblowers.

Principle 5 Ensuring Transparency

An audit firm should ensure such transparency as to allow stakeholders in the capital market to appropriately assess its audit quality, by explaining the status of the Code's implementation. The audit firm should also effectively utilize the internal and external assessment of its initiatives for improvement in its management and operations.

Principles		How we respond
5-1	An audit firm should explain the status of the Code's implementation and its initiatives for the enhancement of audit quality in plain language, in publicly available documents etc., to allow audited companies, shareholders and other stakeholders in the capital market to appropriately assess its audit quality.	In this report, we provide relevant information of how we comply with the principles of the Code and relevant audit quality related measures.
5-2	<p>An audit firm should explain the following matters in terms of quality management, governance, IT and digitalization, human resources, finances, and international response, based on the firm's size and characteristics etc.:</p> <ul style="list-style-type: none"> • The tone at the top toward the continuous enhancement of the audit quality in order for the management and the firm personnel of the firm proactively fulfill their respective roles; • The defined values to be commonly maintained by the firm personnel, and way of thinking and code of conduct to put these values into practice; 	<p>In this report, we provide an explanation of our tone at the top for better audit quality, our shared values, our organizational and governance structure, the state of quality management, our use of IT and digital technology in our audit, and our policy of human capital development. We also explain our policy of how we provide non-audit services as well as our policy of human capital development, along with our financial standing. Furthermore, we provide quantitative audit-related information in the section of Audit Quality Indicators.</p> <p>For details, please see the following explanations in the respective sections in this report (the number in parenthesis denotes a relevant section in this report.)</p>

	Principles	How we respond
5-2	<ul style="list-style-type: none"> Information that contributes to assessments by the capital market participants, including the audit firm's medium to long-term goals, audit quality indicators (AQI) that specify the firm's direction toward those goals, or its initiatives for the improvement of audit quality; The status of quality management systems at the audit firm; The composition and role of the management etc.; The composition and role of the structure etc. to supervise and evaluate the effectiveness of the management and organizational operations, as well as the reasons for the appointment, the role, contribution and the approach to independence of independent third persons; The stance toward non-audit services (provided by the firm and its group organizations), and the response to concerns related to conflicts of interest or independence; The status of efforts to implement IT infrastructure (including the proactive and effective utilization of technology, fraud detection, and cybersecurity countermeasures) in order to enhance the efficiency and effectiveness of audits, in consideration of the improvement of the efficiency of audit-related operations and the advancement of technologies at audited companies; Status of securing diverse and necessary personnel at the firm in view of its size and characteristics etc., and people development policies, including training and education; Status of securing a financial base that is not dependent on compensation from any particular audited companies; The status of response to audits of companies with overseas subsidiaries etc.; and The assessment with respect to the effectiveness of the initiatives for the enhancement of the audit quality, which is carried out by the firm including the members of the structure etc. responsible for the supervision and evaluation. 	<ul style="list-style-type: none"> Responsibility and attitude of our management to quality management (see sections 1 and 2.1.3) Our values, which are the foundational ground to promote quality audit (see section 2.1.1) Audit quality indicators (see section 9) Our framework of design, implementation and operation of our quality management system (see section 2.1.2); Our organizational and governance structure, as well as responsibilities of each body (see section 2.4); Composition, roles, and independence of the Supervisory Board, the MOC, and the PIOC (see section 2.4); Our policy of delivery of non-audit services (see 7.2.7); Audit platform, workflow, and methodology that respond to today's digitalized environment (see section 4); Our strategy of recruiting and consistent developments of human capital to ensure diverse perspectives, experiences, competence, and skillsets (see sections 5.1 and 5.4); Our financial strength that would not be influenced by revenue source of specific audited entities (see section 7.2.8); Support of the global network in the performance of audit (see section 8.1.2); and Our evaluation on the effectiveness of our measures to be in compliant with the principles of the Code for the improvement of audit quality (see section 15).

	Principles	How we respond
5-3	<p>An audit firm that participates in a global network or conducts its management on a group basis through comprehensive business alliances with other firms should explain the following matters.</p> <ul style="list-style-type: none"> • A broad outline of the global network or group and its organizational structure, and the status of the audit firm's participation in the global network or group's decision-making; • The significance and purpose of participation in the global network or of conducting management on a group basis (including an overview of benefits and risks that affect ensuring and continuously enhancing the audit quality); • Measures taken to mitigate risks posed by the relationship with the global network or group with regard to ensuring and continuously improving audit quality, and their evaluation; and • An overview of contracts and others with global network or group that has a significant impact on ensuring and continuously improving the audit quality. 	<p>In this report, we provide an explanation of our global network arrangement and our domestic group structure (including how we are involved in their decision-making process). We also explain the purpose and reasons of our membership of the global network as well as our domestic group management. We further explain the benefits and risks arising from such arrangement and structure. For details, please see the following explanations in respective sections in this report (the number in parenthesis denotes a relevant section in this report.)</p> <ul style="list-style-type: none"> • Network arrangement of the KPMG global organization, as well as responsibilities and obligations of member firms (see sections 14.1 and 14.2); • Participation in key governance and management bodies of KPMG International (see section 14.4); • Purpose of being a member of the KPMG network (see section 14.5); • KPMG's mechanism that ensures compliance with the standards of auditing and quality management of its member firms (see section 2.3); • Our participation in the governance arrangement of domestic group entities (see section 2.2.4); and • Benefits and risks associated with operating as 'KPMG in Japan' (see sections 2.2.3 and 2.2.4).
5-4	<p>An audit firm should strive for proactive dialogue about its initiatives for enhancement of the audit quality with audited companies, shareholders and other stakeholders in the capital market. In doing so, the audit firm should effectively utilize the knowledge and experience of independent third persons.</p>	<p>We hold periodic dialogue with capital market stakeholders. Specific themes of the dialogue include emerging issues for audit firms as well as management and governance arrangements of audit firms. The PIOC members are also present at dialogues.</p> <p>(See section "10.4. Communication with market participants".)</p>
5-5	<p>An audit firm should periodically assess the Code's implementation and the effectiveness of its initiatives for enhancement of the audit quality</p>	<p>We assessed our status of implementing the principles of the Code and concluded that our initiatives for the enhancement of audit quality was effective.</p> <p>(See section "15. Statement by the Board of KPMG AZSA on the effectiveness of quality controls and independence".)</p>
5-6	<p>An audit firm should effectively utilize the useful information obtained through the dialogue with stakeholders such as participants in the capital market and the results of the assessment of the Code's implementation for improving its effective management and organizational operations.</p>	<p>We convene dialogue with the capital market participants. We utilize advice obtained through the dialogue in considering further improvements to our operation as an organization.</p> <p>(See section "10.4. Communication with market participants".)</p>

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Scope of Reporting

Data for the period July 2022 to June 2023 are reported as results and achievements for the year ended June 2022. The report includes certain data arising before or after this period.

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