



AZSA Quality 2019

Initiatives for Enhancing Audit Quality

October 2019

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Message

Message from our CEO

Marking our 50th anniversary

In July 2019 KPMG AZSA marked the 50th anniversary of its foundation. Over these past 50 years, we have adapted to an evolving economic environment and striven to earn the trust of the capital markets. In recent years, the state of the world has become increasingly complex and transparency is diminishing against a backdrop of worldwide political and economic changes. Major innovations in technologies are having drastic effects on the economic environment that surrounds us, and we anticipate changes at an unprecedented rate in the next 50 years. Even under such circumstances, it is our unwavering mission as an audit firm to continue to ensure the reliability of financial information in the capital markets so as to enable the stable growth of corporations and to protect investors, thereby contributing to the sound development of the national economy. We will achieve our mission through implementing various measures and undergoing transformation in response to environmental changes.

The pursuit of audit quality is our top priority

The top priority for us to continue to achieve our mission as an audit firm is the pursuit of audit quality. The audit quality that we pursue is achieved by conducting audits that do not require significant restatements that might surprise the market, even in an ever-changing economic environment. This is why we are in constant pursuit of high-quality audits through implementing various measures and revisiting the way we conduct audit work, including addressing digital needs, strengthening our global capabilities and developing talent capable of adapting to environmental changes.

— Addressing digital needs

It is our responsibility as an audit firm to build public trust and provide assurance. However, the standards and scope expected of us in our assurance services are largely dependent on changes in the economic environment and the expectations of society that accompany such changes. Technological innovations may lead to a broadening of expectations, for example as regards the security of new schemes such as blockchain and obtaining a comprehensive understanding of issues derived from data analytics. In July 2019, we established

Digital Innovation (DI) as a new division within KPMG AZSA, which will focus on solution development. We also incorporated KPMG Ignition Tokyo, Inc. (KIT) as our subsidiary. KIT will lead the development of platforms using cutting-edge technologies. We are confident that our DI Division and KIT will work together to take the lead in continuously identifying and addressing the changing expectations of society.

— Still stronger global capabilities


We are working to make our global capabilities, already a strength for KPMG AZSA, stronger still. For our group audits, we take our role in upholding corporate governance seriously. Each parent company audit team takes ownership of the audit, coordinating the audit teams of overseas subsidiaries and when necessary conducting the local audit directly themselves. As the number of companies for which overseas operations exceed those here in Japan increases, management of these companies becomes increasingly challenging. We continue to strengthen our ability to work with overseas KPMG member firms to provide services customized for each client.

— Developing talent that can respond to change

Regardless of what technological innovations there may be in the future, the essential process will always be one of people responding to the needs of society through the provision of high-quality audits and value-added services. At KPMG AZSA, we want our people to be able to address increasingly complex and diverse needs in an ever-changing environment. We have cultivated a culture of openness in a flat organization that promotes diversity – and we want to ensure our professionals think and make judgments for themselves as the specialists that they are.

To be the Clear Choice – now and in the future

Our Vision at KPMG Japan is to continue to be the Clear Choice for our clients, the public, and all those we are associated with through the provision of outstanding services. Based on our experience over the past 50 years, we ourselves are ready to undergo transformation in order to embrace the drastic environmental changes to come, and to ensure that we continue to fulfill our unchanging mission. This is how we will strive to be the Clear Choice.



KPMG AZSA LLC
CEO

Hirooyuki
Takanami

KPMG AZSA's Digital Strategy

The "Society 5.0" initiative focused on developing a digital society is also affecting what is expected of audit firms. The scope of services provided by an audit firm is not confined within the boundaries of traditional assurance services. We believe there are growing expectations for us to take on the role of embracing the transformation of companies and society, and to take the lead in this new era. In this section, we discuss the possibilities and challenges in a digital society from KPMG AZSA's point of view, and share our thoughts on our digital strategy.



Utilizing diverse talent

In order to address a changing society, we need to add experts in various fields to our current team of talent and create new value.

Takanami: I've been looking forward to having an opportunity to talk with you. Perhaps you can begin by introducing yourself and telling us about your previous work experience.

Chatani: I was previously at a leading electronics and entertainment company and a major internet company involved in e-commerce and finance, where I experienced technology management in the digital, AI and data fields. I led the direction of various platforms, from coming up with the concept, to development, design, implementation and operations. The platforms were for video games, digital content streaming, the cloud, and conversational agents.

Takanami: You've built a career in an industry that has experienced rapid and drastic changes in its business model as a result of digitalization. In order for us to address changes such as digitalization faced by the audit industry, we need to bring on board a wide spectrum of diverse talent with a wealth of experience in other industries, and add their strengths to those of our accounting and audit experts.

Chatani: I too would like to make the most of the experience and knowledge of diverse talent. I feel there is great potential in this, which was in fact the deciding factor in bringing me to my current role.

Takanami: As a digital expert, what characteristics of audit firms' operations and their current use of digital technologies stand out for you?

Chatani: It is my understanding that the operations of audit firms have been designed based on a historical perspective of how people work.

In contrast, digital experts think, “how can we design this operation so that it can be processed by a computer?”

Takanami: While the approach to designing audit procedures will be different depending on whether it is meant to be done manually or by a computer, they both share the same objective of revealing the truth. We may be able to create new value by combining these two approaches.

Merging audit and digital

With the merging of audit and digital, we can envision in the near future audits that enable the provision of assurance services that are not confined within established boundaries.

Chatani: I see digital, or data, utilization as being just as important in the accounting and audit industry as in other industries. For example, the gaming industry uses gaming content, and the internet shopping industry uses user data. In the same way, the activities of clients themselves are data that should be utilized in the audit industry. When we look at clients’ business activities in the form of data, what’s important is how we collect, segment and classify such data for audits, and what analysis and assessment tools we link the data to.

Takanami: At KPMG AZSA, we have continued to promote digital utilization, and we use multiple analytics tools at audit sites using accounting data provided by our audit clients. Are you talking about something that goes beyond this?

Chatani: That’s right. In addition to the client activity data I mentioned before, if we can represent professional audit judgments made by auditors in the form of data, a certain level of judgments can be replaced by machines. This could enable audit quality to be maintained, and indeed improved. It would be similar to the concept of self-driving technology, for example, with machines supporting the judgment of auditors in the audit industry.

Takanami: The ability to represent motives for fraud and management judgments in the form of data would open up further possibilities. The issue we can anticipate in this regard is how to classify human judgment. What are your

views on this, as well as other future issues we would need to resolve?

Chatani: There are two issues in automating complex judgments of the kind required in audits – representing auditor judgments in a data format, and collecting and storing more than just a certain amount of client activity data.

Takanami: Representing auditor judgments as data requires audit judgments to be further classified into individual elements. We need the professional insights of experienced accountants to ensure classifications are based on a good understanding of correlations between data. The collaborative effort by both accountants and digital experts will be key. Regarding the second point, audit firms are not alone in confronting the challenge of utilizing business data that goes beyond individual companies. This is a common challenge faced by the audit industry and across all companies.

Chatani: As you say, it is a huge challenge for the audit industry to establish rules with the involvement of clients. At the same time, it does offer huge potential. I hope to combine the insights and experience that I have now as a digital expert with the insights accumulated at our firm, and pave the way for a new stage.

Takanami: Once we reach that stage, we may enter an era in which it becomes possible to do real-time auditing based on all data rather than the current ex post facto sample-based auditing, and the assurance services offered by auditors can be expanded.



Why we make digital investments

We cannot demonstrate our value without providing insights that are unique to KPMG AZSA. In other words, we need to make digital investments in order to robustly respond to the changing expectations of our clients and society.

Takanami: I would like to reiterate our purpose as an auditor, which is to ensure the reliability of financial information in the capital markets. At KPMG AZSA, we define audit quality as the realization of audits that don't result in material misstatements that take the market by surprise.

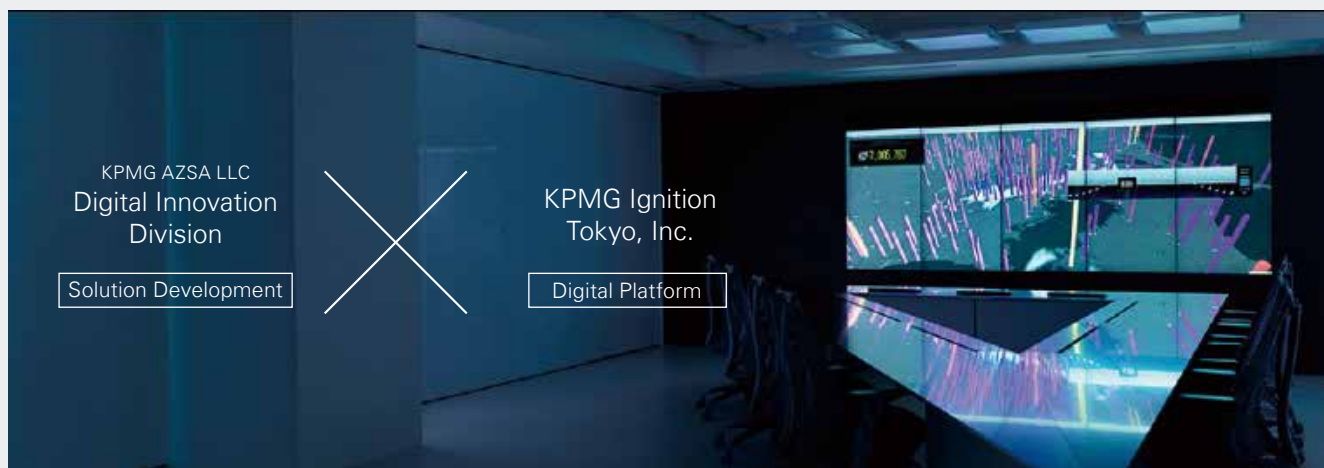
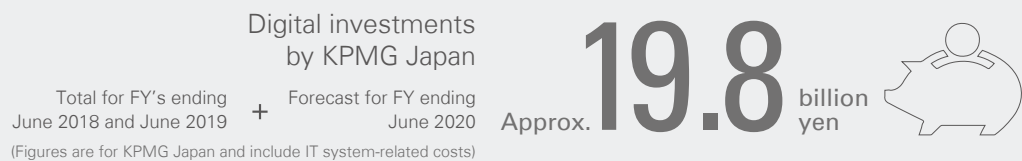
Chatani: I agree with this definition of audit quality. Meanwhile, in an era where digitalization is progressing at an accelerated pace, we are under pressure to change our audit approach in line with the changing business activities of our clients. As an audit firm, our clients and the public expect us not only to fulfill our primary role of providing assurance, but also expect us to lead transformation in response to environmental changes.

Takanami: Exactly. Based on this vision of the future, at KPMG AZSA we have established a digital strategy that we refer to as "3C x Insights" and are making corresponding investments (see page 10). With the world envisioned by the Japanese government's "Society 5.0" increasingly becoming a reality, we aim to work together with management on 3C audits (Comprehensive, Centralized and Continuous) and make investments with a focus on the three areas of data, technology and people. This will enable us to provide insights that meet the expectations of our clients and society.

Chatani: By "insights" here, you mean observations and knowledge that add value?

Takanami: The term "insights" as used in our digital strategy refers to the need to take full advantage of data, as we discussed earlier, as well as to the provision of findings that could not previously be identified, and the timely discovery of outliers and anomalies.

Chatani: The other keyword – 3C – is closely related to the role we are expected to provide at KPMG Ignition Tokyo (KIT).



Creating solutions

We established the Digital Innovation (DI) division and are accelerating collaboration between KPMG Japan and KPMG Ignition Tokyo to generate solutions in line with our digital strategy.

Takanami: Under your leadership, I have high expectations for KIT to create the platform on which solution development will be based.

Chatani: To drive further digitalization in audits, we need a consistent data platform for analytics. In comparison to the US and Europe, however, there is little commonality in the systems and data formats used within Japanese companies across industries, and there is no simple solution to this problem. We also need a process of data masking to ensure that individual companies cannot be identified, which we plan to achieve through working together with our clients. KIT will build the infrastructure necessary for further utilization of accounting data in the future, thus establishing the platform you mentioned.

Takanami: In parallel with the development of this platform, we have been investing in our Digital Innovation (DI) division, which was newly established within KPMG AZSA in 2019, in order to build the capacity to develop solutions such as analytical tools. Some of the solutions I talk about here have been developed by the Next Generation Audit Technology Team set up in 2014, and we already have many examples of these solutions being utilized within our firm (see page 12). Our aim is for the

DI division and KIT to work shoulder to shoulder and incorporate the latest technologies to enhance the quality of these solutions.

Chatani: With both parties working in sync, we will have a foundation for technologies that enable 3C audits – that is, continuous, real-time audits that are comprehensive and centralized.

Takanami: So far, we've covered data and technology, but there is one more element that is indispensable to enhancing audit quality through utilizing digital technologies, and that is our people. We will only be able to provide insights once we have invested in the three focus areas of data, technology and people.

Chatani: I agree. We need accounting and audit professionals with the capability to utilize digital technologies in audits, and accurately interpret results and derive insights from those results.



KPMG Ignition Tokyo, Inc.
President and CEO Masayuki Chatani
(also acting as KPMG Japan Chief Digital Officer)

Joined Sony Corporation in 1987. Served as Chief Technology Officer (CTO) and EVP at Sony Computer Entertainment Inc. (currently Sony Interactive Entertainment LLC). Led projects from the launch of the first-generation PlayStation® through to the design of the basic architecture for PlayStation®4.

Managed overall AI development at Rakuten, Inc. as Executive Officer from 2014, before joining KPMG Consulting Co., Ltd. in 2019 and taking on his current role in July of the same year.

Turning data into added value

We are fostering accountants with digital literacy and expanding our team of highly capable digital experts to construct a system for providing deep insights based on auditor perspectives.

Takanami: Our conversation so far has made it clear that we are now able to utilize various solutions in audit thanks to digital innovations. However, there are two aspects that are indispensable for promoting digital utilization in the true sense of its meaning – improving digital literacy among accountants and securing digital experts who are not accountants.

Chatani: Yes, and in regard to the first aspect, there is a demand for accountants to improve their digital literacy as a result of the expected shift from user experiences to one of customer experiences that will come with the progression of digitalization.

Takanami: Can you elaborate on that within the context of the audit industry?

Chatani: Previously, accountants were users of digital technologies, which they utilized for advanced audit procedures and improving efficiency based on primary or secondary data.

From now on, they will be able to additionally interpret results based on processing original data, thereby providing added value to clients.

Takanami: So basically providing “insights” as we just discussed?

Chatani: In order to generate added value, it’s necessary to break down the operational processes, set risk thresholds, and define outliers. This is work that only someone with both professional knowledge of accounting and auditing as well as digital literacy can do.

Takanami: At KPMG Japan, we are planning to introduce an annual intensive training program over a three-year period for 1,000 of our professionals starting in 2019, with the aim of improving digital literacy among our accountants (see the right-hand page).

We have asked KIT to take the lead in regard to the second aspect of securing digital experts other than accountants.

Chatani: Yes. Currently, digital experts other than accountants make up 60-70% of our people at KIT, who represent 20 different countries and regions. Our diverse team of members with various insights and experience engage in lively discussions daily with an eye toward our common goal of creating new platforms and solutions.

Takanami: Our initial goal is to develop an organization with 1,800 to 2,000 professionals who have digital capabilities by the end of June 2020. We have high expectations for KIT to play an important role that goes beyond our audit services and encompasses our tax and advisory services. In that respect, it is encouraging that KIT has the right diverse talent to make this possible.

Chatani: I am confident that we can meet your expectations. I not only plan to have AI memorize the knowledge of professionals, but also envision a future where AI will support the development of professionals. It is similar to a professional chess player developing stronger skills through the use of AI software.

Takanami: KPMG AZSA aims to be the Clear Choice through nurturing professionals who are capable of appropriately addressing such changes, and our commitment to continuously enhance audit quality. To achieve this, it is important that we constantly stay aware of the concerns and perspectives of our clients and the public, and invest in digital transformation with a focus on the three areas of data, technology and people.



Initiatives for improving digital literacy

The days when audit operations were almost entirely the responsibility of accountants are past. Now, technological innovations are leading to increasingly advanced digitization of auditing dependent on the insights and capabilities of IT experts and data scientists. At KPMG AZSA, we aim to build a system for providing high-quality services by applying advanced audit methodologies. To this end, we are implementing various initiatives to improve the digital literacy of our professionals, as demonstrated by the training program outlined below. Beginning in FY 2019, we are providing an intensive program for 1,000 professionals every year.

Digital foundation training

Training aimed at bringing our professionals up to date on the appropriate knowledge related to advanced IT (e.g. digital technologies including AI and blockchain) that is required to communicate effectively with IT experts and data scientists

Digital audit skills training

Training designed to enable professionals to acquire fundamental knowledge in areas such as IT and data analysis as well as application methods necessary for utilizing digital audit methodologies (e.g. subsidiary risk scoring, process mining)

Digital solution training

Training designed to provide a wide range of skills including practical methods of utilizing various data analysis tools, in addition to logical thinking related to the analysis of databases and statistics necessary for the implementation of D&A (Data & Analytics)



Initiatives for the Digitalization of Audit

In responding to the changing expectations of our clients and society, KPMG AZSA will take full advantage of technologies to deliver value-adding audit services.

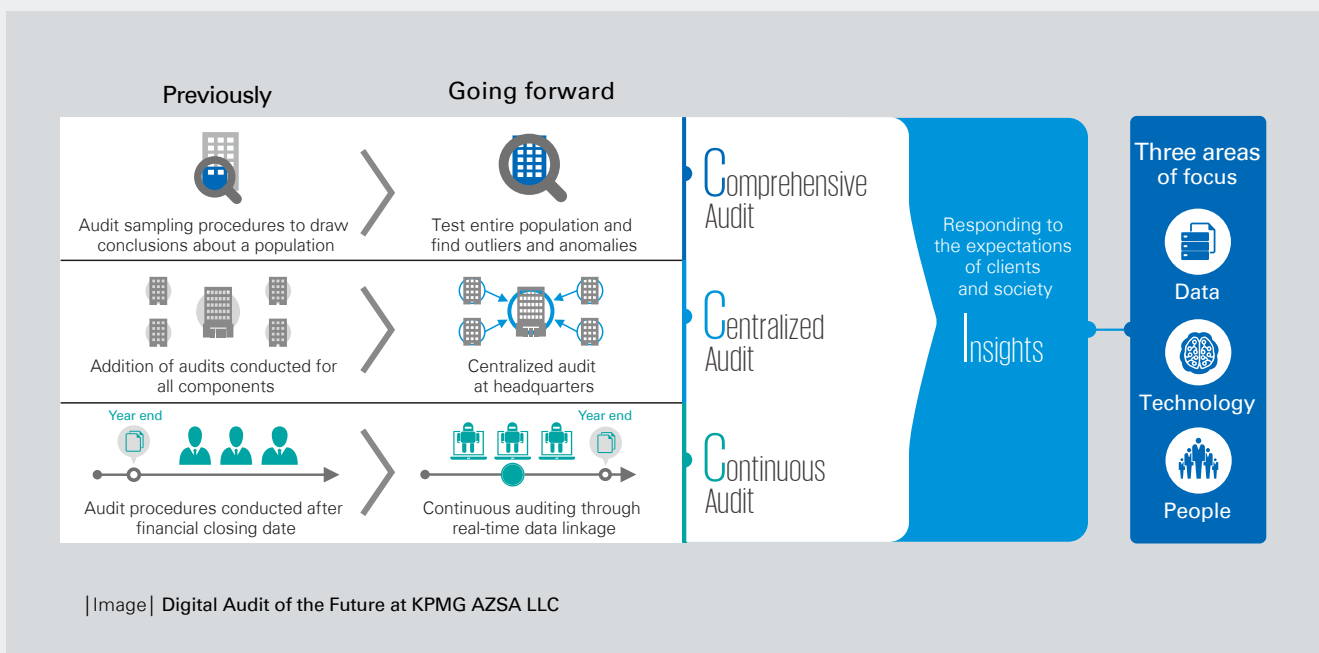
With advancements in globalization and digitalization, the way companies and businesses operate is also changing, which in turn is changing the risks companies face and their expectations of auditors.

In order to address such changes, our audit services at KPMG AZSA have been undergoing digital transformation. We exploit multiple insights and new technologies and utilize data to bring our clients and society fresh and deeper insights with added value.

1. The digitization of audit that we envision at KPMG AZSA

At KPMG AZSA, we are working on providing deeper insights that will bring added value to our audit clients and society through enhanced digital transformation of the audit, driving 3C audits together with our clients and investing in the three focus areas of data, technology and people (3C x Insights). We will continue to evolve our digital platforms in a secure environment in the areas of data and technology. We will also focus on data and make analyses based on a deep search of

data relationships – this will enable us to enhance audit quality while developing and implementing solutions to deliver insights. In terms of our people, we are committed to expanding and fostering the right technology talent through cutting-edge initiatives and stronger external collaboration, while developing professionals through further expanding digital-related training and practical opportunities available to them.



2. Organizational structure for promoting 3C x Insights – establishment of DI division

KPMG AZSA is committed to utilizing digital technologies in order to conduct audits that meet the expectations of society. To this end, we established the Digital Innovation (DI) division on July 1, 2019, as an organization that falls under the direct supervision of our CEO.

DI's mission is to work on transforming our audit services and developing audit tools and solutions, and to see that these initiatives are implemented in our audit divisions. The division currently comprises a team of about 200 professionals who are data scientists or IT experts, and we will continue to aggressively increase the headcount to support further developments. DI will work shoulder-to-shoulder with KPMG Ignition Tokyo, Inc. a wholly owned subsidiary of KPMG AZSA which develops digital technology platforms and solutions for KPMG Japan. Together, they are building a platform that enables the effective provision of data and solutions by incorporating

cutting-edge technologies such as AI. KPMG Ignition Tokyo has a meeting room for utilizing digital technologies called the Insights Center (see image below). Audit teams and their clients use this space regularly to discuss audit plans and data analysis results using advanced technologies and facilities.



3. Advanced audit services

3-1. Digital audit platform (KPMG Clara)

Together with KPMG International, KPMG AZSA has been advancing the development and implementation of our digital audit platform – KPMG Clara. KPMG Clara integrates and further expands on the features of eAudit, an electronic audit tool, and KPMG Central, a data management tool, to deliver a smart audit platform delivering powerful data & analytics capabilities. It enables the management of our audit-related services in one interface, contributing to more sophisticated audits. There are also many new features for effective communication with our audit clients.



Main features

Audit-related data sharing

The audit-related data sharing feature supports a smooth exchange of documents and data between audit teams and their clients in a highly secure environment. The status of each item in a list of requested documents can be confirmed.

Data & analytics

The data & analytics feature makes it possible to address management challenges and audit risks through advanced data analytics using visualization and statistical tools. See “3-2. Audit tools and solutions” on the next page for a description of specific tools enabling this kind of analysis.

Task management

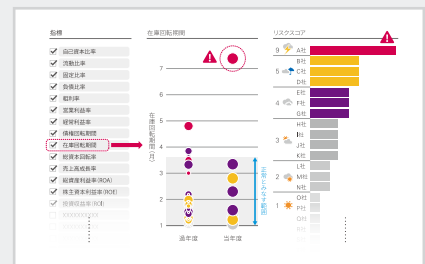
The task management feature shares with audit clients on a timely basis the results of analyses derived from the data & analytics feature as well as issues identified as a result of audit procedures. Progress is tracked until issues are resolved.

3-2. Audit tools and solutions

At KPMG AZSA, we implement advanced data analytics and share those results in all our audit services for listed companies. Through this process, we ensure strong communication with our clients. Here, we list some of the tools and solutions we have developed and implemented at our firm.

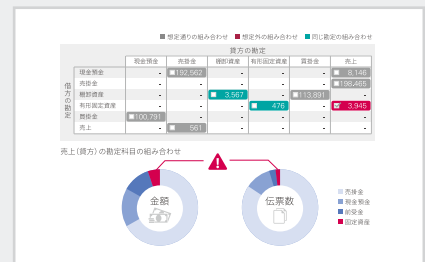
1 Subsidiary risk scoring

As M&A deals and client activities become more complex, advanced subsidiary management to ensure fraud at subsidiaries is not overlooked is a major issue faced by management. Subsidiary risk scoring is one solution for this issue. We analyze the financial data of all subsidiaries using statistical methodologies based on past performance data and related external data, combined with auditor insights. Through this process we calculate risk in numerical terms, which enables us to objectively detect signs of fraud or anomalies and conduct a comprehensive evaluation of whether or not additional audit procedures are required.



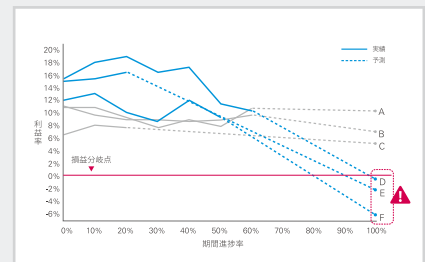
2 Detection of anomalies in journal entries

Based on past journal entry data, this analysis detects entries that stand out from normal entry patterns, allowing advanced journal entry testing. KPMG Clara has a feature that automatically indicates unexpected entry patterns according to industry based on its accumulation of industry knowledge, and we are working toward its application. This kind of big data analysis enables granular identification of high-risk transactions.



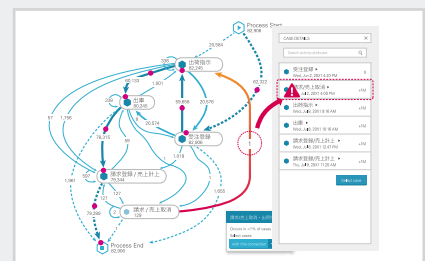
3 Predictions of loss-making projects using AI

We are working on the implementation of analyses for predicting future losses using AI machine learning based on past transaction data. For example, for projects using the percentage of completion method, we can identify contracts for which the probability of a loss occurring is high based on advanced statistical methods and machine learning and predict the amount of loss, as well as when the loss will occur. Early detection of projects with indications of risk of loss will contribute to deeper communication with clients.



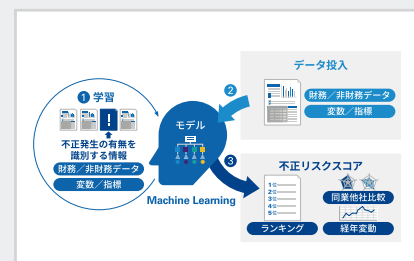
4 Process mining

This tool helps to achieve a comprehensive and objective understanding of exceptions to processes and transactions by visualizing the work flow and processes. Using this tool enables the detection of process flows that deviate from the rule, thereby bringing to light high-risk processes and transactions. Sharing the results with audit clients contributes to the review of their company's business processes and to more advanced governance within the company.



5 Fraud prediction modeling

Through joint research with a university, we are building a model that calculates the risk of accounting fraud occurring at a company as a numerical value. This is based on a unique algorithm that we formulated based on public information of past fraud occurrences and cases of restatements. Through use of this model, we can identify areas of high fraud risk for individual companies and implement audit procedures that address the risk indicator and account that led to the high risk score, thereby enhancing audit quality.



6 Q&A system using AI technology (KOMEI)

In July 2018, KPMG AZSA released KOMEI (KPMG on Multi Educational Intelligence), an accounting and audit Q&A system developed in-house using natural language processing and machine learning technologies, with the objective of accumulating and sharing insights our firm has regarding accounting, auditing and fraud cases. There are 300 to 400 inquiries a day related to audit work, and response accuracy has been improving as the system learns. Use of the system by engagement teams is increasingly widespread as we continue to expand the knowledge base and areas of application. Turning the tacit knowledge of professionals into objective knowledge in this way allows us to deliver more sophisticated audit services.



4. Streamlining audit work

We have been working to streamline audit work through the automation of individual tasks and increased efficiency associated with task aggregation in the audit processes. Specific initiatives we have been actively implementing include RPA (Robotic Process Automation), aggregation of data processing tasks, enhancing efficiency and centralization of tasks using digital tools, and centralizing and digitizing confirmation letters.

(1) RPA/Automation

We are actively working to develop and implement RPA, and to increase the level of automation through the use of macros and other tools. This will enable us to standardize and improve the efficiency of our audit and audit-related work. Specifically, we use RPA for status confirmation of audit tasks and for information sharing within audit teams, which contributes to more timely and efficient task execution. This enables a shift to higher added-value work among our professionals. There were 4,381 cases of RPA-processed tasks in the fiscal year ending June 2019, and we expect this number to rise in the future.

(3) Utilizing digitalization to centralize and streamline audit work

As a part of our audit work, the AZSA Delivery Center (ADC) (see page 34) carries out balance confirmation procedures centrally. Responses to confirmation letters are converted to text data using OCR technology, and PDF data of confirmation letters collected using QR codes is automatically transferred to improve efficiency. We are also working on automating the writing of meeting minutes using speech recognition technology.

(2) Aggregation of data processing tasks

We are working on aggregating data processing tasks with a focus on journal entry testing for more efficient data processing. We also aim for a more sophisticated auditing process by sharing with audit teams any anomalous items that can be detected from aggregated processing.

(4) Centralizing and digitizing confirmation letters

Together with Ernst & Young ShinNihon LLC, Deloitte Touche Tohmatsu LLC, and PricewaterhouseCoopers Arata LLC, we established the Audit Confirmation Center GK with the purpose of centralizing and digitizing confirmation letters, contributing to the transformation of balance confirmation work, and reducing the administrative burden on society as a whole.

Structure and Initiatives Supporting Audit Quality

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KPMG AZSA LLC
Deputy Managing Partner

Takuji Kanai

Message from Deputy Managing Partner (Head of Quality Control)

With a view to increasing corporate value, corporate disclosures are undergoing a major transformation. Following expansions in disclosures related to governance and other descriptive information, we are now approaching the full-scale implementation of Key Audit Matters (KAM).

As our response to the needs of clients and the public as they face this transformation, KPMG AZSA will strive to achieve high-quality audits by carrying out an accurate assessment of audit risks and performing audit procedures with a focus on these risks. In this section, we will introduce our systems and initiatives supporting audit quality from the perspectives of organizational foundation, system of quality controls, and development of talent.



Audit Quality Indicator

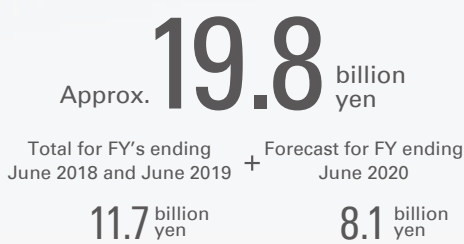
Our Initiatives for Audit Quality viewed from AQI

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



Investment in organizational foundation and people

Digital investments P.06 > **Digital Talent** P.08 >



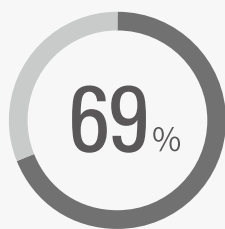
(Figures are for KPMG Japan and include IT system-related costs)

Global Talent P.46 > **Overseas Experience** P.47 > **Japanese Speakers around the World** P.37 >



Global People Survey P.49 > **Training Hours** P.44 > **Results of Training Questionnaire** P.44 >

Willingness to contribute to KPMG AZSA



Percentage of respondents who answered positively

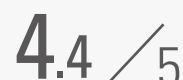
Year ended June 30, 2019

Average annual training hours per trainee



Year ended June 30, 2019

Average score



Year ended June 30, 2019

Career Opportunities P.45 >

People transferred within KPMG AZSA



Year ended June 30, 2019

People on external secondments



as of June 30, 2019

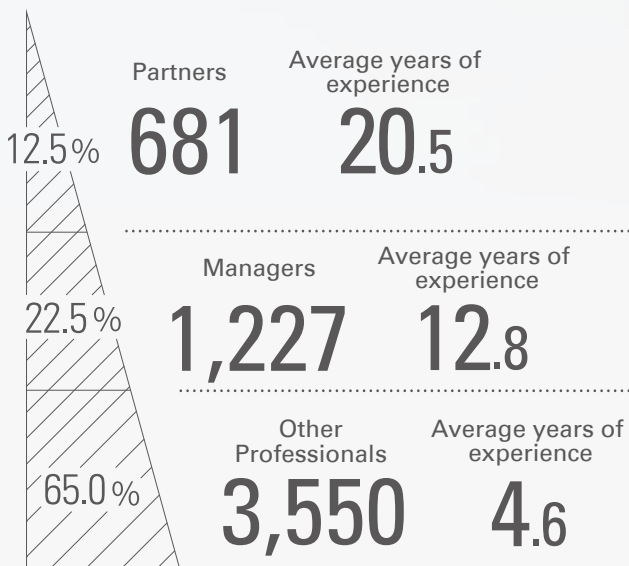
Process

Organizational Structure of Quality Control

Output

Results

Composition of Professional Workforce P.25 >



as of June 30, 2019

Average Annual Audit Hours P.25 >

1,858

Operational and Work Style Reforms are reducing average annual audit hours

Year ended June 30, 2019

Headcount of the Quality Assurance Headquarters P.25 >



339

As a percent of total professionals

6.2%

as of June 30, 2019

Number of Sanctions P.43 >



Independence Confirmation Response Rate P.28 >



Quality Performance Review Results P.42 >



Year ended June 30, 2019

I. Organizational Foundation

It is important that our governance, quality control and human resource development are functioning effectively for us to maintain a high standard of audit quality. Our corporate culture and shared basic principles serve as the cornerstone for this foundation.

This section describes the constituent factors of our organizational foundation at KPMG AZSA – our basic principles and corporate culture, governance framework and four defense lines (organizational quality control structure).

1. Basic Principles and Corporate Culture

1-1. Basic Principles

As a KPMG member firm, KPMG AZSA's Purpose is to Inspire Confidence, Empower Change. We also have a shared set of Values that act as a code of conduct for our people. Based on this Purpose and these Values, KPMG AZSA has set a Vision of being the Clear Choice which we will achieve by following the firm's Strategy.

Purpose **This is why we're here**

KPMG AZSA has set out our firm's Purpose as "Inspire Confidence, Empower Change." Based on this Purpose, KPMG AZSA believes that it is our timeless mission to ensure the reliability of information through audit and accounting services and at the same time to support the transformation of companies and society on the journey to sustainable growth.

Vision **This is what we want to be**

Based on the firm's Purpose and Values, KPMG AZSA holds high "The Clear Choice" as our firm's Vision. KPMG AZSA aims to become The Clear Choice for the public, our clients, and our people by relentlessly pursuing quality in our services.

Values **This is what we believe in**

Seven principles have been set as Values to be shared by all of our people. These principles act as a code of conduct for professionals in providing services and are the basis for our daily work.

Lead by example

Respect the individual

Work together

Communicate openly and honestly

Seek the facts and provide insight

Improve communities

Act with integrity

Strategy **This is how we'll get there**

KPMG AZSA developed its Strategy with a focus on three elements: quality, comprehensive power through collaboration, and human resources.

KPMG-Quality

As a professional firm that ensures the reliability of financial information in the capital markets, KPMG AZSA will continue to provide audit and advisory services of high quality by always keeping the viewpoints of investors, clients, and other stakeholders in mind.

KPMG-Cube

KPMG AZSA provides value-added services to clients by fully utilizing its comprehensive power through collaboration beyond the constraints of service lines, sectors, and regions. Integrating the firm's knowledge through the "Cube" principle of cross-function, cross-border, and cross-culture, KPMG AZSA is there to support clients that seek to transform in the context of a global business environment.

KPMG-Career

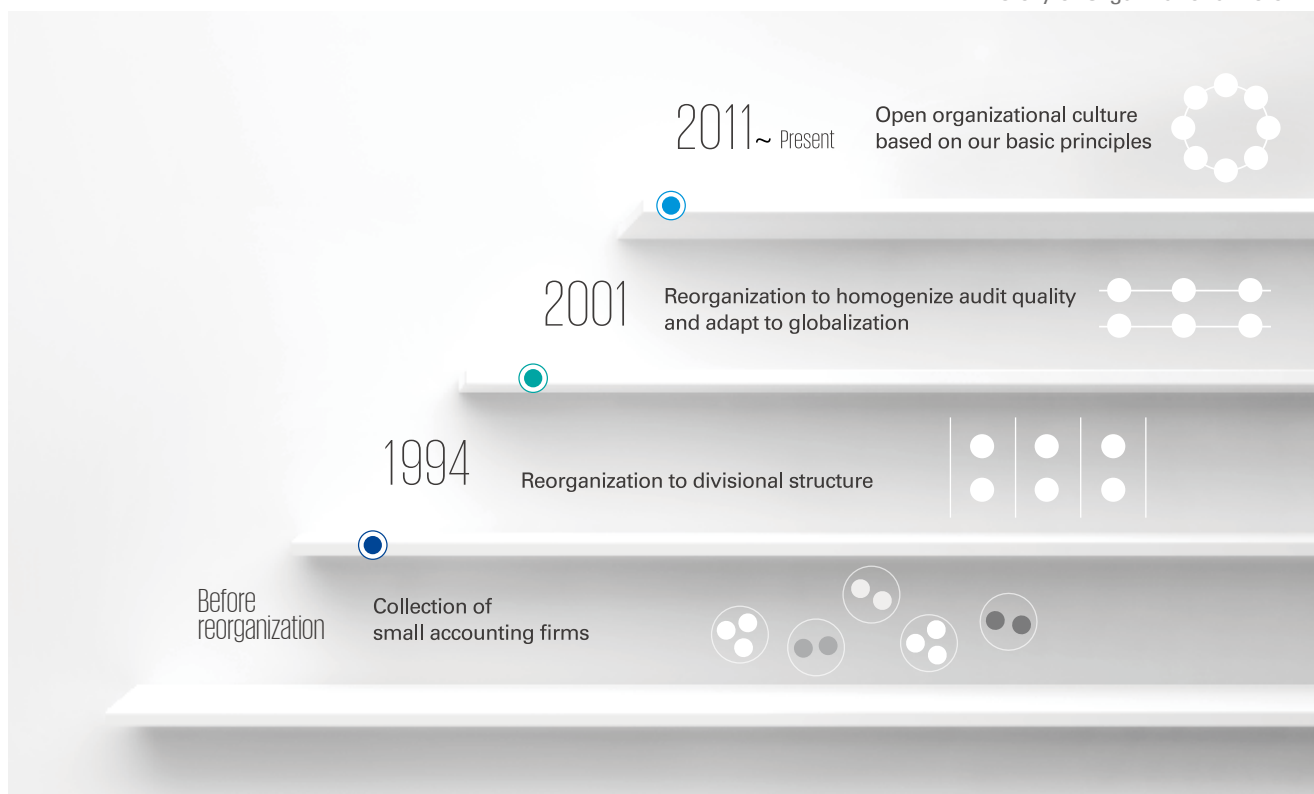
The most important asset for KPMG AZSA is our people. Indeed, growth of our people is the source of power for providing value to clients. KPMG AZSA supports the growth of its people and seeks to foster true professionals.

1-2. Corporate Culture

At present, the headcount of KPMG AZSA totals more than 6,000 people. As is the case with other audit firms, KPMG AZSA has experienced mergers and integrations involving several predecessor firms. In the process of the mergers that gave birth to today's firm, we underwent three large-scale organizational reforms. In 1994 and 2001, we made organizational changes that accompanied large-scale transfers of people. This allowed us to restructure the multiple organizations existing within the firm as a result of mergers from the viewpoint of total optimization, and to integrate the management authority of the founding CPAs. These organizational reforms transformed KPMG AZSA into a new firm with both the strengths of the individual

predecessor firms and comprehensive strength as a new, large audit corporation. In 2003 we entered into a new relationship with KPMG International, the global network to which our firm currently belongs. We then underwent another large-scale organizational reform in 2011 aimed at homogenizing audit quality and addressing the trend of globalization which resulted in each audit division now having a mix of personnel hailing from different predecessor firms. This has contributed to the formation of an open organizational culture that allows free and open-minded discussions and mutual edification free from the constraints of former affiliations.

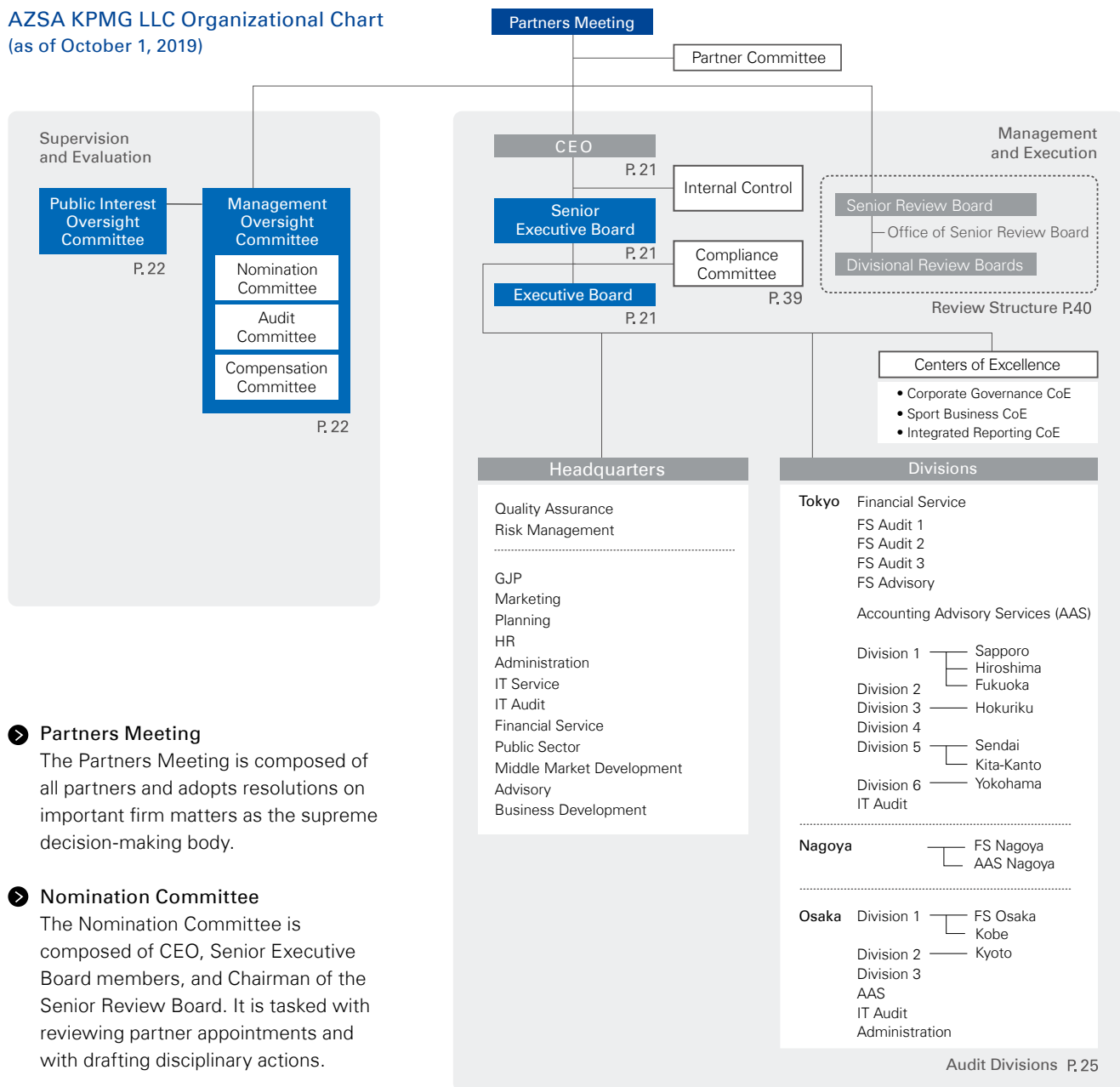
▼ History of Organizational Reforms



2. Governance Framework

KPMG AZSA’s governance framework comprises the Partners Meeting, as the supreme decision-making body; the Senior Executive Board, as a decision-making body for corporate management affairs; the Executive Board, as the body responsible for the execution of matters decided by the Senior Executive Board; and, the Management Oversight Committee, as a supervisory and evaluation organization. Additionally, there is the Public Interest Oversight Committee, an independent supervisory body, which supervises management from the standpoint of the public interest. Furthermore, we have audit and advisory divisions providing professional services, which are supported by headquarter operations.

AZSA KPMG LLC Organizational Chart
(as of October 1, 2019)



- **Partners Meeting**
The Partners Meeting is composed of all partners and adopts resolutions on important firm matters as the supreme decision-making body.
- **Nomination Committee**
The Nomination Committee is composed of CEO, Senior Executive Board members, and Chairman of the Senior Review Board. It is tasked with reviewing partner appointments and with drafting disciplinary actions.

2-1. Management and Execution

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



(Back, from left) Daisuke Harada, Hiroyuki Yamada, Mitsugu Doi, Yutaka Terasawa, Michitaka Shishido
(Front, from left) Masahiko Chino, Takuji Kanai (Deputy Managing Partner), Hiroyuki Takunami (CEO),
Toshiya Mori (Deputy Managing Partner), Toshihiro Otsuka

➤ Chief Executive Officer (CEO)

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

➤ Senior Executive Board

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

(The Senior Executive Board comprises the CEO and nine Senior Executive Board members as of October 1, 2019)

➤ Executive Board

The Executive Board executes matters decided by the Senior Executive Board in an appropriate fashion. Meetings of the Executive Board are convened and presided over by the CEO with the objective of sharing information on matters related to operational execution. Executive Board members include the heads of each internal department and heads of each client-service division. Executive Board meetings are also attended by Senior Executive Board members, including the Head of Audit, Chief Operating Officer, Chief HR Officer, the Chairman of the Senior Review Board, and may include other senior executives depending on the meeting agenda.

(The Executive Board comprises the Managing Partner, nine Senior Executive Board members, and 18 Executive Board members as of October 1, 2019)

Partnership

KPMG AZSA is a limited liability audit corporation managed by partners who are shareholders with authority over operational execution. Designated partners responsible for audit engagements have unlimited liability for those engagements. With respect to work other than those audit engagements for which they are responsible, all partners bear management responsibility within the scope of their capital contribution.

Election System

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

Partner Compensation

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

2-2. Supervision and Evaluation

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

Management Oversight Committee

The Management Oversight Committee is composed of members who are not engaged in management or execution and is tasked with evaluating the effectiveness of initiatives to enhance audit quality. The Management Oversight Committee has three subcommittees, as described below, and supervises processes such as the election of members of management and determination of their compensation.

The committee members also attend meetings of management and executive bodies to present their opinions and periodically report to and exchange opinions with the Public Interest Oversight Committee.

The committee members are also vested with the authority to present their opinions to the Partners Meeting and also to request that the Chairman of the Partners Meeting convene such meetings.

(The Management Oversight Committee comprises five committee members as of October 1, 2019)



(Back, from left) Yoshiaki Uesaka, Chika Matsumoto, Hirofumi Kubota
(Front, from left) Yasuyuki Nagasaki (Chairman), Junshi Ono (Vice Chairman)

■ Nomination Committee	Screens candidates for the Senior Executive Board, the Executive Board, the Chairman of the Senior Review Board, members of the Management Oversight Committee and members of the Public Interest Oversight Committee.
■ Audit Committee	Auditing of firm operations and finances.
■ Compensation Committee	Evaluates whether the compensation of the CEO, Senior Executive Board and the Chairman of the Senior Review Board is decided appropriately in accordance with the firm’s system for determining matters including partner compensation.

Public Interest Oversight Committee

The Public Interest Oversight Committee is composed of independent outside and internal members who oversee firm management to ensure the firm’s sound operation from the standpoint of the public interest. To accomplish this, the members receive reports from the Management Oversight Committee on important firm activities and projects and discuss them with the Managing Partner and Senior Executive Board members. The Committee members also oversee the supervision and evaluation of the Management Oversight Committee, which is responsible for the appropriate conduct of the Nomination Committee, Audit Committee and Compensation Committee.

(The Public Interest Oversight Committee comprises four outside members and two Management Oversight Committee members as of October 1, 2019)



(from left) Mitsuto Urano, Haruya Uehara, Koji Ishida, Masahiro Sakata

Outside Committee Members (In alphabetical order)

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

2-3. Assessment of the Effectiveness of Activities Intended to Enhance Audit Quality by the Management Oversight Committee

The Management Oversight Committee members attend meetings of the Senior Executive Board and Executive Board to present their opinions and periodically engage in dialogue on material issues the firm should address with the Public Interest Oversight Committee. Moreover, they are responsible for supervising and evaluating the management and execution by the CEO and Senior Executive Board members. Results of the supervision and evaluation are shared at the Partners Meeting, and the management and executive bodies will consider improvement measures going forward.

Priority areas and results for the previous fiscal year

The Management Oversight Committee focused on three key areas of supervision and evaluation for the previous fiscal year as listed below.

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

1 Status of compliance with the Audit Firm Governance Code	2 Status of ongoing initiatives for audit quality through the Four Defense Lines and D&A	3 Status of improving the working environment to develop talent from a long-term perspective
<ul style="list-style-type: none"> • Management engaged in active discussions regarding KPMG AZSA's operations • More extensive information was provided at Partners Meetings to support appropriate judgments by management • The Public Interest Oversight Committee made recommendations to the Management Oversight Committee and firm management 	<ul style="list-style-type: none"> • Enhanced audit quality by establishing an organizational quality control structure based on the four defense lines, conducting more in-depth audit procedures appropriate to the level of risk, and assigning additional resources to material audit areas • Adopted advanced audit technologies by implementing and expanding the use of D&A technology and providing audit support tools using AI, as well as streamlining operations using RPA 	<ul style="list-style-type: none"> • Continued work style reform including sharing of principles • Conducted ongoing reviews of the tools and training curriculum for the development of talent

Future issues

While the Management Oversight Committee acknowledges the effectiveness of management's initiatives, it recommends that the firm recognize and consider the following three issues:

1 Further disseminating information among partners and employees	2 Developing talent with digital capabilities	3 Promoting diversity
<ul style="list-style-type: none"> • When implementing management measures, explain to partners and employees on a timely basis the background as to why such measures were necessary in order to fully disseminate the measures throughout the organization 	<ul style="list-style-type: none"> • Implement measures to enhance the digital knowledge of partners and employees to enable them to respond to an increasingly digitalized society and audit environment 	<ul style="list-style-type: none"> • Continue to promote diversity by allowing more diverse ways of working and enabling a broad range of career path

3. Four Defense Lines

KPMG AZSA’s organizational quality control structure, which we call the “Four Defense Lines,” is the key to all initiatives and activities aimed at enhancing audit quality. The Four Defense Lines are intended to be a thorough means of ensuring audit quality by maintaining the following four hierarchical layers, which fulfill their respective obligations toward audit quality and build a tight organizational management structure: 1) firm management (CEO and Senior Executive Board members); 2) quality control departments; 3) audit divisions; and, 4) audit teams. The Four Defense Lines also serve the purpose of disseminating the management policies of the CEO and Senior Executive Board members down to the audit teams and ensuring information from audit work sites is shared with management.

Four Defense Lines



Defense line

01 Firm management

Roles as a Defense Line

- Creating a culture in which individuals take the initiative to enhance audit quality, and ensuring this culture permeates audit teams
- Maintenance, operation, and continuous improvement of the system of quality controls

and the system for assigning and evaluating human resources

- Identification of significant audit risks to be dealt with as a firm and providing instructions for timely and appropriate actions

Defense line

02 Quality Control Departments

Roles as a Defense Line

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

System of quality control departments to provide quality-related support

The departments responsible for quality control include the Quality Assurance Headquarters, which are responsible for audit services as well as quality control regarding accounting treatments and disclosures, and the Risk Management Headquarters, which supervise issues related to professional ethics and independence and quality control oversight. Each of these headquarters is staffed by partners and employees with extensive practical experience in audit, accounting and risk management, and plays an important role in providing appropriate support to audit divisions and teams.

Headcount of Quality Control Departments

(includes those assigned part-time from audit divisions)

	as of June 30, 2018	as of June 30, 2019
Quality Assurance Headquarters	189	230
Risk Management Headquarters	100	109
Total	289	339

Review Boards

KPMG AZSA has established the Senior Review Board as well as Divisional Review Boards and International Review Board, which conduct engagement quality control reviews independent of engagement teams, and the Review Support Office which assists the operations described on page 40.

Headcount of Review Boards

	as of June 30, 2018	as of June 30, 2019
	201	207

Defense line

03 Audit Divisions

Roles as a Defense Line

- Assigning the right people according to the audit risk assessment
- Ensuring audit teams are thoroughly aware of the measures and tools for enhancing audit quality

- Understanding the material audit risks and status of measures taken through monitoring activities, and organizational response

Roles as a Defense Line

- Identification of critical audit risks by exhibiting professional skepticism and implementation of audit procedures

- Review of and guidance on audit work papers and human resource development by supervisors
- Timely communication with reviewers

Full-Time Professionals at KPMG AZSA

	as of June 30, 2018			as of June 30, 2019		
	Number of Personnel	Composition ratio	Average years of experience	Number of Personnel	Composition ratio	Average years of experience
Partner, Director	675	12.4%	20.3	681	12.5%	20.5
Senior Manager, Manager	1,218	22.4%	12.3	1,227	22.5%	12.8
Other professionals	3,555	65.3%	4.5	3,550	65.0%	4.6
Total	5,448			5,458		

Average annual audit hours according to title

Title	Year ended June 30, 2018	Year ended June 30, 2019	Standard annual audit hours
Partner	1,853	1,835	
Senior Manager, Manager	1,837	1,839	
Other professionals	1,876	1,869	1,683
Average	1,864	1,858	

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

*Audit hours are based on the aggregation of hours worked by professionals engaged in audits throughout the period (those with less than 35 hours of involvement in an engagement are not included).

*Time spent on engagement work, management work and training is included in audit hours, while time allocated to a specific task or used for leave is not included.

Defense line

04 Audit Teams

II. System of Quality Control

Quality control standards, laws and regulations require the firm to assign responsibility for quality control, compliance, risk assessment of audit engagements, appropriate execution of audit work and other obligations. Our firm has put in place an organizational quality control structure based on the Four Defense Lines, as described on page 24. At KPMG AZSA, quality control policies are developed and procedures are set and implemented in compliance with relevant laws, regulations and standards.

1. Responsibility for Quality Control

The final responsibility for quality control rests with the CEO; however, the Senior Executive Board member appointed by the CEO to oversee quality control is responsible for developing overall quality control policies and for monitoring how such quality control policies are followed. Strong messages on the following four points are repeatedly sent by the CEO and other members of management to all partners and staff at various opportunities and through various channels in order to emphasize that audit quality is the firm’s number one priority.

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

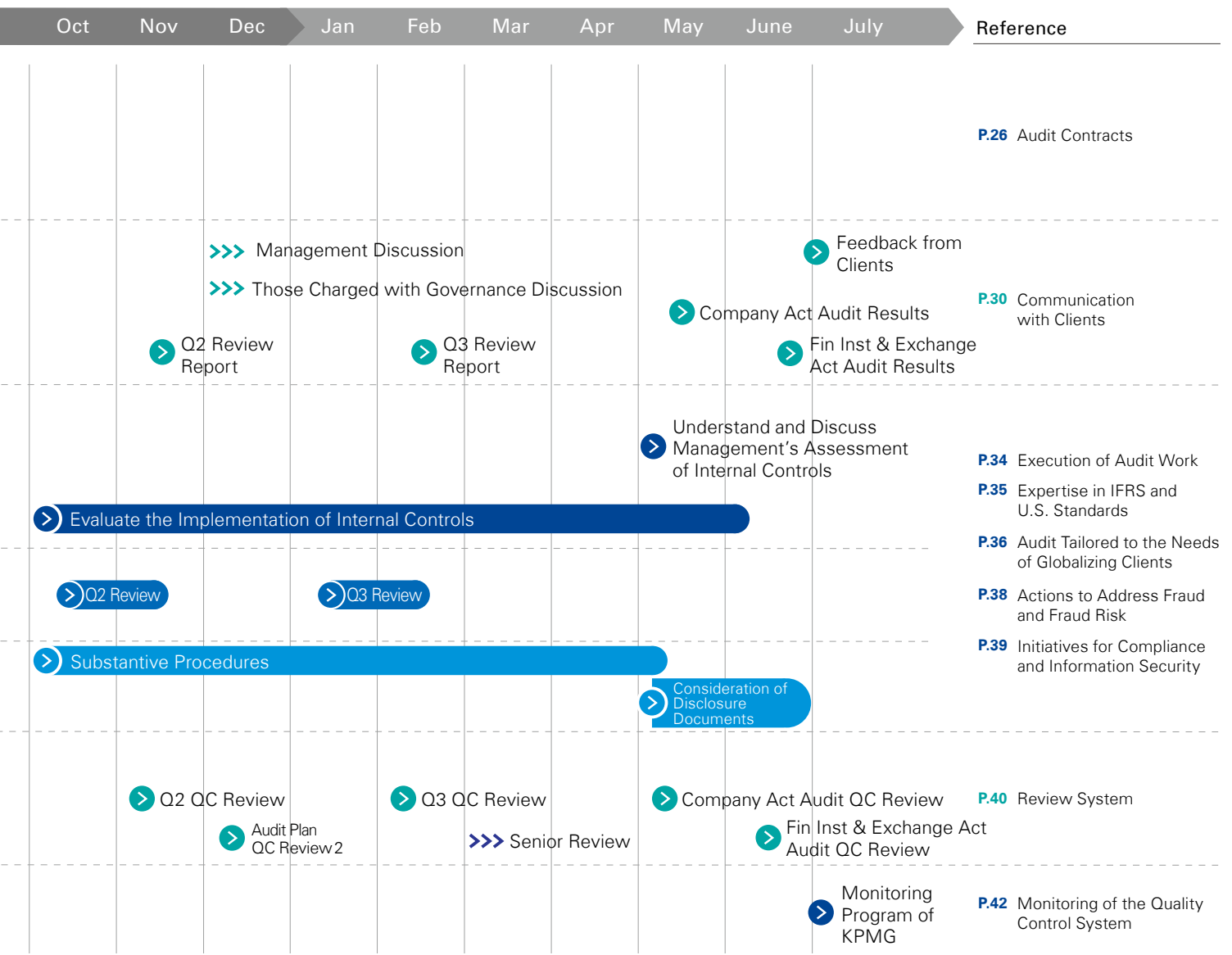
Annual schedule for audit services (e.g. a company with a fiscal year ending in March)

An example of an annual audit schedule for a listed company is given to the right. Before accepting an audit engagement, we conduct



pre-engagement procedures, such as contract risk assessments and engagement team formation. A risk-based approach is required for effective and efficient audits. Audit teams identify areas at risk of material misstatement by way of discussions with management and those charged with governance as well as by

assessing the design of internal controls. These risks are then addressed by assessing the operating effectiveness of internal controls and conducting substantive procedures. The audit then undergoes a quality control review at the appropriate timing and audit results are reported to the relevant parties, including those charged with governance.

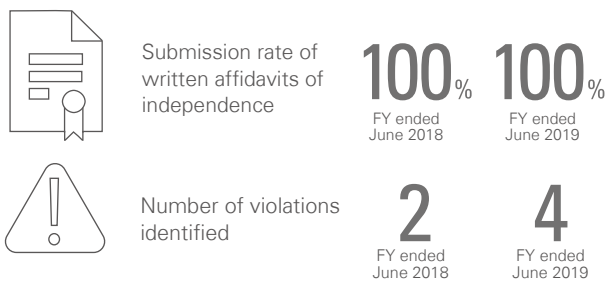


>>> : We execute the aforementioned processes as required through the year.

2. Audit Contracts

2-1. Independence and Ethics

The provision of audit services requires adherence to strict independence rules. Through internal rules on the maintenance of independence, which reflect KPMG independence policies, the CPA Law and related regulations, as well as guidance from the JICPA on ethics rules and independence, KPMG AZSA has established policies and written procedures on firm independence, personal independence, rules on post-retirement relationships, partner rotation, approval of audit and non-audit services and other relevant matters. All partners and staff are obligated to participate in independence training and to submit written affidavits of independence. Through these measures, we raise awareness of the importance of independence and ensure thorough implementation of the rules. Audits of personal financial independence are made for all partners and professional staff in order to monitor the state of compliance with independence requirements.



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

Independence with respect to audit clients needs to be guaranteed for the services provided by the KPMG network of firms. For this reason, the audit engagement partner confirms whether or not services should be provided in light of professional ethics rules for independence upon engagement acceptance regardless of whether they are audit or non-audit services.

2-2. Risk Assessment in Engagement Acceptance and Continuance

Prior to starting work on audit or other engagements, risks are assessed from several different viewpoints during the engagement acceptance process. Compliance with independence requirements is verified prior to entering into or renewing a contract. The risk assessment of a prospective client is made by examining management's integrity; the status of governance; performing background checks, including verification based on a variety of information that officers and others in key positions are not members of antisocial groups; and assessing the risks associated with key accounting and audit matters. After obtaining the results of these processes, acceptance or non-acceptance of engagements is decided through an appropriate approval process. Risk assessments of all audit clients are reviewed at least once a year. Reassessment is promptly made if there are signs of change in the risk factors of a client, such as a change in management or

shareholders or the emergence of a material incident. Furthermore, we have a system in place for managing information related to risk assessments and processes to ensure that significant audit issues, including fraud risk, are communicated to successor engagement partners when there is a change of engagement partners.

2-3. Change of Auditors

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

2-4. Formation of Audit Teams

Leaders of the firm's management units, including offices and audit divisions, form audit teams by appointing engagement partners and professional staff. Such appointments are made taking into account the skills needed for the audit work, experience in the sector to which the client belongs and other factors. To ensure that an appropriate team can be formed within KPMG AZSA, the appointment of partners to public interest entities is subject to certain conditions and approval by the Senior Executive Board. The appointed partner verifies that the assigned audit team has sufficient competence and aptitude to appropriately execute audit work in accordance with the applicable laws, regulations and standards.

2-5. Partner Rotation

Periodic rotation of partners engaged in audit work is mandatory in accordance with the applicable laws or independence-related regulations, as well as the policies of KPMG AZSA (including KPMG International policies). Where other rules are more stringent, such rules are applied. For a given period after a partner is no longer involved in an engagement, any involvement by the partner that may impact audit results is not permitted, including continued involvement in the audit engagement or being appointed as reviewer for the audit engagement.

2-6. Involvement of Specialists

Where an audit involves transactions or fraud risk requiring expertise related to complex IT processes, tax, finance or pensions, a specialist belonging to KPMG AZSA or another KPMG member firm, or a specialist from Global, may be involved depending on the risk assessment. KPMG AZSA's policy is to include IT specialists with expertise in information technology and system audits in audit teams in order to address the increasingly sophisticated and complex information systems of clients. For the year ended June 2019, specialists were involved in 1,600 audit teams.

KPMG's Approach to Non-audit Services

➤ Policy for the provision of non-audit services

As an accounting firm with an audit corporation at its core, our firm plays a social infrastructure role that ensures trust in the capital markets and is therefore required to put the public interest first. As such, it is KPMG AZSA's policy to also provide non-audit services that contribute to the sound growth and transformation of corporations, thus earning public trust without merely seeking profits. When providing non-audit services to our clients, we limit our services to those that allow us to retain our independence as auditors without assuming management responsibilities or performing work that we would go on to audit (i.e. self-audit).

➤ Governance of group companies

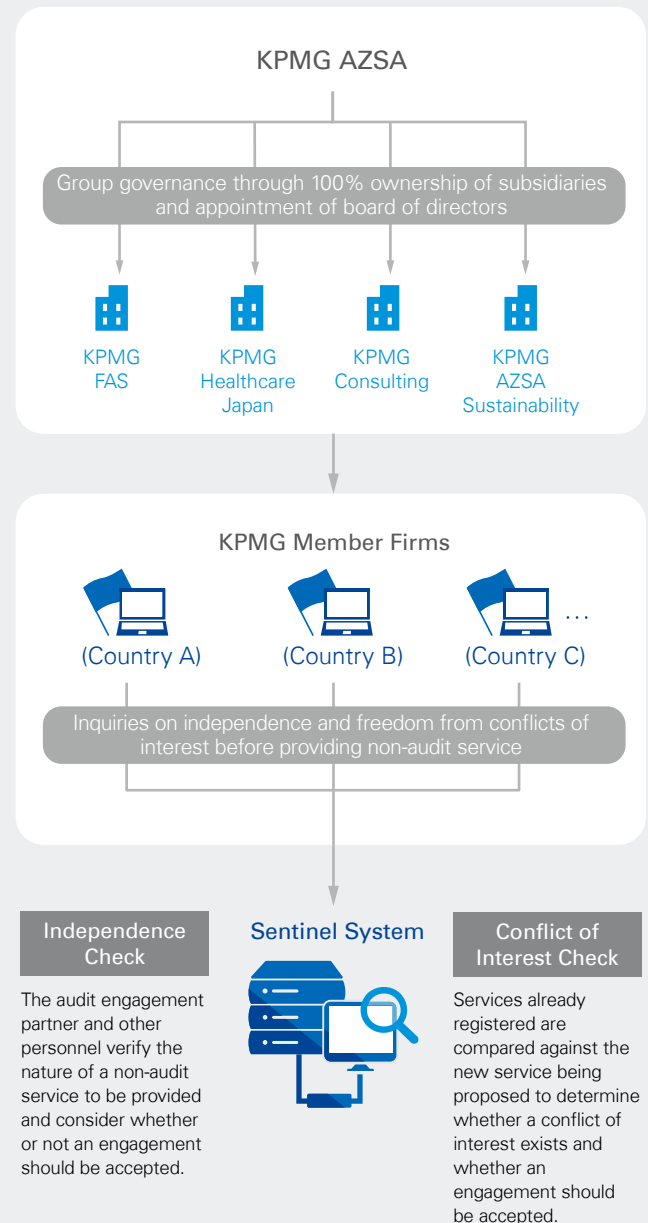
KPMG AZSA manages group companies that provide advisory services as 100%-owned subsidiaries. Senior Executive Board members and other executives of the audit corporation act as directors of group companies and participate in their management in order to reinforce governance of the group by KPMG AZSA.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

➤ Checking independence and conflicts of interest

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

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

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



3. Communication with Stakeholders

At KPMG AZSA, we make sure any feedback on our audit services received through communication with management and those charged with governance at our clients is utilized for the continuous improvement of our audit quality. We also engage in dialogue with investors and other participants in the capital markets in order to enhance the transparency of our operations as an audit firm and our audit services. Such communication is part of our continuous efforts to strengthen governance in compliance with the Audit Firm Governance Code released by the FSA on 31 March 2017.

3-1. Timely Communication with Management

We communicate with management to understand the client’s business operations and then conduct appropriate assessments of the risk of material misstatement whether due to fraud or error. Such discussions can also be used to understand the contents and background of judgments and decisions made by management, which may have a serious impact on financial statements. We share any issues regarding key matters with clients prior to period end so as to prevent any unexpected issues arising. Furthermore, we promptly discuss with clients what actions are appropriate or are required to deal with any situations that are identified, including where material misstatements are identified during audits, where misstatements due to suspected fraud are identified or where a significant deficiency in internal controls needs to be disclosed.

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

In order to strengthen corporate governance, cooperation between those charged with governance and external auditors is essential. KPMG AZSA engages in open and frank two-way communication through reporting to those charged with governance and through continuous consultations in order to share issues that have arisen during audits and other information that is useful to those charged with governance. Specifically, if a client is a listed company, reports and briefings are made periodically through formal correspondence, interviews and other means depending on the status of the audit or quarterly review. Such reports include an explanation of the audit plan, results of quarterly reviews, Companies Act audit results and Financial Instruments and Exchange Act audit results. We consult with clients regarding their compliance with laws and regulations as well as risks of material misstatements including those due to fraud. For situations requiring timely action, such as the discovery or suspicion of fraud, or if a significant deficiency in internal controls is identified, communication channels are maintained to allow for ad-hoc consultation.

3-3. Feedback from Clients (ACCESS)

The firm has established the ACCESS (AZSA Client Relationship Continuous Enhancement Process) program, which seeks feedback from a client’s management and other personnel on the quality of services provided. ACCESS is intended to provide an understanding of the client’s expectations and any areas of dissatisfaction, as well as areas in need of improvement, all with the objective of enhancing audit quality. Replies to ACCESS were received from 596 clients for the year ended June 2017 and from 601 clients for the year ended June 2018. A comparison of average scores over the three years since 2016 did not show major changes. However, where an individual item ranked lower, audit teams are analyzing details and discussing a concrete action plan for continuous improvement. To further facilitate communication, the firm initiated an ACCESS program for receiving evaluations directly from those charged with governance beginning in the year ended June 2016, and received 613 replies in the year ended June 2018. Based on the responses from those charged with governance, the firm is making a continuous effort to provide further useful information to clients, as the score for “information sharing” ranked lower than the overall average, while the results for “quality of audit service” were satisfactory.

Flow of ACCESS Activity



3-4. Dialogue with Investors

While we have been implementing measures to enhance transparency, the audit itself has been referred to as a black box. As an audit firm serving as a part of the infrastructure that supports the capital markets, we need to improve communication with the public as a priority through sharing our activities and initiatives more widely. To this end, we held dialogues with investors and other stakeholders in January and September 2019. We explained our initiatives for enhancing audit quality with the aim of giving the participants a deeper understanding of the audit, while we in turn received feedback from participants that we can apply to our organizational operations to make further improvements. We will continue to actively arrange opportunities for dialogue with investors on a regular basis.

Stakeholder Dialogues

January 2019 Key Audit Matters (KAM)

We exchanged opinions with regulatory officials and users of financial statements regarding the status of KAM initiatives at our firm, as well as the challenges relating to the introduction of KAM. We asked participants to share any questions they have regarding the impact of KAM on audit processes and expectations they have for the content of KAM, as well as their opinions on the implementation of KAM. We then shared our views in response to the matters raised.

September 2019 Initiatives for enhancing audit quality and expanding non-financial information

We exchanged opinions with institutional investors and users of company information regarding our firm's initiatives in relation to the audit approach to impairment of goodwill and expansion of non-financial information. This was held as a one-on-one dialogue where investors shared their thoughts on impairment of goodwill, their expectations for KAM, and their views on the auditing of non-financial information. We then explained the status of our firm's response to the matters raised.

Column

Audit Firms Joint Forum The mission required of audit firms today

On January 24, 2019, audit firms KPMG AZSA LLC, Ernst & Young ShinNihon LLC, Deloitte Touche Tohmatsu LLC, PwC Aarata LLC, and Nikkei Inc. hosted a joint forum with the theme "the mission required of audit firms today." With the accelerated globalization and digitalization of the corporate environment and the inclusion of "Key Audit Matters" in audit reports soon to begin, the capital markets continue to raise their expectations of audit firms. Representatives of the four audit firms held constructive discussions regarding the development of capital markets and the future of the national economy, looking at the essential nature of audit firms in terms of the role they should play. More than 500 participants joined the event held at Nikkei Hall. Participants comprised the CFO and corporate auditors of leading companies, influential figures and general participants. At the conclusion of this forum, the four audit firms issued a joint statement of commitments.

Joint statement

(extract from the "Four Commitments")

- 1) Enhancement of the reliability of financial reporting and audit**
 - Actively providing audit information including KAM reports
 - Promoting meaningful dialogue with stakeholders
- 2) Investment in information technologies**
 - Promoting the development of highly reliable and sophisticated audit technologies
- 3) Development of talent with capabilities appropriate for a global and digital society**
 - Fostering talent with a global mindset
 - Developing and improving capabilities at an organizational level through recruiting diverse talent and utilizing external insights
- 4) Contribution to the sound development of the national economy**
 - Contributing to resolving challenges faced by corporations through providing advice based on the experience and insights gained through audits

Deputy Managing
Partner

Takuji Kanai

(At a panel discussion on
the introduction of KAM)





Broader Communication through the Expansion of Corporate Disclosures and Introduction of KAM

Transformation of corporate disclosure practices and introduction of KAM

Transformation of corporate disclosure practices

As a part of corporate governance reforms, many initiatives are being taken to promote constructive dialogue through increasing disclosure. As a result, we are seeing transformations in the way information is disclosed by companies in their securities reports.

In terms of policy, the Cabinet Office Ordinance on the disclosure of information was revised in January 2019 taking into consideration the report by the “Working Group on Corporate Disclosure” of the Financial System Council. In response to this, information on governance has expanded in securities reports from the fiscal year ended March 2019.

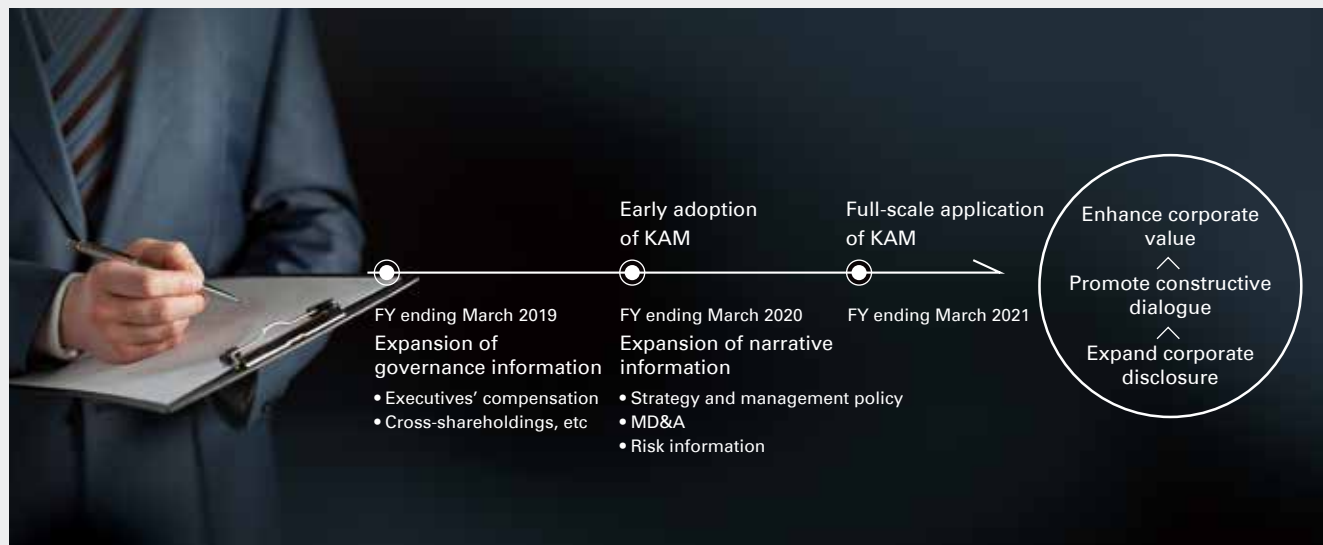
The FSA has published “Principles Regarding the Disclosure of Narrative Information” and “Examples of narrative information disclosures” in March 2019, and the scope of information will be further expanded in the fiscal year ending March 2020. Notably, there are expectations for disclosures by segment from the viewpoint of management that reflect discussions at board or management meetings regarding management policies and strategies, management discussion and analysis (MD&A) and risk information.

Introduction of KAM

With respect to audit, in July 2018, the FSA’s Corporate Accounting Council published “Opinion on the Revision of Auditing Standards.” Following the preparation of relevant regulations, the communication of Key Audit Matters (KAM) will be required in audit reports beginning with Financial Instruments and Exchange Act audits of financial statements for the accounting year ending March 2021. Early adoption of KAM is permitted for audits for the accounting year ending March 2020.

The introduction of KAM is aimed at improving the value of information provided in audit reports through increasing the transparency of audits. For this reason, there are expectations to provide as much detail as possible in KAM content, for example by indicating the segment and industry of areas or amounts that are covered by KAM, in order to ensure that there is no confusion among users of financial statements. Going forward companies will need to consider how to respond to KAM as they prepare their financial statements in the context of a push for expanded narrative disclosures. It will be important for management and those charged with governance to hold discussions with the auditor at an early stage.

Trends in the expansion of corporate disclosures



Changes in the way auditors communicate with those charged with governance, taking KAM into consideration

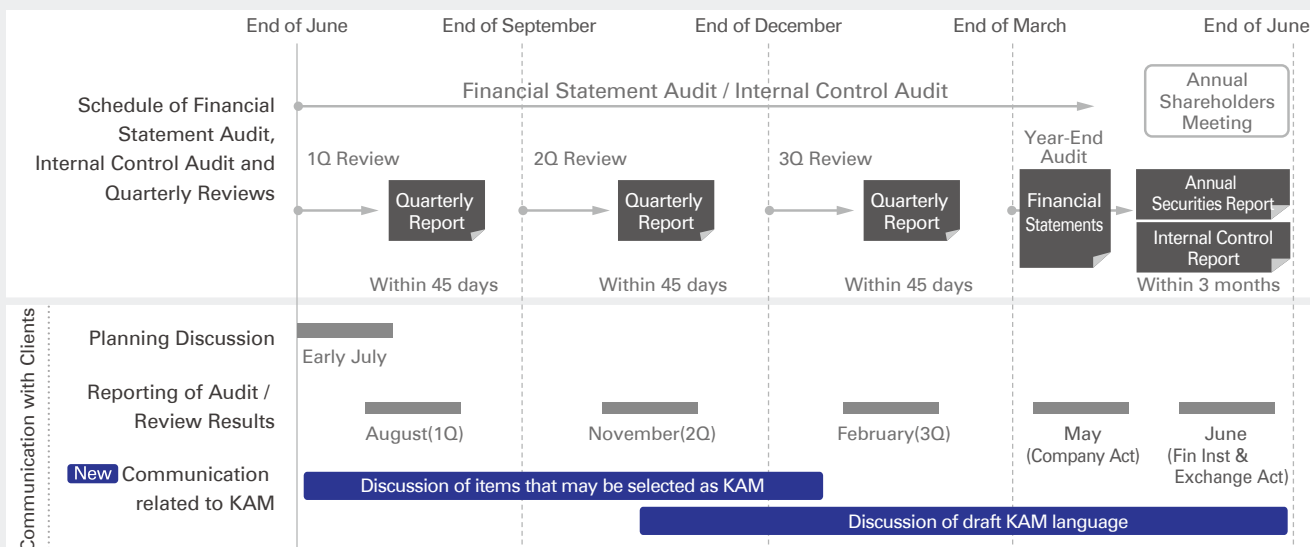
Changes in communication as a result of the introduction of KAM

Items selected as KAM are defined as matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period, and are selected from matters communicated with those charged with governance. While this generally means that clients have already given considerable thought to the matters, results of a KAM trial run by KPMG AZSA indicated that in conjunction with KAM content, consideration of additional disclosures is also required by the management side. Those charged with governance are also required to give fresh consideration to their own audits of items that may be selected as KAM. There is no set form of communication regarding KAM, so it is likely to vary depending on the nature of existing communications and level of disclosures.

KPMG AZSA's approach and matters to note

For these reasons, at KPMG AZSA, we hold discussions regarding KAM content with our audit clients as early as possible to consider how to address the subject. However, we are not able to issue a final judgment as to which items will be selected as KAM until the final stage of the audit. It is therefore desirable for the auditor and those charged with governance to hold discussions throughout the audit period, and after the auditor thoroughly shares which items they are considering as KAM, to also consider whether those charged with governance are taking the appropriate measures to address the matters. In some cases, it may be useful for the client to seek more detailed information on the auditor's proposed audit approach than in the past. In this way, sharing which items may be selected as KAM with the auditor and assessing whether the respective audit approach is sufficient and appropriate at an early stage of the audit will allow those charged with governance to gain a better understanding of whether they have given sufficient consideration to key issues. Through deeper communication, we believe clients will be able to provide appropriate responses to questions regarding KAM from external parties including those raised at shareholders' meetings.

Changes in communication as a result of KAM introduction



4. Execution of Audit Work

4-1. Audit Methodology

KPMG AZSA conducts audits in accordance with the KPMG Audit Manual, which is the manual used in common by KPMG member firms. The KPMG Audit Manual contains KPMG's audit methodology and audit policies that must be complied with, meeting international audit requirements while including additional requirements for the maintenance and enhancement of audit quality. KPMG AZSA has added to the KPMG Audit Manual criteria required of professionals that are unique to Japan, as well as applicable laws, regulations, guidelines and other norms. KPMG AZSA also maintains the Combined Audit Manual (CAM) based on the KPMG Audit Manual for audits of internal control, allowing efficient integrated audits of financial statements and internal controls.

4-2. Electronic Audit Tool (eAudIT)

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

4-3. KPMG Central

Our firm has implemented KPMG Central, which is used by KPMG member firms to address the risk of data loss or incorrect transmission through a USB device or email. KPMG Central is a web-based communication tool that allows for the exchange of information (electronic data) needed for an audit between clients and audit teams.

4-4. Appropriate Involvement of Engagement Partners

With a full understanding of matters related to clients, engagement partners demonstrate leadership and are appropriately involved in each stage of the audit, including risk assessment, development of audit procedures to mitigate risks and the compilation of audit evidence. Full participation by the engagement partner is indispensable in identifying critical audit matters, such as areas requiring judgment and significant risks. Full involvement of engagement partners allows for effective and efficient audits.

4-5. Consultation

We have established a portal for receiving consultations related to individual engagements in order to assist audit engagement professionals in addressing difficult or contentious matters. If review by the Senior Review Board is deemed necessary as a result of a consultation, audit teams will promptly receive such a review. Engagement teams are required to submit consultations to the portal when indicators suggesting material misstatements due to fraud are identified. Moreover, we are also progressing with the utilization of our accounting and audit Q&A system (KOMEI) that accumulates and shares insights within the firm through the utilization of AI technologies (see P.13), in addition to releasing an FAQ page on our website based on a classification of inquiries made from audit teams. Through this process we are able to narrow down our focus on matters of higher priority and secure time for consideration with a focus on these matters.

4-6. Promoting Efficient and Consistent Audits through Work Centralization

KPMG AZSA launched the AZSA Delivery Center (ADC) within the Quality Assurance Headquarters for the effective utilization of part-time employees including CPAs and staff other than those with professional qualifications. Tasks including sending and receiving confirmation letters, assisting with the preparation of audit contracts and audit instructions sent to auditors of overseas subsidiaries and other such work are centralized in the ADC. ADC staff process these tasks centrally to achieve efficiency and consistency. We will expand the scope of ADC utilization in the future to achieve even higher efficiency and consistency, and work on providing an environment in which professionals can focus on areas of advanced expertise. We have also assigned audit assistants in each audit division to provide direct support to audit teams at audit sites.

As of June 2019, 185 people belong to ADC (including those with other concurrent roles).

5. Expertise in IFRS and U.S. Standards

5-1. Expertise in IFRS and Provision of Related Information

KPMG AZSA has many capable professionals with rich experience auditing Japanese companies that adopt IFRS as well as material subsidiaries in Japan of multinationals that use IFRS. Audit teams need to make judgments related to various issues of interpretation and application of IFRS at Japanese clients that arise during the closing of accounts and during the audit. KPMG AZSA's Department of Professional Practice supports audit teams by interpreting IFRS in the context of business practices of Japanese corporations. Our firm includes partners who have experience working at the IASB (International Accounting Standards Board), the IFRS standard-setting body, as well as at KPMG's ISG (International Standards Group), the network's core organization specializing in IFRS, headquartered in London. These individuals, together with partners with extensive practical experience in both IFRS audits and IFRS-related advisory work, are involved as appropriate, providing engagement teams with a high degree of expertise in IFRS. The IFRS Advisory Office, organized within the Department of Professional Practice, is active in collecting and sharing information on the latest trends in IFRS, as well as information related to issues of IFRS application that are unique to Japan. Their activities include publishing books and articles and sponsoring seminars.

5-2. Ensuring Adequate Audit Support for IFRS

KPMG AZSA has been continuously fostering professionals with IFRS expertise through training and opportunities for practical IFRS experience. This has allowed us to build an adequate audit support structure that can effectively accommodate the increasing number of corporations adopting IFRS.

5-3. Expertise in U.S. Standards and Provision of Related Information

The Department of Professional Practice collects and shares information on the latest trends and developments in IFRS, US and Japanese standards. Audit teams need to make judgments related to various issues of interpretation and application of US GAAP/GAAS at Japanese clients that arise during the closing of accounts and during the audit. KPMG AZSA's US Capital Markets Group, established within the Department of Professional Practice, supports audit teams by interpreting US GAAP/GAAS in the context of business practices of Japanese corporations. The US Capital Markets Group is organized around those who have experience in the US member firm's quality control department, US Department of Professional Practice (US-DPP, New York), thereby providing a high degree of expertise in US standards.

Column

Contributing to Developments in Accounting Standards and Audit Standards

The firm contributes to the development of accounting and audit standards through the involvement of experienced professionals in standard-setting processes.



Department of Professional Practice-Audit Quality,
Financial Service Division,
Partner

Tomokazu Sekiguchi

- Establishment of both domestic and international accounting and auditing systems at the Financial Services Agency (FSA)
- Development of Japanese accounting standards as a technical staff and full-time board member at the Accounting Standards Board of Japan (ASBJ)
- Development of International Standards on Auditing (ISAs) as a part-time board member of the International Auditing and Assurance Standards Board (IAASB)

Currently, I am providing audit and advisory services to financial institutions in addition to my responsibility for quality management in the Department of Professional Practice-Audit Quality. My experience at the FSA and ASBJ/IAASB has been extremely useful when considering firm quality management and resolving related issues.



Department of Professional Practice-Accounting,
Partner

Yasunobu Kawanishi

- Development of Japanese accounting standards as a technical staff, full-time board member and Vice Chair at the ASBJ
- Development of US GAAP and engagement in IFRS convergence projects as an international research fellow at the Financial Accounting Standards Board (FASB)
- Development of Conceptual Framework as a visiting fellow at the International Accounting Standards Board (IASB)
- Elected as Chair of the International Forum of Accounting Standard Setters (IFASS)

As Vice Chair of the ASBJ, at present I am primarily engaged in international activities and attend international conferences as a Japanese delegate. I express opinions with a view to making international accounting standards more easily accepted in the context of Japanese standards.

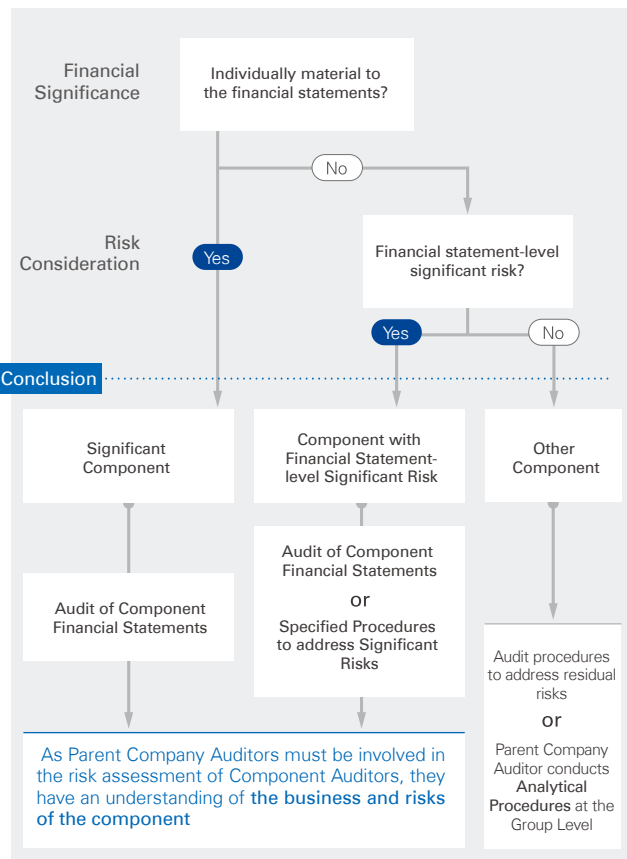
6. Audit Tailored to the Needs of Globalizing Clients

6-1. Overview of Group Audit

When conducting group audits, the group audit team auditing the parent company assesses the financial materiality and level of risk of consolidated subsidiaries. Based on this assessment an audit plan is tailored to meet the needs of subsidiaries and is communicated by way of providing instructions to local audit teams. Local audit teams then provide reports on the work performed for subsidiaries, which allows the group audit team to develop an opinion with respect to the consolidated financial statements of the group.

When designing an audit plan, group audit teams first identify companies that are material to the consolidated financial statements and then those companies which have significant risks and designate both as significant components. Teams next execute an audit of subsidiary financial statements or perform audit procedures to address the significant risks. Where companies being audited for group purposes do not fall under either of the categories mentioned above, they are considered "other components" and are subject to audit procedures or analytical procedures at a group level depending on the residual risk.

Scoping the Group Audit



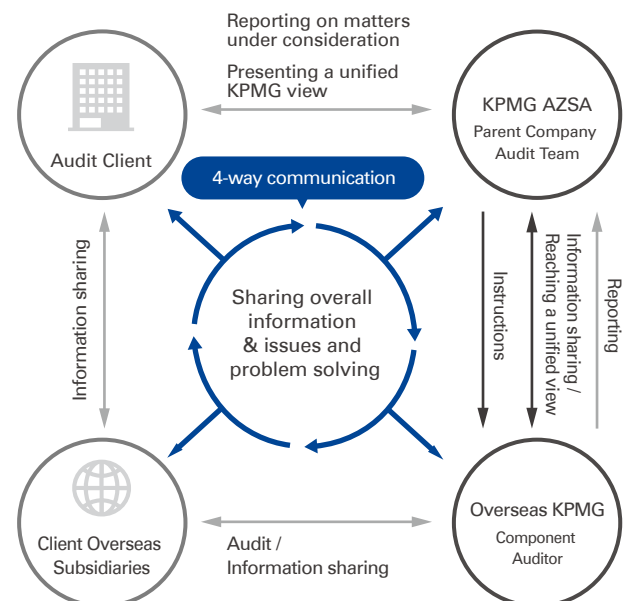
6-2. Parent Company Audit Team Initiatives

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

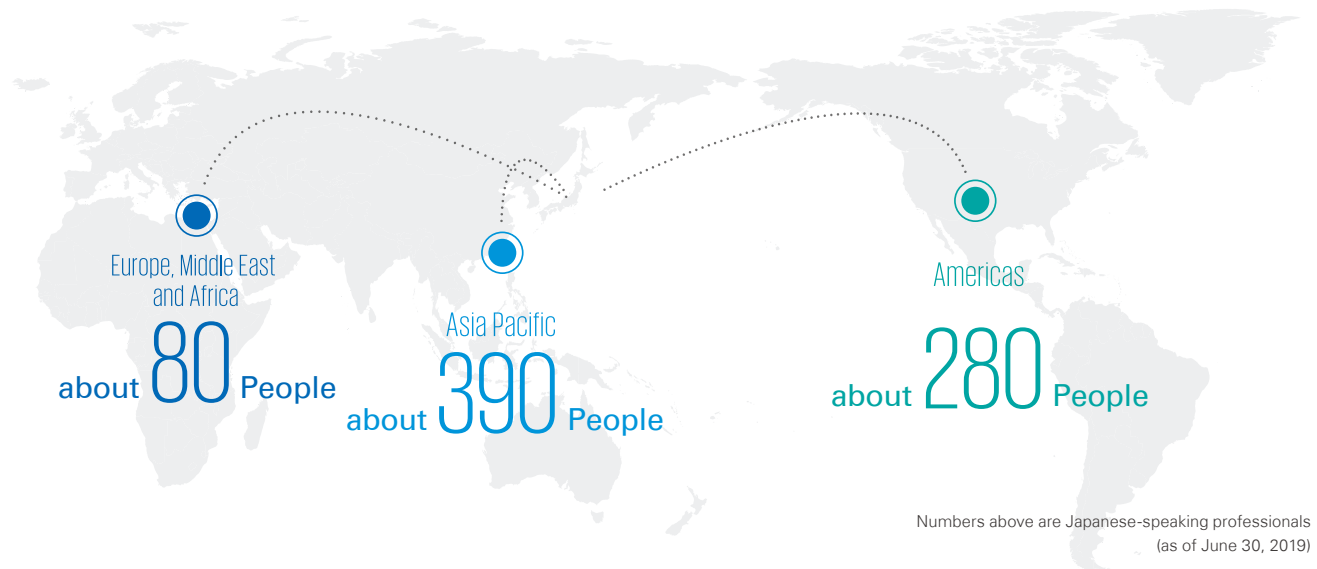
All KPMG member firms follow the KPMG Audit Methodology and the KPMG quality control framework, thus ensuring that a consistent level of audit quality is maintained by all KPMG member firms that audit the consolidated subsidiaries and other overseas affiliates of KPMG AZSA clients.

At the same time, given that material accounting and audit issues arise in subsidiaries located in regions with significantly different accounting practices and business styles, the parent company audit team in Japan should take ownership to solve problems collaboratively, rather than leaving issues to be resolved by subsidiary audit teams. In such cases, KPMG AZSA sends the person responsible for the parent audit team to the local audit location to enable direct communications between the parent company, the overseas subsidiary and the local audit team, thus allowing for timely resolution.

Communication in the Group Audit



GJP Network



6-3. Quality control at a global level

KPMG AZSA plays an important role in the initiatives led by KPMG International to enhance audit quality. We participate as a key member in regular meetings to exchange information on initiatives led by each firm. We have demonstrated strong initiative at a global level through the introduction of our efforts to enhance quality, including most notably the Four Defense Lines. As one of the network's major firms we participate in the KPMG Global Board meetings and communicate closely with all KPMG firms. This active involvement enables our firm to take appropriate measures on a timely basis to ensure the execution of all of our group audits.

6-4. GJP Network

The Global Japanese Practice (GJP) is KPMG's global network for supporting the overseas business development of Japanese companies. Facing low birthrates, an aging population, market saturation and increases in production and labor costs in their home market, Japanese companies are shifting their focus from the domestic to the overseas playing field. This is leading to increased diversity in their business and rapid expansion of their operations. Due to the saturation of the domestic market, many Japanese companies are transferring both sales locations and production sites to overseas countries, and are actively investing internationally, including through the acquisition of foreign companies. These circumstances are compelling Japanese companies to continuously grow their presence in foreign markets.

In response to this foreign investment trend, KPMG GJP has established a network of Japanese-speaking professionals in some 80 cities across each of our regions: Americas; Europe, Middle East and Africa (EMA); and Asia Pacific (ASPAC). We provide Japanese clients that have operations in foreign markets or who are new entrants to overseas markets with advice on local business operations, management and new investment opportunities, as well as accounting and taxation support for Japanese companies' overseas business.

In recent years, the global political climate and international business environment have become more complex and diverse. In this regard, Client Service Teams (CSTs) with multinational team members handle cross-border and global engagements that are not limited to a single county.

6-5. Country Desks

KPMG GJP includes Support Offices for countries and regions of high strategic importance to Japanese companies including China, India, EMA and ASEAN. To support Japanese companies as they expand globally, we have further set up Country Desks consisting of professionals who have experience working abroad in over 30 countries. Country Desks exchange information in a timely manner and provide appropriate services to meet a variety of needs for Japanese headquarters and overseas subsidiaries.

7. Actions to Address Fraud and Fraud Risk

7-1. Actions to Address Fraud Risk

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

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

7-2. Occurrence of Fraud

Quick action is required when fraud has occurred. The client needs to make clear all facts and analyze the cause of the fraud, determine any impact on accounting and investigate whether or not other similar situations exist. It is further necessary to devise and implement measures to prevent a recurrence of similar cases, take corrective actions for internal control and consider whether prior year financial statements must be revised. For such clients, the audit team provides timely and appropriate advice and considers the sufficiency of the client's investigation, corrective actions taken with respect to internal controls and whether or not retroactive corrections are required. Depending on the case, a specialist with insight into fraud and scandal investigations may be involved to complete the necessary procedures.

When fraud is involved, the time needed for an audit may be greatly impacted depending on the depth and progress of investigation by the client. KPMG AZSA takes the necessary actions to form an appropriate audit opinion in cooperation with the client.

The diagram on the right illustrates an example of fraud identified by whistleblowing.

In the event a full investigation is not made at the time a fraud case has occurred and similar cases are later found, confidence in and the brand of a corporation will be greatly

damaged. It is extremely important for a client and audit team to cooperate closely after fraud is identified and take action with respect to the handling of accounting treatment and disclosure policies. Where fraud takes place at an overseas subsidiary, it is easy for communication to be inadequate due to differences in business, accounting and auditing practices in the various countries. Such situations require careful attention so that adequate investigations and timely reporting may be conducted locally. The audit team of a parent company must collect information and identify and assess the fraud risk in cooperation with auditors of the component. Necessary information is provided and instructions are given to auditors of the component so that the local audit is performed efficiently.

Examples of Actions Taken to Address Fraud

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

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

8. Initiatives for Compliance and Information Security

8-1. Compliance organization

KPMG AZSA maintains a compliance organization to raise compliance awareness among the firm's people and to ensure that the KPMG AZSA Code of Ethics is thoroughly observed. The firm has established a Compliance Committee comprising 16 members from KPMG AZSA and one outside member (a lawyer) for a total of 17 members, as of October 1, 2019. The Committee's activities include revising the Code, providing compliance training programs, education activities including issuance of an email magazine, and setting up the Compliance Hotline. A contact for whistleblowing has also been set up to collect a wide range of internal and external information related to violations of, or acts that may violate, laws and regulations, for example fraud or manipulation of accounts, impairment of independence and insider trading.

8-2. Prevention of Insider Trading

Audit team members frequently come into contact with material, undisclosed information while performing audits and are required to conduct work with a high sense of ethics. At KPMG AZSA, insider trading prevention efforts include the establishment of the Insider Trading Oversight Committee, mandatory training for partners and staff and the submission of written affidavits pledging to observe laws and regulations. Other measures include prohibitions and restrictions on investments in audit clients and mandatory registration of securities and other assets in an online tool.

8-3. Information Security Structure

The maintenance of information security is an important challenge for audit firms that handle confidential client information. KPMG AZSA has set a clear policy for the wide-ranging domains of information security. The importance of handling confidential client information is communicated to all partners and employees by providing training on the Code of Conduct and annual processes including a compliance affidavit. The policy for retention periods and methods of handling working papers is decided in accordance with ethics rules, standards of regulatory authorities, laws and regulations for handling of audit working papers and other policies related to auditing. The firm's policy on data privacy has been established so as to manage the handling of personal information in compliance with the Act on the Protection of Personal Information. All partners and employees are required to receive training on data privacy. In addition, communication inside and outside of KPMG AZSA is analyzed in real time by security specialists at KPMG's Global Security Operation Center (GSOC).

➤ VDI (Virtual Desktop Infrastructure)

Due to the nature of audit work, personal computers are often carried outside company premises. The firm therefore introduced VDI (Virtual Desktop Infrastructure) as a security measure. In a VDI environment, data including eAudit (see P.34) is not saved on firm-issued PCs but is saved instead on the server. This means client data is stored on a server in a data center managed by KPMG AZSA, rather than on the hard drive of a firm-issued PC, thereby further enhancing information security.

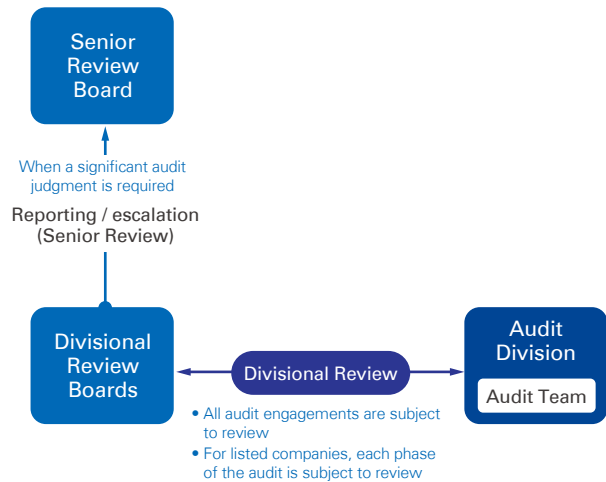


9. Review System

9-1. Review System Overview

At KPMG AZSA, two layers of Engagement Quality Control (EQC) review boards are maintained: the Senior Review Board and Divisional Review Boards. The members of the Senior Review Board include the Chairman of the Senior Review Board who is appointed by the Partners Meeting and the Vice-Chairmen who are selected by the Senior Executive Board. The Senior Review Board develops basic review policies, elects the chairmen and vice-chairmen of the Divisional Review Boards, monitors the review status of the Divisional Review Boards and renders the firm’s final judgment on audit opinions where there are critical audit issues. The Divisional Review Boards are organized by each audit division as well as on a firm-wide basis by sector in order to deal with specialized and unique topics relevant to the different sectors. These review boards interact with engagement partners regarding required actions resulting from a consultation, elect and supervise Divisional Review Board members, identify audit risks, monitor Divisional Review Board reviews and report review results to the Senior Review Board.

Review Structure



9-2. Divisional Review

Prior to issuance, every audit report is required to be reviewed by the Divisional Review Board, with reviews conducted by an experienced audit partner who is independent of the audit team. In particular, for audits of listed companies, the Engagement Quality Control (EQC) reviewer performs a timely and in-depth review of decisions and judgments made by the audit team, ranging from engagement acceptance to drafting of the audit plan and audit opinion. If a listed company has a fiscal year ending on March 31, the review is conducted based on the schedule shown at the right. Where an audit engagement was evaluated as high risk or where there are individual significant risks, the Divisional Review Board reviews such engagements on an as-needed basis, in addition to the reviews shown at the right.

Quality Control Review Schedule (March year-end company)

Timing	Review Subject	Details
Early Aug	Q1 Review	Review plan and conclusions for the 1st quarter
End of Sept (goal)	Audit Plan Review 1	Basic approach for the annual audit
Early Nov	Q2 Review	Review plan and conclusions for the 2nd quarter
End of Dec (goal)	Audit Plan Review 2	Detailed plan for the annual audit
Early Feb	Q3 Review	Review plan and conclusions for the 3rd quarter
Early May	Companies Act Audit	Opinion on the Companies Act Audit
Mid June	Fin Inst & Exchange Act Audit	Opinion on the Financial Instruments & Exchange Act Audit

9-3. Senior Review

In situations involving significant audit judgments, for example engagements meeting certain conditions or where the audit team and the reviewer have a difference of opinion, the review is escalated from the relevant Divisional Review Board to the Senior Review Board, which conducts a review in order to render the firm’s final judgment. The number of cases considered by the Senior Review Board for the year ended June 2019 totaled 331.

9-4. Understanding of Risk Information

Audit teams of clients subject to certain requirements, such as listed companies, prepare a risk survey form for each client twice a year and submit these to the Divisional Review Boards after they are reviewed by Engagement Quality Control (EQC) reviewers. The Divisional Review Boards review risk survey forms and conduct hearings with audit teams and EQC reviewers to comprehensively understand audit risk information. The Divisional Review Boards report the risk information to the Senior Review Board, which then decides whether a review by the Senior Review Board is required.

9-5. Review Structure for IFRS Matters

Audits of corporations that have adopted IFRS are subject to review by reviewers who have experience in auditing IFRS clients and are fully competent in executing audit work. When an audit is subject to review by the Senior Review Board, partners well versed in IFRS accounting act as reviewers, addressing complex and sophisticated issues. Professional judgment with respect to IFRS accounting is conducted within Japan and audit issues are addressed promptly.

9-6. Review Structure for US GAAP/SEC Matters

Audits of corporations that have adopted US accounting standards are subject to review by reviewers who have experience in auditing US GAAP and are fully competent in executing audit work. When an audit is subject to review by the Senior Review Board, partners well versed in U.S. accounting standards act as reviewers, addressing complex and sophisticated issues. For SEC filings, Japanese SEC reviewing partners review and approve related documents, with the audits conducted by and any final judgments on audit matters decided by KPMG AZSA. For audit matters of the highest sensitivity Japanese SEC reviewing partners consult directly with KPMG US-DPP and take prompt action.



Message from the Chairman of the Senior Review Board

“The role of an increasingly important review”

With rapid innovations in technology, economic transactions are going beyond borders and becoming increasingly complex. Meanwhile, work style reforms have been leading to improved efficiency within companies, and the public’s expectations of audit firms are becoming broader. Audit firms will begin the inclusion of KAM in our audit reports (mandatory adoption from the fiscal year ending March 2021). With new businesses and industries entering the market, our audit work needs to involve not only CPAs but also a diverse team of experts.

Against this backdrop, reviewers independent of audit teams who review the team’s audit procedures and judgments from audit planning to audit opinion issuance play an increasingly important role. In response to requests made by stakeholders (in particular, investors and regulatory authorities) to emphasize the importance of reviews, the International Auditing and Assurance Standards Board (IAASB) established independent standards for such reviews (ISQM2).

The Senior Review Board will also take these standards into account and make sure our review function is sound. We will continue our initiatives to achieve an audit quality that ensures there are no material misstatements in important audit areas. Specifically, on an annual basis the board establishes basic review principles and designates priority matters for review and ensures these are followed throughout the firm. We also conduct hearings regarding audit risks for clients under the supervision of the respective Divisional Review Boards, issue bulletins on a timely basis to raise awareness of key matters relevant to the reviews, and share information through meetings for those in charge of reviews. Through these activities, we will improve the quality of our audits by maintaining close communication between the audit teams, the Divisional Review Boards and the Senior Review Board.

Chairman of
the Senior Review Board

Eiji Mizutani



10. Monitoring of the Quality Control System

10-1. KPMG’s Monitoring Program

KPMG has an integrated monitoring program for all member firms to verify that quality control policies and procedures are fit for purpose, appropriate and operating effectively. Based on this monitoring program, KPMG AZSA conducts Quality Performance Reviews at the engagement level and the Risk Compliance Program at the firm level. Under the Quality Performance Review program, audit engagement partners are selected for review at least once every three years. Prior to finalizing the ratings, the results of these reviews are subject to a second round of reviews by reviewers from other KPMG member firms. Beginning with the year ended June 2019, evaluation policies were revised with the aim of utilizing review results and matters for improvement more actively in the firm’s initiatives for enhancing audit quality. The results of the Quality Performance Reviews performed for the last two years are given below. None of the review results included cases that required a revision of the audit opinion.

Quality Performance Review Results

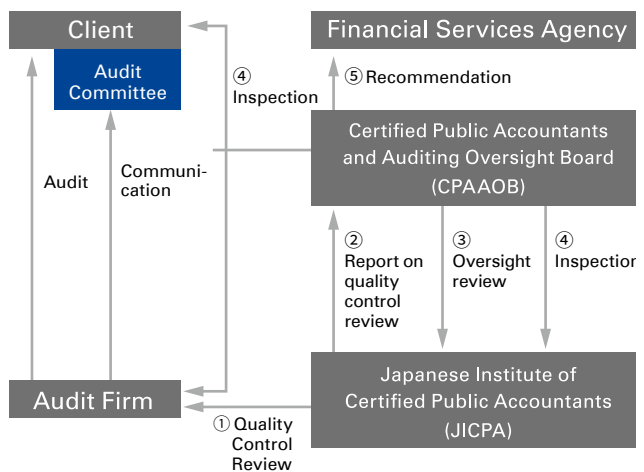
Year of review	FY ended June 2018	FY ended June 2019
Number of reviews (partner coverage)	142 (46.0%)	114 (47.0%)
S No deficiencies, or clearly immaterial deficiencies only	114	70
P Mainly deficiencies in documentation	23	32
U Mainly deficiencies in audit procedures	5	12

The Risk Compliance Program is a system whereby KPMG member firms annually self-assess the status of their compliance with quality control requirements, after which KPMG’s Global Quality & Risk Management (GORM) group reviews the results of the self-assessment. Under this system, GORM’s Global Compliance Review team further reviews the procedures conducted as a part of the self-assessment and the appropriateness of judgments in order to achieve consistency of procedures and judgment criteria at a global level. Areas for improvement found through these monitoring programs are reported to the Senior Executive Board and implementation of the required actions is verified.

10-2. Inspection by External Bodies

The Japanese Institute of Certified Public Accountants (JICPA) conducts quality control reviews to investigate the quality control status of audits performed by certified public accountants and audit firms. The Certified Public Accountants and Auditing Oversight Board (CPAAOB) established in the Financial Service Agency in turn reviews the results of the JICPA quality control review and conducts inspections of audit firms as necessary.

Quality Control Review by JICPA and Inspection by CPAAOB



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

10-3. Quality control reviews by the Japanese Institute of Certified Public Accountants (JICPA)

Quality control reviews by the JICPA are performed for audit firms that audit listed companies and other designated entities. Quality control reviews of the largest audit corporations are normally undertaken once every two years. Additionally, special reviews, for example reviews of limited audit firms, are conducted in addition to the regular reviews for situations that could damage society's confidence in audits. The results of the regular reviews are reported to the audit firms in the form of quality control review reports. Depending on the progress of improvement related to quality control review reports and any improvement orders, the JICPA may take actions including issuing a warning, a strict warning, or a recommendation to resign from an audit engagement. Depending on the nature of such actions, the JICPA may additionally add a disclosure explaining the review qualification (material flaws) to the Register of Listed Company Audit Firms* (the Register) or may have the firm in question removed from the Register. KPMG AZSA has not been subject to any such actions resulting from quality control reviews made in the past – neither disclosure of review qualifications on the Register nor removal from the Register.

* JICPA operates the registration system for audit firms that conduct audits of listed companies and discloses an overview of quality control implemented by audit firms in the review qualifications on the Register of Listed Company Audit Firms.

10-4. Inspection by the Certified Public Accountants and Auditing Oversight Board (CPAAOB)

The CPAAOB receives reports from the JICPA on quality control reviews and examines, from a public interest standpoint independent of the JICPA, whether the quality control review system is operating appropriately and whether audits by audit firms are being conducted appropriately. The CPAAOB also conducts on-site inspections of audit firms as necessary. If it becomes clear that a quality control review by the JICPA was not conducted appropriately, an audit firm's quality control was found to be materially insufficient, or audit work did not comply with a law or regulation, the CPAAOB will recommend to the Commissioner of the Financial Services Agency administrative sanctions necessary to ensure the proper operation of the JICPA and audit firms. In response to such a recommendation made by the CPAAOB, the Financial Services Agency may impose administrative sanctions (disciplinary actions), including issuing an order to

improve business operations, whole or partial suspension of business, or a fine.

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

10-5. Review by the Public Company Accounting Oversight Board (PCAOB)

It is mandatory for accounting firms performing audits of publicly listed companies in the US to register with the PCAOB. The PCAOB conducts a regular review of both the systems of quality control at these firms that ensure that audits are conducted in accordance with PCAOB standards, as well as the quality of individual audit engagements. Reports of reviews that have been conducted by the PCAOB to date are available on its website.

10-6. Response to Findings

KPMG AZSA analyzes the root causes of issues related to audit quality under the leadership of senior management and conducts continuous activities to improve audit quality. Findings raised in the JICPA quality control review or the CPAAOB inspection are analyzed from various angles, and we make a firm-wide effort to map out action plans to prevent the recurrence of similar matters.

For example, we provide training to all staff members that incorporates specific examples from the findings. In this training, we emphasize that each audit team should identify audit risks accurately by sharing significant audit areas and reminders for audits, and conduct effective audit procedures focusing on these risks, as opposed to taking a mechanical approach based on check lists or manuals for all audit areas. The audit divisions monitor how the areas with findings are dealt with by the audit teams. The Audit Monitoring Office in turn monitors the results of such monitoring activities on a firmwide basis. Monitoring results are reported to the Senior Executive Board and other bodies, which instruct additional follow-up measures as necessary.



Administrative sanction by the FSA

Past five years

0

CASES



Action based on JICPA review results

Past five years

0

CASES

III. Human Resource Development

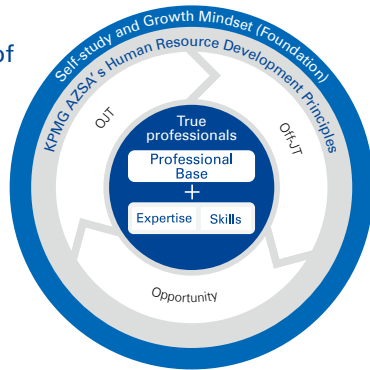
1. Development of True Professionals

The development of true professionals who contribute to society is a must for maintaining and enhancing audit quality. KPMG AZSA has set out the firm’s Human Resource Development Principles and is fostering true professionals through the “Three O’s”— OJT, or on-the-job training, at audit workplaces; Off-JT, or off-the-job training, for providing more practical and pragmatic training to acquire expertise and human skills; and by providing wider work Opportunities.

1-1. Human Resource Development Principles

KPMG AZSA understands that the basis of audit quality is the quality of our people. We have therefore set our Human Resource Development Principles as follows: “In order for KPMG AZSA to realize the firm’s basic principles and to fulfill its responsibilities as a public institution, we must develop true professionals who make a contribution to society by systematically building and maintaining an environment that allows our people to acquire the expertise and skills necessary to provide high quality services.” KPMG AZSA defines true professionals to be persons who not only possess both expertise and skills, but also have high ethical standards, integrity, a sense of responsibility and are capable of solving problems based on their power of understanding and logical thinking. The individual’s own diligent self-study and high aspirations are the foundation of developing such true professionals. True professionals can be developed by enhancing OJT, by supplementing practical expertise and human skills through Off-JT and by providing wide-ranging opportunities in accordance with the firm’s Human Resource Development Principles.

Conceptual Diagram of Human Resource Development



1-2. Employment of Professional Staff

At KPMG AZSA, professional staff are employed based on the firm’s management policy and in accordance with a personnel plan. The staff selection process consists of a review of applicant requirements, document screening, a series of interviews to assess competence and skills, and competence and professional aptitude tests. Partners interview applicants directly to determine whether an applicant is capable of appropriately executing work in accordance with the firm’s management policy.

1-3. Human Resource Development by the “Three O’s”

➤ OJT | On-the-Job Training

OJT is the basis of developing talent. Professional skills and abilities are acquired through the guidance of supervisors and through practical experiences, such as consultations with clients. KPMG AZSA seeks to further foster a growth mindset and provide guidance to junior staff through a firm-wide tutoring system to provide a more structured approach to OJT. We also provide OJT in a planned and consistent way at the firm and BU levels through the introduction of the PDCA (plan-do-check-act) cycle for talent development.

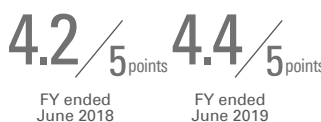
➤ Off-JT | Providing practical and pragmatic training

Supplementing OJT, KPMG AZSA provides training programs tailored to our personnel and their assigned work in a range of areas, including technical skill training focused on professional knowledge and practical experience; compliance and risk management training; and human skills training, including leadership training. During the year ended June 2019, training hours per trainee averaged 65.1 hours. Training programs designated as compulsory achieved 100% attendance. With a focus on technical training, questionnaires completed after the training are used for continuous improvement of the training courses.

Average annual training hours per trainee



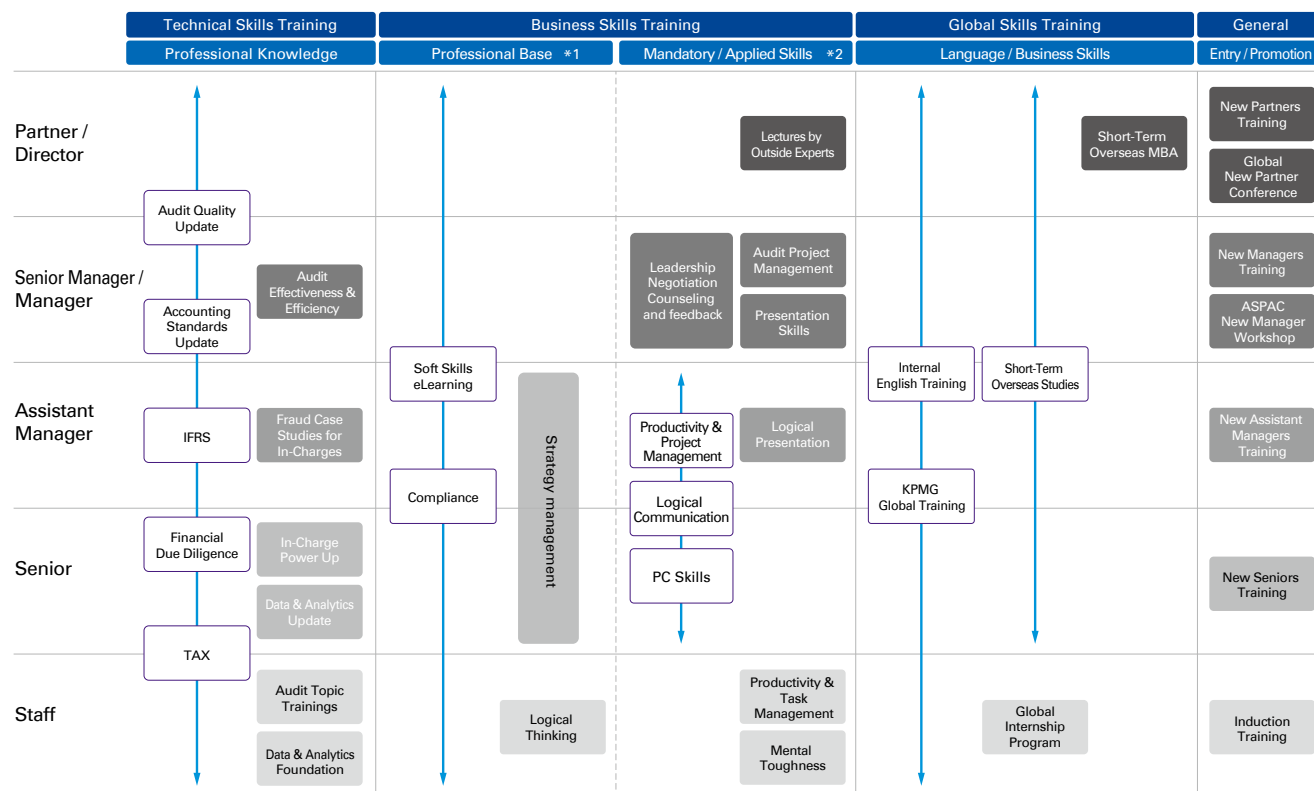
Results of questionnaire regarding training



“Questionnaire items regarding training”

- 1. Did you understand and achieve the learning objective?
- 2. Were the training method and materials effective?
- 3. Will you be able to make use of the training content in your job and career in the future?

Training System (Overview)



*1 Training program for acquiring understanding, logical thinking and problem-solving skills, and instilling a high standard of commitment, ethics and integrity

*2 Training program for improving productivity, human resource development, leadership, project management, communication and output skills. Digital and PC skill training programs are also provided (see P.9)

➤ Opportunity | Providing wide-ranging work opportunities

Engaging in audit work for diverse sectors and business models expands one's knowledge and is therefore important in developing professional talent. Professional staff in our audit divisions are periodically transferred to the audit teams of clients that are different in scale and sector. We seek to develop true professionals with diverse experience by transferring staff members not only between audit divisions but also to departments responsible for quality control, to our advisory divisions and among different offices. Staff members are also actively seconded to external public institutions and corporations, in an effort to develop true professionals by providing diverse experience.

Number of persons transferred or loaned

Number of persons transferred within KPMG AZSA

Transfer to	Year ended June 30, 2018	Year ended June 30, 2019
HQ (Quality Control Departments)	55	70
Other Audit Divisions and Offices	156	190
Advisory Divisions	53	126
Total	264	386

Number of persons loaned to external public institutions and corporations

Loan to	as of June 30, 2018	as of June 30, 2019
JICPA, FASF etc.	37	27
Other (corporations)	36	41
Total	73	68

1-4. Assessment of Professional Staff

At KPMG AZSA we believe that the appropriate assessment of professional staff and feedback of performance and results assists them in accelerating their further growth, which results in an enhancement of audit quality. Assessment of professional staff emphasizes efforts related to audit quality, as well as performance achieved through quality control measures. Assessment of partners is heavily focused on quality and quality control, and non-audit services provided to clients are not evaluated.

2. Development of Global Talent

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

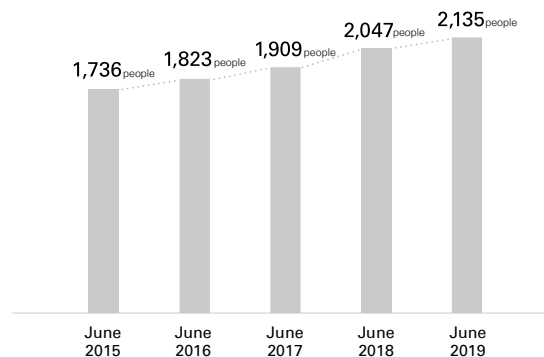
2-1. Global Skills Training

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

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

Of the professionals who went on a short-term study-abroad program during the year, 17 studied at the Central University of Finance and Economics. The cumulative number of globally capable professionals we have developed through the global skills training and overseas secondment programs is as follows.

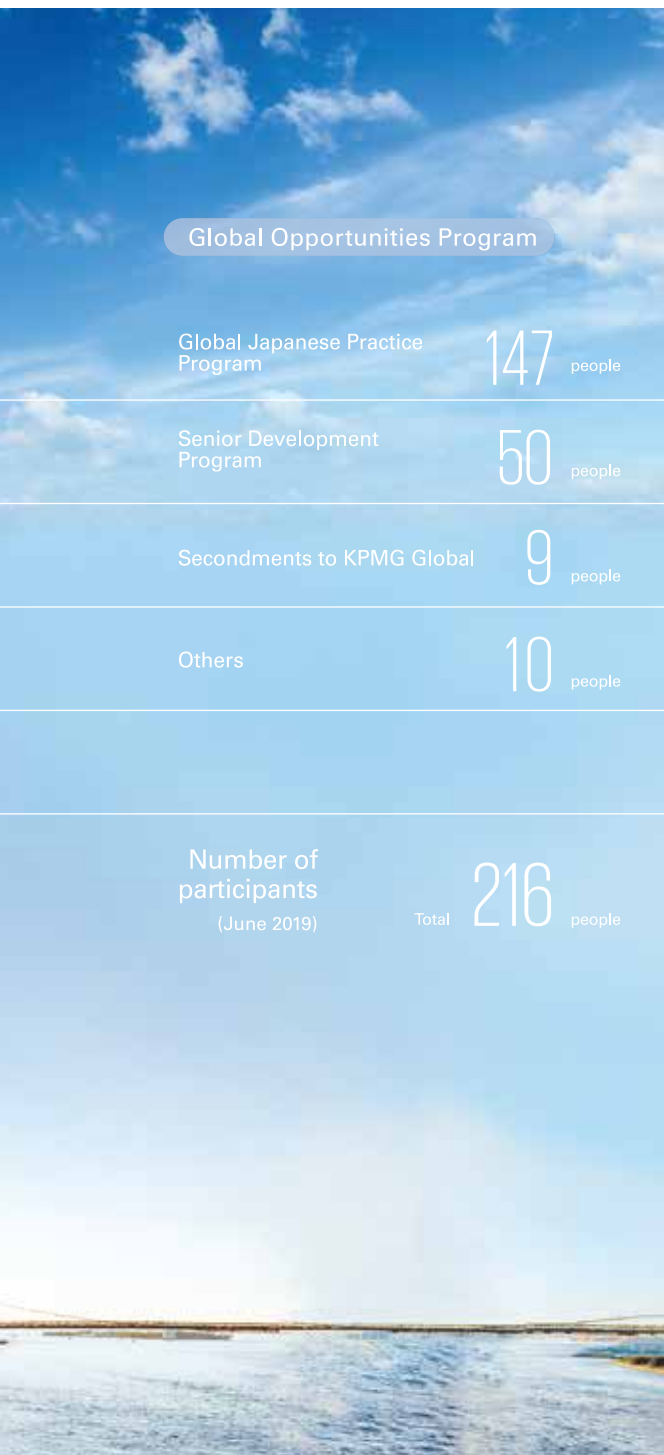
Global Talent Headcount (cumulative)



(“Global Talent” is defined as those with a TOEIC score over 730, those with experience working abroad, foreign nationals and those proficient in other foreign languages)

Program	Number of Participants
English Training in Japan	973
Short Term study abroad program	217
Training at KPMG Global	84
One Week MBA training	6
Others	4
Total	1,284

Number of participants (June 2019)

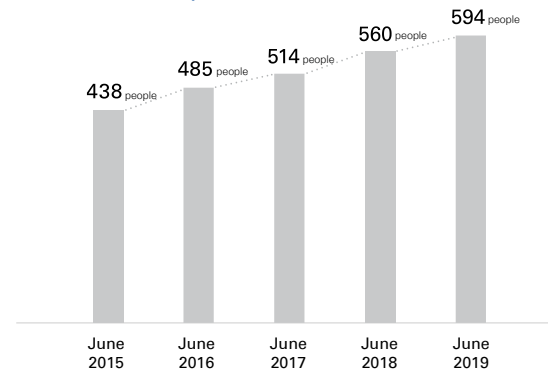


2-2. Overseas Secondment Programs

KPMG AZSA is developing global professionals who not only have skills, but also a global mindset through business experience gained abroad. The firm is therefore strategically and actively promoting the assignment of its personnel to other KPMG member firms.

KPMG AZSA has two primary overseas secondment programs, the Global Japanese Practice (GJP) and senior development programs. The GJP program mainly sends personnel who are managers or above on assignment to the local Japan desk for a period of approximately three years. The Senior Development Program sends staff at the senior accountant level to offices in English-speaking KPMG member firms, including the United States, the United Kingdom, Australia, the Netherlands, Singapore and Hong Kong, for between 18 and 22 months to experience audit work as local audit team members. The cumulative growth in the number of participants in these programs from 2015 is shown below.

Number of people with overseas secondment experience



The ratio of partners and managers who have overseas secondment experience is shown below. One in every four partners and managers have secondment experience.

Partners and Managers with overseas secondment experience (as of June 30, 2019)

	Number	Percent
Partner, Director	230	33.4%
Senior Manager, Manager	295	23.3%
Total	525	26.9%

3. Creating a Friendly Working Environment

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

3-1. Promotion of Inclusion & Diversity (I&D)

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

3-2. Activities of the Working Women’s Network (WWN)

The WWN was inaugurated in 2007 as a network of female staff working at KPMG AZSA. It is our belief that workplaces that are friendly to female workers are workplaces that are friendly to everyone, allowing each person to demonstrate their ability. With this in mind, the WWN provides individuals with opportunities to grow and develop their abilities and, at the same time, opportunities for networking and learning from each other. Initiatives including seminars led by notable figures from outside the firm and sub-committee activities aim to support our members, whether male or female, as they grow as business people and make the most of their diverse abilities.

3-3. Variable Working System

Because of the nature of audit work, each year has a busy season and an off season. We have implemented a variable working system to make the required working hours per day flexible, with working hours distributed in accordance with the busy and non-busy seasons. This system allows for the creation of an environment in which work is performed by spending the needed time when necessary.

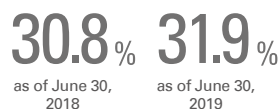
3-4. Limited Access to Internal Network

Although the firm introduced VDI (Virtual Desktop Infrastructure; see page 39) as an information security measure, we now restrict access to the internal network during nighttime hours and holidays in order to promote work style reform. This supports the improvement of business efficiency during usual working hours while promoting reforms to both work processes and firm culture. In the event audit managers deem it necessary for staff to access the internal network during restricted times for audit quality purposes, they must obtain the approval of the division head.

3-5. Teleworking System

KPMG AZSA has a teleworking system that is intended to provide work style diversity, increase productivity and enhance work-life balance. The system is primarily available for personnel with a high need for telework and for those who are engaged in work that lends itself to telework.

Percent of partners and full-time employees who are female



3-6. GPS (Global People Survey, an Attitude Survey)

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

Engagement Index

Willingness to give extra effort to support the success of the firm

64%
Year ended
June 30, 2018

69%
Year ended
June 30, 2019

Percent of respondents who rated the firm a 4 or above on a scale of 1 (lowest) to 5 (highest).

“Eruboshi (L-Star)” Certification

Certified as an “Eruboshi” company with the highest rating of three stars



KPMG AZSA is certified by the Ministry of Health, Labor, and Welfare as a firm that implements effective initiatives to promote the advancement of women. The “Eruboshi” certification has five evaluation criteria: recruitment; continued employment; work style including work hours; management ratio; and diverse career paths. KPMG AZSA received the highest rating of three stars for satisfying all five evaluation criteria.

3-7. VOICE

VOICE (Valuable Opinions and Ideas to Change Effectively) is an intranet tool for collecting feedback on issues at work, requests and improvement suggestions, in order to incorporate the voice of our people into the firm’s operations. VOICE contributes to the review and standardization of existing work methods and the establishment of an efficient business infrastructure. It also provides a communication opportunity between the staff and management of KPMG AZSA. Topics raised by staff are studied by the responsible departments with a view to implementing changes and the results are made public. Events called “Live VOICE” and “VOICE Lunch” are held for each division, acting as a forum for the direct exchange of views between staff and firm management. These events promote VOICE activities and provide an opportunity for management to answer questions on the spot and respond to questions from staff that arise in the course of their daily work.

Initiatives for Health Management

The firm has been implementing initiatives to protect the physical and mental health of our people to ensure they can achieve their fullest potential. These include creating a safe and comfortable work environment, improving health literacy in looking to sustainable development, and various measures to maintain and promote the health of employees and their family members in working together with the health insurance association.

Specific measures:

- Promoting health improvement plans in accordance with medical examination results
- Promoting mental healthcare
- Holding health-related seminars

IV. KPMG Network

1. KPMG International

KPMG is a global network of professional firms providing audit, tax and advisory services. We operate in more than 150 countries and have approximately 207,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such. KPMG International has established a framework for the provision of uniform services anywhere in the world and supports the delivery of high-quality audit, tax and advisory services by its member firms.

1-1. Governance Framework

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

1-2. Global Council

The Global Council is composed of the representatives of member firms in 58 countries and is a body equivalent to a shareholders’ meeting in ordinary corporations; it is the supreme decision-making body responsible for the annual accounts, revision of the cooperative’s statutes and election of the Global Chairman and Global Board members. Japan is a member of the Global Council.

1-3. Global Board

The Global Board is the principal governance and oversight body composed of the representatives of member firms in 21 countries, the Global Chairman and Regional Chairmen (representatives of the three regions), and is equivalent to a “board of directors” in ordinary corporations.

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

As of October 1, 2019, Toshiya Mori (Deputy Managing Partner of KPMG AZSA and Chairman of KPMG Japan) represents Japan as a member of the Global Board, thus playing an important role in KPMG International’s management.

1.4. Global Management Team

The Global Management Team is led by the Global Chairman and includes the Global Chief Operating Officer, global function heads (audit, tax and advisory functions),

and the global heads of quality and risk, human resources, marketing, technology & knowledge, and the General Counsel; it supports member firms in their execution of the global strategy and is responsible for holding them accountable for commitments made.

The Global Management Team also supervises 11 steering committees, which have the role of promoting practical discussions and matters for resolution in each region. Japan actively participates in all steering committees.

1-5. Regional Structure

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

As of October 2018, the following members of KPMG AZSA participate in the operation of KPMG ASPAC. Through these roles, KPMG AZSA contributes to the KPMG Global Network. These arrangements allow for the situation in Japan to be conveyed and discussed in advance so that KPMG’s various methodologies can be applied to the audit practice in Japan.

Board Member
Toshiya Mori
(KPMG Japan Chairman)

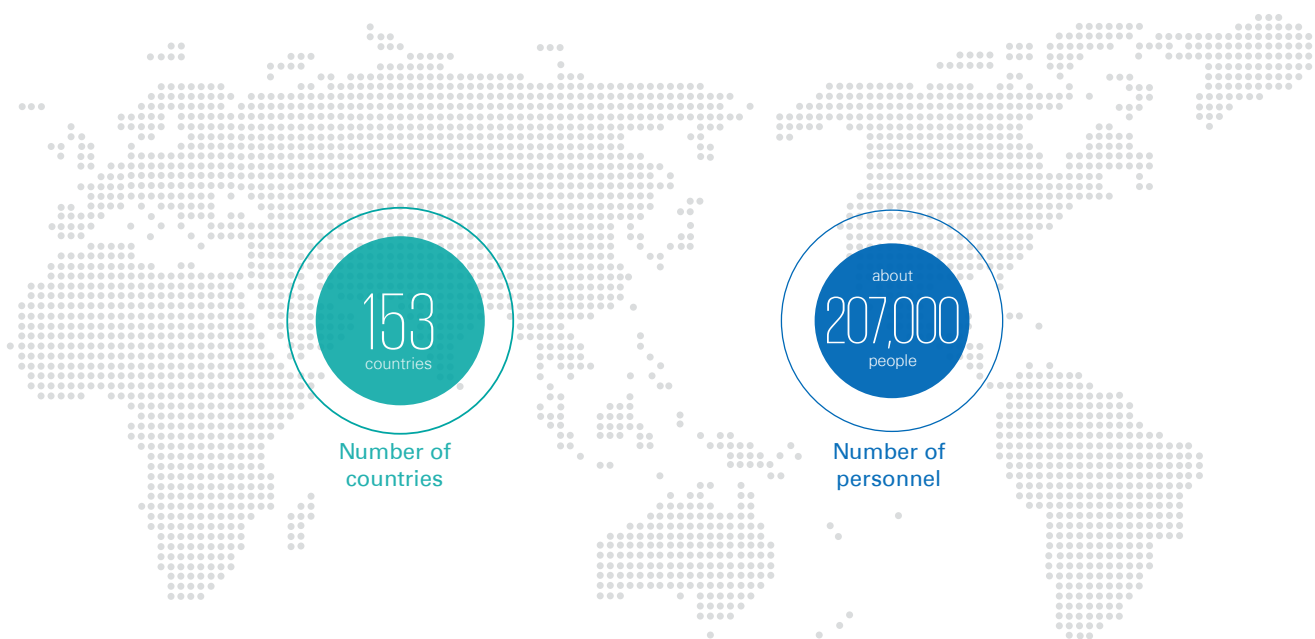
Head of DPP
Eiichi Fujita
(Head of US Capital Markets Group in Japan)

AAS Leader
Junichi Adachi
(Head of AAS Division)

Head of Audit & Assurance
Takuji Kanai
(Head of Audit)

Audit Quality Leader
Simon Dobbins
(Partner)

Head of Energy & Natural Resources
Mina Sekiguchi
(Head of Energy and Infrastructure)



Revenues
US\$ 28.9 in billions

Audit
US\$ 11.1 in billions

Tax
US\$ 6.3 in billions

Advisory
US\$ 11.4 in billions

(as of September 30, 2018)



Message from the Global Chairman

Quality is at the heart of everything we do.

Through a US\$4 billion, multi-year investment program, we are delivering leading-edge technology platforms and solutions that address our clients' most pressing needs. Underpinning this is a continued commitment to our culture and values, creating an environment where our people can deliver the standards demanded of us by our clients and our profession, earning and sustaining public trust.

Under the leadership of CEO Hiroyuki Takanami, KPMG Japan has reinforced its focus on audit quality, investing heavily in digital innovation, data and analytics and building the skills and capabilities to succeed in today's business environment.

As one of our largest audit firms, KPMG Japan is increasingly demonstrating leadership across our global network. We have seen a sustained investment in our Global Japanese Practice, alongside more Japanese colleagues than ever working in global and regional roles, making their voice heard as we develop and deliver next generation audit tools.

As Global Chairman, I am proud of what KPMG Japan has accomplished and the investments they are making in quality. I am committed to ensuring that the full capabilities of the KPMG network are available to KPMG Japan as they continue to work with some of our largest and most important clients.



Global Chairman
KPMG International
Bill Thomas

2. KPMG Japan

KPMG Japan refers to the KPMG member firm in Japan, which represents a group of eight professional firms providing audit, tax, and advisory services and comprising approximately 8,600 personnel. We are committed to providing valuable services to meet our clients' complex management needs through seamless collaboration, utilizing the expertise and skills of a wide range of professionals, and maximizing the value of KPMG's global network.

2-1. Management Structure of KPMG Japan

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



(as of June 30, 2019)

* Tax revenue as of September 30, 2019.

Audit

KPMG AZSA LLC

CEO: Hiroyuki Takanami

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

Tax

KPMG Tax Corporation

Representative Partner: Yuichi Komakine

Services including tax advice related to the client's corporate activities, preparation of tax returns, bookkeeping and payroll.

KPMG Social Insurance and Labor Advisors Corporation

Representative: Mayumi Ogawa

Advisory services including social / labor insurance administration.

Advisory

KPMG Consulting Co., Ltd.

President and CEO: Masahiro Miyahara

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

KPMG FAS Co, Ltd

Representative Partners:

Masahiko Chino and Hiroyuki Oshida

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

KPMG AZSA Sustainability Co., Ltd.

Managing Partners:

Kazuhiko Saito and Yoshitake Funakoshi

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

KPMG Healthcare Japan Co., Ltd.

Representative Director:

Keiichi Ohwari and Jun Matsuda

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

KPMG Ignition Tokyo, Inc.

President and CEO, Masayuki Chatani

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

(as of October 1, 2019)

2-2. Activities as KPMG Japan

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

🔍 Firm-wide Meetings at KPMG Japan

KPMG Japan Kickoff

KPMG Japan holds the KPMG Japan Kickoff every year, bringing all personnel together under one roof. The meeting is a valuable opportunity to foster a sense of oneness across all functions including audit, tax and advisory. Under the theme of "A KPMG Japan that we all make together" the meeting in 2019 provided an opportunity for everyone to discuss and share ideas on the kind of firm we want KPMG Japan to be in five years in an environment of rapid digitalization, and the challenges we face in order to achieve this.



A scene from the KPMG Japan Kickoff 2019

KPMG Japan Partners Meeting

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

🔍 Chairman Award

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

🔍 Corporate Social Responsibility

We are committed to providing solutions and services for a variety of social issues. By taking advantage of our experience and insights gained through our core business as a professional firm we are able to share our values with society and contribute to the development of a sustainable society.

Contribution to lifelong learning

KPMG places emphasis on the fourth UN Sustainable Development Goal (SDG), "Quality education," globally promoting education to foster the next generation of leaders. KPMG AZSA also provides accounting and auditing classes for junior-high and high school students, career university for university students, and sponsors the Workshop for GTE (Global Technology Entrepreneur), an innovation training program for high school students.

Support with expertise

We seek to solve social issues by taking advantage of skills and experience gained through our businesses. Junior staff of KPMG AZSA volunteer at the Nippon Foundation Paralympic Support Center to support the organization's internal audit of subsidies that are granted to sports associations.

Environment-friendly firm

In order to take responsibility for the environment, KPMG member firms worldwide have made efforts to reduce CO2 emissions since 2007. KPMG Japan also calculates total CO2 emissions in order to have an understanding of the CO2 emissions created by our business and works to reduce the emissions.

Support for blind soccer

We entered into a partnership contract with the NPO Japan Blind Football Association, helping to increase awareness of blind soccer by holding the Club Championship event each year since 2016. Staff from across KPMG AZSA and KPMG group companies participate in the KPMG Japan Futsal Tournament held concurrently with the Club Championship to promote internal networking.

3. Industry Knowledge

In cooperation with KPMG member firms worldwide, KPMG Japan seeks to accumulate insights specific to each industry sector. We provide professional services that are informed by a deep knowledge of industries, which can be utilized for the provision of advisory services as well as enhancing our audit work.

KPMG Japan provides services based on the following major industry categories.



Finance

With innovations in digital technologies, the emergence of financial platforms and globalization, financial institutions are facing drastic changes in their business environment, including stricter financial regulations domestically and abroad, negative interest rates, and changes in demographics. We provide comprehensive services based on our expert insights and taking into account the volatile business environment to address the more complex management issues faced by financial institutions. Our services include business process transformation, compliance with global financial regulations and financial infrastructure regulations, organizational restructuring, supporting entry into offshore markets, addressing financial crime and fintech, and building risk management systems.



Technology, Media and Telecommunications

With the advancement of digital transformation (DX), information and media companies are facing sectoral disruption at an unprecedented rate, and telecommunications companies are facing the twofold challenge of providing OTT services and a safe and reliable 5G network. We provide cutting-edge best practices that utilize RPA and AI among other technologies, and value-added services that exploit a wealth of industry insights to support clients as they address various challenges that accompany regulatory compliance and the adoption of new accounting standards.



Public Sector

Government bodies and non-profit organizations have been required in recent years to adapt to various changes, including the demand for more accountability, privatization, and the introduction of PFI (Private Financial Initiatives). We respond to a wide range of needs in addressing these challenges, including internal audit, the introduction and use of corporate accounting techniques, enhanced disclosures, organizational restructuring, and measures to improve work efficiency. We also provide new support services based on the experience and know-how of our KPMG global network.



Consumer Goods

Demographic and economic changes, as well as changes in consumer needs and behaviors as a result of advances in technology, are dramatically changing the market and competitive landscape. By maximizing the value of its global network, KPMG supports clients in their response to these and other management issues, including access to overseas markets and transformation to a client-centric business model that incorporates cutting-edge technologies.



Manufacturing

“Transformations” in the manufacturing industry span every facet of corporate management, including operations, geographical regions, organization, human resources, technology and supply chain. In many cases, the transformations are not an extension of the past, but require a completely new perspective. We provide insights to help clients determine the direction of transformation necessary for remaining competitive, and offer support in meeting the associated challenges.



Automotive

A paradigm shift is occurring in the mobility of people and goods, driven by significant investments in technological innovations including automation, electric conversion, and vehicles powered by next-generation fuels as well as by cooperation and competition with new entrants from other sectors. These changes are compelling companies in the automotive industry to fight for survival. At KPMG, teams of professionals with deep experience and insights from other relevant industries support a rapid response to change through utilization of our global network.



Energy

We respond to our clients' needs by providing high value-added advice in a wide range of areas, from upstream investments in petroleum and gas, infrastructure investments and performance improvements of assets for power generation and transmission/distribution, and the overall value chain including the planning and execution of exit strategies. We also support transformations and various challenges that accompany facility operations and regulatory compliance.



Life Sciences

The life science industry faces challenges including the increasing cost of healthcare and the reduction of drug prices, while being required to strictly observe environment compliance and pursue efficiency gains. At KPMG, we leverage our extensive experience and professional knowledge to provide audit, tax support including transfer pricing, M&A support including for overseas business expansion, and advice on digital transformation, cost reduction, risk and compliance, and IT implementation.

V. Corporate Overview

1. Corporate Overview

(as of June 30, 2019)

Offices	Headquarters 1-2 Tsukudo-cho, Shinjuku-ku, Tokyo] 12 offices	
	Supervising Offices:	Tokyo, Osaka, Nagoya		
	Regional Offices:	Sapporo, Sendai, Hokuriku, Kita-Kanto, Yokohama, Kyoto, Kobe, Hiroshima, Fukuoka		
Number of Employees (Full-time)	CPAs	3,216	(Includes 34 Representative Partners and 530 Partners)] 6,218 people
	Passed the CPA exam	1,190		
	Professionals	1,063	(Includes 34 Specified Partners and 1 Representative Partner)	
	Administration Staff	749		
Number of Clients	Audit Engagements: 3,614			
	Financial Instruments and Exchange Act and Companies Act: 773 / Financial Instruments and Exchange Act: 35			
	Companies Act: 1,329 / Incorporated Educational Institutions: 48 / Labor Unions :17 / Other statutory audits: 539			
	Other voluntary audits: 810			
	Other engagements: 2,143 (the number of clients with other engagement contracts for the year ended June 2019)			
History	July 1969	Asahi & Co. was established		
	July 1985	Asahi & Co. and Shinwa Audit Corporation merged to form Asahi Shinwa & Co.		
	October 1993	Asahi Shinwa & Co. merged with Inoue Saito Eiwa Audit Corporation to form Asahi & Co.		
	February 2003	KPMG audit division spun off from Shin Nihon & Co. to form AZSA & Co.		
	April 2003	Asahi & Co. became a member firm of KPMG		
	January 2004	Asahi & Co. merged with AZSA & Co. to form KPMG AZSA & Co.		
	July 2010	KPMG AZSA & Co. became limited liability company and changed its name to KPMG AZSA LLC		

2. Financial Information

The financial status of KPMG AZSA LLC for the years ended June 2018 and June 2019 is summarized below. The financial statements of KPMG AZSA are subject to audit by another audit corporation.

Summary Income Statement

(Million yen)

	Year ended June 30, 2018	Year ended June 30, 2019
Revenue	97,121	100,493
Operating expense	96,636	98,688
Operating income	484	1,805
Non-operating income	2,276	1,057
Non-operating expense	576	911
Ordinary income	2,184	1,950

Summary Balance Sheet

(Million yen)

	June 30, 2018	June 30, 2019
Current assets	49,081	49,911
Non-current assets	18,511	19,315
Total assets	67,593	69,226
Current liabilities	24,795	24,546
Non-current liabilities	15,060	16,628
Total liabilities	39,855	41,175
Partners' capital	27,737	28,052
Valuation and translation adjustments	(0)	(0)
Total net assets	27,737	28,051
Total liabilities and net assets	67,593	69,226

3. Principal Clients

The clients of KPMG AZSA include the following companies listed on the First Section of the Tokyo Stock Exchange, national universities, and local governments (567 corporations).

Fishery, Agriculture & Forestry/Mining

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

Construction

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

Foods

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

Textiles and Apparels/Pulp and Paper

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

Chemicals

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

Pharmaceutical

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

Oil and Coal/Rubber/Glass and Ceramics Products

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

Iron and Steel

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

Nonferrous Metals/Metal Products

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

Machinery

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

Electric Appliances

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

Transportation Equipment

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

Precision Instruments

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

Other Products

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

Electric Power and Gas

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

Land/Marine/Air Transportation

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

Warehousing and Harbor Transportation

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

Information & Communication

- NEC Networks & System Integration Corporation
- Systema Corporation
- NS Solutions Corporation
- AZIA CO., LTD.
- KOEI TECMO HOLDINGS CO., LTD.
- Densan Co., Ltd.
- Broadleaf Co., Ltd.
- SYSTEM INFORMATION CO., LTD.
- MEDIA DO HOLDINGS Co., Ltd.
- V-cube, Inc.
- Encourage Technologies Co., Ltd.
- Fixstars Corporation
- CARTA HOLDINGS, INC.
- TechMatrix Corporation
- ZAPPALLAS, INC.
- Internet Initiative Japan Inc.
- I'LL INC
- MarkLines Co., Ltd.
- Mobile Factory, Inc
- TERRASKY CO., LTD.
- PIPEDO HD, Inc.
- Internetnetworking & Broadband Consulting Co., Ltd.
- NEOJAPAN Inc.
- Akatsuki Inc.
- Kanamic Network Co., LTD
- ORO Co., Ltd.
- Needs Well Inc.
- Signpost Corporation
- PROTO CORPORATION
- INFOCOM CORPORATION
- Trend Micro Incorporated
- Toukei Computer Co., Ltd
- XNET Corporation
- Cybozu, Inc.
- Information Services Intl - Dentsu
- Computer Institute of Japan, Ltd.
- Marvelous Inc.
- Tokyo Broadcasting System Holdings, Inc.
- TV Asahi Holdings
- Vision Inc.
- CROPS CORPORATION
- NIPPON TELEGRAPH AND TELEPHONE CORPORATION
- HIKARI TSUSHIN, INC.
- NTT DOCOMO, INC.

- Fibergate Inc.
- NTT DATA CORPORATION
- PCA CORPORATION
- CAPCOM CO., LTD.
- SCSK Corporation
- NSD CO., LTD.
- The Asahi Shimbun Company

Wholesale Trade

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

Retail Trade

- ASKUL Corporation
- PAL GROUP HOLDINGS CO., LTD
- Halows CO., LTD.
- AMIYAKI TEI CO., LTD.
- Alpen Co., Ltd.
- QoI Holdings Co., Ltd.
- DOUTOR NICHIRETS Holdings Co., Ltd.
- BRONCO BILLY CO., LTD.
- ZOZO, Inc.
- Treasure Factory Co., LTD.
- AP COMPANY CO., LTD.
- Torikizoku co., Ltd
- Yossix Co., Ltd.
- ASAHI CO., LTD.
- Seven & i Holdings Co., Ltd.
- TSURUHA HOLDINGS INC.
- TORIDOLL Holdings Corporation
- KUSURI NO AOKI HOLDINGS CO., LTD.
- KAPPA CREATE CO., LTD.
- Right-on Co., Ltd.
- Ryohin Keikaku Co., Ltd.
- G-7 HOLDINGS INC.
- MARCHE CORPORATION
- COLOWIDE Co., Ltd.
- SRS HOLDINGS CO., LTD.
- Totenko Co., Ltd.
- SHIMACHU CO., LTD.
- LIFE CORPORATION
- TEN ALLIED CO., LTD.
- AOYAMA TRADING CO., LTD.
- SHIMAMURA CO., Ltd.
- Takashimaya Company, Limited
- H2O RETAILING CORPORATION
- Kintetsu Department Store Co., Ltd.
- PARCO CO., LTD.
- IZUMI CO. LTD.
- K'S HOLDINGS CORPORATION
- YAMADA DENKI CO., LTD.
- AIGAN CO., LTD.
- Sagami Holdings Corporation
- SAC'S BAR HOLDINGS INC.

Banks

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

Securities and Commodities Futures/ Insurance/Other Financing Business

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

Real Estate

- Star Mica Holdings Co., Ltd.
- The Global Ltd.
- Sansei Landic Co., Ltd
- Tenpo Innovation CO., LTD.
- Mitsui Fudosan Co., Ltd.
- DAIBIRU CORPORATION
- Sumitomo Realty & Development Co., Ltd.
- Japan Corporate Housing Service Inc.

Services

- CHUCO CO., LTD.
- TAKEEI CORPORATION
- EJ Holdings Inc.
- Artner Co., Ltd
- GCA Corporation
- COOKPAD Inc.
- SAINT-CARE HOLDING CORPORATION
- DIP Corporation
- OPT Holding, Inc.
- Shin Nippon Biomedical Laboratories, Ltd.
- TSUKUI CORPORATION
- Brass Corporation
- Hakuholdo DY Holdings Inc.
- Gurunavi, Inc.
- F@N Communications Inc.
- LIKE Co., Ltd.
- DENTSU INC.
- TAKE AND GIVE. NEEDS Co., Ltd.
- Nippon Air Conditioning Services Co., Ltd
- ORIENTAL LAND CO., LTD.
- RESORTTRUST, INC.
- USS CO., LTD.
- Interworks, Inc.
- KeePer Technical Laboratory Co., Ltd
- SANKI SERVICE CORPORATION
- JAPAN MATERIAL Co., Ltd.
- LIKE Kids, Inc.
- CAREERLINK Co., Ltd.
- ERI HOLDINGS CO., LTD.
- ABIST Co., Ltd.
- WILL GROUP, INC.
- Escrow Agent Japan, Inc.
- Japan Post Holdings Co., Ltd.
- Strike Co., Ltd.
- Solasto Corporation
- SoldOut, Inc.
- RPA Holdings, Inc.
- SPRIX co., Ltd.
- TOSHO CO., LTD.
- TOKYO DOME CORPORATION
- NOMURA Co., Ltd.
- KNT-CT Holdings Co., Ltd.
- SECOM CO., LTD.
- Daiseki Co., Ltd.

Cities

- TOKYO METROPOLITAN GOVERNMENT
- Akita Prefecture
- Shiga Prefecture
- Hyogo Prefecture
- Sendai City
- Kawasaki City
- Shizuoka City
- Hamamatsu City
- Toyohashi City
- Okazawaki City
- Otsu City
- Shimonoseki City
- City of Kitakyushu

National Universities

- HOKKAIDO UNIVERSITY
- Hirosaki University
- Miyagi University of Education
- Ibaraki University
- University of Tsukuba
- Utsunomiya University
- SAITAMA UNIVERSITY
- Tokyo University of Foreign Studies
- Niigata University
- UNIVERSITY OF FUKUI
- GIFU UNIVERSITY
- Hamamatsu University School of Medicine
- Nagoya University
- Aichi University of Education
- TOYOHASHI UNIVERSITY of TECHNOLOGY
- Shizuoka University
- Mie University
- SHIGA UNIVERSITY OF MEDICAL SCIENCE
- Kyoto University of Education
- KYOTO INSTITUTE OF TECHNOLOGY
- Osaka University
- Osaka Kyoiku University
- Hyogo University of Teacher Education
- Kobe University
- Nara University of Education
- Nara Women's University
- Nara Institute of Science and Technology
- Wakayama University
- Okayama University
- HIROSHIMA UNIVERSITY
- Yamaguchi University
- UNIVERSITY OF TOKUSHIMA
- Naruto University of Education
- Kochi University
- Kyushu Institute of Technology
- Oita University
- University of Miyazaki
- Kagoshima University

Incorporated administrative agencies etc.

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

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

VI. Compliance with the Audit Firm Governance Code

KPMG AZSA has adopted the Audit Firm Governance Code. We are implementing further improvements to our governance in order to fulfill our social responsibility of supporting the capital markets and continuously enhance audit quality. The status of our response to the Audit Firm Governance Code as of the end of June 2019 is outlined below.

[The Role of the Audit Firm]

Principle and Guidance		Status of Action Taken	AZSA Quality 2019
Principle 1	An audit firm has the public interest role to ensure the credibility of corporate financial information through the audits, seek to protect stakeholders such as participants in the capital market and thereby contribute to the sound development of the national economy. In order to accomplish this role, the audit firm should encourage its personnel to have frank and openminded dialogue, enhance mutual development, promote their full competence, and continuously enhance the audit quality on a firm-wide basis.		
Guidance 1-1	An audit firm should recognize its public interest role and clearly express the tone at the top so that the top management and the firm personnel will proactively accomplish their respective roles, as well as so that all partners of the firm duly undertake their responsibilities to develop the operational structure of the firm.	CEO repeatedly issues messages on continuous activities to maintain and enhance audit quality. An organizational system of quality control is in place wherein each hierarchical layer of the Four Defense Lines carries out its respective responsibility for audit quality.	P.24 Four Defense Lines P.26 Responsibility for Quality Control
Guidance 1-2	An audit firm should define the values to be commonly maintained by its personnel and also develop the code of conduct to put these values into practice.	A sense of oneness as an organization is established by sharing our firm's basic principles of Purpose, Values, Vision and Strategy.	P.18 Basic principles
Guidance 1-3	An audit firm should appropriately motivate its personnel in order to raise their morale and help them to fully maintain and demonstrate their professional competence and skepticism.	The firm fosters true professionals in accordance with our Human Resource Development Principles and conducts appropriate evaluations with a focus on performance and efforts related to audit quality. For partner evaluations the most important evaluation areas are quality and quality control. Provision of non-audit services to audit clients is excluded from evaluation.	P.44 Human Resource Development
Guidance 1-4	An audit firm should develop an organizational culture of openness which encourages its personnel to share issues, knowledge and experiences related to audits and proactively participate in a dialogue and discussion.	Through repeated reorganizations an open organizational culture is created, sharing the firm's principles regardless of former affiliation. Fostering an organizational culture of openness among all of the organization's people and making it stick is an ongoing challenge. We are working as an organization to address this through internal communications and more sophisticated knowledge sharing techniques.	P.23 Assessment of the Effectiveness of Activities Intended to Enhance Audit Quality by the Management Oversight Committee P.19 Organizational Culture
Guidance 1-5	An audit firm should clarify its stance toward non-audit services (provided by the firm and its group organizations).	With respect to the provision of non-audit services, the firm maintains a system to strengthen governance of not only KPMG AZSA but also the entire group including subsidiaries that provide advisory services, as well as a mechanism to appropriately monitor independence and conflicts of interest.	P.29 KPMG's Approach to Non-Audit Services P.52 Management Structure of KPMG Japan

[Organizational Structure]

Principle and Guidance		Status of Action Taken	AZSA Quality 2019
Principle 2	An audit firm should have effective management in order to develop its organizational operations as a whole for the continuous enhancement of the audit quality.		
Guidance 2-1	An audit firm should establish an effective management structure to ensure its effective management and operations.	The firm clarified responsibility for management by designating its Senior Executive Board and Executive Board as the decision-making and executive bodies respectively. We are working to strengthen the firm's organizational management foundation in order to respond to the challenges represented by the firm's increasing size and changes in the external environment.	P.23 Assessment of the Effectiveness of Activities Intended to Enhance Audit Quality by the Management Oversight Committee P.20 Governance Framework P.21 Management and Execution

[Organizational Structure] Continued

Principle and Guidance		Status of Action Taken	AZSA Quality 2019
Guidance 2-2	An audit firm should clarify the role of the management in important operations, including the following matters, in order to meet the public expectations of audits and ensure its effective management and operations: <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; 	An organizational system of quality control is in place wherein each hierarchical layer of the Four Defense Lines carries out its respective responsibility for audit quality. The final responsibility for quality control rests with the CEO; however, the Senior Executive Board member appointed by the CEO to oversee quality control is responsible for developing overall quality control policies and for monitoring how such quality control policies are followed.	P.24 Four Defense Lines P.26 Responsibility for Quality Control
	<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; 	Frank and in-depth exchanges of opinions are enabled through two-way communication with audit committees and by receiving feedback from clients on the quality of services provided.	P.30 Communication with Stakeholders
	<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 	The firm fosters true professionals in accordance with our Human Resource Development Principles and conducts appropriate evaluations with a focus on performance and efforts related to audit quality. For partner evaluations the most important evaluation areas are quality and quality control. Provision of non-audit services to audit clients is excluded from evaluation.	P.44 Human Resource Development
	<ul style="list-style-type: none"> Consideration and development of the effective utilization of information technology (IT) in order to enhance the efficiency and effectiveness of audits, with a view to accommodating the anticipated advanced utilization of IT by audited companies. 	The firm uses an electronic audit tool and is undertaking the development and introduction of audit techniques that employ cutting-edge digital technologies such as advanced statistical analysis, AI/RPA, and infrastructure technology.	P.10 Initiatives for Next-Generation Audit Technology P.34 Electronic Audit Tool (eAudIT) P.39 Information Security Organization
Guidance 2-3	An audit firm should appoint members of its management team not only by taking into account their thorough knowledge and experience of audit practice but also by ensuring the effectiveness of the management function for its organizational operations as the team.	All officers including the CEO, Senior Executive Board members and Executive Board members are selected through direct election by all partners thereby ensuring the firm's organizational operation.	P.20 Governance Framework
Principle 3	An audit firm should have a function to supervise and evaluate the effectiveness of its management from the independent viewpoint and thereby support to enhance the effectiveness of the management.		
Guidance 3-1	An audit firm should establish a function to supervise and evaluate the effectiveness of its management and thereby support to enhance its effectiveness, and clarify the role of the function.	The firm established the Management Oversight Committee comprising partners who are not involved in firm management.	P.20 Governance Framework P.22 Supervision and Evaluation
Guidance 3-2	An audit firm should appoint independent third persons as the members of the function responsible for the supervision and evaluation, and effectively utilize their knowledge and experience to deal with the issues recognized by the firm from the perspective to ensure the effective management and organizational operations and accomplish its public interest role.	The firm established the Public Interest Oversight Committee as an independent supervisory body.	P.20 Governance Framework P.22 Supervision and Evaluation
Guidance 3-3	An audit firm should clarify the role of independent third persons to participate in the supervision and evaluation structure within the firm considering that those persons are expected to be involved in the following matters, for example: <ul style="list-style-type: none"> Oversight of the evaluation of the effectiveness of the management ; Oversight of the process of the election or appointment, retirement, evaluation and remuneration of the management team members; Oversight of developing the policies for people development, human resources management, performance evaluation and remuneration; Oversight of the evaluation of the status of development of policies and procedures regarding whistle-blowing from within the audit firm and external sources, and the status of verification and utilization of provided information; and In fulfilling their oversight role, independent third persons should also be involved in dialogue with audited companies, shareholders and other participants in the capital market. 	The Public Interest Oversight Committee receives reports from the Management Oversight Committee on important firm activities and projects and engages CEO or Senior Executive Board members in discussion. The Committee also supervises from a public interest standpoint whether or not the supervisory and evaluation processes of the Nomination Committee and Compensation Committee are appropriately carried out.	P.20 Governance Framework P.22 Supervision and Evaluation
Guidance 3-4	An audit firm should develop an environment in which necessary information is provided to the members of the function responsible for supervision and evaluation in a timely and appropriate manner, and in which assistance is provided in the execution of its operations so that the members can effectively fulfill their responsibilities.	The firm established a secretariat to assist the effective execution of the activities of the Management Oversight Committee and Public Interest Oversight Committee and maintains an environment to support its smooth operation including the provision of any necessary information.	P.22 Supervision and Evaluation

【Operation】

	Principle and Guidance	Status of Action Taken	AZSA Quality 2019
Principle 4	An audit firm should develop an operational structure to effectively manage its organizational operations. The audit firm should also strengthen its people retention and development and proactively engage, in dialogue and discussion within the firm and with audited companies about the possible enhancement of audit quality.		
Guidance 4-1	An audit firm should develop a structure that allows its management to share necessary information from each audit team in a timely manner and also disseminate their philosophy and defined values throughout the organization. The management should effectively utilize such a structure in the operations of the firm. In addition, a proactive dialogue and discussion for improvement of the audit quality should be encouraged within the firm.	Management policies are disseminated and information shared at audit work sites through two-way internal communication facilitated by the Four Defense Lines. ▶ Point for further enhancement We will explain to all partners in a timely manner and in detail why management initiatives are necessary including the environment and background to such initiatives, thereby disseminating the rationale throughout the organization. We will also strengthen the firm's ability to cascade such information to all classes to ensure the management policy is disseminated widely to all employees.	P.23 Assessment of the Effectiveness of Activities Intended to Enhance Audit Quality by the Management Oversight Committee P.24 Four Defense Lines P.26 Responsibility for Quality Control
Guidance 4-2	An audit firm should develop and operate policies for managing people development, human resources management and performance evaluation in order to raise the motivation of the firm personnel and help them to maintain and demonstrate their professional competence. In doing so, whether the firm personnel sufficiently exercised their professional skepticism should be fully taken into consideration.	The firm fosters true professionals in accordance with our Human Resource Development Principles and conducts appropriate evaluations with a focus on performance and efforts related to audit quality. For partner evaluations the most important evaluation areas are quality and quality control. Provision of non-audit services to audit clients is excluded from evaluation.	P.44 Human Resource Development
Guidance 4-3	An audit firm should pay particular attention to the following points: <ul style="list-style-type: none"> • Well-balanced assignment of the firm personnel to respective teams in terms of the extensive knowledge and experience to allow the teams to exercise their professional skepticism; • Providing the firm personnel with opportunities to gain extensive knowledge and experience relevant to audit, such as experience in non-audit service and/or temporary transfer to companies outside the audit industry; and • Appropriate evaluation and well-planned utilization of the firm personnel with extensive knowledge and experience. 	An organizational system of quality control is in place wherein each hierarchical layer of the Four Defense Lines carries out its respective responsibility for audit quality. The audit divisions are responsible for appropriately assigning personnel. ▶ Point for further enhancement We will recognize a wide range of career paths and diverse working styles, promote a deeper understanding and awareness of diversity, and employ a variety of talent.	P.24 Four Defense Lines P.28 Audit Contracts
Guidance 4-4	An audit firm should make efforts for audit teams to have candid and in-depth dialogue about audit risks with the top management of audited companies, such as the CEO and CFO, and those charged with governance including the members of the audit and supervisory board as well. It should also ensure to have sufficient dialogue and discussion with audited companies at each audit team level.	Sufficient opportunities for discussion with client management and audit committees are provided.	P.26 Responsibility for Quality Control P.30 Communication with Stakeholders
Guidance 4-5	An audit firm should develop and disclose policies and procedures regarding whistleblowing from within the firm and external sources, and appropriately make use of the provided information. In doing so, the audit firm should pay particular attention to ensure that a whistleblower does not have to be concerned about the risk of disadvantage.	The firm has established an internal compliance hotline and contact for whistleblowing by outside informants.	P.39 Compliance Organization

【Ensuring Transparency】

	Principle and Guidance	Status of Action Taken	AZSA Quality 2019
Principle 5	An audit firm should ensure such transparency as to allow stakeholders in the capital market to appropriately assess its audit quality, by explaining the status of the Code's implementation. The audit firm should also effectively utilize the internal and external assessment of its initiatives for improvement in its management and operations.		
Guidance 5-1	An audit firm should explain the status of the Code's implementation and its initiatives for the enhancement of audit quality in plain language, in the form of publicly available documents such as "Transparency Report," to allow audited companies, shareholders and other stakeholders in the capital market to appropriately assess its audit quality.	The firm issues AZSA Quality annually to introduce our initiatives for enhancing audit quality.	AZSA Quality 2019
Guidance 5-2	An audit firm should explain the following matters as well: <ul style="list-style-type: none"> The tone at the top toward the continuous enhancement of the audit quality in order for the management and the firm personnel of the firm proactively fulfill their respective roles; 	The CEO repeatedly issues messages on continuous activities to maintain and enhance audit quality. An organizational system of quality control is in place wherein each hierarchical layer of the Four Defense Lines carries out its respective responsibility for audit quality.	P.24 Four Defense Lines P.26 Responsibility for Quality Control
	<ul style="list-style-type: none"> The defined values to be commonly maintained by the firm personnel, and way of thinking and code of conduct to put these values into practice; 	A sense of oneness as an organization is established by sharing our firm's basic principles of Purpose, Values, Vision and Strategy.	P.18 Basic principles
	<ul style="list-style-type: none"> The stance toward non-audit services (provided by the firm and its group organizations) ; 	With respect to the provision of non-audit services, the firm maintains a system to strengthen governance of not only KPMG AZSA but also the entire group including subsidiaries that provide advisory services, as well as a mechanism to appropriately monitor independence and conflicts of interest. The firm is working to promote a sense of unity among the KPMG Japan group entities that goes beyond a focus on compliance and the maintenance of independence.	P.29 KPMG's Approach to Non-Audit Services P.52 Management Structure of KPMG Japan
	<ul style="list-style-type: none"> The composition and role of the management; 	The firm clarified responsibility for management by designating its Senior Executive Board and Executive Board as the decision-making and executive bodies respectively.	P.20 Governance Framework P.21 Management and Execution
	<ul style="list-style-type: none"> The composition and role of the function to supervise and evaluate the effectiveness of the management and organizational operations, as well as the reasons for the appointment, role and contribution of independent third persons appointed as the members of the function ; and 	The firm established the Management Oversight Committee comprising partners who are not involved in firm management. The firm established the Public Interest Oversight Committee as an independent supervisory body.	P.20 Governance Framework P.22 Supervision and Evaluation
	<ul style="list-style-type: none"> The assessment with respect to the effectiveness of the initiatives for the enhancement of the audit quality, which is carried out by the firm including the members of the function responsible for the supervision and evaluation. 	The Management Oversight Committee are responsible for supervising and evaluating the management and execution by CEO and the Senior Executive Board Members. Results of the supervision and evaluation are reported to the Partners Meeting and to investors and other parties through AZSA Quality.	P.23 Assessment of the Effectiveness of Activities Intended to Enhance Audit Quality by the Management Oversight Committee
Guidance 5-3	An audit firm should strive for proactive dialogue about its initiatives for enhancement of the audit quality with audited companies, shareholders and other stakeholders in the capital market. In doing so, the audit firm should effectively utilize the knowledge and experience of independent third persons.	The firm seeks to enhance communication with audited companies by sharing information through marketing activities and seminars, and by periodically holding stakeholder dialogues. The Public Interest Oversight Committee (independent members) attend such events, providing management with feedback from the perspective of an independent third party.	P.30 Communication with Stakeholders
Guidance 5-4	An audit firm should periodically assess the Code's implementation and the effectiveness of its initiatives for enhancement of the audit quality.	The Management Oversight Committee are responsible for supervising and evaluating the management and execution by CEO and the Senior Executive Board Members. Results of the supervision and evaluation are reported to the Partners Meeting, and beginning next year our management and executive bodies will consider improvement measures.	P.23 Assessment of the Effectiveness of Activities Intended to Enhance Audit Quality by the Management Oversight Committee
Guidance 5-5	An audit firm should effectively utilize the useful information obtained through the dialogue with stakeholders such as participants in the capital market and the results of the assessment of the Code's implementation for improving its effective management and organizational operations.	We periodically hold stakeholder dialogues. Through these events we received feedback on the capital markets' expectations for audit firms, and we are making use of this information to improve our organizational operations. Going forward we will strive to continue this active exchange of opinions with participants in the capital markets.	P.31 Dialogue with Investors

AZSA Quality and Related Publications

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



AZSA Quality 2019

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

home.kpmg/jp/azsa-quality
Issued | October 2019



Transparency Report 2019

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

home.kpmg/jp/transparency-report
Issued | October 2019



KPMG Japan Our Story 2019/20

Describes the thinking and initiatives of KPMG Japan, including KPMG AZSA, with respect to the sustainable provision of ever more valuable services in response to the expectations of society and clients.

home.kpmg/jp/our-story
Issued | October 2019



Scope of Reporting

Data for the period July 2018 to June 2019 are reported as results and achievements for the year ended June 2019. The report includes certain data arising before or after this period as well as descriptions of the firm's planned approaches and activities.

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