*English Translation-Reference Purpose Only*

*This is an unofficial translation of the Japanese original version prepared solely for the convenience of readers outside Japan. If there is any discrepancy between the Japanese original and this translation, the Japanese original will prevail.*

Notification of the matters reported to the corporate auditors, etc. in accordance with Article 131 of the Corporate Calculation Regulations

XX 2019

KPMG AZSA LLC

Table of Contents

[1. System of quality control 1](#_Toc14425070)

[2. Tone at the top 3](#_Toc14425071)

[(1) Leadership responsibilities for quality and risk management 4](#_Toc14425072)

[3. Association with the right clients 5](#_Toc14425073)

[(1) Acceptance and continuance of clients and engagements 5](#_Toc14425074)

[(2) Prospective client and engagement acceptance process 5](#_Toc14425075)

[(3) Continuance process 6](#_Toc14425076)

[(4) Withdrawal 6](#_Toc14425077)

[(5) Client portfolio management 6](#_Toc14425078)

[4. Clear standards and robust audit tools 7](#_Toc14425079)

[(1) Our approach to audit 7](#_Toc14425080)

[(2) Independence, integrity, ethics and objectivity 9](#_Toc14425081)

[5. Recruitment, development and assignment of appropriately qualified personnel 13](#_Toc14425082)

[(1) Recruitment 14](#_Toc14425083)

[(2) Personal development 14](#_Toc14425084)

[(3) Inclusion and Diversity programs 14](#_Toc14425085)

[(4) Evaluation process including quality and compliance metrics 15](#_Toc14425086)

[(5) Partner admissions 15](#_Toc14425087)

[(6) Assignment of professionals 15](#_Toc14425088)

[(7) from our people - Global People Survey (GPS) 16](#_Toc14425089)

[6. Commitment to technical excellence and quality service delivery 17](#_Toc14425090)

[(1) Lifetime learning strategy 17](#_Toc14425091)

[(2) Licensing and mandatory requirements for IFRS and U.S. GAAP engagements 17](#_Toc14425092)

[(3) Access to specialist networks 18](#_Toc14425093)

[(4) Culture of Consultation 18](#_Toc14425094)

[(5) Developing business understanding and industry knowledge 19](#_Toc14425095)

[7. Performance of effective and efficient audits 19](#_Toc14425096)

[(1) Ongoing mentoring, supervision and review 19](#_Toc14425097)

[(2) Timely engagement quality control (EQC) reviewers 20](#_Toc14425098)

[(3) Reporting 20](#_Toc14425099)

[(4) Insightful, open and honest two-way communication 21](#_Toc14425100)

[(5) Communications between predecessor auditor and successor auditor 21](#_Toc14425101)

[(6) Client confidentiality, information security and data privacy 21](#_Toc14425102)

[(7) Risk associated information 21](#_Toc14425103)

[8. Commitment to continuous improvement 22](#_Toc14425104)

[(1) Internal monitoring and compliance programs 22](#_Toc14425105)

[(2) External feedback and dialogue 24](#_Toc14425106)

# 

# System of quality control

**Overview**

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

A robust and consistent system of quality control is an essential requirement in performing high-quality services. Accordingly, KPMG International has quality control policies that apply to all member firms. These are included in KPMG’s Global Quality & Risk Management Manual (Global Q&RM Manual) available to all KPMG personnel.

These policies and associated procedures are designed to assist member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances, as well as help member firm personnel act with integrity and objectivity and perform their work with diligence. These policies and procedures are based on the International Standard on Quality Control 1 (ISQC 1) issued by the International Auditing and Assurance Standards Board (IAASB), and on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). Both of these are relevant to member firms that perform statutory audits and other assurance and related services engagements.

KPMG AZSA is required to implement KPMG International policies and procedures and also adopts additional policies and procedures that are designed to address rules and standards issued by the Financial Services Agency and JICPA, and other relevant regulators as well as applicable legal and regulatory requirements. Amendments to risk and quality policies, including ethics and independence policies, are included in quality and risk management alerts and are communicated by email.

KPMG AZSA is required to implement changes specified in the email alerts and this is checked through internal monitoring.

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

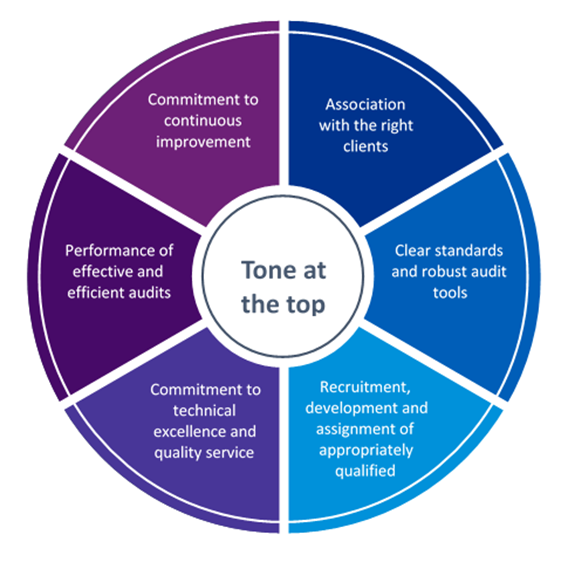
While many KPMG’s quality control processes are cross-functional and apply equally to advisory work, the remainder of this section focuses on the delivery of quality audits.

**Audit quality framework**

At KPMG AZSA, audit quality is not just about reaching the right opinion but how that opinion is reached. It is about the processes, thought, and integrity behind the auditors’ report. The outcome of a quality audit is the delivery of an appropriate and independent opinion in compliance with relevant professional standards and applicable legal and regulatory requirements.

To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver a quality audit, KPMG International has developed the Audit Quality Framework. This framework uses a common language that is adopted by all KPMG member firms, including KPMG AZSA, to describe what the KPMG network believes drives audit quality, and to highlight how every audit professional at each KPMG member firm contributes to the delivery of audit quality.

Tone at the top sits at the core of the Audit Quality Framework’s seven drivers of audit quality and helps ensure that the right behaviors permeate across the entire KPMG network. All of the other drivers create a virtuous circle because each driver is intended to reinforce the others. Each of the seven drivers is described in more detail in the following sections of this report.



# Tone at the top

The culture of KPMG International and KPMG member firms is underpinned by a strong set of values and supporting policies and processes, which enable the right attitudes and behaviors to permeate throughout the KPMG network.

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

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

Tone at the top means that KPMG AZSA leadership demonstrates commitment to quality, ethics, and integrity as well as communicates its commitment to clients, stakeholders, and society at large. Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG value — “Above all, we act with integrity”. Integrity means constantly striving to uphold the highest professional standards, providing sound good-quality advice, and rigorously maintaining our independence.

The KPMG values, which have been explicitly codified for a number of years, are embedded into working practices and compliance culture at KPMG AZSA.

The KPMG values form the foundation of our culture and set the tone at the top. They also form the foundation of the KPMG approach to audit and shape how we work together. We communicate the KPMG values clearly to our people and embed them into our people processes — induction, performance development, and reward.

**KPMG Global Code of Conduct**

KPMG’s commitment to integrity and quality is enshrined in the KPMG values that lie at the heart of the way we do things. They define KPMG’s diverse and inclusive culture and our commitment to the right personal and professional conduct. The KPMG values emphasize that, above all, KPMG personnel act with integrity, uphold the highest professional standards, and provide sound advice while rigorously maintaining independence and complying with laws, regulations, and professional standards. The KPMG values are communicated clearly to all people and are embedded into member firms’ people processes — induction, performance development, and reward.

Building on the KPMG values is the KPMG Global Code of Conduct.

Member firms, including KPMG AZSA, are required to adopt, as a minimum, the Global Code of Conduct.

**KPMG AZSA Code of Conduct**

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

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

All KPMG AZSA personnel are required to:

* comply with both the Global Code of Conduct and the KPMG AZSA Code of Conduct and confirm their compliance with the Code of Conduct upon joining the firm and annually thereafter;
* complete regular training covering the Code of Conduct upon joining the firm and annually thereafter.

Individuals are encouraged to speak up when they see something that makes them uncomfortable or that is inconsistent with the KPMG values. Moreover, everyone at KPMG is responsible for reporting, and is required to report, any activity that could potentially be illegal or in violation of the KPMG values, KPMG policies, applicable laws, regulations, or professional standards.

We have procedures and established channels of communication so that our personnel can report ethical and quality issues. Retaliation is prohibited against individuals who ‘raise their hand’ and speak up in good faith. Also, all the information, including that related to fraud risk ( i.e., risks of material misstatements due to fraud) posted from KPMG internal and external parties are communicated with relating engagement partners, and their audit response is to be reported to head office.

In addition, the KPMG International hotline is a mechanism for all KPMG partners, employees, clients, and other external parties to confidentially report their concerns related to certain areas of activity by KPMG International itself, KPMG member firms or the senior leadership or employees of a KPMG member firm. At KPMG AZSA, we regularly monitor the extent to which our people feel we live the KPMG values through the Global People Survey (GPS) (refer to section 5. (7)).

## Leadership responsibilities for quality and risk management

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

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

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

**Managing partner**

In accordance with the principles in ISQC1, our Managing Partner has assumed ultimate responsibility for KPMG AZSA’s system of quality control including audit response to fraud risk.

**The Executive Board member in charge of Quality**

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

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

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

# Association with the right clients

## Acceptance and continuance of clients and engagements

One of the keys to managing audit quality is to understand the nature of our clients and the issues they face and build a robust audit response to the identified risks.

We understand our clients are linked to the quality of our work and our reputation.

Rigorous client and engagement acceptance and continuance policies and processes help protect KPMG’s reputation, support the KPMG brand and are an important part to our ability to provide high-quality professional services. Accordingly, KPMG International has established policies and procedures which all member firms are required to implement in order to decide whether to accept or continue a client relationship, and whether to perform a specific engagement for that client.

## Prospective client and engagement acceptance process

KPMG AZSA undertakes an evaluation of every prospective client.

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

A second partner, as well as the evaluating partner, approves each prospective client evaluation. Where the client is considered to be ‘high risk’, additional approvals by the Risk Management Partner and, in some cases, the office managing partner, or the Executive Board member in charge of Quality, are required.

**Engagement evaluation**

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

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

Similar independence evaluations are performed when an existing audit client becomes a public interest entity or additional independence restrictions apply following a change in the circumstances of the client. We follow specific procedures (detailed further in section 4.(2) ⑦) to identify and evaluate threats to independence for prospective audit clients that are public interest entities.

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

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

## Continuance process

KPMG AZSA undertakes an annual re-evaluation of all its audit clients. The re-evaluation identifies any issues in relation to continuing association and any mitigating procedures that need to be put in place.

Recurring or long-running non-audit engagements are also subject to the re-evaluation. In addition, clients and engagements are required to be re-evaluated if there is an indication that there may be a change in their risk profile.

## Withdrawal

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

## Client portfolio management

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

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

# Clear standards and robust audit tools

All KPMG AZSA professionals are expected to adhere to KPMG International and KPMG AZSA policies and procedures, including independence policies. They are provided with a range of tools and guidance in order to meet these expectations.

The policies and procedures set for audit engagements incorporate the relevant requirements of accounting, auditing, ethical, and quality control standards, as well as other relevant laws and regulations.

## Our approach to audit

KPMG has been investing significantly in evolving the network’s audit capabilities and will continue to do so in the coming years including a new global electronic audit workflow delivered through KPMG Clara platform — KPMG’s smart, modular audit platform — capable of continually integrating new and emerging technologies, with advanced capabilities embedded that leverage data, automation, and visualization. Data & Analytics (D&A) is integral to the way how KPMG member firms obtain audit evidence and interact with clients in the digital era.

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

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

1. Consistent audit methodology and tools

Significant resources are dedicated to keeping KPMG’s standards and tools complete and up to date. The KPMG audit methodology, developed by the Global Service Centre (GSC), is based on the requirements of the International Standards on Auditing (ISAs). The KPMG audit methodology is set out in KPMG Audit Manual (KAM) and includes additional requirements that go beyond the ISAs, which KPMG International believes enhance the audit quality. The methodology emphasizes applying appropriate professional skepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence. Enhancements to the audit methodology, guidance, and tools are made regularly to be in compliance with standards, emerging auditing areas of focus, and audit quality results (internal and external). Key topics include accounting estimates, internal control, revenue recognition, group audits, audit sampling and risk assessment.

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

KAM contains examples and guidance for, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks.

The KPMG audit methodology encourages the use of specialists when appropriate, and also requires the involvement of relevant specialists in the core audit engagement team when certain criteria are met or where the audit team considers it appropriate or necessary.

The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the Global Q&RM Manual that is applicable to all KPMG member firms, functions, and personnel.

The KPMG audit workflow is enabled through eAudIT, an activity-based workflow and electronic audit file. eAudIT is KPMG’s audit documentation workflow that allows 75,000+ professionals to complete high-quality and consistent audits. eAudIT integrates KPMG’s audit methodology, guidance, and industry knowledge as well as the tools needed to execute and document the audit work performed.

eAudIT can be “scaled” to present the relevant requirements and guidance, depending on the nature of the entity to be audited and in accordance with professional standards and applicable legal and regulatory requirements. It provides direct access to our audit guidance, professional standards, and documentation templates.

Significant investments are underway to revise and enhance the KPMG audit methodology (KAM) and workflow tool (eAudIT), with the deployment of KPMG Clara Workflow which was piloted in 2018 and is planned for initial deployment globally in 2019 and full deployment beginning in 2020..

**KPMG Clara, KPMG Clara Workflow and Audit Data & Analytics (D&A)**

KPMG International is making significant investments to improve audit quality, drive consistency in the execution of audits, and strengthen both the member firm and global monitoring of engagements.

**KPMG Clara**

In 2017, KPMG International commenced the global launch of KPMG Clara — KPMG’s Smart Audit Platform — bringing together KPMG’s Audit Data & Analytics (D&A) capabilities, innovative new technologies, collaboration capabilities, and audit workflow.

This represents KPMG’s ambition to:

* transform audit execution for our people and clients through new, modern technology-enabled interfaces and collaboration functionality;
* integrate the required capability to digitize the audit and deliver new D&A routines;
* enable an enhanced and re-designed workflow;
* incorporate the development of monitoring capabilities at the engagement-level and across engagement portfolios for use by engagement teams and member firms;
* support global leadership’s monitoring of the effectiveness of member firm systems of quality control;
* develop an extendable audit platform to enable member firm customization and scale, as well as future capabilities.

**KPMG Clara Workflow**

Building on the launch of KPMG Clara in 2017, KPMG International is creating a new workflow tool that will be used by KPMG audit teams to execute and document KPMG audits. It will be intuitive, user-friendly, and modern. The new system will genuinely be a workflow guiding audit teams through a series of steps in a logical sequence, with clearer display of information and visuals, knowledge and guidance available as and when needded, and with embedded advanced D&A capabilities. The workflow and methodology will also be scalable — adjusting the requirements to the size and complexity of the audit engagement. This globally driven project will significantly overhaul and redesign the execution of an audit by KPMG professionals and drive improvements in audit quality.

**Audit data & analytics (D&A)**

**KPMG’s audit, powered by D&A:**

* It enhances audit quality by providing a deeper understanding of data populations, giving focus to higher risk transactions.
* It is secure as it restricts access to data both in transit and within KPMG’s IT environments.
* It provides transparency by facilitating detailed analysis to uncover the reasons behind, and root causes of, outliers and anomalies as well as providing increased visibility into higher risk transactions and process areas.

D&A tools and routines are built on principles and professional standards underlying an audit and do not relieve auditors of their responsibilities.

## Independence, integrity, ethics, and objectivity

1. Overview

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

KPMG International has detailed independence policies and procedures, incorporating the requirements of the IESBA Code of Ethics. These are set out in KPMG’s Global Q&RM Manual. Automated tools facilitate compliance with these requirements.

These policies are supplemented by other processes to ensure compliance with the standards issued by the Certified Public Accountant Law and Code of Ethics issued by the JICPA.

These policies and processes cover areas such as firm independence, personal independence, firm financial relationships, post-employment relationships, partner rotation, and approval of audit and non-audit services.

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

KPMG AZSA has a designated Ethics and Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence policies and procedures.

Amendments to KPMG International's ethics and independence policies in the course of the year are included in regular quality and risk communications.

Member firms are required to implement changes as specified in the email alerts, and this is checked through the internal monitoring programs.

KPMG AZSA personnel are required to consult with the EIP on certain matters as defined in our internal rules. Consultations may also be required with the Global Independence Group, depending upon the facts and circumstances.

1. Personal financial independence

KPMG International policies require that KPMG member firms and KPMG professionals are free from prohibited financial interests in, and prohibited relationships with, KPMG member firm audit clients, their management, directors, and significant owners. The policies also extend the IESBA Code of Ethics restrictions on ownership of audit client securities to every partner and all staff who are manager grade or above in our firm in respect of any audit client of any member firm.

KPMG AZSA professionals are responsible for making appropriate inquiries and taking other appropriate actions on an ongoing basis to ensure that they do not have any personal financial, business or family interests that are restricted for independence purposes.

In common with other KPMG member firms, we use a web-based independence compliance system (KICS) to assist our professionals in complying with personal independence investment policies. This system contains an inventory of publicly available investments.

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

KPMG monitors partner and manager compliance with this requirement as part of our program of independence compliance audits of a sample of professionals.

1. Employment relationships

Any professional providing services to an audit client irrespective of function is required to notify our EIP, the engagement partner of an audit client, and the HR department if he or she intends to enter into employment negotiations with that audit client.

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

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

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

1. Firm financial independence

KPMG member firms must also be free from prohibited interests in, and prohibited relationships with, audit clients, their management, directors, and significant owners.

In common with other KPMG member firms, KPMG AZSA uses KICS to record its own investments (made, for example, through pension and retirement plans and treasury activities) in the web-based independence tracking system. This record is monitored through our compliance process.

1. Business relationships/suppliers

KPMG AZSA has policies and procedures in place that are designed to ensure its business relationships are maintained in accordance with the IESBA Code of Ethics, Japanese Certified Public Accountant Law, Code of Ethics issued by the JICPA and SEC, US PCAOB rule requirements.

1. Independence clearance process

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

1. Independence training and confirmations

All KPMG AZSA partners and client service professionals, as well as certain other individuals, must complete independence training that is appropriate to their grade and function upon joining KPMG AZSA and on an annual basis thereafter. New personnel who are required to complete this training must do so by the earlier of (a) thirty days after joining KPMG AZSA or (b) before providing any services to, or becoming a member of the chain of command for, any audit client, including any of its related entities or affiliates.

We also provide all personnel with training on the Global Code of Conduct, the KPMG AZSA Code of Conduct and ethical behavior, including KPMG’s anti-bribery policies, compliance with laws, regulations, and professional standards, and reporting suspected or actual non-compliance with laws, regulations, professional standards, and KPMG’s policies on a biennial basis. New personnel are required to complete this training within three months of joining KPMG AZSA.

Upon acceptance of employment, all KPMG personnel are required to confirm that they are in compliance with, and will abide by, applicable ethics and independence rules and policies.

Thereafter, all KPMG personnel are required to sign an annual confirmation stating that they have remained in compliance with applicable ethics and independence policies throughout the year covered by the confirmation as well as their understanding of, and compliance with, the applicable Code of Conduct. This confirmation is used to evidence the individual’s compliance with and understanding of KPMG’s independence policies.

1. Partner rotation

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

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

These requirements place limits on the number of years that partners in certain roles may provide audit services to a client followed by a “time-out” period during which time these partners may not participate in the audit, provide quality control for the audit, consult with the engagement team or the client regarding technical or industry-specific issues or in any way influence the outcome of the audit.

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

1. Non-audit services

We have policies that are consistent with IESBA principles and applicable laws and regulations, related to the scope of services that can be provided to audit clients.

We are required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG AZSA. KPMG AZSA’s EIP is involved in the review of potential independence issues and the Global Independence Group is involved in the case of services developed which are intended to be delivered to audit or assurance clients in more than one jurisdiction.

In addition to identifying potential conflicts of interest, Sentinel™ facilitates compliance with these policies.

Certain information on all prospective engagements, including service descriptions and fees, must be entered into Sentinel™ as part of the engagement acceptance process. Lead audit engagement partners are required to maintain group structures for their publicly traded and certain other audit clients as well as their affiliates in Sentinel™, and they are also responsible for identifying and evaluating any independence threats that may arise from the provision of a proposed non-audit service and the safeguards available to address those threats. Sentinel™ enables lead audit engagement partners for entities for which group structures are maintained to review and approve, or deny, any proposed service for those entities worldwide.

1. Fee dependency

KPMG International’s policies recognize that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the member firm expressing the audit opinion.

They require that in the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10 percent of the total fees received by a particular member firm for two consecutive years.

* This would be disclosed to those charged with governance at the audit entity; and
* EQC reviewer from another KPMG member firm would be appointed.

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

1. Avoiding conflicts of interest

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

All KPMG member firms and personnel are responsible for identifying and managing conflicts of interest, which are circumstances or situations that have, or may be perceived by a fully informed, reasonable observer, to have an impact on a member firm or its personnel in their ability to be objective or otherwise act without bias.

All KPMG member firms must use Sentinel™ for potential conflict identification so that these can be addressed in accordance with legal and professional requirements. KPMG AZSA has risk management resource/s (‘Resolver/s’) who is/are responsible for reviewing an identified potential conflict and working with the affected member firms to resolve the conflict, the outcome of which must be documented.

It may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise, or be perceived to arise, so that the confidentiality of all clients’ affairs is maintained. Such procedures may, for example, include establishing formal dividers between engagement teams serving different clients, and making arrangements to monitor the operation of such dividers.

Escalation and dispute resolution procedures are in place for situations in which agreement cannot be reached on how to manage a conflict.

If a potential conflict issue cannot be appropriately mitigated, the engagement is declined or terminated.

1. Breaches of independence policy

All KPMG personnel are required to report an independence breach as soon as they become aware of it to the EIP. In the event of failure to comply with our independence policies, whether identified in the compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy.

KPMG AZSA has a documented disciplinary policy in relation to breaches of independence policies. The disciplinary policy is communicated to all professionals and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations.

Any breaches of auditor independence regulations are reported to those charged with governance at the audit client, on the basis agreed with them but at a minimum on an annual basis.

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

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

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

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

1. Insider trading prevention

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

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

# Recruitment, development, and assignment of appropriately qualified personnel

One of the key drivers of quality is ensuring that our professionals have the appropriate skills and experience, passion and purpose, to deliver the highest quality in audit. This requires appropriate recruitment, development, promotion, and retention assignment of professionals. The KPMG performance development approach, linked to the KPMG values, is designed to articulate what is required for success — both individually and collectively. Ensuring audit quality is an essential element of the training, planning, and development underway to support the KPMG Clara Workflow roll-out and the associated updated KPMG audit methodology, with processes embedded in all KPMG learning programs.

## Recruitment

KPMG AZSA strives to be an employer of choice by creating an environment where our people can fulfill their potential and feel proud and motivated to give their best.

All candidates submit an application and are employed following a variety of selection processes, which may include application screening, competency-based interviews, psychometric and ability testing.

KPMG AZSA does not accept any confidential information belonging to the candidate’s former firm/employer. Where individuals are recruited for senior grades (i.e. partner, director), a formal independence discussion is conducted with them by the EIP.

The Partner hire process is rigorous and thorough, involving appropriate members of leadership, including the Partners’ Meeting and the Senior Executive Board. Our criteria for Partner hires are consistent with our commitment to professionalism and integrity, quality, and being an employer of choice.

## Personal development

It is important that all our professionals have the necessary business and leadership skills in addition to technical skills to be able to perform quality work.

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

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

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

## Inclusion and Diversity programs

KPMG AZSA works hard to foster an inclusive culture. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences, and perspectives.

We encourage each partner and employee with diverse personalities to achieve high performance toward the common goal of “contributing to audit clients and society through the provision of high-quality services”, while respecting and making the most of each other’s differences.

KPMG AZSA adopts a variety of approaches to establish an environment conducive to more diverse and flexible work styles. Specific initiatives include: developing globally minded personnel; promoting women’s participation in the workforce; supporting our people as they balance work and childbirth, childcare, and nursing care; promoting employment of persons with disabilities; creating a corporate culture that allows and encourages our people to embrace diversity; and introducing teleworking, as well as changing the office work style more generally.

For more information about Inclusion & Diversity at KPMG, read [here](https://home.kpmg/xx/en/home/insights/2018/11/inclusion-and-diversity-at-kpmg.html).

## Evaluation process including quality and compliance metrics

KPMG AZSA professionals, including partners, have annual goal-setting and performance reviews. Each professional is evaluated on his or her agreed-upon goals, demonstration of our leadership competencies, technical capabilities, and market knowledge. A culture of continuous improvement is encouraged to drive feedback, both formal and informal, from junior and senior colleagues, as well as peers. Feedback gathered forms an integral part of performance reviews.

KPMG AZSA monitors quality and compliance incidents and maintains quality metrics in assessing the overall evaluation, promotion, and remuneration of partners, directors, and managers.

Partners are also evaluated on key quality and compliance metrics.

These evaluations are conducted by performance managers and partners who are in a position to assess their performance and propose a performance rating. KPMG AZSA’s policy prohibits audit partners from being evaluated on or compensated based on their success in selling non-assurance services to audit clients.

**Reward**

We have compensation and promotion policies that are clear, simple, and linked to the performance review process which, for partners, includes the achievement of key audit quality and compliance metrics. This helps our partners and employees know what is expected of them, and what they can expect to receive in return.

Reward decisions are based on the consideration of both individual and organizational (member firm) performance. The extent to which our people feel their performance has been reflected in their reward is measured through the GPS, with action plans developed accordingly.

**Promotion**

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

## Partner admissions

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

Our criteria for admission to the KPMG AZSA partnership are consistent with our commitment to professionalism and integrity, quality and being an employer of choice. These are strongly aligned to KPMG’s behavioral capabilities and are based on consistent principles.

## Assignment of professionals

KPMG AZSA has procedures in place to assign both the engagement partners and other professionals to a specific engagement on the basis of their skill sets, relevant professional and industry experience, and the nature of the assignment or engagement.

Function heads are responsible for the partner assignment process. Key considerations include partner experience and capacity based on an annual partner portfolio review to perform the engagement taking into account the size, complexity, and risk profile of the engagement and the type of support to be provided (i.e. the engagement team composition and specialist involvement).

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

When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner’s considerations may include the following:

* an understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation;
* an understanding of professional standards and legal and regulatory requirements;
* appropriate technical skills, including those related to relevant information technology and specialized areas of accounting or auditing;
* knowledge of relevant industries in which the client operates;
* ability to apply professional judgment;
* an understanding of KPMG AZSA’s quality control policies and procedures;
* QPR results and results of regulatory inspections, as well as ;
* Insights from our people (GPS).

## from our people —People Survey (GPS)

Biennially, KPMG Japan invites all our people to participate in an independent GPS to share their perception about their experience working for KPMG.

The GPS provides an overall measure of our people’s engagement through an Employee Engagement Index (EEI) as well as insights into areas driving engagement which may be strengths or opportunities. The survey also identifies opportunities to strengthen those levels of engagement. Results can be analyzed by functional or geographic area, grade, role, gender to provide additional insight. Additional insight is provided on how we are faring on categories known to impact employee engagement.

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

KPMG AZSA participates in the GPS, monitors results, and takes appropriate actions to communicate and respond to the findings of the survey.

This includes monitoring GPS results including those related to:

* audit quality and tone at the top;
* employee engagement through the EEI.

The GPS results are also aggregated for the KPMG network and are presented to the Global Board each year and appropriate follow-up actions agreed.

# Commitment to technical excellence and quality service delivery

All KPMG AZSA professionals are provided with the technical training and support they need. This includes access to specialists and the professional practice department, which are made up of senior professionals with extensive experience in audit, reporting, and risk management, either to provide resources to the engagement team or for consultation.

Where the right resource is not available within KPMG AZSA, access is provided to a network of highly skilled KPMG professionals in other KPMG member firms.

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

## Lifetime learning strategy

In addition to personal development discussed in the section above, our lifetime learning strategy is underpinned by policies requiring all professionals to maintain their technical competence as well as comply with applicable regulatory and professional development requirements.

**Formal training**

Annual training priorities for development and delivery are identified by the Audit Learning and Development steering groups at global, regional and KPMG AZSA levels. Training is delivered using a blend of classroom, digital learning, and performance support to assist auditors on the job.

Audit Learning and Development teams work with subject matter experts and leaders from the GSC, the ISG and member firm Department of Professional Practice (DPP) as appropriate, to ensure the training is of the highest quality, is relevant to performance on the job, and is delivered on a timely basis.

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

**Licensing**

All KPMG AZSA professionals are required to comply with applicable professional license rules and satisfy the Continuing Professional Development (CPD) requirements in the jurisdiction where they practice.

Policies and procedures are designed to facilitate compliance with license requirements.

We are responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge, and experience in the local predominant financial reporting framework.

**Mandatory requirements — IFRS and U.S.GAAP engagements**

We have specific requirements for partners, managers, and EQC reviewers working on IFRS engagements, in countries where IFRS is not the predominant financial reporting framework. Similar policies apply to engagements performed outside the U.S. to report on financial statements or financial information prepared in accordance with U.S. GAAP and/or audited in accordance with the U.S. auditing standards, including reporting on the effectiveness of the entity’s internal control over financial reporting (ICOFR).

These require that the partner, manager, and EQC reviewer have completed relevant training and that the engagement team, collectively, has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

## Access to specialist networks

KPMG AZSA engagement teams have access to a network of local KPMG specialists as well as specialists in other KPMG member firms.

Specialists who are members of an audit team and have overall responsibility for specialist involvement on an audit engagement have the competencies, capabilities, and objectivity to appropriately fulfill their role. Training on audit concepts is provided to these specialists.

The need for specialists (e.g. Information Technology, Tax, Actuarial, Forensic, Valuation) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process.

## Culture of Consultation

KPMG encourages a strong culture of consultation that supports member firm teams throughout their decision-making processes and is a fundamental contributor to audit quality.

KPMG AZSA promotes a culture in which consultation is recognized as a strength and that encourages personnel to consult on difficult or contentious matters.

To assist audit engagement professionals in addressing difficult or contentious matters, protocols have been established for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues.

These protocols include the policies and procedures for consultation when indicators suggesting material misstatements due to fraud are identified.

Appropriate consultation support is provided to audit engagement professionals through our professional practice resources.

Technical auditing and accounting support is available to all member firms and their professionals through the GSC and ISG as well as the US Capital Markets Group for SEC foreign registrants.

**Global Services Centre (GSC)**

The GSC’s mission is to drive success for KPMG’s global network of audit practices through collaboration, innovation, and technology. The GSC develops, maintains, and deploys KPMG’s audit methodology and technology-based tools used by KPMG audit professionals to facilitate effective and efficient audits. With three global locations, one in each region, the GSC audit team is made up of professionals with backgrounds in audit, IT, data science, mathematics, statistics, and more from around the world who bring diverse experiences and innovative ways of thinking to further evolve KPMG’s audit capabilities.

**International Standards Group (ISG)**

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

Further details about the GSC and ISG and its activities are available in the KPMG International Transparency Report.

**Member firm professional practice resource**

Appropriate consultation support on auditing and technical accounting matters is provided to audit engagement professionals through our professional practice resources (referred to as Department of Professional Practice or DPP). DPP also assists engagement teams where there are differences of opinion either within teams or with the EQC reviewer. Unresolved differences are required to be escalated to senior partners for final resolution. The ISG is also available for consultation when required.

KPMG International policies include minimum requirements for member firm DPPs.

## Developing business understanding and industry knowledge

A key part of quality is having a detailed understanding of the client’s business and industry.

For significant industries, global audit sector leads are appointed to support the development of relevant industry information, which is made available to audit professionals through the KPMG audit workflow.

This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes). In addition, industry overviews are available that provide general and business information in respect of particular industries as well as a summary of the industry knowledge provided in the KPMG audit workflow.

# Performance of effective and efficient audits

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

## Ongoing mentoring, supervision, and review

We understand that skills are developed over time and through exposure to different experiences. To invest in the development of skills and capabilities of KPMG professionals, without compromising on quality, KPMG AZSA promotes a continuous learning environment and supports a coaching culture.

The engagement partner, supported by the engagement manager, is responsible for driving a culture of coaching and continuous learning throughout the audit process and setting an example in the performance of the audit to drive a culture of continuous audit quality improvement.

We also have policies and procedures on supervision and review throughout the audit to respond appropriately to fraud risks.

Ongoing mentoring, coaching, and supervision during an audit involves:

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

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

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

## Timely engagement quality control (EQC) reviewers

EQC reviewers are independent of the engagement team and have the appropriate experience and knowledge to perform an objective review of the more critical decisions and judgments made by the engagement team and the appropriateness of the financial statements.

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

The EQC review takes place before the date of the auditor’s report and includes, among other matters:

* review of selected audit documentation relating to significant judgments the engagement team made and the conclusions it reached;
* review of the financial statements and proposed auditor’s report;
* evaluation of the conclusions reached in formulating the auditors’ report and consideration of whether the proposed report is appropriate.

Although the engagement partner is ultimately responsible for the resolution of financial reporting and auditing matters, the EQC reviewer must be satisfied that all significant questions raised have been resolved before an audit can be considered complete.

Where any possibility of material misstatements due to fraud is identified, an EQC reviewer is required to evaluate the appropriateness of the risk assessment, audit procedures performed, and audit evidence obtained by the audit team.

KPMG AZSA is continually seeking to strengthen and improve the EQC reviewer’s role in audits, as this is a fundamental part of the system of audit quality control. To reinforce this, a number of actions have been taken, including:

* establishing basic policies for EQC review on audit engagements;
* issuing guidance on EQC review to facilitate effective reviews;
* obtaining understandings about audit risks, inquiring EQC reviewers of issues on EQC reviews, and monitoring current status of EQC reviews.

The Senior Review Board, which consists of partners who have appropriate experience and knowledge to perform an objective review, monitors the status of the EQC review process and evaluates significant judgments made in the audit.

## Reporting

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

In preparing auditors’ reports, engagement partners have access to extensive reporting guidance and technical support through consultations with our DPP. Engagement partners have to request involvement of Senior Review Board where there are significant matters to be reported to users of the auditors' report, either as a qualification to the audit report or through the inclusion of an emphasis of matter paragraph.

## Insightful, open, and honest two-way communication

Two-way communication with those charged with governance, often identified as Audit & Supervisory Board, is key to audit quality and is a key aspect of reporting and service delivery.

At KPMG AZSA, we stress the importance of keeping those charged with governance informed of issues arising throughout the audit and the need to listen to and understand their views. We achieve this through a combination of reports and presentations, attendance at the Audit & Supervisory Board, and when appropriate ongoing discussions with management and members of the Audit & Supervisory Board.

We deliver insights such as our assessment of the appropriateness of significant accounting practices, including accounting policies, accounting estimates, financial statement disclosures, significant deficiencies in the design and operation of financial reporting systems, controls when such deficiencies come to our attention during the course of the audit and any uncorrected misstatements.

KPMG Institute

KPMG’s Global IFRS Institute provides the latest information about accounting and audit which influence many companies, to assist KPMG member firms and external parties.

For example, [IFRS Institute](https://home.kpmg/xx/en/home/services/audit/international-financial-reporting-standards.html) (https://home.kpmg/xx/en/home/services/audit/international-financial-reporting-standards.html） provided by KPMG Global and KPMG AZSA web site provide easy access to the information.

## Communications between predecessor auditor and successor auditor

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

## Client confidentiality, information security, and data privacy

The importance of maintaining client confidentiality is emphasized through a variety of mechanisms including the Global and KPMG AZSA Code of Conduct, training, and the annual affidavit/confirmation process, that all KPMG professionals are required to complete.

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

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

## Risk associated information

We have a system in place for managing information relating to risk assessment and processes that ensure that significant auditing issues, including fraud risk, are communicated to succeeding engagement partners when there is a change of engagement partners.

# Commitment to continuous improvement

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

KPMG International’s integrated quality and monitoring programs include the Quality Performance Review (QPR) program, the Risk Compliance Program (RCP), and the Global Compliance Review (GCR) program.

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

## Internal monitoring and compliance programs

Our monitoring programs evaluate both:

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

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

Our internal monitoring program also contributes to the assessment of whether our system of quality control has been appropriately designed and effectively implemented as well as whether it operates effectively.

Two inspection programs, developed and administered by KPMG International, are conducted annually across the Audit and Advisory functions, QPR and RCP.

Additionally, all member firms are covered at least every three years by the cross-functional GCR program.

Participation in QPR, RCP, and GCR is a condition of ongoing membership of the KPMG network.

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

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

**Audit Quality Performance Reviews (QPRs)**

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

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

KPMG AZSA conducts the annual QPR program in accordance with KPMG International QPR instructions.

The reviews are performed at the KPMG AZSA level and are monitored regionally and globally.

Member firm Audit QPR reviews are overseen by a senior experienced lead reviewer independent from the member firm.

**(Reviewer selection, preparation, and process)**

There are robust criteria for the selection of reviewers.

Training is provided to review teams and others overseeing the process, with a focus on topics of concern identified by audit oversight regulators and the need to be as rigorous as external reviewers.

**(Evaluations from Audit QPR)**

Consistent criteria are used to determine engagement ratings and member firm Audit practice evaluations. Audit engagements selected for review are rated as ‘Satisfactory’, ‘Performance Improvement Needed’ or ‘Unsatisfactory’.

**(Reporting)**

Findings from the QPR program are disseminated to member firm professionals through written communications; internal training tools; and periodic partner, manager and staff meetings. These areas are also emphasized in subsequent inspection programs to gauge the extent of continuous improvement.

Lead audit engagement partners are notified of less-than-satisfactory engagement (defined as ‘Performance Improvement Needed’ or ‘Unsatisfactory’) ratings on their respective cross-border engagements.

Additionally, lead audit engagement partners of parent companies/head offices are notified where a subsidiary/affiliate of their client group is audited by a member firm where significant quality issues have been identified during the QPR.

**Risk Compliance Program (RCP)**

KPMG International develops and maintains quality control policies and processes that apply to all member firms. These policies and processes, and their related procedures, include the requirements of ISQC 1.

During the annual RCP, we perform a robust assessment program consisting of documentation of quality controls and procedures; related compliance testing; and reporting of exceptions, action plans, and conclusions.

The objectives of the RCP are to:

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

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

**Global Compliance Review (GCR) program**

Each member firm is subject to a GCR conducted by KPMG International’s GCR team, independent of the member firm, at least once in a three-year cycle.

The GCR team performing the reviews is independent of the KPMG member firm and is objective and knowledgeable of Global Quality and Risk Management policies. GCRs assess compliance with selected KPMG International policies and procedures and share best practices among member firms.

The GCR provides an independent assessment of:

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

We develop action plans to respond to all GCR findings and agree these with the GCR team. Our progress on action plans is monitored by the GCR central team. Results are reported to the Global Quality & Risk Management Steering Group (GQ&RMSG), and where necessary to appropriate KPMG International and regional leadership, to help ensure timely remedial actions taken by the member firm.

**Root Cause Analysis (RCA)**

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

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

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

**Recommendations for improvements**

At a global level, through the GAQSC and the GQ&RMSG, KPMG International reviews the results of the quality monitoring programs, analyzes member firm root causes and action plans, and develops additional global actions as required.

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

## External feedback and dialogue

1. Regulators

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

The CPAAOB reviews and examines reports of quality control reviews by the JICPA and, if deemed necessary, conducts on-site inspections of the JICPA, audit firms, etc.

At an international level, KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss audit quality findings and actions taken to address such issues at a network level.

1. Client feedback

We proactively seek feedback from clients to monitor their satisfaction with services delivered.

We endeavor to take this feedback and make dynamic changes at both the engagement level and firm level to meet clients’ needs.