




Audit Quality Report

2023-2024



ARK LLC





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Introduction



“Ark” is mentioned in the book of Exodus in the Old Testament, and is said to be the “Ark of the covenant” made of acacia wood that God instructed Moses to make for the people. We use this as the name of our firm.

“Ark” is said to contain a stone tablet containing the Ten Commandments given to Moses by God and written documents containing the Law, which is said to be the “Ark of the Covenant” with God. “Ark” is also described as being decorated with cherubim, angels of knowledge.

We, as an audit firm, need to fulfill our obligations to society and to our clients by providing financial audit services that we live up to our name. For this reason, our firm name is derived from our belief that ARK (the Ark of the Covenant) has to be an organization that upholds its contracts with society and clients, to provide reliable accounting and non-financial information that will serve as an appropriate investment decision through financial audits.

We will ensure the fulfillment of agreements with stakeholders to ensure appropriate accounting information (agreements between several investors and us) and with clients to provide them with appropriate financial audits (individual agreements between the clients and us).



We would also like to provide the best service to our stakeholders and to our clients with warm side within the strictness, so that we can grow together and benefit the Japanese economy.

In order to uphold these contracts with society and our clients, we believe that we, as an audit firm, have to constantly respond to changes in the social environment.

We place great importance on thorough communication with our clients' management. This leads to a deeper understanding of the client's management, and to a lean and efficient financial audit. We believe that in our financial audits, it is important to narrow down the points where we should concentrate our audit time by communicating with our clients.

We believe this will result in a beneficial outcome for both our clients and us.

The audit environment has changed markedly in recent years, and the workload of audit engagements has increased enormously. We do not know if this is the reason, but the number of CPAs working in the audit industry has drastically decreased to about 40%. While audit work is important to us, we believe that life is not only about work, but also about being in an environment where one can take care of one's family, have hobbies, and enjoy one's leisure time. This belief has led us to the idea of conducting lean and efficient financial audit work.

We believe that this will result in a beneficial outcome for both our clients and our constituents, as it will eliminate unnecessary costs and wasting financial auditing time.

ESG investment decisions in companies with long-term growth potential in relation to the 17 major goals of the SDGs are also becoming increasingly important. Among Environment, Social, and Governance, the service work we provide can be considered in relation to the avoidance of scandals that could directly lead to poor performance, information disclosure for risk management, and compliance with laws and regulations, as well as a high level of awareness of capital efficiency.

Thus, we recognize that contributing to the SDGs through ESG is one of the social roles we should play. This report is intended to be used as material for dialogue with various stakeholders and to contribute to improving the quality of our audits and is also available on our website.



CEO Akihiko Miura

Overview of our efforts to improve audit quality and our firm

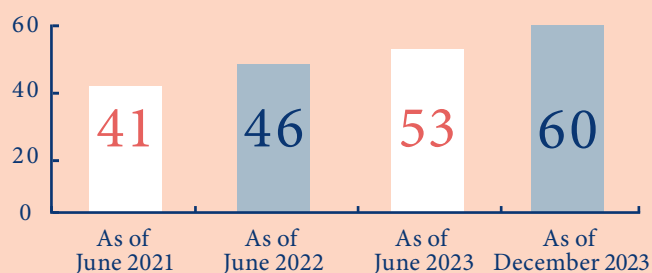


Our characteristics and efforts to improve audit quality

Our characteristics

The principal business line of our firm is financial statements audit. The legal basis for financial statements audit varies, but the financial statements audit that we place particular emphasis on are audits under the Financial Instruments and Exchange Act for listed companies, which have a strong social impact. For this reason, we concentrate many of our management resources, including human resources, on financial statements audits of listed companies. For reference, the number of our listed clients is as follows.

Number of our listed clients



Since most of our clients for Companies Act audits are consolidated subsidiaries of listed companies, it is clear that financial statements audits focusing on listed companies are truly our main business.

Furthermore, to the extent that our human resources permit, we also perform IPO-related service, and we hope that we can contribute to the development of the Japanese economy as a future listed company.

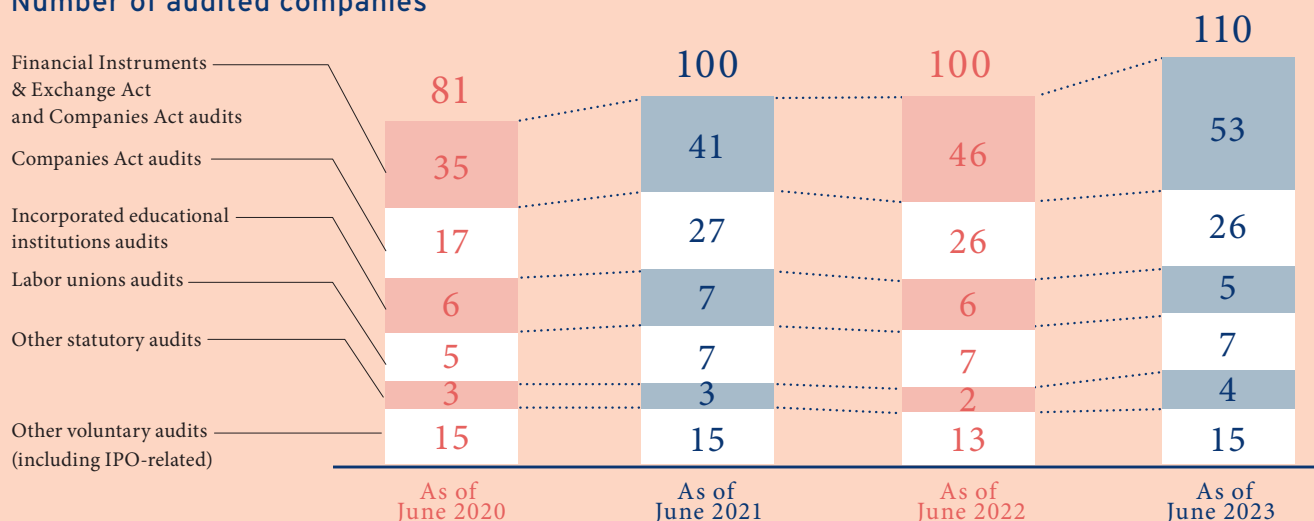
For reference, the following table shows the status of IPO-related services conducted by our firm.

Status of IPO-related service initiatives

	Year ended June 2021	Year ended June 2022	Year ended June 2023
IPO Results	0	1	0
Number of IPO Abandoned Clients	0	1	1
Number of IPO-related companies	3	1	3

Although our financial statements audits are unique in this way, we do not specialize in financial statements audit of listed companies. We also conduct audits of schools, associations, and even public-service corporations and incorporated administrative agencies, aiming to contribute to society through financial statements audits in a comprehensive manner.

Number of audited companies



Approach to improvement of audit quality

There are many large audit firm groups that perform not only financial statements audits but also consulting and other services, which account for a large portion of their total revenues. However, our firm's audit services account for an extremely high percentage of its total revenues, with the majority (96.1% in the most recent fiscal year) coming from audit services.

(Thousand yen)

	Year ended June 2021	Year ended June 2022	Year ended June 2023
Audit fees as a percentage of revenue	97.5%	98.0%	96.1%
Audit	1,624,837	1,854,516	1,988,155
Non-Audit	42,000	38,308	80,206
Total	1,666,837	1,892,824	2,068,361

Non-audit services include AUP (agreed-upon procedure services) and financial advisory services for clients seeking IPO.

The social mission and social influence of financial statements audit do not differ by law, in order to meet society's expectations, it is very important to improve audit quality, that is, to conduct appropriate audits. For this reason, our ongoing quality management efforts are indispensable.

The status of efforts to improve audit quality is shown in "3. Status of management control, etc." We are not a very large audit firm, but because of this, we are continuously working to improve the quality of our audits with extreme importance, as any serious incident in financial statements audit risks making us less than a sustainable organization.

Positioning of non-audit services

Although our firm's main source of revenue is from financial statements audit services, when looking at various ways of working in the future, we believe that it is important to utilize one's professional abilities as a certified public accountant to work in other fields, and in fact, the number of people who wish to do so is increasing. Therefore, in order to respond to such requests, our firm has started to consider the possibility of accepting non-audit services, mainly through the Business Development Committee.

Overview of our firm

History

Our firm is named ARK LLC and its website address is <https://www.ark-audit.com/>.

Our history

April 1, 1975	Kinki Daiichi Audit Corporation was established in Osaka-shi, Osaka Hijiribashi Audit Corporation was established in Hongo, Bunkyo-ku, Tokyo
August 17, 1982	Meiji Audit Corporation was established in Yaesu, Chuo-ku, Tokyo
March 3, 2004	ARK & Co. was established in Nishi-Shinjuku, Shinjuku-ku, Tokyo
January 4, 2016	The Merger of Meiji Audit Corporation and ARK & Co. forming ARK MEIJI AUDIT & Co.
July 1, 2016	The merger of Hijiribashi Audit Corporation and ARK MEIJI AUDIT & Co.
July 1, 2019	Reorganization as “ARK LLC.”
July 1, 2020	The merger of Kinki Daiichi Audit Corporation and ARK LLC

Locations

Our firm has six offices, centered on the Shinjuku head office in Tokyo, Sapporo, Hamamatsu, Shizuoka, Toyama, and Osaka. The establishment of each office is based on our judgment that it is important for our clients to have an audit service system closely linked to each region.

Therefore, the members of the regional offices are all from the same region, which is based on the idea of providing frequent and localized client support.

Tokyo Head Office

KOWA BUILDING 1-23-3 Nishishinjuku,
Shinjuku-ku, Tokyo 160-0023
Phone: 03-3342-5967(CEO)
Fax: 03-3342-5972

Sapporo Office

SAPPORO IZUMIDAIICHI BUILDING 2-5-2
Kita1Johigashi, Chuo-ku, Sapporo-shi,
Hokkaido 060-0031
Phone: 011-212-1834
Fax: 011-212-1835

Hamamatsu Office

HAMAMATSU C-BUILDING 140 Kajimachi,
Chuo-ku, Hamamatsu-shi, Shizuoka 430-0933
Phone: 053-456-0070
Fax: 053-456-0071

Shizuoka Office

ASAHISEIMEI SHIZUOKA BUILDING 3-9 Sakaecho,
Aoi-ku, Shizuoka-shi, Shizuoka 420-0859
Phone: 054-291-6195
Fax: 054-291-6196

Toyama Office

DAIDOUSEIMEI TOYAMA BUILDING 9-10 Honmachi,
Toyama-shi, Toyama 930-0029
Phone: 076-464-6472
Fax: 076-464-6473

Osaka Office

KEIHAN TANIMACHI BUILDING 1-2-6 Tanimachi,
Chuo-ku, Osaka-shi, Osaka 540-0012
Phone: 06-6232-8572
Fax: 06-6232-8573



Biographies of board members, etc.

The following is a brief biography of the board members and others who make up the Board of Directors and the Board of Supervisors, which are important as our firm's management foundation.



Akihiko Miura

CEO (in charge of Recruitment Committee and Health Committee)

March 1979 Graduated from Yokohama National University, Faculty of Business Administration, Department of Management Science

April 1979 Joined Asahi Accounting Corporation (currently KPMG AZSA LLC)

March 1982 Registered as a Certified Public Accountant

March 2004 Established ARK & Co. (currently ARK LLC), Representative Partner



Hirofumi Nikaido

Vice President (in charge of Office Administration Department, Acceptance Deliberation Committee and Benefits and Welfare Committee)

March 1986 Graduated from Keio University, Faculty of Commerce

October 1988 Joined Asahi Shinwa Accounting Corporation (currently KPMG AZSA LLC)

August 1992 Registered as a Certified Public Accountant

March 1996 Joined Meiji Audit Corporation (currently ARK LLC)

July 2004 Appointed Representative Partner of Meiji Audit Corporation (currently ARK LLC)



Reiji Yonekura

Executive Director (in charge of Audit Service Department and Audit Tools Committee)

March 1994 Graduated from Waseda University, School of Commerce

March 1995 Joined Asahi & Co. (currently KPMG AZSA LLC)

April 1998 Registered as a Certified Public Accountant

September 2009 Joined ARK & Co. (currently ARK LLC)

January 2016 Appointed Representative Partner of ARK MEIJI Audit & Co. (currently ARK LLC)



Tokuro Mishima

Director (in charge of International Affairs Committee)

March 1996 Graduated from Hosei University, College of Business Administration

November 1998 Joined Asahi Arthur Andersen K.K. (currently PwC Consulting LLC)

September 1999 Transferred to Asahi & Co. (currently KPMG AZSA LLC)

April 2004 Registered as a Certified Public Accountant

October 2009 Joined ARK & Co. (currently ARK LLC)

July 2019 Appointed Representative Partner of ARK LLC



Yukihiro Fujimoto

Director (in charge of Organizational Management Committee)

March 1993 Graduated from Keio University, Faculty of Commerce

October 1995 Joined Tohmatsu & Co. (currently Deloitte Touche Tohmatsu LLC)

August 1998 Registered as a Certified Public Accountant

October 2010 Joined ARK & Co. (currently ARK LLC)

July 2022 Appointed Representative Partner of ARK LLC



Yoshiyasu Futakuchi

Director (in charge of Business Development Committee)

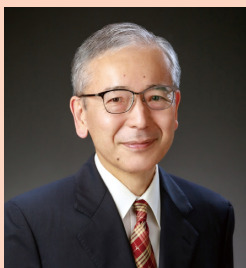
March 1994 Graduated from Hosei University, College of Business Administration
 October 2000 Joined Asahi & Co. (currently KPMG AZSA LLC)
 July 2005 Registered as a Certified Public Accountant
 September 2014 Joined ARK & Co. (currently ARK LLC)
 July 2022 Appointed Representative Partner of ARK LLC



Toshio Akiyama

Director (in charge of Quality Management and Training Committee)

March 1992 Graduated from Keio University, Faculty of Economics
 October 1992 Joined Asahi Shinwa & Co.(currently KPMG AZSA LLC)
 April 1996 Registered as a Certified Public Accountant
 July 2017 Joined the Financial Services Agency (Certified Public Accountants and Auditing Oversight Board)
 July 2020 Joined ARK LLC and appointed as partner
 July 2022 Appointed as Representative Partner



Hironori Ito

Director (in charge of Osaka Office)

March 1983 Graduated from Kyoto University, Faculty of Science
 October 1994 Joined Kinki Daiichi Audit Corporation (currently ARK LLC)
 April 1999 Registered as a Certified Public Accountant
 July 2020 Appointed as partner of ARK LLC due to merger
 September 2023 Appointed as Representative Partner



Masaki Ueda

Supervisor

March 1989 Graduated from Keio University, Faculty of Commerce
 October 1990 Joined Asahi Shinwa & Co. (currently KPMG AZSA LLC)
 August 1994 Registered as a Certified Public Accountant
 October 2004 Joined ARK & Co. (currently ARK LLC) and appointed as partner
 July 2017 Appointed Supervisor of ARK MEIJI Audit & Co. (currently ARK LLC)



Tomonori Akisaka

Supervisor

March 1987 Completed Master's program of Graduate School of Law, Nihon University
 August 1987 Registered as a Certified Public Accountant
 Mar 1990 Completed Doctoral program of Graduate School of Law, Nihon University
 April 2000 Assistant Professor, College of Commerce, Nihon University
 April 2009 Professor, Graduate School of Accountancy, Meiji University
 July 2019 Appointed Supervisor (part-time), ARK & Co. (currently ARK LLC)



Clients by industry and stock exchange

The following table shows the classification of our clients by industry and listed market. Clients listed on the Sapporo Securities Exchange are under the jurisdiction of the Sapporo Office, while those listed on the Nagoya Stock Exchange are under the jurisdiction of the Osaka and Tokyo Offices.

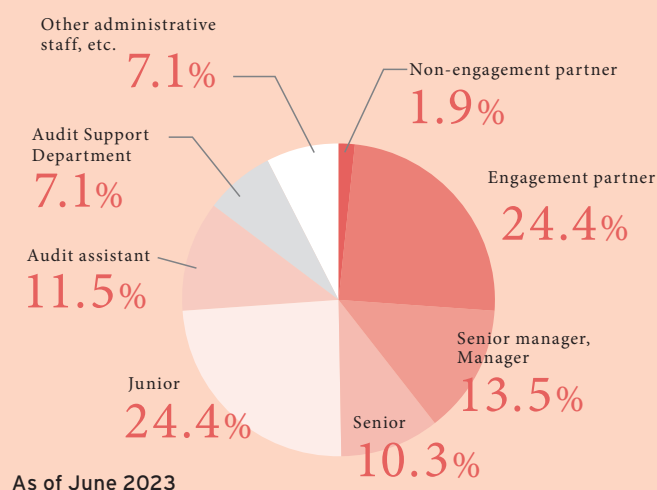
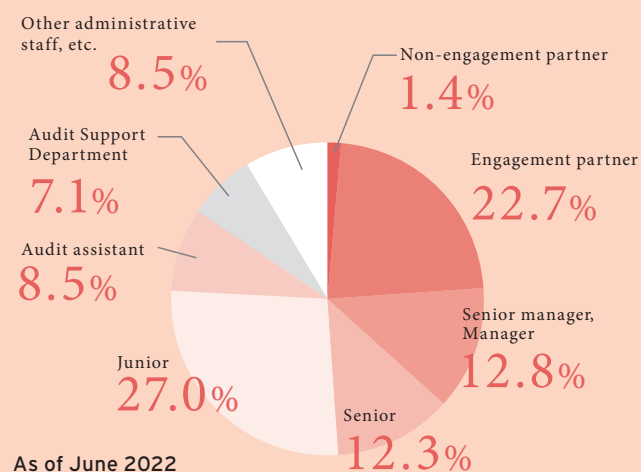
Listed Market Type of business	Tokyo Stock Exchange only	Sapporo Stock Exchange only	Tokyo Stock Exchange & Sapporo Securities Exchange	Tokyo Stock Exchange & Nagoya Stock Exchange
Foods	3	—	1	—
Construction & Materials	4	—	—	—
Materials & Chemicals	6	—	—	—
Pharmaceutical	1	—	—	—
Automobiles & Transportation equipment	3	—	—	—
Steel & Nonferrous	1	—	—	—
Machinery	4	—	—	1
Electric & Precision	6	—	—	—
Transportation & Logistics	—	1	—	—
Trading & Wholesale	6	—	1	—
Retail	6	—	—	—
Information and Communication, Services & Others	16	—	—	—
Total	56	1	2	1

Composition of employees by position and percentage

Our firm is characterized by many partners. The following table shows the number and composition of our firm's employees by position.

The composition of the audit team is not a one-size-fits-all approach, since the composition of the audit team is based on each client's situation. The approximate position of the audit members is 1:1:1:0.5, with the same number of engagement partners, senior managers to senior, and junior, and about half of the staff are audit assistants.

Personnel and composition by period



Efforts to disclose non-financial and sustainability information and our efforts to reduce greenhouse gas emissions

Recently, investors have become very interested in non-financial and sustainability information. We have a serious interest in non-financial and sustainability information as part of our assurance business and have appointed two in-house researchers (a partner and a senior manager) to conduct research.

In addition, since the current fiscal year, internal training on non-financial and sustainability information has been made mandatory for audit staff, and we plan to continue to increase training hours in this area in the future.

Furthermore, we believe that a feasible response to climate change, given our business type, is to make efforts to reduce greenhouse gas emissions by conserving electricity. To this end, we have instructed all members of our firm to work until 10:00 p.m. at night and to turn off unnecessary lights in concentrated office locations within our firm.



Status of management control, etc.



1. Quality management infrastructure

Our risk assessment process

Our firm shall set audit quality objectives, identify and assess quality risks, and consider measures to address quality risks each fiscal year. In order to implement these measures, we will establish and implement a risk assessment process.

As part of our quality management system, we consider the risk of not issuing appropriate audit reports according to our internal regulations and have implemented measures to address this risk. In the meantime, we will make sure to consider whether there are additional quality risks that are not covered by the regulations. We will add to "Our Specific Risks and Response Measures Consideration Table" or add supplemental material regarding these risks and appropriate responses.

Our risk assessment process is conducted under the supervision of the CEO and the Director of Quality Management.

Risk assessment is an iterative process, and our risk assessment will be updated as new risks are identified or existing risks are deemed no longer relevant.

Risk assessments will address matters identified as part of the monitoring program and will be reviewed on an annual basis.

For example, we will constantly review events, situations, actions, etc. that may adversely affect the achievement of quality objectives, documenting any changes and identifying their impact on risks to quality objectives.



Governance and leadership approach to audit quality

Demonstrating leadership means demonstrating a commitment to audit quality at all times through one's actions and behavior.

a. Our firm will build a corporate culture of recognizing and reinforcing the quality that exists throughout our firm and will implement its commitment to quality. To this end, the CEO will make continuous announcements within our firm to maintain awareness of the following items.

- Our mission for public interest by constant high level audit
- Importance of management principles, professional ethics, values, and human dignity
- Audit quality responsibilities and expected behaviors of all members engaged in audit and assurance engagements under the audit quality management system
- The importance of quality in our strategic decisions and actions, including our financial and operational priorities

We also make it clear in our induction training program that we play a public interest role in our audit and assurance services.

We make it known in our staff manual that we provide audit and assurance services not only to our clients' management, but also to their shareholders and investors, and we also make it known in our staff manual the importance of external stakeholders to whom we have no other legal duty of care.

We ensure that all members receive annual training on professional ethics requirements and the values and behaviors we expect of them.

The Audit Support Department is an organization that supports our firm's main business, financial statements audit, and consists of the Quality Management Group and the IT Support Group. The Director of the Audit Support Department is the director responsible for quality management. The Quality Management Group's work focuses on reviewing audit engagements, overseeing daily monitoring and periodic quality performance review, responding to inquiries about professional opinions, and handling high-risk professional considerations, while the IT Support Group's work includes conducting audits related to the client's IT area, using IT to assist the audit team in conducting the IT Support Group is responsible for conducting audits of the client's IT area and supporting the audit team's IT-based audit procedures.

All members engaged in audit and assurance services receive training on quality management systems. If requirements are not implemented during internal monitoring through periodic quality performance review by the Quality Management Group, etc., the CEO, who is ultimately responsible for quality management, is notified and requested to make improvements.

Our firm has established a reporting line for quality management. Since this line contains a lot of personal information that can lead to personnel evaluations, only a limited number of three people can be involved. That is, only the CEO who is ultimately responsible for quality and the Director in charge of Quality Management who is responsible for the operation of the quality management system, and the Director in charge of the Organizational Management Committee have access to this line.

The CEO, who has ultimate responsibility for our quality, reviews financial and operational priorities monthly. The potential impact of these decisions on quality objectives is incorporated into this review through an assessment of available resources (human, financial, and ICT-related tool development) needed to deliver quality work.

Our firm determines and manages its financial and operational priorities in order to adhere to its quality objectives.

- Measures to augment resources for specific sector advancement
- Consideration of measures to increase resources
- Timing instructions for dates to ensure resources are available
- Consideration of termination of audit and assurance engagement if resources are not available

b. Leadership is required to assume responsibility and accountability for quality. At least once a year, the Director of Quality Management Group shall report to the Board of Directors on the evaluation of our firm's quality management system.

c. Management ensures that the organizational structure and allocation of roles, responsibilities and authority are appropriate to enable the establishment, implementation and operation of a quality management system.

The implementation items for this purpose are as follows.

- Appoint individuals with the appropriate knowledge, skills, and experience to fulfill their responsibilities and constitute the audit team.
- There is a direct reporting line to the Director in charge of Quality Management who has overall responsibility for quality.
- Each individual is given appropriate authority and responsibility to fulfill his or her role on the audit team.
- In responding to risks to quality objectives, the items that need to be discussed are clearly defined.

d. Resource needs, including resources, are planned for and resources are obtained and allocated in a manner consistent with our commitment to quality. The EP (Engagement Partner) is also responsible for ensuring that sufficient and adequate resources are allocated to the contract.

To ensure that sufficient and adequate resources are available to meet quality objectives, the Organizational Management Committee monitors resource allocation and performance for each operation on a monthly and quarterly basis.

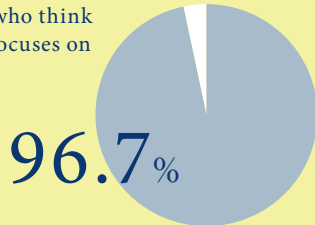
We monitor the working hours of all partners and staff, which allows us to consider the possibility of providing additional resources and to recognize risks to our quality objectives.

Safeguards, such as stress checks, have been introduced to ensure that excessive working hours do not adversely affect the exercise of professional judgment or the proper completion of tasks.

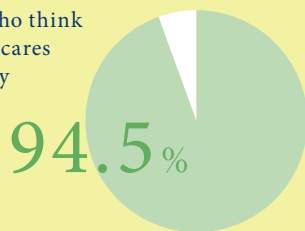
e. Our firm has established policies and procedures in the “Fostering a Quality-Oriented Organizational Culture, Governance and Organizational Operation” chapter of the Quality Management Regulations and in the Staff Manual.

In addition, as a procedure to check whether the concept has permeated throughout the entire organization, the CEO conducts an awareness survey of all employees, including part-time employees, to ensure that a corporate culture that emphasizes audit quality is fostered. The CEO also conducts an awareness survey of all employees, including non-engagement employees, without their names entered, to ensure that the concept has been disseminated throughout the organization.

Percentage of those who think that the audit team focuses on the audit quality



Percentage of those who think that top management cares about the audit quality



Year ended June 2023

Measures for compliance with laws and regulations, etc.

a. Legal compliance measures

If, while performing the audit, we discover a violation of law or regulation by the audited company, we shall notify the audited company in writing without delay of the nature of the violation and that appropriate action should be taken to correct the violation or other appropriate action related to the violation. If, after a certain period of time has elapsed from the date of notification, our firm finds that there is a risk of a significant impact on the adequacy of the financial documents and that it is necessary to prevent a significant impact, our firm shall submit its opinion regarding the matter to the authorities. In addition, the Partners Meeting, the Board of Directors, and the Director in charge of Quality Management will review the facts of violations of laws and regulations in advance. Furthermore, in accordance with the Internal Whistleblowing Rules and the External Whistleblowing Rules, our firm has announced on its website that it has established a whistleblowing system that allows whistleblowers to report the following matters to a law firm in order to reasonably

ensure that information brought to our firm from inside or outside the audit firm is dealt with appropriately. In such cases, the law firm will protect the informant from any disadvantageous treatment.

In the event of any of the following complaints and allegations, the CEO shall designate the general counsel and partners (excluding specified partners) who are not engaged in the assurance service, etc. that is the subject of the report. The results of the factual investigation shall be kept in writing under their control.

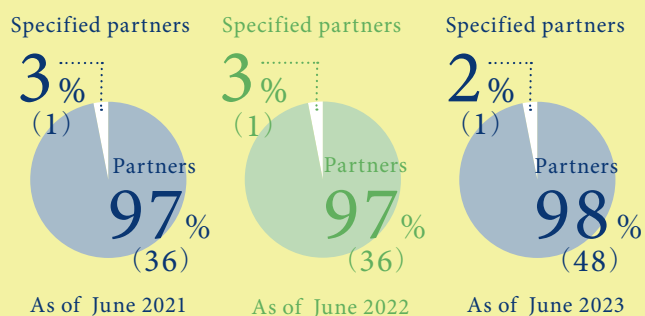
- Complaints and allegations of violations of professional standards and applicable laws and regulations, such as improper conduct, judgments, and statements of opinion by the practitioner and violations of relevant laws and regulations, etc.
- Any allegation of non-compliance with our firm's quality management system for audits.



b. Measures to exclude any person other than a partner who is a certified public accountant from exerting undue influence on the performance of audit by a partner who is a certified public accountant

Our firm has adopted a specified partner system, which stipulates that specified partners shall not perform audit services. In addition, the percentage of specified partners among the members of the Partners Meeting and the Board of Directors is limited to 25% or less. In the future, the number of specified partners may increase along with the computerization of audits.

The status of partners and specified partners as of June 30, 2021, June 30, 2022, and June 30, 2023, is as follows.



(): Number of people

*The decrease in the ratio of specified partners was due to an increase in the number of partners.

Professional ethics and independence

a. Professional ethics

As one of the public interest responsibilities of an audit firm, we must act in accordance with the requirements of relevant professional ethics, including those related to independence. With respect to our firm and our members, we require the following.

- Understand the requirements of professional ethics applicable to our firm and its operations.
- Fulfilling our responsibilities with respect to the requirements of the professional ethics to which we and our operations are subject.
- All audit managers are required to be alert to any evidence of non-compliance with our firm's professional ethics policies and procedures by their professional staff, and to routinely ask professional staff questions regarding professional ethics as necessary. To this end, all firm personnel receive training on relevant professional ethics requirements at the time of hire and once a year thereafter.
- In addition, the Director in charge of Quality Management confirms annually that all members, including partners, are fulfilling their responsibilities regarding the requirements of professional ethics.

With respect to our firm and other persons subject to the requirements of professional ethics applicable to our audit engagements, such as networks, network firms, individuals within a network firm, or service providers, we require the following.

- An understanding of the requirements of applicable professional ethics.
 - Fulfilling responsibilities with respect to applicable and relevant professional ethics requirements.
- The code of ethics also requires us to be inquisitive. To be inquisitive means the following.

- Consider the source, relevance and sufficiency of the information obtained, taking into account the nature, scope and results of the specialized work to be performed.
- Look out for and note the need for further investigation or other action.

Throughout all aspects of each audit engagement, the Quality Management Group of the Audit Support Department takes care to ensure that each audit team member adheres to the policies and procedures regarding adherence to professional ethics established by our firm.

b. Independence

Our firm conducts an annual interest survey of all partners and staff (including part-time employees) in July of each year with respect to independence.

In addition, all new members are asked to complete an interest survey when they join our firm, and all new clients are asked to respond to the interest survey each time they join our firm.

In addition, the audit team is to investigate the interests of the members of the audit team throughout the period covered by the client's audit.

The specific criterion for determining whether a client's audit service is dependent on a specific client for a certain percentage of fees is 15%, and if the dependence on a specific client exceeds 15% for two consecutive fiscal years, our firm evaluates the materiality of the disincentive and, if necessary, either removes the disincentive or reduces it to an acceptable level. In the event that the materiality of the disincentive exceeds 15% for two consecutive fiscal years, our firm evaluates the degree of materiality of the disincentive and either removes the disincentive or

applies safeguards to reduce its materiality to an acceptable level.

In the event that our firm's dependence on compensation exceeds or is likely to exceed 15% for two consecutive years, our firm shall apply the safeguard of undergoing a review similar to the Engagement Quality Review (EQR) for audit engagements by certified public accountants who are not members of our firm (review prior to expressing an audit opinion) prior to expressing an audit opinion for the second year. Our firm has decided to apply the same safeguards.

If the Quality Management Group of the Audit Support Department identifies a situation that violates independence with respect to audit work, the Director in charge of Quality Management, through the Board of Directors, must report the situation to the responsible person for the audit and the relevant audit team that is violating independence. The audit team shall document in the audit record any problems identified with respect to compliance with the code of professional conduct and the resolution of such problems.

Our firm has obtained written oaths from all partners and staff (including part-time employees) confirming that there is no insider trading and that they are prohibited from owning or trading in the client's shares or other listed shares other than those related to the client. In addition, our firm prohibits the holding and trading of client stock and other non-client related listed securities. Exceptionally, if there is a balance in securities other than client-related securities, an application for permission to hold such securities must be submitted to the Quality Management Group of the Audit Support Department, together with a detailed description of the transaction and the balance. Our firm has established the following policies and procedures regarding the long-term involvement of key personnel in audit engagements.

● As a rule, the period during which audit services can be performed continuously is five accounting periods for the senior designated limited liability partners, after which they may not become a designated limited liability partner or Engagement Quality Reviewer (EQRr) for a period of five accounting periods.

In the case where there are two or more designated limited partners, the designated limited partner other than the senior designated limited partner may continue to perform audit services for a period of seven accounting periods and may not become a designated limited partner or a EQRr for two accounting periods thereafter.

● A consultative examiner for audit engagements of large companies under the Certified Public Accountants Act or a documentary EQRr for audit engagements of companies other than those mentioned above shall be allowed to continue to perform such EQR services for a period of five accounting periods, and may not become a designated limited liability partner or EQRr for the same audit engagement for five accounting periods thereafter.

Independence compliance is checked annually by the Quality Management Group of the Audit Support Department, and the results are as follows: there were no violations.

Confirmation of independence compliance

	Response rate for annual quality performance review procedures for independence(%)	Number of violations recognized (cases)
Year ended June 2021	100%	0件
Year ended June 2022	100%	0件
Year ended June 2023	100%	0件

New and renewal of audit engagements

The quality objectives for the awarding and renewal of new contracts are intended to ensure that we only award contracts to clients that are appropriate for our firm. This is because we believe it is important to ensure that we are able to perform our service in accordance with professional, legal and regulatory requirements and that we do not enter into contracts with firms that are not our financial and operational priorities.

a. The decision to enter into new and continuing contracts must be appropriate based on

- Information about the nature and status of the engagement and the integrity and ethical values of the client (including management and, where appropriate, auditors) sufficient to support such judgment. Information regarding the integrity and ethical values of the client (including management and, where appropriate, corporate auditors, etc.)
- Ability to perform work in accordance with professional standards and applicable laws and regulations

b. Our quality management system is designed to ensure that our financial and operational priorities do not lead to inappropriate decisions regarding the award or renewal of new contracts.

Our Contract Risk Determination Sheet includes the following collection of information

- Nature and status of operations
- The integrity and ethical values of the client (including management and corporate auditors, etc.)
- Technical knowledge and experience necessary to perform the service in accordance with professional standards and applicable laws and regulations
- The permissibility of contractual arrangements as they relate to our financial and operational priorities

In the case of a new appointment, the decision of the Acceptance Deliberation Committee is required, in the case of a continuation, the decision of the reviewer is required, and if the engagement partner does not request a continuation, the final decision of the Board of Directors is required to make the decision to terminate the contract. It is our firm's policy not to accept as a new client any firm that has the following characteristics.

- Finance business
- Complex IT companies
- Extreme global operations.
- Anticipated audit fee is greater than 300 million yen
- Anticipated audit fee is less than 10 million yen
- Significant corrections have been made to financial statements prior to the previous period
- Inappropriate reasons for the resignation of the previous auditor

In addition, if any problems such as operational risk (including fraud risk) are identified in a new contract, it will be evaluated by the Acceptance Deliberation Committee but as a general rule, the contract must not be awarded.

In agreeing on the terms and conditions of the engagement, we comply with Auditing Standards Statement No. 210, "Agreeing the Terms of Audit Engagements". In accordance with the "Regulations Concerning the Conclusion, Renewal, and Termination of New Assurance Engagements" and the "Operational Manual for the Conclusion, Renewal, and Termination of New Assurance Engagements".

The contract is subject to the approval of several employees, based on the premise that the management's attitude and policies, the nature of our firm's business, contract terms, and audit risks (including fraud risks), etc. are examined, along with an investigation of whether any conflicts of interest exist. In particular, with respect to new audit engagements, we believe it is of utmost importance to make decisions while also giving due consideration to the availability of human resources.

If problems are identified, as a general rule, the firm shall not accept the commission.

Perform audit work

The goal of comprehensive audit quality is to ensure that we fulfill our responsibilities in accordance with professional standards and applicable laws and regulations, perform our audit work in accordance with such standards and laws and regulations, and issue an audit report that is appropriate in the circumstances.

a. Policies and procedures to reasonably ensure the organization of the audit team and the performance of audit work and the issuance of an appropriate audit report

In order to reasonably ensure the quality of audit services, we have established quality management policies and procedures regarding the implementation of audit services in our "Quality Management Regulations" and "Quality management Manual".

In addition, we have developed and maintained an audit manual, guidance for conducting audits, and various audit tools, and have trained specialized personnel in their use.

These manuals set forth standards for conducting audits, reviews, and other activities. Therein, the following quality objectives are set to address the execution of quality work.

- The engagement partner understands and fulfills the audit team's own responsibilities for managing and achieving the quality of the audit engagement, including the overall responsibility to be fully and appropriately involved throughout the entire audit engagement process.
- The nature, timing, and extent of direction and supervision of the audit team and review of the work are appropriate based on the nature and circumstances of the work and the resources assigned to the audit team. Work performed by inexperienced members of the audit team should be directed, supervised, and reviewed by a more experienced member of the audit team.
- The audit team shall exercise appropriate professional judgment and maintain and demonstrate professional skepticism.
- Inquire about professional opinions on matters that are highly specialized, difficult to determine, or for which there is no agreed-upon view, and deal with them according to the agreed-upon conclusion.
- Disagreements within the audit team or between the audit team and the EQRr shall be resolved by the Escalated EQR.
- The audit working papers shall be prepared and organized in a timely manner by the date of the audit report and shall be properly maintained and preserved to meet the firm's quality management policy and to comply with laws and regulations, rules of professional ethics, and professional and professional standards.

To meet these requirements, EPs and KAPs are responsible for complying with our firm's quality management system policies or procedures for all audit engagements for which they are responsible. This includes ensuring that EPs and KAPs have sufficient time to engage in sufficient audit engagements under our established audit methodology.

Each audit engagement will be reviewed by the EQRr, who will discuss the EP's and KAP's direction and supervision in the audit engagement in question and the process by which conclusions are reached. The EQR also considers the appropriateness of key judgments made by the audit team and, to the extent necessary, the exercise of professional skepticism.

Fraud risk response procedures are established in the audit manual and audit tools to enable our firm to respond to fraud risks.

We require special consideration in the following cases.

- Possible modifications to the audit report
- Changes in the scope of work requested after the contract is signed
- Applying accounting policies that are not common in the industry
- Possible correction of prior periods
- Changes in accounting policies by the client, except as required by the application of new accounting standards

All partners and managers must confer and attempt to resolve disagreements as appropriate through our firm's established quality management system.

b. Appointment of partners and other assistants in charge of the work

We have established a reporting line for quality management, including human evaluation. This reporting line is accessible only to the CEO who has ultimate responsibility for quality, and to the Director in charge of Quality Management and the Director in charge of the Organizational Management Committee, who are responsible for the operation of the quality management system.

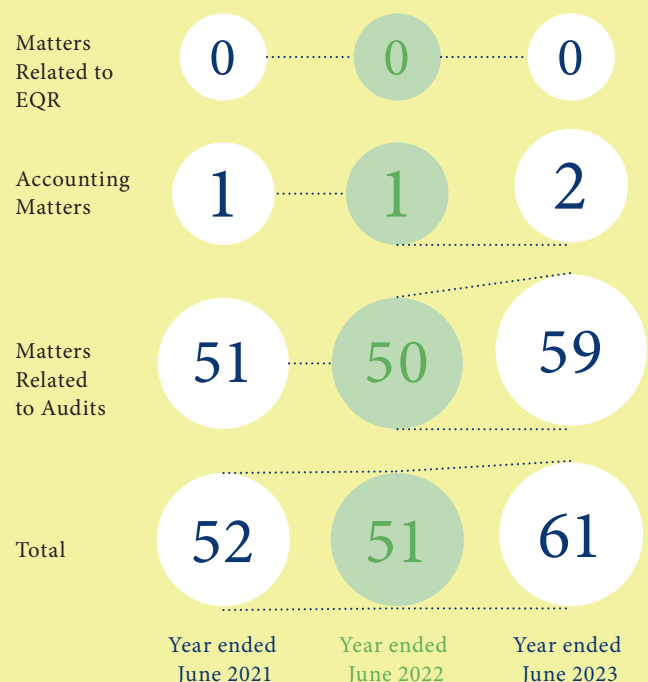
When a new audit contract is approved by the Acceptance Deliberation Committee, the Organizational Management Committee plays a central role in the process, and the composition of the audit team and the appointment of EQRr are discussed and resolved at the Board of Directors' meeting. Only the Engagement partners and the EQRr are subject to the resolution. The Organizational Management Committee appoints audit teams and EQRr that meet the client's evaluation of the level of difficulty based on the personnel evaluation by the reporting line.

c. Policies and procedures for professional opinion inquiries.

Our firm has a policy of making inquiries for professional opinions when it is deemed necessary to resolve audit issues. In such cases, the audit team, in consultation with the EQRr will make such inquiries. The policy and procedures for making such inquiries are set forth in the "Technical Opinion Inquiry Manual".

The audit team conducts professional opinion inquiries with due care to ensure that the audit opinion is not changed at the time of the EQR. If we identify any circumstances suggesting material misstatement due to fraud or any suspicion of material misstatement due to fraud with respect to audit engagements to which the "Fraud Risk Auditing Standard" applies, we will respond in accordance with the "Fraud Risk Auditing Standard", utilizing inquiries for professional opinions.

Number of professional opinion inquiries



d. EQR policies and procedures

As a rule, all audit engagements of our firm shall be subject to EQR to objectively evaluate the audit procedures, audit judgments, and the formation of audit opinions made by the audit team, and an audit report shall not be issued until the EQR of the audit work is complete.

Our firm has established the “EQR Rule” and “EQR Manual” as policies and procedures for review related to audit engagement.

In addition, we have established EQR time guidelines, which provide a guideline EQR time model for each stage from the time of audit planning to the expression of opinion, depending on the size of our firm, type of audit, and other categories.

Number of EQRr



When the possibility of material misstatement risk due to fraud is recognized, the Director in charge of Quality Management strengthens the EQR system by inquiring professional opinion, and monitoring is conducted by the Quality Management Group of the Audit Support Department.

e. Policies and procedures for resolving differences in audit judgment

In the event of a difference in audit judgment within the audit team, with the person to whom the professional opinion is referred, or with the EQRr, the EP and KAP shall immediately undergo a Escalated EQR in accordance with the methods and procedures described in the “EQR Rules”, “EQR Manual” and “Escalated EQR Manual” and the EP and KAP shall respect the resolution of the Escalated EQR and express their audit opinion accordingly.

f. Policies and procedures for the final arrangement of the audit file and the management and preservation of the audit working papers (electronic filing of the audit file and other systems to prevent inappropriate changes to the audit working papers).

Our firm has established policies and procedures in its “Quality Management Manual” for finalizing audit files after the date of the audit report. Our firm's audit file is archived by a specified date after the date of the audit report, and no modifications or additions may be made to the electronic audit file after that date without following the specified procedures, except for additions due to facts discovered after the fact.

Audit files are systematically and physically access controlled and are retained for 10 years before being destroyed under the supervision of the Quality Management Group of the Audit Support Department. Even paper records will be converted to PDF and then to electronic records or placed under the control of the Quality Management Group at the time of archiving.

g. Monitoring of the quality management system

We appoint people with sufficient and appropriate experience to monitor our system of quality management. The monitoring of the system of quality management is conducted with respect to both the adequacy of the maintenance status of the system of quality management and the effectiveness of its operational status.

In addition, monitoring of the system of quality management usually consists of routine monitoring and periodic quality performance review.

Periodic quality performance review cycles are normally for a period not to exceed three years.

During a quality performance review cycle, at least one audit or other work is selected for quality performance review for all partners for each partner's personnel evaluation.

h. Timely review

Our firm initiated the timely review system in the previous fiscal year. The Quality Management Group uses its own judgment in the mid-stage of the audit to confirm whether the risks identified are appropriate and whether the measures taken, and audit procedures are appropriate, since audit risks change depending on the environment in which the audit client is placed.

This timely review is intended to make it possible to maintain audit quality without having to wait for an opinion review or periodic quality performance review.

Timely Review Implementation Status

Number of timely reviews conducted (cases)	9
Number of persons in charge of timely review (persons)	5
Timely review time (hours)	177.5

Year ended June 2023

Resources related to business operations (resources)

The realization of comprehensive quality objectives depends on the availability of appropriate human, technological, and intellectual resources and on the timely allocation of these resources.

In addition, service providers may be used to provide or assist in the provision of resources to be used in the implementation of the quality management system or audit work. The quality objectives for each of the resources are as follows.

a. Human Resources

- Once hired, personnel will be continuously trained, developed, and employed on an ongoing basis, and will be coached to possess the following competencies.
 - Consistently perform high quality work, including having knowledge or experience relevant to the work to be performed by the firm.
 - Perform activities or fulfill responsibilities related to the operation of our quality management system.
- Audit professional shall demonstrate a commitment to quality through their actions and attitudes, develop and maintain appropriate competencies to fulfill their roles, be evaluated annually, have their compensation or salary determined based on their evaluation, be promoted, and be held accountable and valued through other incentives, etc.
- If there are not sufficient and appropriate professional personnel available to enable the operation of our quality management system or to perform the work, procurement from external sources (networks, network firms or service providers).
- Each member of the audit team, including the EP, shall be given sufficient time to perform high quality work at all times and shall be appointed with aptitude and appropriate competence.
- Personnel with the aptitude and competence, including sufficient time, shall be appointed to carry out the activities in the quality management system.

Our staffing structure is constantly under review to ensure that we have sufficient human resources to perform consistent quality work.

Our firm develops a personnel recruitment plan at the time of budgeting to ensure that our firm's needs regarding the competencies and capabilities of its personnel are addressed.

We have established systematic training and level-based training plans to ensure that new and mid-career staff and others understand and implement our quality management system. Staff members are encouraged to study and take responsibility for their own training as audit professionals and are requested to acquire appropriate knowledge and guidance when necessary to tackle new tasks.

Audit professional who will be responsible for activities and responsibilities related to the operation of the quality management system will be appointed after an assessment of their suitability for the role.

Audit professional will be evaluated on a regular basis, which will also take into account the following.

- How have we demonstrated our commitment to quality through our actions?
- How have you maintained and developed your competencies (training attendance)?

The EP and KAP are responsible for ensuring that sufficient resources are available for their respective work. If necessary, they must offer the Organizational Management Committee additional resources, such as experts. If our internal human resources are not sufficient, we may assign a registered part-time CPA to the engagement.

Based on the proposed schedule requested by the audit team, we will assign audit team members at the level necessary to perform the audit properly and ensure that the required time is available. The time required to perform quality work is considered without regard to the profitability of the work.

In addition, the Quality Management Group shall monitor that the audit work includes time planned to be spent on quality management system activities.

b. Technology resources

We recognize the importance of acquiring or developing, applying, maintaining, and utilizing appropriate technology resources to enable the operation of the quality management system and the implementation and performance of our work.

We have the necessary resources in each of the areas of technology required to operate our quality management system.

- Electronic data recording system
- Fraud risk detection program
- Data analysis software
- Schedule management system for human resource allocation
- Sampling software

C. Intellectual resources

Appropriate intellectual resources must be acquired or developed, applied, maintained, and utilized for the operation of the quality management system and the consistent performance of higher quality audits, and such intellectual resources must be consistent with professional and professional standards and applicable laws and regulations.

Our audit methodology is defined by appropriate manuals, internally developed audit tools and other guidance, and is available to all audit team members. If the audit team needs further assistance in resolving an issue, guidance is available from the firm's internal experts, such as the Quality Management Group and the Audit Tools Committee.

d. Resources on service providers

The service provider's human, technological and intellectual resources must be used to implement our quality management system and practices, taking into account our quality objectives. To this end, we retain information on service providers necessary for audits.

Information and communication

IT technology is advancing remarkably, and the environment surrounding companies is changing day by day and moment by moment. We are seeing the spread of Web 3.0, a new economic concept based on blockchain technology; changes in lifestyles and working styles, such as consumers and workers engaging in activities as avatars in a metaverse space; and accelerated moves to tighten regulations on such new economic activities and changes in the economic order.

In the future, we may see an era in which avatars using AI on PCs will answer questions about professional opinions and the use of experts. Thus, we believe that it is important for financial statements audits to be sensitive to changes in the social environment and to respond appropriately to those changes. We believe that this attitude will lead to accounting audits that maintain a high level of quality.

The CEO is ultimately responsible for information management. However, the implementation and management of the information management is carried out mainly by the IT Support Group, which consists of 8 staff members in charge.

We plan to continue to increase the headcount of members of this IT Support Group as necessary to accommodate the size of our firm.

Furthermore, we recognize that internal and external communication and dissemination of information is an important factor in the design, implementation, and operation of our quality management system.

We recognize that the following items are necessary as quality objectives related to information and communication

- Information systems identify, supplement, process, and maintain relevant and reliable information that supports the quality management system, whether from internal or external sources.
- Our organizational culture should recognize and reinforce the importance of communication.
- We recognize the importance of relevant and reliable information being exchanged throughout our firm and with the audit team as follows
 - Information is communicated to technical personnel and the audit team, and the content, timing, and scope of the information is sufficient for them to understand and carry out their responsibilities regarding the activities of the quality management system or the performance of audit work.
 - Specialized personnel and audit teams shall communicate necessary information to our firm when performing quality management system activities or audit work.
 - We recognize the importance of relevant and reliable information being communicated to external parties as
 - our firm is communicating information to the network or service provider in order for them to fulfill its responsibilities with respect to the network requirements or network services or resources it provides.
 - Communicate information to external parties as required by law or professional standards, or to assist external parties in understanding the quality management system.

In recognition of this, we maintain access to the policies, procedures, and guidance that support our quality management system for all members of our audit workforce.

All members of the firm are required to foster a culture of openness and consultation. All members of the audit engagement are expected to exchange information relevant to the operation of the quality management system with other members of the audit team.

Information regarding the operation of our quality management system is disseminated and communicated as appropriate by the Quality Management Group of the Audit Support Department. When external service providers are used, the relevant elements of the quality management system are communicated and their compliance is verified.

a. Resource maintenance and allocation study

As mentioned above, the realization of comprehensive quality objectives depends on the availability of appropriate human, technological, and intellectual resources and on the timely allocation of these resources. To this end, management considers the appropriate allocation of all management resources, including funds, information, audit environment awareness, and intellectual resource development.

b. Method of determining the remuneration of partners and staff

The “Partner Evaluation System” is presented to all partners each year, and partner compensation is determined based on the results of the evaluation conducted in accordance with our firm's partner evaluation methodology. In this evaluation, we include in our assessment whether the degree of audit quality of each partner is appropriate. In addition, we obtained the opinion of an independent third-party auditor as to whether the process of partner evaluation and determination of compensation is appropriate.

In addition, staff evaluations are conducted annually by several people, with all staff members being briefed on the personnel evaluation method to avoid bias. Salaries are determined based on the results of these evaluations.

Monitoring and improvement process of quality management system

The quality management system monitoring and improvement process is intended to provide adequate and reliable information on the design, implementation, and operation of the quality management system in a timely manner and, as a result, to take appropriate corrective action, when necessary, to remedy identified deficiencies. These corrective actions may include modifications to the quality management system and specific actions in specific operations.

External validation, such as the JICPA's quality control review, does not replace our own monitoring activities, but we recognize it as an opportunity to gain insights for continuous improvement and potentially to improve our quality management system.

a. Monitoring activity plan

Monitoring activities are considered to identify deficiencies that may cause quality objectives not to be met. Deficiencies are considered as follows.

- Quality targets necessary to achieve the objectives of the quality management system have not been established.
- Quality risks or combinations of quality risks are not identified or properly assessed.
- The response or combination of responses is not adequately developed or effectively operated so that the likelihood of the associated quality risk occurring is not reduced to an acceptable level.
We recognize that the following items should be considered when planning monitoring activities.
- Basis for assessment of quality risk
This will indicate the focus of the monitoring.
- Designing responses to mitigate quality risks
We will consider whether the designed design, if implemented, is likely to be effective in maintaining effective audit quality.

- Design of our risk assessment process and monitoring and improvement process
We will consider whether the appropriate individuals within our firm are involved in the risk assessment process and whether the monitoring and remediation process is adequate and well resourced.

- Change in quality management system
Changes to the quality management system represent a risk to quality objectives if the changes are not properly designed or implemented. Therefore, the impact of changes to the quality management system is reflected in the planning of monitoring activities.

- The results of past monitoring activities, whether past monitoring activities remain fit for purpose in the evaluation of our quality management system, and whether corrective actions for previously identified deficiencies have been effective
Monitoring activities should be responsive to the risks faced by our firm and the results of past monitoring activities. Our firm shall consider whether corrective actions taken in the past to address identified deficiencies have been effective.

- Other relevant information, including complaints and allegations, information from external verification, and information from service providers, regarding the performance of audit work in accordance with professional standards and applicable laws and regulations, or noncompliance with our policies or procedures.

The results of the external quality performance review or other relevant information, both internal and external, may indicate that our monitoring activities conducted in the past have failed to identify deficiencies in our quality management system. For this reason, we consider a variety of information sources when planning our monitoring activities.

b. Periodic quality performance review

We perform periodic quality performance reviews of our audit work so that approximately half of our partners are covered after the audit work is completed. The periodic quality performance reviews are conducted mainly by certified public accountants, former inspectors of the CPAAOB and experienced quality control reviewers of the JICPA, who can conduct effective reviews after confirming that the objectivity of the reviews is not compromised.

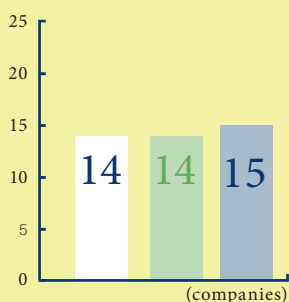
We spend as much time as possible improving the level of our partners by providing them with feedback on the results of the quality performance review.

We do not increase the number of clients covered, but rather allow reviewers to spend more time on a single audit assignment, as we believe that spending more time on this periodic quality performance review and coaching partners will improve the audit quality of the members engaged in the audit engagement.

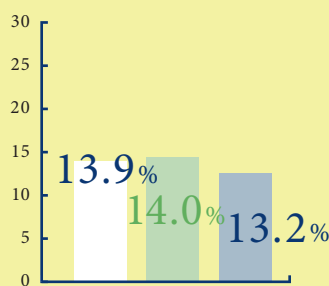
Status of periodic quality performance review

■ Year ended June 2021 ■ Year ended June 2022 ■ Year ended June 2023

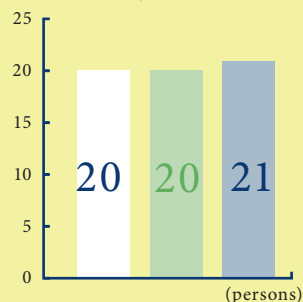
Number of periodic quality performance reviews performed



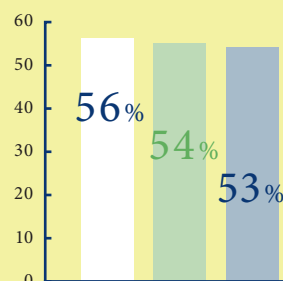
Audit service coverage



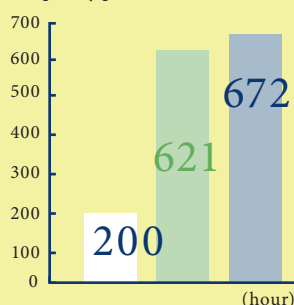
Number of partners subject to periodic quality performance review



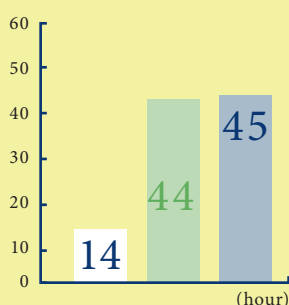
Partners coverage



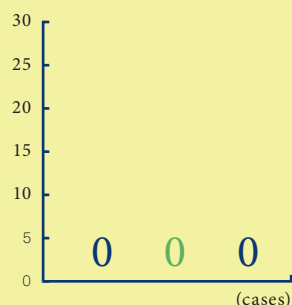
Time of reviewer engaged in quality performance review



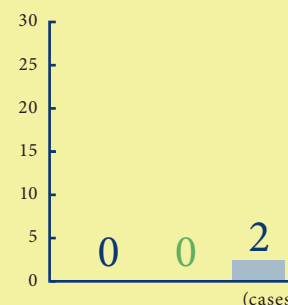
Hours per company of reviewer engaged in quality performance review



Significant deficiencies requiring modification of the audit opinion



Number of significant findings



*Since the fiscal year ended June 2022, the periodic quality performance review time is increased based on the above objective.



C. Evaluate findings and identify deficiencies through periodic quality performance review

For any findings resulting from periodic quality performance review, a root cause analysis will be performed to examine the impact of the findings in terms of severity and pervasiveness on audit quality. If the root causes of deficiencies are identified as a result, remedial measures will be considered and implemented.

Examples of remedial actions to be implemented include the following.

- Specific training
- Changes in audit procedures
- Review of the scope of work performed by staff
- Additional items to be checked during the EQR
- Mentoring and coaching needs
- Add or modify audit tools
- Identify experts who can support the audit team
- Review resource allocation for audit team members
- Adding technology resources

d. Inspection by external bodies

External inspection is not a substitute for our firm's monitoring activities, but our firm currently receives the following inspection.

- Quality performance review by Kreston International

As a member firm of Kreston International (headquartered in London, England), we received a quality performance review in December 2021 to determine whether the audit was conducted under appropriate quality management, and received a report stating that no problems were found. Our firm received a report stating that there were no findings.

- Quality control review by JICPA

The Japanese Institute of Certified Public Accountants (JICPA) conducts a quality control review once every three years. Our firm has undergone a quality control review most recently from September to October 2023.

November 2017	Periodic review	Conclusion with no limitations
December 2018	Follow-up review	Confirmation results with no inadequate improvements
December 2020	Regular and special reviews	Implementation results with no significant deficiencies
December 2023	Regular review	Implementation results with no significant deficiencies

- Inspection by the CPAAOB

The Certified Public Accountants and Auditing Oversight Board (CPAAOB), an independent administrative agency established by the Financial Services Agency (FSA), conducts examinations and inspections of JICPA's quality control review in accordance with the Certified Public Accountants Act.

The CPAAOB not only receives reports on quality control review from the JICPA and examines their contents, but also conducts on-site inspections of audit firms that conduct accounting audits, such as ours.

If, as a result of the on-site inspection, deficiencies are found in the quality management system or individual audit engagements, improvements will be prompted by a written notice of the inspection results.

On-site inspections by the CPAAOB ensure the effectiveness of the JICPA's quality control reviews and encourage the execution of appropriate audits from a public standpoint. If, as a result of the on-site inspection, it becomes clear that audit quality management is grossly inadequate or that the audit work is not in compliance with laws and regulations, etc., the CPAAOB will make recommendations to the Commissioner of the Financial Services Agency to encourage necessary administrative measures to ensure proper business operations.

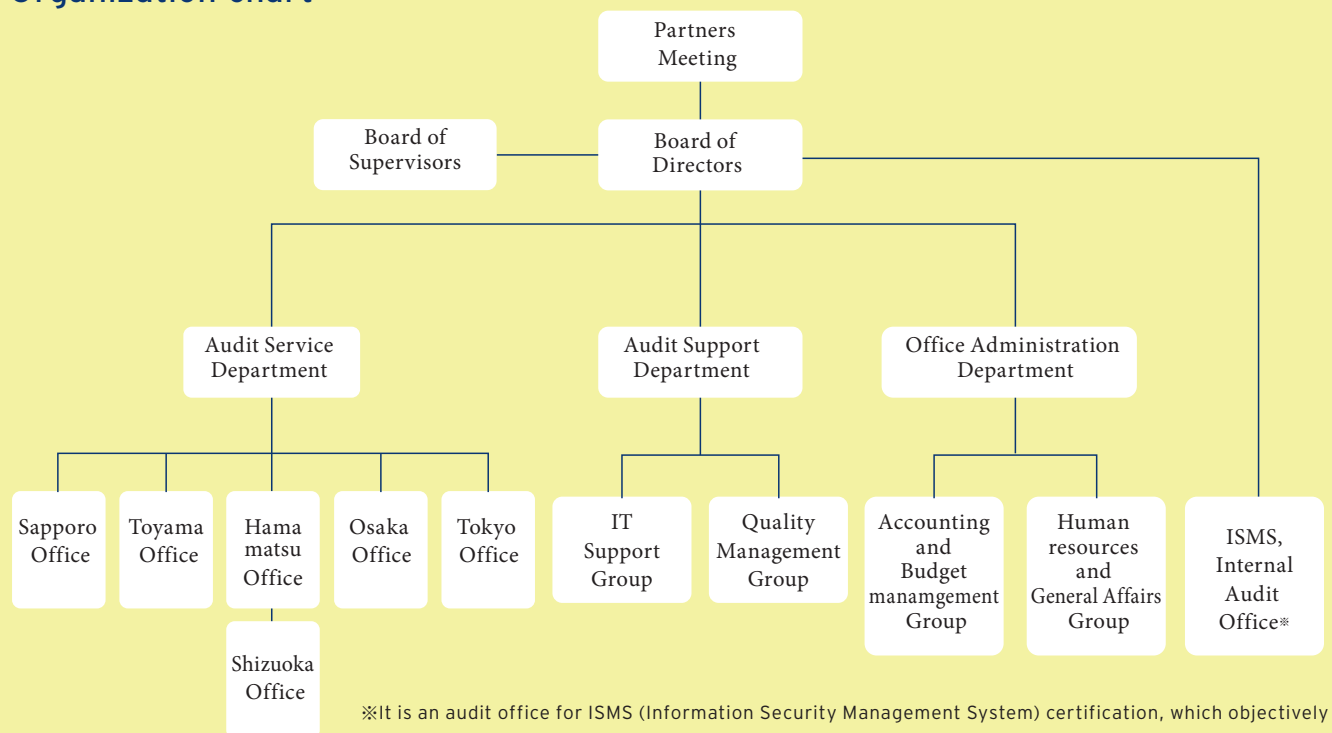
Based on its recommendations, the FSA will take administrative actions such as a warning, business improvement order, full or partial suspension of business, dissolution order, and surcharge payment order, etc. However, we have never received any administrative action based on the results of an on-site inspection by the CPAAOB.

Transition between audit firms

With regard to the change of auditors, in both cases where we are the predecessor or successor auditor, we follow our "Auditor Change Manual" to ensure that the audit is properly taken over in each case.

2.Organization and governance infrastructure

Organization chart



Our firm is transitioning to a limited liability auditing firm effective July 1, 2019.

The organization that runs our firm is the Board of Directors. The Partner Meeting is the higher level of the Board of Directors, and together with the Board of Supervisors, it is the governance structure that monitors the Board of Directors and the Chairman's Code of Conduct.

The CEO and the Director in charge of Quality Management do not serve as engagement partners of the audit team in order to ensure that the management and control functions can be fully performed.

The members of the Quality Management Group are also dedicated employees and do not perform audit services.

Partners Meeting

The Partners Meeting of our firm comprises partners who are investors in our firm and is the decision-making body for important matters for our firm. The Partners Meeting corresponds to a Shareholder Meeting in general business companies.

The major difference from Shareholder Meeting in general business companies is that the members are not only investors but also executors of the audit service. While the Rules of the Partners Meeting stipulate important matters to be decided by the Partners Meeting, the Partners Meeting is also positioned as an effective monitoring management for the operation of the Board of Directors. Therefore, since the Board of Directors needs to communicate the status of business operations of our firm to the partners, even when there is no agenda to be resolved, the Partners Meeting is held six times a year in even-numbered months, with budget approval in June and finalization of accounts in August being added to the regular agenda. At the Partners Meeting, we actively welcome comments from each partners so that the meeting does not become a one-way meeting management with one-sided statements from the board members. In addition, important audit issues, etc., are reported by the Director in charge of Quality Management at the Board of Directors, and the results, etc., discussed at the Board of Directors are communicated to all partners, so that they can be disseminated as common knowledge among all partners.

Board of Directors (management)

Our firm's Board of Directors meets on the second Monday of each month.

The CEO is fully responsible for the management of our firm's audit operations.

Currently, the Board of Directors comprises eight

members, and the election of Directors is conducted by election by the partners, which is held every three years. Therefore, the term of board members is three years, and the current board has been in operation since July 2022.

The Board of Directors is chaired by the CEO, and each Director serves as the head of the Audit Service Department, the Audit Support Department, and the Office Administration Department as shown in the organization chart. In addition to the organization chart, there are ten committees: the Organizational Management Committee, the Audit Tools Committee, the International Affairs Committee, the Training Committee, the Recruitment Committee, the Business Development Committee, the Acceptance Deliberation Committee, the Health Committee, the Benefits and Welfare Committee, and the Disciplinary Committee (temporary), each with a director in charge of committee operations.

The Board of Directors receives reports from each director on the status of these committee activities, makes decisions on important matters related to management execution through discussions, and executes management operations by transmitting decisions from the director in charge to the entire firm. In addition, among committee activities, we receive reports on the results of opinion hearings from market participants such as outside securities companies and trust banks by the Organizational Management Committee and the Business Development Committee, and use these reports as a basis for management decision-making body. In these opinion hearings, we also ask for opinions on the application of the governance code of the audit firms that we employ and disclose on our website, but we have not received any particular opinions at this time.

Board of Supervisors

The Board of Supervisors consists of two members, one from among the partners and one from outside our firm (Mr. Tomonori Akisaka, Professor of the Graduate School of Professional Studies, Meiji University). The Board of Supervisors prepares an annual audit plan after the start of the fiscal year and conducts an audit by the Supervisors.

Both supervisors also attend meetings of the Board of Directors, monitor whether the business operations by the directors and others are appropriate, and provide objective opinions on the status of operations.

The number of meetings of the Board of Directors and the attendance of each supervisor at the meetings of the Board of Directors and the meetings of the Board of Supervisors are as follows.

The number of meetings of the Board of Supervisors decreased due to the change from irregular meetings in the past to regular meetings once every three months in the fiscal year ended June 30, 2023.

	Year ended June 2021	Year ended June 2022	Year ended June 2023
Number of Board of Director (times)	15 (including three extraordinary meetings of the Board of Directors)	17 (including five extraordinary meeting of the Board of Directors)	14 (including two extraordinary meetings of the Board of Directors)
Number of internal supervisor Participation (times)	13	14	13
Number of external auditors participation (times)	13	13	13
Number of Board of Supervisors (times)	5	6	4

Once a year, the CEO receives a hearing from the Board of Supervisors on daily operations. Through these, the Board of Supervisors is charged with the following roles.

- Assessment of the effectiveness of board operations
- Process for evaluation of partners and determination of compensation by the CEO
- Opinions on the composition of the Board of Directors appropriate to the size of the organization and the process for the election and dismissal of the supervisors as independent third parties.
- Opinions on policies and other matters related to human resource development, personnel management and evaluation, and compensation of our firm
- Evaluate the status of policies and procedures regarding internal and external reporting, as well as the verification and use of information communicated.
- Opinions on the method of exchanging opinions with clients, shareholders, and other capital market participants

Committee system

We have ten cross-organizational committee activities. Each committee is governed by a director, and the director in charge appoints a chairperson from among the partners.

Committee name	Scope of activity
Organizational Management Committee	Collect information from each committee, coordinate the overall operation of the firm, and coordinate the overall itinerary.
Audit Tools Committee	Development of tools for use in audits
International Affairs Committee	Handling and commissioning activities for international work projects and liaison with Kreston International, development of audit instructions for group audits
Training Committee	Planning and implementation of training plans, implementation of training for mid-career, new employees, returning employees, etc., preparation of training materials, etc. appropriate to the level of the employee.
Recruitment Committee	Regular and mid-career recruitment activities
Business Development Committee	Business development in line with our policies
Acceptance Deliberation Committee	Risk Management for acceptance of audit engagements
Benefits and Welfare Committee	Planning and implementation of measures to improve the satisfaction level of employees with regard to benefits and welfare, etc., including the revitalization of internal communication.
Health Committee	In accordance with the Occupational Health and Safety Law, our firm works with health managers and industrial physicians to manage the working environment and provide mental health support to its members.
Disciplinary Committee	Report on decisions on punishment for violations of laws and regulations, violations of firm rules, harassment cases, etc.

Dedicated department for quality management of audit

In our firm's organization chart described in P.34 above, there is an Audit Support Department, where the Quality Management Group is a dedicated department for quality management of audit services. Personnel belonging to the Quality Management Group are dedicated to quality management and do not hold concurrent positions with the Audit Service Department, thus ensuring independence from the Audit Service Department.

Currently, the firm consists of four members: one full-time representative partner CPA, one partner CPA, one senior CPA and one assistant.

It is also our firm's policy that all members of the Quality Management Group, with the exception of those who perform clerical work, will be composed of former CPAAOB inspectors or experienced JICPA quality control reviewers.

Responsibility for quality management

The firm places high importance on the audit quality in light of its social impact, and the CEO has ultimate responsibility for the firm's system of quality management with respect to policies and procedures related to quality management. The responsibility for the development and operation of the system of quality management is assumed by the Head of the Audit Support Department (Director in charge of Quality Management).

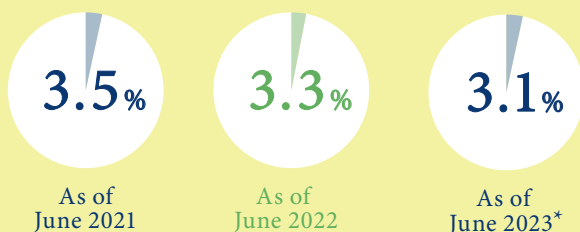
Our firm has established and is operating rules and regulations governing quality management policies and procedures, from the execution and renewal of audit engagements to the formulation of audit plans, implementation of audits, and issuance of audit reports.

The following table shows the number of personnel in the Quality Management Group of our firm's Audit Support Department.

Number of personnel



Comparative Percentage of Audit Services Department Headcount



*The lower comparative ratio of the Audit Services Department to the number of staff is due to the overall increase in staffing. Our firm plans to increase the number of employees by one during the current fiscal year.

3.Human resources

Basic approach to human resource infrastructure enhancement

Since our firm's main purpose is to perform financial statements audits, our members are mainly certified public accountants and those who have passed the certified public accountant examination. The profession of certified public accountant itself is an industry with a higher turnover rate than that of general companies, as it is possible to start one's own business, and people sometimes change jobs to consulting companies for the purpose of reskilling themselves.

Therefore, from the perspective of ensuring the sustainability of audit services as an audit firm, securing a human resource base is an important issue. In addition, although it is the same as for general companies, it is necessary to have an organizational structure that is appropriate for each rank, and an unbalanced personnel structure by rank is not something that we should aim for.

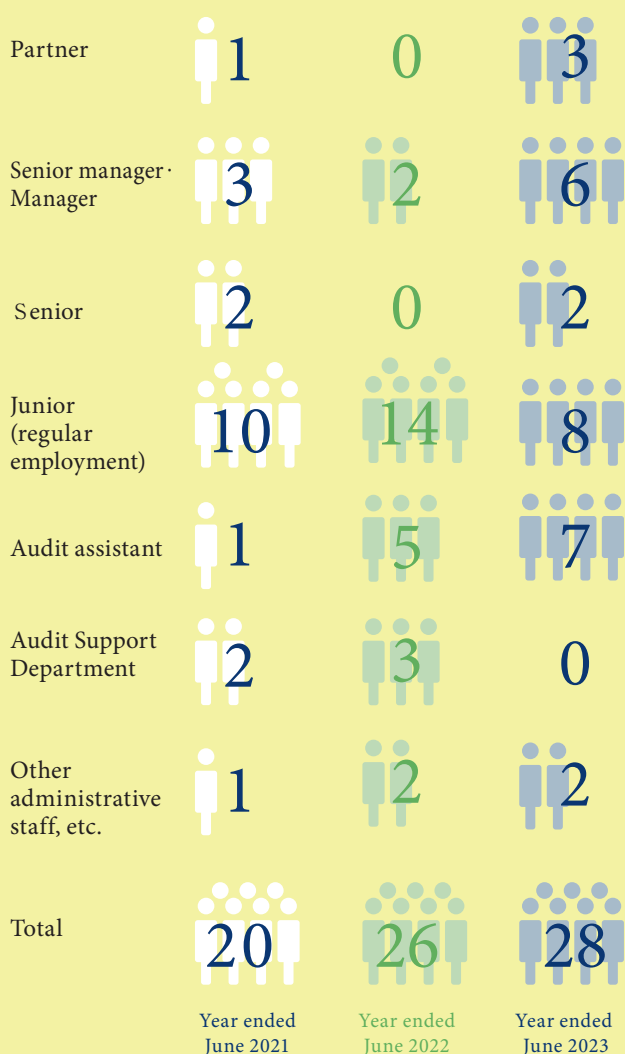
According to the FSA's CPAAOB monitoring report, the number of registered CPAs as of the end of March 2023 was 34,436, and the number of CPAs who belong to audit firms and engage in audit services was 13,980, a much lower percentage at 41%.

In this environment, our firm, whose main business is audit service, not only communicates to all members the purpose in life of contributing to the Japanese economy through audit services, but also formulates and implements measures to maintain work-life balance for all members, such as improving audit efficiency through the use of IT, while coping with the increase in audit hours year by year. In addition, we are planning and implementing measures that will enable all members to maintain a good work-life balance, such as using IT to make audits more efficient while coping with the increasing audit hours year by year.

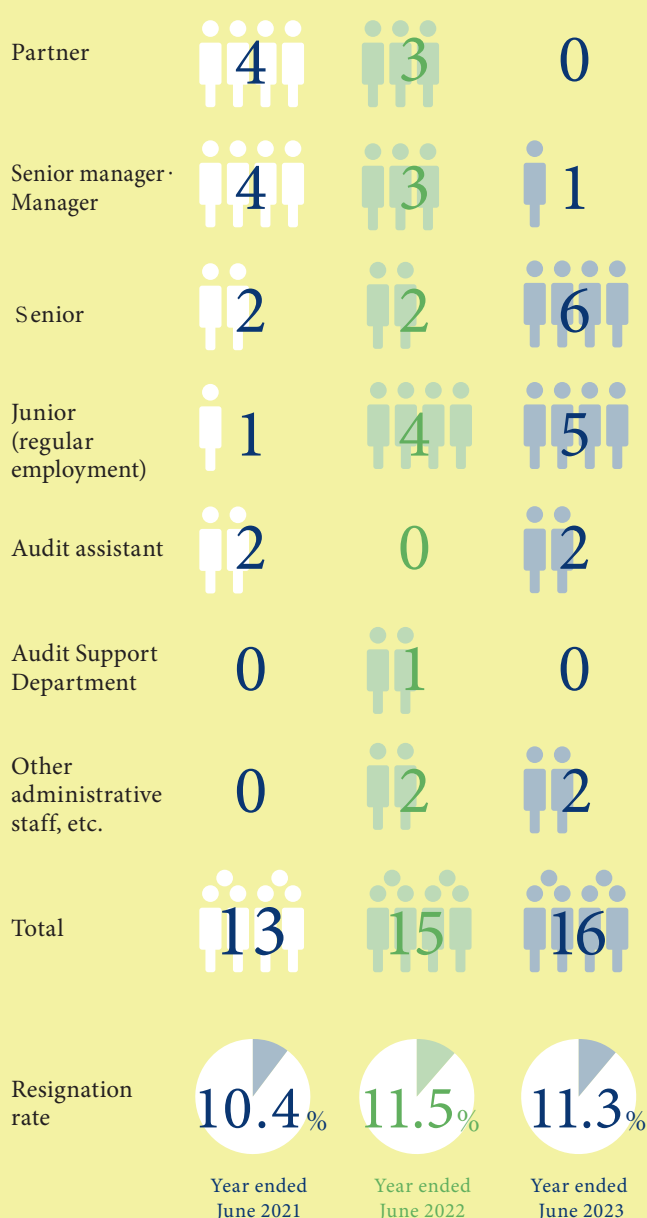
The recruitment plan is in accordance with the staffing plan for the first year of the mid-term plan, and includes mid-career recruitment plans for ranks that are in short supply (including not only CPAs but also IT specialists and audit assistants in the Audit Support Department) and regular recruitment of people who have passed the CPA examination.

As mentioned above, one of the characteristics of the audit industry is that it tends to have a high turnover rate overall. However, our resignation rate is not significantly different from the turnover rate for the entire industry, and we believe that we have succeeded to some extent in retaining our human resources.

Number of new hires by rank



Number of resignation by rank

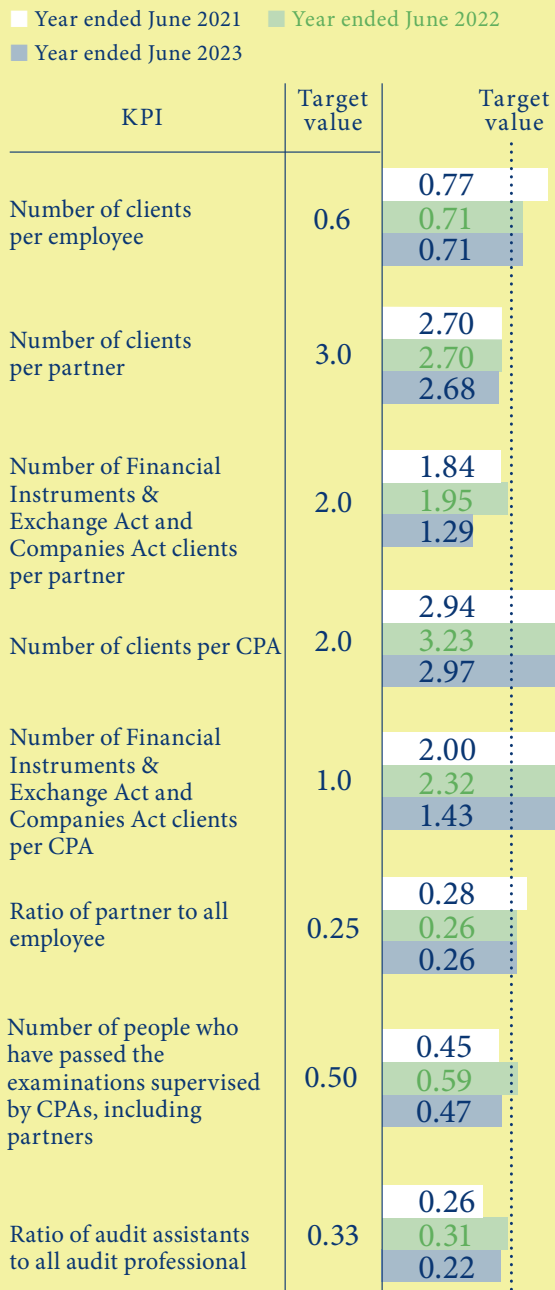


We recognize that a balanced staffing structure is necessary to provide appropriate audit services to our clients. In order to perform an appropriate audit, we must aim for an appropriate staffing structure, and once achieved, we must maintain it.

To this end, we have established our own targets for several indicators, and we operate our business in such a way that we are close to those targets.

We believe that this will help our stakeholders understand one factor of our proper audit implementation system and improve our audit quality.

Status of KPIs



Although these indicators will not be close to the target values in the short term, we are making management efforts to bring them closer to the target values.

Training status and personnel evaluation for audit professional

Our firm maintains and improves the competence of its audit professional through appropriate ongoing professional development. Training plans related to education and training developed by the Training Committee are submitted to the Board of Directors by the Director in charge of the Training Committee, who is also the Director of Audit Support, Department for deliberation and approval.

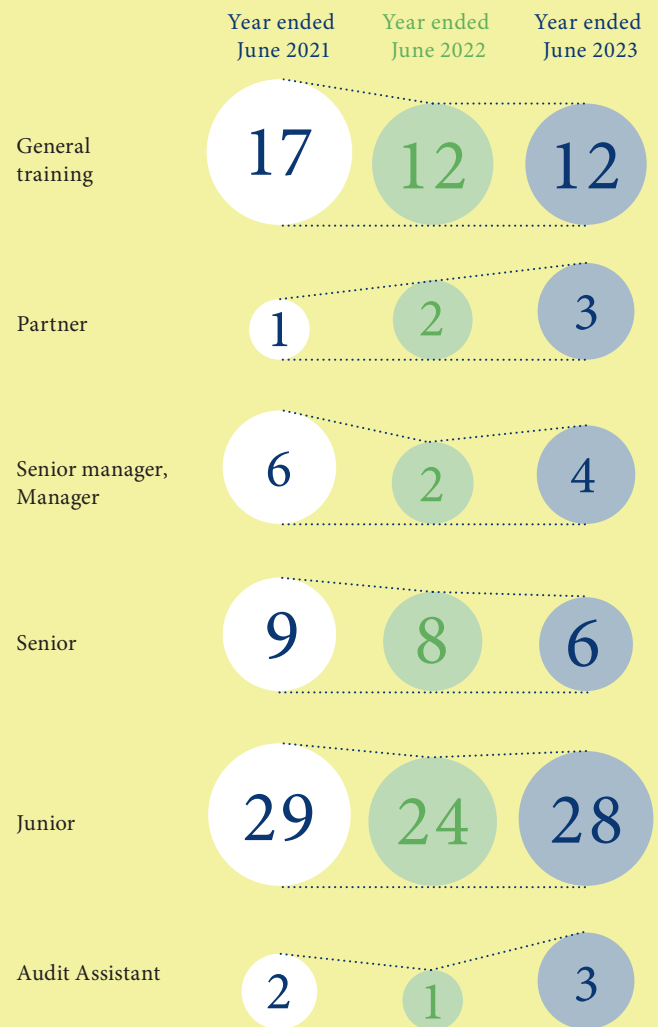
One of the key points we focused on when formulating the policy was “Enhancement of Training to improve audit quality”. After the CPAAOB inspection and JICPA's quality control review pointed out deficiencies, we reaffirmed that maintaining and improving audit quality is an issue for us, so we decided to enhance training directly related to audit quality, including training to deepen understanding of the audit standard report. We have therefore decided to enhance training directly related to audit quality, including training to deepen understanding of Auditing Standards Statements.

In order to maintain and improve audit quality, it is necessary to understand the standards required by the current audit standards. Therefore, we intend to continuously second staff to JICPA as quality control reviewers and apply the knowledge gained there to our audit.

Another area of emphasis is the “Enhancement of Training by Rank”. Our training policy is to maintain and improve the field skills of each audit team to a high level by enhancing the practical audit skills of audit professional according to rank as much as possible through in-house training throughout the year.

CPAs who are members of the JICPA are required to maintain the completion status of CPD conducted by the JICPA, and those who have not completed 40 credits per year will not be allowed to engage in auditing.

Number of training sessions for audit professional



Training hours by topic

	Year ended June 2021	Year ended June 2022	Year ended June 2023
Fraud cases	4hours	8hours	21hours
Tax	2hours	2hours	
Accounting standards	5hours		7hours
Audit tools	4hours	24hours	
Audit quality (audit services)	174 hours	111 hours	2hours
Professional ethics	6hours	4hours	149.5 hours
Others	25hours	28hours	5hours
			26hours

In preparation for audit engagements to which the “Fraud Risk Auditing Standard” apply, our firm provides appropriate opportunities for fraud-related education and training through internal training to ensure that the audit team is knowledgeable and competent in fraud cases necessary to perform their audit.

In addition to general training and other training programs conducted in-house, we participate in training by outside vendors and training sessions organized by JICPA and other organizations. The following is the number of hours of training planned and conducted by the Training Committee, and the number of hours of training sponsored and recommended by the Training Committee at each rank from new employee training to partners, and is not CPD compliant.

We are also planning to further increase the number of audit training sessions for audit assistants.

Internal and external training (hours)	Year ended June 2021	Year ended June 2022	Year ended June 2023
In-house training	201	138	210
External training	17	6	6
Training organized by JICPA and other organizations	2	40	46

※ In 2023, there is an increase in training for junior staff and audit assistants.

We also conduct a questionnaire survey after each training session to determine the level of understanding of the training and how to improve understanding, and we use the results of the survey in our next training sessions.

Item (average score)	Year ended June 2021	Year ended June 2022	Year ended June 2023	
Comprehension (before the course)	0-3 with 3 being the best.	1.5	1.5	1.5
Comprehension (after course)	0-3 with 3 being the best.	2.7	2.7	2.7
Can it be used for audit work	0-4 with 4 being the best.	3.5	3.6	3.6
Are lectures devised	0-4 with 4 being the best.	3.5	3.5	3.5

The training of audit professionals is not limited to simply earning CPD credits, but is conducted to maintain and improve their abilities on an ongoing basis.

Training hours per person



In order to secure sufficient professional personnel with the aptitude, ability, experience, and required professional ethics necessary to reasonably ensure the audit quality, our firm has established policies and procedures for personnel matters, including recruitment, education and training, evaluation, and appointment of professional personnel. In addition, with respect to the appointment of partners, letters of recommendation from at least two or more partners are required in accordance with the rules for the appointment of partners. The letters of recommendation shall state the number of years of experience as a certified public accountant and the reasons for the recommendation, and the appointment shall be approved by the Board of Directors and then by the Partners Meeting. In addition, as part of our efforts to provide well-balanced human resources education, we send one trainee each year to the Forum '80, an education and training seminar organized by the General Research Forum. Forum '80 is designed to help young people acquire a broad range of knowledge from an international perspective and to solidify the foundation for lifelong friendships among trainees. Currently, we are dispatching the 90th class, and the CEO was a 26th class student.

The “Partner Evaluation System” is presented to all partners each year, and partner compensation is determined based on the results of the evaluation conducted in accordance with our firm's partner evaluation methodology. In this evaluation, we include in our assessment whether the degree of audit quality of each partner is appropriate. In addition, we ask our supervisors, who are independent third parties, for their opinion on the appropriateness of the process of evaluation and determination of remuneration to the partners. In addition, staff evaluations are conducted annually by several persons, with all staff being briefed on the personnel evaluation method to avoid bias. Salaries are determined based on the results of these evaluations.



Practice of diverse work styles and work-life balance

In today's social climate, an increasing number of companies are allowing dual or side employment. In the past, our firm's policy was not to allow dual or side employment. On the other hand, the "Guidelines for Promotion of Side Work" published by the Ministry of Health, Labor and Welfare also states that, as we enter an era of 100 years of life, it is necessary to create an environment in which people can choose the way they want to work from a young age, and that secondary and concurrent jobs can be an effective means of open innovation and entrepreneurship, as well as a It is also stated that side and concurrent jobs are effective as a means of open innovation and entrepreneurship, and also contribute to regional development from the perspective of utilizing human resources in urban areas in the rural areas. For this reason, we believe that it is important to create an environment that allows employees who wish to have a second or concurrent job to do so in a wide range of ways according to their wishes, and we have changed our policy to recognize the importance of expanding the range of options for various ways of working.

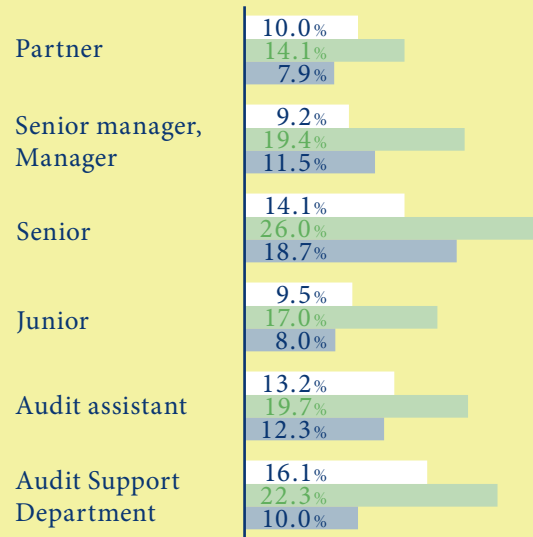
However, our firm allows such dual/secondary employment on a case-by-case basis when various conditions are met, such as that the dual/secondary employment does not affect the auditing work.

In addition, as part of the diversity of work styles we aim to achieve, we consider working styles that are not restricted by time or location, and we continue to implement teleworking. However, from the viewpoint of information security, we do not permit teleworking in inappropriate locations.

The status of telework implementation by position is as follows.

Telework implementation status (%)

■ Year ended June 2021 ■ Year ended June 2022 ■ Year ended June 2023



In addition, our firm has also adopted a sliding work schedule as one that allows for staggered work hours, etc. In the fiscal year ended June 2023, 2.4% of the total workforce had a sliding work schedule.

Slide work implementation (%)

Slide work ratio

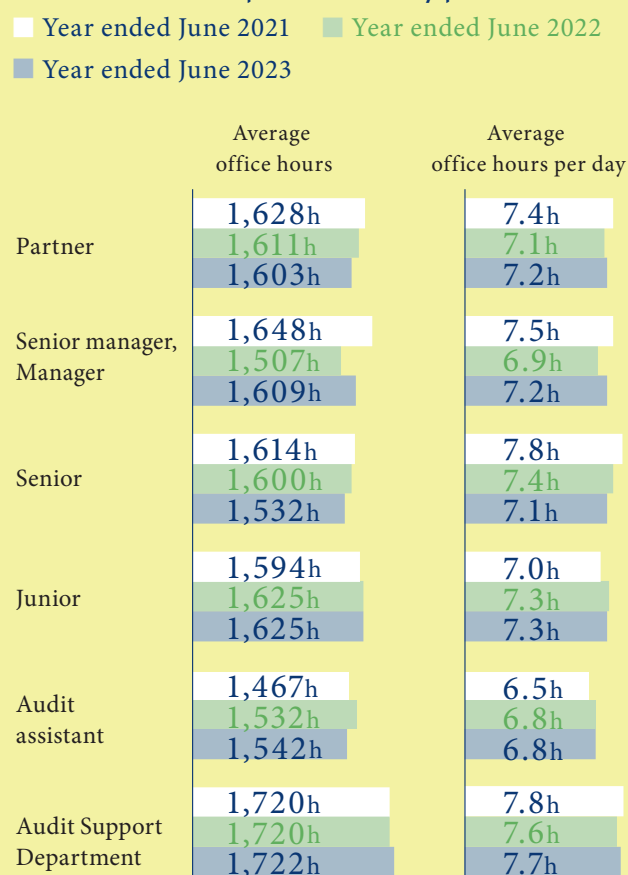


Thus, we continue to implement diversity in the way we work in our audit practice to the extent that it does not affect client communication or audit quality. As mentioned earlier, our firm has a policy of minimizing unnecessary work and emphasizing work-life balance to allow for the pursuit of diversity in life planning. As a result, the average annual office hours of our audit staff by position are as follows.

Our firm has been monitored by external organizations in various areas, but there were no significant findings, and our firm believes that the efficiency of audit work through our firm's use of IT and development of audit tools has contributed to these results.

We believe that this creates a work environment in which employees can lead healthy lives, both physically and mentally, without having to work a great deal of overtime, and consequently, without mental pressure, in an audit industry where overtime work is common.

Average annual office hours (including overtime) of our firm's audit professional by position.



※ 1. Office hours include administrative and training time and do not include time without specific work assignments or breaks.

※ 2. The role of the audit assistant is to belong to the Audit Service Department and provide support for our firm's audit work and other tasks under a certain level of training. By performing peripheral audit work that does not involve judgmental work, they contribute to the concentration on and efficiency of judgmental work by specialists. They may also perform in-charge work as their experience increases.

We believe that the use of paid leave is important to make life even more fulfilling. Since some staff do not apply for paid leave on their own, we encourage them to take paid leave. As a result, we have achieved an acquisition rate of 70-85%.

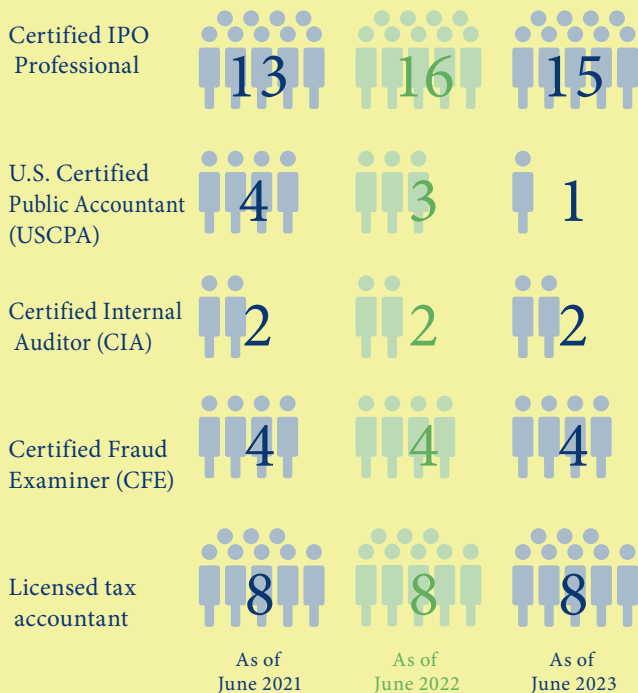
Number of days of paid leave taken per staff and rate of paid leave taken per staff

	Year ended June 2021	Year ended June 2022	Year ended June 2023
Acquired days	15	16	17
Acquisition rate	72.3	85.1	79.0

As an audit firm, we believe that in order to cope with further changes in the social environment, it is necessary to have diversity in the types of qualified personnel. From the viewpoint of diversity as qualifications, the number of qualified persons other than Japanese certified public accountants in our firm is as follows, and they contribute to our audit work through multifaceted exchange of opinions and our committee activities.

In addition, in order to be able to respond to the increasing demand for IPO-related audits, especially in recent years, we also recommend the Certified IPO Professional certification exam, etc., and the number of people who have obtained this certification is increasing. We make passing the IPO Professional certification exam a condition for involvement in IPO work.

Number of non-certified public accountants in Japan



We emphasize dialogue with our constituents, the CEO and other Directors send messages to the members engaged in the audit of our firm on a regular basis or whenever they deem necessary about the importance of audit quality. We also emphasize communication within the audit team from the perspective of preventing the exodus of CPAs from the audit industry. We believe that if you work silently in front of a computer all day long, you will never realize how interesting audit is. We would like them to realize the satisfaction of audit, which only a certified public accountant can do. To this end, we recognize that it is important for human resource development to have a culture of free discussion within the audit team until all audit team members reach a consensus, rather than having the engagement partners impose their audit judgment on the team, and this is repeatedly conveyed by the CEO at the Partner Meeting.

Since an audit team is also a group of people, there is a certain chemistry among them, and it may not be possible to establish a corporate culture of human resource development through communication. For this reason, the Organizational Management Committee has been devising ways to form audit teams with an overall view of human compatibility, and the mentoring system for junior staff by members of the Recruitment Committee provides individual mentoring to eliminate the “As is-To be gap (the gap between the current situation and the ideal)”. We are striving to create a comfortable working environment.

In addition, since it is important to maintain good health, regular medical examinations are conducted once a year at a medical institution affiliated with our firm.

In recent years, society as a whole has been paying particular attention to the high number of people suffering from mental health problems, and stress checks are conducted every August and September. As a result, those who wish to do so are given the opportunity to meet with an industrial physician, and the health of the constituent employees is given due consideration.

Health checkup status

	Year ended June 2021	Year ended June 2022	Year ended June 2023
Target group (people)	77	77	83
Implementor (people)	75	75	78
Percentage of implementation	97.4%	97.4%	94.0%

Approach to part-time employees

In the audit industry, 59% of listed companies close their books in March, and since it is difficult to build up a sufficient human resource base to enable audit work to be performed by full-time employees alone, part-time employees are also being utilized. However, our firm's overall reliance on part-time personnel in the audit team has remained at around 15%.

As shown in the table below, the percentage of part-time CPAs outside of Tokyo is very high, but the reality is that the number of CPAs outside of Tokyo is low. According to the FSA's CPAAOB monitoring report, 20,182 CPAs work in Tokyo (Total 34,436, March 2023)

The number of CPAs in the regions other than Kinki, Tokai, and Kanagawa is only 6,431.

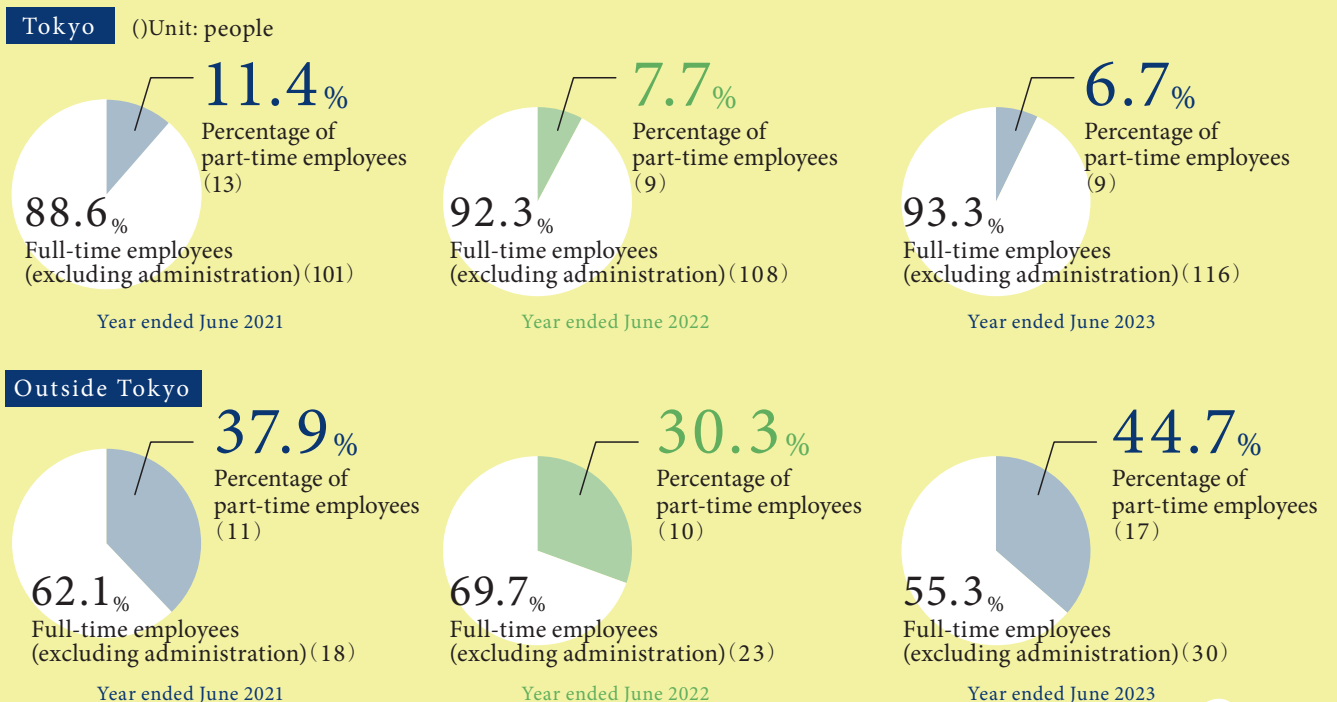
Therefore, while the future vision is for operations outside of Tokyo to be completed solely by regional offices, we believe that for a considerable period of time until then, the weight of part-time workers will continue to be high in the regions.

Part-time employees are required to attend training sessions sponsored by our firm on training topics that are mandatory by our firm, especially those specific to our firm (e.g., results of periodic quality performance review). From the viewpoint of information security, the PCs used are the same as those used by full-time employees, since our firm lends and uses PCs that have been set up for part-time employees.

We have established personnel performance standards for part-time employees, which are implemented by the assigned audit team's engagement partners and are reflected in the following year's salary.

We may hire part-time employees outside of Tokyo, Osaka, and Sapporo because there is a shortage of people engaged in audit services, but in Tokyo, our policy is to hire as many people as possible to support the diverse work styles of our peers who are certified public accountants.

Percentage of part-time employees(%)

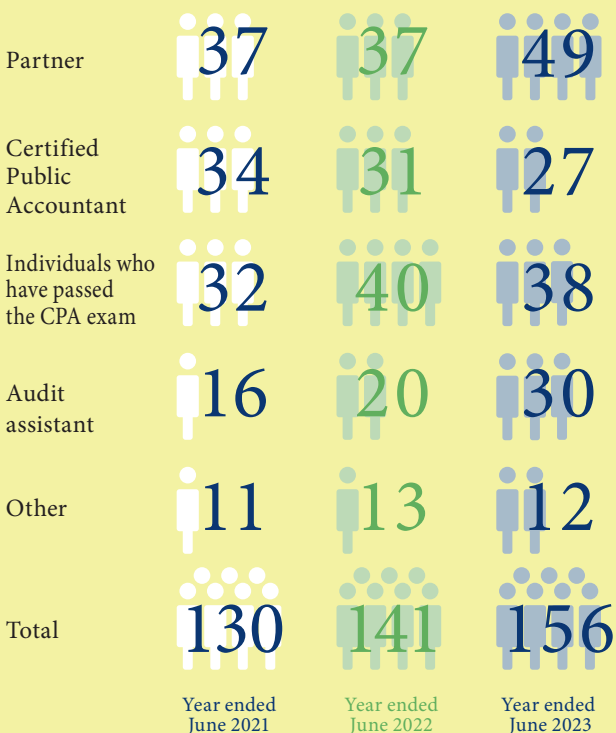


Deployment of human resources based on the size and characteristics of the client for audit work

We contrast our monthly headcount with the hours required to perform our work, and we closely monitor our work-life balance to ensure that staffing shortages do not interfere with our audit work or disrupt the work-life balance.

In order to secure sufficient professional staff with the aptitude, ability, experience, and professional ethics required to reasonably ensure the quality of audit work, our firm has established policies and procedures for personnel matters, including recruitment, education and training, evaluation, and appointment of professional staff. The deployment of the necessary specialized personnel is essential to conducting a proper audit. These necessary specialized personnel include IT specialists. We are continuously recruiting human resources and have secured personnel commensurate with the size of our firm.

Changes in professionals



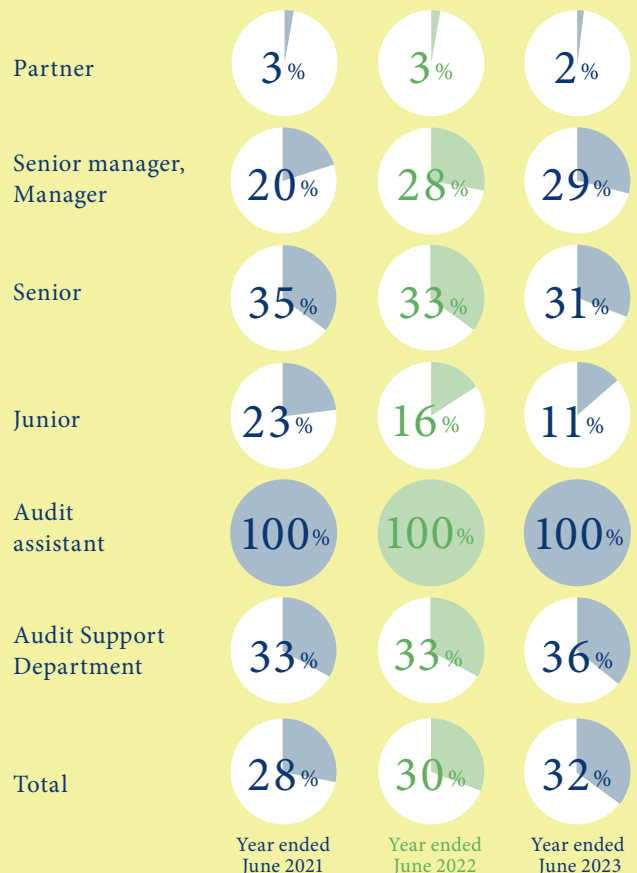
Diversity

Promotion of women's activities is essential for the sustainable growth of our firm. The Cabinet Office has published a leaflet entitled "Women's Advancement and the SDGs: Toward Sustainability" and we are conscious of diversity in our management.

We believe that we are a more female-friendly workplace compared to other general business companies, due to our policy that those who join our firm should be EPs or KAPs as engagement partner as much as possible, and we have an environment that facilitates shorter working hours, as well as maternity and paternity leave.

We recognize the importance of gender equality as well, and will continuously strive to increase the ratio of female employees.

Percentage of women in each position(%)



*The percentage of women in junior staff has declined over the years due to the unintentional low number of female hires.

4. IT infrastructure

Status of IT infrastructure development

The IT Support Group of the Audit Support

Department is in charge of the maintenance and operation of IT infrastructure based on the

“Information System Management Rules” and the “Information System Management Manual”.

We began a trial in March 2019, and in 2020, we will introduce the electronic audit file system "Caseware Working Papers" (Caseware International Inc.) for all audit work, converting almost all audit files to electronic format. In addition, as a countermeasure against information leakage due to loss of physical PCs (notebook PCs) loaned to all employees (including part-time employees) and as an improvement of the remote work environment, we have shifted to the use of virtual PCs in the cloud environment and are implementing operations that do not leave data on physical PCs.

We also operate file servers, audit data servers, directory servers, and other servers in a cloud environment and back them up to a domestic site on a daily basis to reduce the risk of deletion of audit and management data and service outages due to hardware failure, natural disasters, etc., and to maintain business continuity. We have a system in place to ensure the continuity of operations.

In addition, since March 2020, we have been actively using communication tools (groupware, online meetings, chat, and data sharing websites) to flexibly respond to changes in the social environment and work styles, and to pursue more efficient use of work time. We are increasing the amount of IT-related investment year by year.

IT-related investment amount

	As of June 2021	As of June 2022	As of June 2023
IT-related expenditure investment	30,196	32,783	44,063

(Thousand yen)

In the future, we plan to develop our own electronic audit file system and fully migrate to secure physical PCs instead of virtual PCs.

In addition, we are attempting to reduce audit time by utilizing the Audit Confirmation Center for balance confirmation, which is a time-consuming part of audit practice, because of the trend toward the use of electronic data. In the next fiscal year, we intend to further expand this program.

Audit Confirmation Center (Balance Gateway)* Number of uses

	Year ended June 2021	Year ended June 2022	Year ended June 2023
Number of companies	1 company	1 company	1 company
Number of confirmations	12 subject	20 subject	12 subject

*This is an online balance confirmation service provided by the Audit Confirmation Center GK, a joint venture established in 2018 by Big4 audit firms.

The benefits of financial statement audit using DX may include increased efficiency, improved accuracy, real-time data availability, and early detection of risks. However, security and privacy risks must be addressed when utilizing digital technology, and this is a future challenge.

In order to keep up with these recent trends, it is important to secure human resources to enhance our IT infrastructure. The members of our IT Support Group hold the following qualifications

IT-related certifications held

Certified Information Systems Auditor (CISA)



Certified Information Security Manager (CISM)



Assistant Information Security Auditor (CAIS-Assistant)



Assistant reviewer for Information Security Management System (ISMS)



ISMS Cloud Security (ISMS-CLS) reviewer



Internationally Certified CAATs Technician (ICCP)



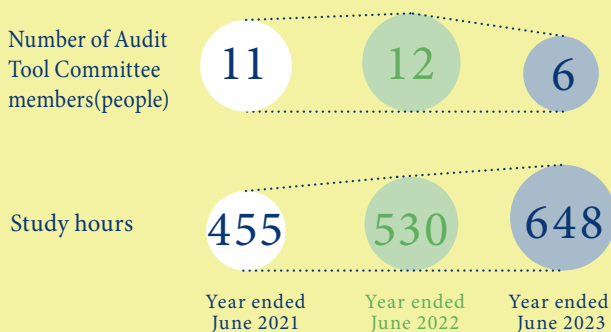
Digital response to changes in the social environment

We are committed to providing financial statement audit that can respond to changes in the social environment and achieve a high level of quality and efficiency. The Audit Tools Committee plays a central role in this effort, and in particular promotes the digitalization of auditing practices through data analysis.

We are moving away from the traditional sampling-based hypothesis testing method for accounting transaction populations to a data analysis-based verification method. This is an opportunity for us to promote the digitization of our audit practices. The Audit Tools Committee is taking the lead in this study.

Although the overall number of committee members has decreased, led by members who are almost exclusively dedicated to the Audit Tool Committee, we continue to study the possibility of performing digitally-enabled audit work through data analysis. Specifically, we are working to improve the efficiency of work time by automating data acquisition and advanced statistical analysis and systematizing the narrowing of anomalies.

Status of study meetings held to address changes in the social environment



As a result, we have come up with the idea of applying financial statements audit using data analysis methods to listed companies, etc., and in FY2020, approximately one-fourth of our listed clients have implemented such audits. In FY2020, we implemented the method in approximately one-fourth of our listed clients. We will further advance the method and implement it in all listed companies starting in FY2021.

Usage of data analysis methods

Auditing of listed companies using data analysis methods (companies)



All auditing services for the use of data analysis methods (companies)



Based on the belief that in order to use data analysis techniques, CPAs and others actually working in the audit field must be able to perform them, we provide training in data analysis techniques to our audit staff. As a result, the number of hours of training in data analysis techniques has increased significantly.

Data analysis technology training hours

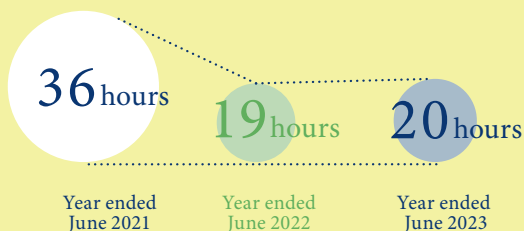
B I-tool training, etc.(hours)



We recognize the importance of IT-related training for audit professional as well, since IT-related audit work is not only performed by those who belong to the IT Support Group. Therefore, we also provide IT-related training to certified public accountants and other audit staff in order to support DX (Digital Transformation).

IT-related training hours

IT-related training status



Standardization and automation of operations for greater efficiency

We are promoting the standardization and automation of work in audit to improve the efficiency of work hours for data acquisition, processing, analysis, and other tasks. We have standardized data analysis using SPEEDA (User Base Co., Ltd.), which uses financial figures of each listed company disclosed in securities reports and other documents. Furthermore, we have centralized a series of tasks from data acquisition to the provision of analysis results to each audit team as an audit assistant service, thereby efficiently providing outputs for all listed company audit work and reducing work hours.

Financial audit using DX

DX-based financial statements audit is a process that uses digital technology and data analysis to efficiently and accurately evaluate accounting information and ensure the reliability of a company's financial reporting and accounting processes. We are utilizing advances in digital technology, including data analytics, in our audit work to ensure efficient and in-depth audit procedures.

Digital tools used in audit procedures

Risk assessment procedure	<ul style="list-style-type: none"> · Fraud Risk Scoring Tool · SPEEDA · Data analysis tools (PowerBI, modern Excel)
Risk response procedure	<ul style="list-style-type: none"> · CAAT tool (ACL) · Sampling Tools · Assist tool for preparing audit reports



a. Fraud risk scoring tool (developed in-house)

We have developed a fraud risk scoring tool as an initiative using AI technology.

By studying securities reports and fraud cases of all listed companies over the past 10 years and modeling the likelihood that a company will commit fraud based on the similarity of financial figures with the fraud cases, fraud risk is quantified and used for risk assessment when accepting new audit engagements.

b. BI tools and other analytical tools

Power BI (Microsoft Corporation), a BI tool for visualizing data, is used in all listed company audit engagements. By automatically capturing and visualizing financial figures, we are able to assess our clients' status in a timely and efficient manner. We are also creating examples of the use of modern Excel (Power Query, Power Pivot) to conduct more in-depth data analysis.

c. CAAT**(Computer Application Audit Techniques) tool**

ACL Analytics (ACL Services Ltd.) is used in all listed company audits as a tool for extracting potentially fraudulent journal entries. ACL can automate data processing and extraction through scripts, enabling us to efficiently extract abnormal items from our clients' vast journal data.

d. Sampling tool (developed in-house)

We use an audit sampling tool developed in-house. By incorporating our originally devised sampling method for each monetary unit, we can instantly extract the required number of cases according to the results of risk assessment and the monetary scale of the subject data, even for huge amounts of transaction data. Reproducibility is also ensured by using seed values to prevent arbitrary extraction.

e. Assist tool for preparing audit records (developed in-house)

It is necessary to accurately record many records in the audit report, such as evidence of voucher matching and references between values. We have developed our own Excel add-in to support this process and efficiently create audit reports.

Information Security

We believe that under the digital society, it is essential to ensure information security. We take the following information security measures.

a. Information security policy and structure

Information security policies are stipulated in the "Information System Management Rule", and individual management measures for information security, such as the department in charge of information security, responsible persons, and procedures for handling incidents, are stipulated in the "Information System Management Manual". In addition, the "Information System Management Manual" stipulates individual management measures for information security, including the department in charge of information security, the responsible person, and procedures for responding to incidents. In addition, we obtain "written oath" from all partners and staff (including part-time employees) on compliance with the information security policy on an annual basis to confirm the status of compliance with the policy. In addition, our firm also checks the status of compliance with the information security policy by obtaining an "Affidavit of Compliance" from all partners and staff (including part-time employees) on an annual basis. In addition, the IT Support Group conducts annual security checks of physical and virtual PCs of partners and staff (including part-time employees) by sampling to confirm compliance with the information security policy, and conducts annual information security education to raise the security awareness of all partners and staff (including part-time employees). The IT Support Group also conducts annual information security training to raise the security awareness of all partners and staff (including part-time employees).

In addition, training is conducted twice a year to raise security awareness by sending e-mails to specialized personnel that simulate a targeted attack and providing training to those who open them. In addition, in October 2021, we participated in the "FY2021 Financial Industry-Wide Cyber Security Exercise (Delta Wall VI)" hosted by the Financial Services Agency.

b. Countermeasures against unauthorized access from external and internal sources

For internal and cloud environment connections to external networks, Unified Threat Management (UTM) appliances are installed, and connections to the cloud environment (including virtual PCs), including regional offices, are made via the Tokyo office, and communications are encrypted using dedicated lines. The connection to the cloud environment (including virtual PCs), including regional offices, is via the Tokyo office, and the communication is encrypted by a dedicated line. Similarly, the connection from physical PCs to the cloud environment via communication terminals is encrypted using dedicated software. In addition, wireless LAN in each office is encrypted by restricting the number of users with passwords. These measures effectively and comprehensively protect the internal network from unauthorized access from outside.

To prevent information leaks due to targeted e-mail attacks, malware infection, etc., anti-malware software, asset management and log collection software are installed on physical and virtual PCs and servers to detect unauthorized access from outside, isolate malware, and monitor operation history. We also monitor the operation history.

In addition, we enable automatic updates of operating systems and software to keep them up-to-date and reduce the risk of malware infection.

As well as spam and junk mail filtering, we have introduced a system to detect, quarantine, and eliminate unknown malware such as business scam e-mails and ransomware. We also filter e-mails sent and received, and constantly monitor for the presence of suspicious programs. In addition, when data is exchanged with clients via e-mail, URL downloading of attached files and post-sending of decryption passwords are implemented at the time of e-mail transmission as a measure against erroneous e-mail transmission and information leakage. To prevent unauthorized acquisition, falsification, and spoofing of information from within our firm, a checklist is prepared for partners and staff (including part-time employees) when they enter and leave our firm. And a system is in place to ensure that login accounts, etc. are registered and deleted without omission. In addition, access privileges are periodically reviewed to ensure that all partners and staff (including part-time employees) are able to view only the data of the client for which they are responsible.

Future Initiatives

We are investigating next-generation technologies such as sales data anomaly detection tools, voucher document tampering detection tools, and property analysis tools that utilize AI technology.

As part of our current efforts, we are improving the aforementioned fraud risk scoring tool so that the factors that increase the score can be brought down to the level of each account. This is expected to make fraud risk assessment and fraud risk response procedures more effective and efficient at the audit site.

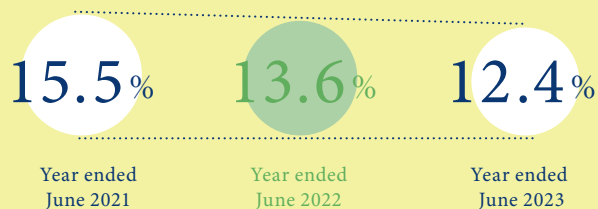
5. Financial Base

Sustainability regarding the degree of dependence on audit fee

If the firm is highly dependent on a particular client due to independence issues, it will have to decline audit services on its own in the future.

The following table shows the dependence of our audit fee on our most highly compensated clients.

Dependency



Thus, at present, our firm's dependence on such clients for audit fee is less than 15% and does not pose a problem in terms of independence, and our firm believes that there is no concern as the continuation of our firm's business.

In the proceeding fiscal year ending June 30, 2024, we expect the ratio to be approximately 10% to 11%.

Classification of Limited Liability Audit Corporations and Unlimited Liability Audit Corporations

We believe that it is important for the engagement partners to take responsibility for the financial statements audit. In order to continuously improve audit quality, we recognize that it is important for our engagement partners to be prepared to take responsibility if they fail to perform their duties with a sense of urgency and issue an appropriate audit report. Therefore, in order to have them execute audit work with a sense of urgency, our firm adopts the limited liability audit corporation.

Status of participation in professional liability insurance for certified public accountants

Our firm is covered by CPA professional liability insurance with a limit of guarantee of 3 billion yen per claim and a limit of guarantee of 4 billion yen during the insurance period, and by cyber risk insurance with a guarantee of 100 million yen for compensation.

Financial Data

Our firm's balance sheet and income statement are as follows. The financial statements, including notes, are disclosed in the "Explanatory Documents on the Status of Business and Property" (disclosure documents based on Article 93 of the Ordinance for Enforcement of the Certified Public Accountants Act) with an audit report, which can be viewed on the website of the Japanese Institute of Certified Public Accountants.



Balance Sheet

(Unit: thousand yen)

Account	Amount of money		Account	Amount of money	
	Year ended June 2022	Year ended June 2023		Year ended June 2022	Year ended June 2023
Current assets	514,170	454,717	Current liabilities	359,279	239,644
Cash on hand and at bank	456,798	366,224	Current portion of loans payable	28,008	42,356
Accounts receivable-trade and contract assets	37,976	47,037	Accounts payable	120,638	67,101
Costs on uncompleted contracts	4,810	1,933	Income taxes payable	40,759	1,643
Other current assets	14,834	39,831	Consumption taxes payabl	50,016	32,591
Allowance for doubtful accounts	△250	△310	Contract liabilities	48,684	41,211
Fixed assets	201,434	196,825	Deposit (received)	62,472	45,241
Property, plant and equipment	70,640	59,759	Allowance for bonuses	8,700	9,500
Buildings and accompanying facilities	40,926	42,569	Fixed liabilities	212,062	234,437
Furniture and fixtures	29,713	17,190	Long-term loans	69,628	90,592
Intangible fixed assets	6,262	3,666	Allowance for retirement benefits	124,174	125,585
Software	6,020	3,424	Other long-term liabilities	18,260	18,260
Others	241	241	Total liabilities	571,341	474,081
Investments and other assets	124,531	133,399	Capital stock	50,000	50,000
Long-term deposits	80,000	90,000	Capital surplus	45,883	71,883
Deferred tax assets	17,058	13,595	Retained earnings	48,378	55,576
Others	27,472	29,803	Net assets	144,262	177,460
Total assets	715,604	651,542	Total liabilities and net assets	715,604	651,542

Income statement

(Unit: thousand yen)

Account	Amount of money		
	Year ended June 2021	Year ended June 2022	Year ended June 2023
Operating revenue	1,666,837	1,892,824	2,068,361
Operating expenses			
Personnel expenses	1,368,298	1,591,570	1,659,284
Expenses related to leased facilities	78,857	81,091	116,663
Training-related expenses	12,699	11,499	9,915
IT and telecommunications expenses	62,320	72,433	91,674
Other operating expenses	104,107	132,420	160,087
Total operating expenses	1,626,283	1,889,015	2,037,626
Costs on uncompleted contracts at beginning of period	64,383	—	4,810
Costs on uncompleted contracts at end of period	△55,546	△4,810	△1,933
Total operating expenses	1,635,119	1,884,205	2,040,503
Operating income	31,717	8,618	27,858
Non-operating income	118	268	318
Non-operating expenses	1,918	3,908	2,613
Ordinary income	29,918	4,978	25,564
Extraordinary loss	105	—	12,795
Income before income taxes	29,813	4,978	12,769
Income taxes-current	767	40,760	2,108
Income taxes-deferred	7,989	△22,926	3,462
Net income	21,056	△12,855	7,197

*Most of the non-operating expenses for the fiscal years ended June 30, 2022 and 2023 consisted of donations to member firms located in Ukraine.

6. International response infrastructure

Our membership in international groups

On February 6, 2015, we joined Kreston International, the 13th largest international accounting firm network in the world (as of September 2023), as a member.

Kreston International is a global network of more than 25,000 professionals in over 110 countries, providing audit, tax, advisory (corporate finance), and risk consulting services.

Kreston International is a trusted advisor to small and mid-sized operating companies and the mid-market market, helping them achieve their business goals and desires through an international network of independent accounting professionals. In addition, our accounting professionals build client relationships based on reliability, continuity, and innovation. By collaborating with each other and with other Kreston International member firms in different countries, we are able to meet the various needs of our clients, including their overseas expansion, and provide high-quality audit services with a global perspective.

Our firm has 160 member companies in more than 110 countries. The annual general meeting is held once a year, and we have recently been attending the annual meeting remotely.

Kreston International also provides numerous training courses, manuals and tools for member firms throughout the year on international standards for auditing and quality management, updates on IFRS, and guidance on ethics, tax and other regulations. We also offer business development and client management training, and are launching a Connected Leadership Program in 2023.

While we belong to such a global network and utilize it primarily for information gathering, we are not obligated to use any manuals or tools for audit, nor do we use them in view of the unique nature of our firm. Thus, our contract with Kreston International is not a major constraint on us.

Japan Desk

As for the Japan Desk, our International Affairs Committee accepts inquiries from Kreston members overseas, but does not focus on referral work (work requested by the group) from overseas.

Response to group audits

Auditing standards now require compliance with group audits. In other words, it has become essential not only to send audit instructions but also to hold meetings with overseas auditors and review audit file, etc.

Meetings with overseas auditors are held at each stage of the audit process, including the audit planning stage, the audit implementation stage, and the summary of audit results, through onsite visits, video conferencing via Zoom, or e-mail.

We have personnel who can speak Chinese as well as English, and we have a system in place to facilitate communication with overseas auditors.

In addition, we use the trend analysis and anomaly analysis tools originally developed by the Audit Tools Committee based on the financial figures of our overseas offices over the past several periods to help us avoid fraud risks. This is basically done not only for important business locations.

In addition, foreign auditors are not necessarily limited to those who are members of Kreston International, but may also use the Big4 network.

While we have a few people within our firm who have worked overseas, they had experience prior to moving to our firm and have not been seconded to any of the member firms of Kreston International, to which we belong. We take this as an issue to be addressed in the future. For this reason, we encourage them to actively participate in opportunities for overseas secondments through the Overseas Accounting and Auditing Research Fund Assets (Okamoto Fund) sponsored by the JICPA. Since the upcoming revision of Auditing Standards Committee Statements No.600 will require deep understanding and close communication with overseas subsidiaries and their auditors, this is a unique opportunity to gain hands-on experience with overseas audit operations and management activities.



As mentioned earlier, since we do not have any member firms overseas on secondment, we are not in a position to provide Japanese-language support locally. However, we are trying to increase the number of personnel who can handle business conversations in foreign languages, as close communication with important overseas offices and local auditors has become necessary.

As a result, the number of people who can handle business conversation in foreign languages is as follows.

Language	Year ended June 2021	Year ended June 2022	Year ended June 2023
English	31	31	31
Chinese	3	4	2
Korean	2	2	1

*English is tabulated for those at a certain conversational level as a result of Versant.

Versant uses an advanced language recognition and automated scoring system developed by Pearson, and allows users to take the test anytime, anywhere, as long as they have a smartphone or computer. In addition to being used by global companies in Japan and abroad, the system is also used by government agencies such as the U.S. Department of Defense, making it a highly reliable test.

Dispatch to Leadership Programs

One student has been sent to Kerston International's Connected Leadership Program 2023 for the purpose of developing future internationally connectable leaders.

This is a 6-8 month program for new partners or director-level professionals who are looking to take on a larger assignment, client or team leadership role.

The program, which takes place in London, aims to develop leaders who understand the need to develop sustainable thinking, share Kreston's objectives, which are shared throughout the network, and work in an international environment.



Status of application of the Governance Code to audit firms



Five principles of Governance Code 24 guiding principles	Status of our response	Status of our response
<p>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 open-minded dialogue, enhance mutual development, promote their full competence, and continuously enhance the audit quality on a firm-wide basis.</p>	<p>Principle 1: Role of audit firm Our objective is to support the long-term growth and development of companies by providing fair and rigorous audits at a reasonable cost, thereby giving confidence in company's financial information and creating a secure society. We believe that our social role is to contribute to the revitalization of the Japanese economy through audit. We also emphasize a culture in which engagement partners are receptive to the opinions of other audit members, and prohibit engagement partners from meeting with clients alone to determine accounting treatments and other matters. In addition, we have created our own training program to continuously improve the quality of our financial statements audits.</p>	<p>p.4 Introduction p.14 Status of management control, etc p.14 1.Quality management infrastructure p.38 3.Human resources p.41 Training status and personnel evaluation for audit professional</p>
<p>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.</p>	<p>Tone of the top management In order to continuously improve the quality of financial statements audit, the CEO communicates his management philosophy to all members within our firm, and the partners and staff proactively fulfill their respective roles as a result of this communication.</p>	<p>p.15 Governance and leadership approach to audit quality</p>
<p>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.</p>	<p>Comon values and code of conduct The CEO makes announcements to all members on a regular basis, communicating the CEO's views on the social role that our firm should fulfill and other matters. The concept and code of conduct to put this into practice are also presented in the staff manual.</p>	<p>p.15 Governance and leadership approach to audit quality</p>
<p>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.</p>	<p>Motivating professional staff In addition to achieving work-life balance, our firm implements measures to prevent demoralization with regard to audit work through dialogue. In addition, we hold team meetings during individual audit engagements to ensure that professional skepticism and a professional audit approach are maintained and exercised at all times.</p>	<p>p.44 Practice of diverse work styles and work-life balance</p>

Five principles of Governance Code 24 guiding principles	Status of our response	Status of our response
<p>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.</p>	<p>Organizational culture of openness The members of the audit team involved in the audit work are performing their duties according to their level of experience, and the CEO instructs the partners to create an environment in which issues related to accounting events can be freely discussed through work reports, and never to allow the higher-ups in the audit team to impose their judgment on them. The CEO instructs employees to create an environment in which issues related to accounting events can be freely discussed through work reports.</p>	<p>p.44 Practice of diverse work styles and work-life balance</p>
<p>1-5. An audit firm should clarify not only its stance toward non-audit services (provided by the firm and its group organizations), but also what specific measures are being taken, based on the size and characteristics etc. of the firm, to address concerns related to conflicts of interest or independence. Furthermore, if employees of the audit firm are allowed to hold concurrent or secondary jobs, the firm should clarify what specific measures are being taken to address concerns related to conflicts of interest or independence, including the firm's approach to the people retention and development.</p>	<p>Positioning of Non-audit services (including member firm) Our firm's primary purpose is to provide assurance services including audit services, and it is our firm's policy not to engage in so-called consulting services, except for agreed-upon procedure services ("AUP") around audit services. However, there are requests for acquisition of consulting skills by constituents, and when the opportunity to do so arises, we will do so to the extent that it does not interfere with our audit work. In addition, if any member of our firm (including part-time employees) who wish to hold concurrent or side jobs are requested to apply to the CEO via the Quality Management Group of the Audit Support Department to confirm that there are no conflicts of interest or independence, including individual circumstances and their conditions, provided that they do not interfere with the audit work.</p>	<p>p.7 Positioning of non-audit services</p> <p>p.44 Practice of diverse work styles and work-life balance</p>
<p>1-6. In the event that an audit firm participates in a global network or conducts group management through comprehensive business alliances with other firms etc., such an audit firm should clarify how it seeks to manage its business with regard to its relationship to and positioning within the global network or its group.</p>	<p>Relationships with global network and group corporations Our firm is a member of Kreston International, but there are no legal entities that operate in the group. Kreston International provides us with training programs and the latest news, and our main objective is to keep abreast of international trends in audit-related issues. In addition, it is our firm's policy not to use the tools provided by Kreston International for audit services, given the unique nature of our firm's business.</p>	<p>p.58 6. International response infrastructure Our membership in international groups</p>

Five principles of Governance Code 24 guiding principles	Status of our response	Status of our response
<p>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.</p>	<p>Principle 2: Strengthen organizational structure</p> <p>The Board of Director is positioned as a decision-making body that determines management direction and business operation policies, and at the same time, as an executive management. However, from a governance perspective, there are only a limited number of items that can be carried out by the Board of Directors alone, and the final decision-making body is the Partners Meeting.</p>	<p>p.34 2.Organization and governance infrastructure Organization chart Partners Meeting</p> <p>p.35 Board of Directors (management)</p>
<p>2-1. An audit firm should establish an effective management structure to ensure its effective management and operations. Furthermore, in the event that an audit firm decides not to establish a management structure in view of its size and characteristics etc., the firm should ensure it has effective management functions.</p>	<p>Effective Operation</p> <p>Management is carried out by the Board of Directors which is divided into several sections, such as the Director in charge of Audit Service Department, the Director in charge of Quality Management Group, the Director in charge of Business Development Committe, the Director in charge of Administration Department, etc., and is headed by the CEO.</p> <p>In addition, our firm practices systematic management in which the director responsible for management monitors the execution of individual audit services by communicating with the engagement partners.</p> <p>Furthermore, the governance structure is such that the Partner Meeting, which is above the Board of Directors, together with the Board of Supervisors, monitors the management of the Board of Directors and the CEO.</p>	<p>p.35 Board of Directors (management)</p>
<p>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's expectations of audits and ensure its effective management and operations:</p> <ul style="list-style-type: none"> ● Development of organizational structure to ensure appropriate judgments of the audit firm on important issues that potentially have a significant influence on the reliability of audit quality from the capital market, and proactive involvement in those significant issues by utilizing the structure mentioned above; 	<p>Role of the management in important operations</p> <p>In order to meet society's expectations for financial statements audit and to ensure the effective operation of our firm, the Board of Directors determines important operational policies, including the following matters. The following items can be shown as the status of the policy and its implementation:</p> <ul style="list-style-type: none"> ● We have established a review system that prevents errors in audit judgment on significant events, and we require inquiries to experts who can make judgments on certain items; 	<p>p.35 Board of Directors (management)</p> <p>p.21 Perform audit work</p> <p>p.30 Monitoring and improvement process of quality management system</p>

Five principles of Governance Code 24 guiding principles	Status of our response	Status of our response
<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; ● 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 ● Consideration and development related to the implementation of IT infrastructure (including the proactive and effective utilization of technology) in order to enhance the efficiency and effectiveness of audits, in consideration of the improvement of the efficiency of audit-related operations and the advancement of technologies, including digitalization, at audited companies. 	<ul style="list-style-type: none"> ● We interview our clients about their socioeconomic and business environment, identify risks based on a common understanding, and adopt an audit methodology that clarifies audit risks; ● Our firm's most important asset is the human resources belonging to our firm. Therefore, we have established and are operating a personnel evaluation system that focuses on the evaluation of audit quality that enhances the morale of our personnel; and ● Recognizing that the use of IT is essential in audit, we also include IT specialists in our audit team, and we also have non-IT specialists trained in IT-based auditing tools. We use CAAT applications as part of our audit procedures and BI software as an analytical tool for graphing numerical values and visualizing anomalies. 	<p>p.21 Perform audit work</p> <p>p.30 Monitoring and improvement process of quality management system</p> <p>p.41 Training status and personnel evaluation for audit professional</p> <p>p.48 Deployment of human resources based on the size and characteristics of the client for audit work</p>
<p>2-3. An audit firm should appoint people who can perform the management functions not only by taking into account their thorough knowledge and experience of audit practice but also by ensuring the effectiveness of the management functions for its organizational operations of the firm.</p>	<p>Appointment of members who can perform the management function</p> <p>The election of directors is conducted once every three years by the entire partners. The election of directors is based on the judgment of whether or not they are capable of taking charge of the foundation of the firm's management and whether or not they can be trusted with the management of the firm, and the partners elected as directors become representative partners.</p> <p>In addition, to ensure that the directors are able to fully perform their management functions, the CEO and the Director in charge of Quality Management do not serve as engagement partners in the audit.</p>	<p>p.34 Organization chart</p> <p>p.37 Dedicated department for quality management of audit</p>

Five principles of Governance Code 24 guiding principles	Status of our response	Status of our response
<p>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.</p>	<p>Principle 3: Supervision and evaluation of management functions Although our size is considerably smaller than that of large audit firms and we are able to keep a close eye on the operations of our members, we have set up a Board of Supervisors to determine whether the operations by the Board of Directors are appropriate. One member of the Board of Supervisors is an independent third person.</p>	<p>p.36 Board of Supervisors p.10 Biographies of board members, etc.</p>
<p>3-1. An audit firm should establish a structure to supervise and evaluate the effectiveness of its management etc. and thereby support to enhance its effectiveness, and clarify the role of the structure. In the event that an audit firm decides not to establish a structure responsible for supervision and evaluation in view of its size and characteristics etc., the firm should ensure the function of supervising and evaluating the effectiveness of its management functions and thereby supporting the enhancement of its effectiveness.</p>	<p>Supervisory and evaluation structure Our firm has a Board of Supervisors as its own supervisory and evaluation structure, although the Partners Meeting is the higher organization, in order to supervise and evaluate the operation of the audit firm by the CEO and the Directors.</p>	<p>p.34 Organization chart</p>
<p>3-2. An audit firm should effectively utilize the knowledge and experience of independent third persons to deal with the issues recognized by the firm from the perspective of ensuring effective management and organizational operations and accomplish its public interest role. At the same time, the firm should clarify the role expected for the third person to play and its approach to independence.</p>	<p>Independent third persons Our firm appoints independent third persons as members of the Board of Supervisors in light of our firm's size. As an independent third persons, we assume that the persons have no interest in our firm, have a principal occupation, and are familiar with the audit industry. Independent third persons are asked to play the roles described in the following items.</p>	<p>p.10 Biographies of board members, etc. p.36 Board of Supervisors</p>
<p>3-3. An audit firm should clarify the role of the members of the supervision and evaluation structure or independent third persons considering that those persons are expected to be involved in the following matters, for example:</p> <ul style="list-style-type: none"> · Advice and recommendations that contribute to improving the effectiveness of its management functions; 	<p>Role of independent third persons The CEO receives hearings from the Board of Supervisors regarding daily operations and is asked to fulfill the following roles:</p> <ul style="list-style-type: none"> · Assessment of the effectiveness of board operations; 	<p>p.36 Board of Supervisors</p>

Five principles of Governance Code 24 guiding principles	Status of our response	Status of our response
<p>Principle 4: An audit firm, based on the size and characteristics etc., 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.</p>	<p>Principle 4: Establishment of operational structure</p> <p>In order to ensure effective organizational operation commensurate with the size of our firm, our firm actively communicates not only among the Board members, but also with the engagement partners who execute each audit. It is also our management policy to invest aggressively in human resources, which are our most important assets.</p>	<p>p.35 Partners Meeting</p> <p>p.38 Human resources</p>
<p>4-1. An audit firm should develop a structure that allows its management etc. to share necessary information from each audit team in a timely manner and also pervade their philosophy and defined values throughout the organization. The management should effectively utilize such a structure in the operations of the firm. In addition, a proactive dialogue and discussion for improvement of the audit quality should be encouraged within the firm.</p>	<p>Proactive dialogue for improvement of the audit quality</p> <p>The Board of Directors receives reports from the Director in charge of Quality Management on important audit issues, and the results of the Board's deliberations are communicated to all engagement partners through the Partners Meeting, etc., so that they can be shared as a common understanding. In addition, the Director in charge of Quality Management is the point of contact for questions regarding individual audit engagement, and inquiries regarding professional opinions are conducted and opinions are exchanged.</p>	<p>p.35 Partners Meeting</p> <p>p.37 Dedicated department for quality management of audit</p>
<p>4-2. An audit firm should develop and operate policies for managing people development, human resources management and performance evaluation in order to raise the motivation of the firm personnel and help them to maintain and demonstrate their professional competence. In doing so, whether the firm personnel sufficiently exercised their professional skepticism should be fully taken into consideration.</p>	<p>Policies for managing people development, human resources management and performance evaluation</p> <p>We seek to avoid bias in the composition of individual audit teams, and personnel evaluations are conducted by several higher-level personnel who have performed the work together. In the personnel evaluation process, evaluation items are established for each position, and those who have conducted appropriate organizational audits are evaluated.</p>	<p>p.28 Information and communication</p> <p>p.41 Training status and personnel evaluation for audit professional</p>

Five principles of Governance Code 24 guiding principles	Status of our response	Status of our response
<p>4-3. An audit firm should pay particular attention to the following points:</p> <ul style="list-style-type: none"> ● Well-balanced assignment of the firm personnel to respective teams in terms of the extensive knowledge and experience to allow the teams to exercise their professional skepticism; ● Providing the firm personnel with opportunities to gain extensive knowledge and experience relevant to audit, such as experience in non-audit service and/or temporary transfer to companies outside the audit industry; ● Appropriate evaluation and well-planned utilization of the firm personnel with extensive knowledge and experience; and ● Developing an environment in which the firm personnel can fully engage in capacity building alongside their work. 	<p>Policy of human resource development</p> <p>We strive to form audit teams with a balance of highly experienced and less experienced personnel, and we train our personnel to demonstrate the skepticism necessary for audit through on-the-job training. While we do our best to give them experience in work that differs from normal audit work, such as AUP work and referral work from overseas member firms, we do not consider seconding them to business companies outside of audit-related organizations. The past experiences of the members are systematically utilized by the Organization Management Committee, taking their wishes into consideration.</p> <p>In addition, we have created an environment where members can engage in personal development that is not limited to audit by utilizing telework and slide work, as well as Microsoft365 for smooth communication and information transfer, and efficient work through web conferencing. In addition, we have contracted with outside training organizations to provide access to training in all fields.</p>	<p>p.38 Basic approach to human resource infrastructure enhancement</p> <p>p.28 Information and communication</p> <p>p.44 Practice of diverse work styles and work-life balance</p>
<p>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.</p>	<p>Sufficient dialogue and discussion with audited companies</p> <p>It is our firm's audit policy to communicate with the CEO, CFO, and other senior management of all audited companies, as well as the auditors, regarding audit risks and other issues, to identify appropriate audit risks, and to fully exchange views.</p>	<p>p.4 Introduction</p>
<p>4-5. An audit firm should develop and disclose policies and procedures regarding whistle-blowing 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.</p>	<p>Whistleblowing from within the firm and external sources</p> <p>Our firm has a whistleblowing system in place, which allows anonymous communication to the law firm listed on the website. The law firm will protect the informant from being treated unfavorably.</p>	<p>p.17 Measures for compliance with laws and regulations, etc.</p>

Five principles of Governance Code 24 guiding principles	Status of our response	Status of our response
<p>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.</p>	<p>Principle 5: Ensure transparency Our firm has a system in place whereby the status of application of the Governance Code is disclosed on our website so that capital market participants and others can appropriately evaluate the Governance Code and inquire about it to our firm, thereby enabling it to be evaluated by outsiders.</p>	<p>p.34 2. Organization and governance infrastructure p.35 Board of Directors (management)</p>
<p>5-1. An audit firm should explain the status of the Code's implementation and its initiatives for the enhancement of audit quality in plain language, in publicly available documents etc., to allow audited companies, shareholders and other stakeholders in the capital market to appropriately assess its audit quality.</p>	<p>Explanation on initiatives for the enhancement of audit quality Our firm discloses the status of its initiatives, etc. on our website.</p>	<p>p.7 Approach to Improvement of audit quality</p>
<p>5-2. An audit firm should explain the following matters in terms of quality management, governance, IT and digitalization, human resources, finances, and international response, based on the firm's size and characteristics etc.:</p> <ul style="list-style-type: none"> ● The tone at the top toward the continuous enhancement of the audit quality in order for the management and the firm personnel of the firm proactively fulfill their respective roles; ● The defined values to be commonly maintained by the firm personnel, and way of thinking and code of conduct to put these values into practice; ● Information that contributes to assessments by the capital market participants, including the audit firm's medium to long-term goals, audit quality indicators (AQI) that specify the firm's direction toward those goals, or its initiatives for the improvement of audit quality; 	<p>Operating policy Our firm's operating policies, based on its size and characteristics, include the following:</p> <ul style="list-style-type: none"> ● In order to continuously improve the quality of financial statements audit, the CEO announces the management philosophy both internally and externally. The CEO makes this public both externally through the "Audit Quality Report" published on our website, and internally through periodic messages from the CEO to all members; ● The staff manual provides a set of values that should be held in common by all members of our firm, as well as guidelines for thinking and acting to put these values into practice; ● Our firm indicates 8 AQI items as KPIs in the "Audit Quality Report" disclosed on its website; 	<p>p.4 Introduction</p> <p>p.38 Basic approach to human resource infrastructure enhancement p.14 Our risk assessment process p.15 Governance and leadership approach to audit quality p.21 Perform audit work</p> <p>p.26 Resources related to business operations (resources)</p> <p>p.38 Basic approach to human resource infrastructure enhancement</p>

Five principles of Governance Code 24 guiding principles	Status of our response	Status of our response
<ul style="list-style-type: none"> ● The stance toward non-audit services (provided by the firm and its group organizations), and the response to concerns related to conflicts of interest or independence; ● The status of efforts to implement IT infrastructure (including the proactive and effective utilization of technology, fraud detection, and cybersecurity countermeasures) in order to enhance the efficiency and effectiveness of audits, in consideration of the improvement of the efficiency of audit-related operations and the advancement of technologies at audited companies; 	<ul style="list-style-type: none"> ● The majority of our service consists of statutory audit, and most of our non-audit service is AUP. However, there are many CPAs who would like to be involved in consulting services as well, so we do not adopt a policy of not doing so at all, but rather allow it if necessary, as long as there is no conflict of interest. In the process of contracting, conflicts of interest and independence are checked by the Quality Management Group of the Audit Support Department; ● As part of our audit procedures, we use CAAT applications (ACL Analytics) to analyze large volumes of data (e.g., journal data analysis, coverage verification of overdue receivables and inventory write-offs). In addition, BI software (Microsoft Office products) is used as an analysis tool to graph numerical values and visualize anomalies in risk assessment procedures. We have also installed Unified Threat Management (UTM) appliances in the networks of our Tokyo and regional offices to efficiently and comprehensively protect our internal network from computer viruses, unauthorized access, and other threats. We have also installed Unified Threat Management (UTM) appliances in our cloud environment to protect data from threats such as unauthorized access from outside. Anti-virus and unauthorized access countermeasures are implemented by installing anti-virus software on notebook PCs and virtual PCs used by specialized personnel, file servers in the Tokyo office, and file servers in the cloud environment (virus and unauthorized access searches are conducted weekly and definition files are updated daily). The e-mail service we use not only blocks spam and junk e-mail, but also uses a cloud-based sandbox (virus behavior detection) service to detect, quarantine, and eliminate unknown malware such as business fraud e-mail and ransomware. Training is conducted twice a year to raise security awareness by sending e-mails to specialized personnel that simulate targeted attacks and providing training to those who open them. 	<p>p.7 Positioning of non-audit services</p> <p>p.49 IT infrastructure</p> <p>p.51 Financial audit using DX</p> <p>p.53 Information Security</p>

Five principles of Governance Code 24 guiding principles	Status of our response	Status of our response
<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 structure etc. responsible for the supervision and evaluation. 	<ul style="list-style-type: none"> ● Our firm's efforts to improve audit quality are based on the CEO's self-evaluation as well as external third-party opinions, and our firm has been recognized for its effective efforts. 	<p>p.35 Board of Directors (management)</p>
<p>5-3. An audit firm that participates in a global network or conducts its management on a group basis through comprehensive business alliances with other firms should explain the following matters.</p> <ul style="list-style-type: none"> ● A broad outline of the global network or group and its organizational structure, and the status of the audit firm's participation in the global network or group's decision-making; ● The significance and purpose of participation in the global network or of conducting management on a group basis (including an overview of benefits and risks that affect ensuring and continuously enhancing the audit quality); 	<p>Global network and group management Our firm is a member of Kreston International, but there is no organizational entity that manages the group. Below is a description of the situation with Kreston International:</p> <ul style="list-style-type: none"> ● Kreston International is outlined on our website (https://www.ark-audit.com/global-network.php) and participates in the network's decision-making body each year at the Annual General Meeting by remote participation. The network participates in decision-making body each year at the annual general meeting remotely; ● The main purpose of our membership in Kreston International is to gather information on changes in the international audit environment appropriate to our firm, which will contribute to our continuous improvement. Membership in a global network generally carries the risk of mandatory use of audit methodologies and intervention in management policy. However, there is a possible risk that there is no guarantee that Kreston International is communicating appropriately; 	<p>p.58 6. International response infrastructure Our membership in international groups</p>

Five principles of Governance Code 24 guiding principles	Status of our response	Status of our response
<ul style="list-style-type: none"> ● Measures taken to mitigate risks posed by the relationship with the global network or group with regard to ensuring and continuously improving audit quality, and their evaluation; and ● An overview of contracts and others with global network or group that has a significant impact on ensuring and continuously improving the audit quality. 	<ul style="list-style-type: none"> ● In terms of ensuring the quality of financial statements audit and its continuous improvement, we believe that the current membership in Kreston International is a sufficient measure to mitigate the risk that changes in the audit environment may not be fully recognized, as we are paying close attention to the dissemination of information by the JICPA. We believe that this is a sufficient measure; ● There are no engagements with Kreston International that would have a material impact on ensuring the quality of the financial statements audit or its sustained improvement. 	
<p>5-4. An audit firm should strive for proactive dialogue about its initiatives for the 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 the members of the structure responsible for supervision and evaluation, or of independent third persons.</p>	<p>Proactive dialogue</p> <p>Within the scope of the business company relationships that the CEO and all of the Board members have, we not only exchange opinions on audit firm management, but also bring reports on our audit quality to 5 securities firms and 1 trust bank to seek their opinions. The results are reported at the Board of Directors' meeting in the presence of the supervisor.</p>	<p>p.35 Board of Directors (management)</p>
<p>5-5. An audit firm should periodically assess the Code's implementation and the effectiveness of its initiatives for enhancement of the audit quality.</p>	<p>Effectiveness of initiatives for enhancement of the audit quality</p> <p>The CEO himself evaluates the effectiveness of our firm's efforts at the end of each fiscal year, and the Board of Directors makes a final assessment of our firm's effectiveness, incorporating the opinions of the Board of Supervisors.</p>	<p>p.36 Board of Supervisors</p>
<p>5-6. An audit firm should effectively utilize the useful information obtained through the dialogue with stakeholders such as participants in the capital market and the results of the assessment of the Code's implementation for improving its effective management and organizational operations.</p>	<p>Improving effective management and organizational operations</p> <p>Opinions obtained through the website and other means are made public by the Board of Directors, and as a result of the self-evaluation, improvement plans are formulated for items deemed to require improvement, and changes are made to the status of the firm's efforts.</p>	<p>p.35 Board of Directors (management)</p>

Names of listed and other principal audit clients



The following is a list of our listed and other principal audit clients as of October 31, 2023. The names of the audit clients are as of October 31, 2023.

Financial Instruments and Exchange Act and Companies Act

Dai Nippon Printing Co., Ltd.	TSE Prime Market
Takara Standard Co., Ltd.	TSE Prime Market
KAKEN PHARMACEUTICAL CO., LTD.	TSE Prime Market
KOITO MANUFACTURING CO., LTD.	TSE Prime Market
Rhythm Co., LTD.	TSE Prime Market
T.RAD Co., Ltd.	TSE Prime Market
TAKAOKA TOKO CO., LTD.	TSE Prime Market
Kawai Musical Instruments Mfg. Co., Ltd.	TSE Prime Market
Okabe Co., Ltd.	TSE Prime Market
NICHIMO CO., LTD.	TSE Prime Market
Sanko Gosei Ltd.	TSE Prime Market
Eco's Co., Ltd.	TSE Prime Market
PILOT CORPORATION	TSE Prime Market
Nissan Tokyo Sales Holdings Co., Ltd.	TSE Standard Market
SEIKOH GIKEN Co., Ltd.	TSE Standard Market
LONSEAL CORPORATION	TSE Standard Market
Toyo Denki Seizo K.K.	TSE Standard Market
NAKAYO, INC.	TSE Standard Market
Nippi, Incorporated	TSE Standard Market
Maruzen CHI Holdings Co., Ltd.	TSE Standard Market
HOKKAIDO	
COCA-COLA BOTTLING CO.,Ltd.	TSE Standard Market, Sapporo Securities Exchange
NARASAKI SANGYO CO., LTD.	TSE Standard Market, Sapporo Securities Exchange
DAIREI CO., LTD	TSE Standard Market
TAKEDA MACHINERY CO., LTD	TSE Standard Market
TAKASAGO TEKKO K.K.,	TSE Standard Market
IWABUCHI CORPORATION	TSE Standard Market
TAKAKITA CO., LTD.	TSE Standard Market, Nagoya Stock Exchange
Nippon Pigment Company, Limited	TSE Standard Market
UNIRITA Inc.	TSE Standard Market
MAKIYA CO., LTD.	TSE Standard Market
TOSO COMPANY, LIMITED	TSE Standard Market



DMS INC.	TSE Standard Market
TAKIZAWA HAM INC.	TSE Standard Market
TIEMCO Ltd.	TSE Standard Market
HOKURYO CO., LTD.	TSE Standard Market
NIHON KAGAKU SANGYO CO., LTD.	TSE Standard Market
ABIST Co.,Ltd	TSE Standard Market
YAMAZAKI Co., Ltd.	TSE Standard Market
AZEARTH Corporation	TSE Standard Market
UNOZAWA-GUMI IRON WORKS, LTD.	TSE Standard Market
SHIGEMATSU WORKS CO., LTD.	TSE Standard Market
PAPYLESS CO., LTD.	TSE Standard Market
NIPPON PRIMEX INC.	TSE Standard Market
HIP CORPORATION	TSE Standard Market
GEOCODE CO., LTD.	TSE Standard Market
JASON Co., Ltd.	TSE Standard Market
ATOM LIVIN TECH Co.,Ltd.	TSE Standard Market
NAIGAI CO., LTD.	TSE Standard Market
SCAT Inc.	TSE Standard Market
ALMADO CO., LTD.	TSE Standard Market
SAKURAI LTD.	TSE Standard Market
kouyousya Inc.	TSE Standard Market
FIRSTLOGIC, INC.	TSE Standard Market
Ci Medical Co.,Ltd.	TSE Standard Market
Freund Corporation	TSE Standard Market
TANAKA SEIMITSU KOGYO CO., LTD.	TSE Standard Market
Collabos Corporation	TSE Growth Market
TORICO Co.,Ltd.	TSE Growth Market
LOGINET JAPAN CO., LTD.	Sapporo Securities Exchange

Companies Act

SANSHIN CORPORATION
IWASAKI ELECTRIC CO., LTD.
HOLON Inc.
MITSUI SEIKI KOGYO CO., LTD.
DNP Technopack Co., Ltd.
DNP Fine Chemicals Co., Ltd.
KOITO KYUSHU LIMITED.
Fuji Electronics Industries Co., Ltd.
NAKAYAMA STEEL PRODUCTS CO., LTD.
DNP Logistics Co., Ltd.
DAIICHI CHUO KISEN KAISHA.
Hamanako Institute Corporation
The Mainichi Newspapers Group Holdings Co., Ltd.
The Mainichi Newspapers Co., Ltd.
TOKYO COMPUTER SERVICE CO., LTD.
DNP Trading Co., Ltd.
LITE-ON Japan LTD
MaruzenJunkudo Bookstores Co., Ltd.
Nissan Tokyo Sales Holdings Co., Ltd.
Zenkankyo Reiwa Insurance Company, Limited
Japan Trust Servicing Co.,
DNP Accounting Services Co., Ltd.
KINKI SHINKIN CARD Co., Ltd
TOWA ENGINEERING CORPORATION
Nikkan Co. Ltd.

Public-service corporation

Kawai Foundation for Sound Technology & Music
Mitsukoshi Health And Welfare Foundation
JAPAN PROFESSIONAL FOOTBALL LEAGUE
Japan Foundation for Accounting Education & Learning
The Foundation for the Promotion of Industrial Science
The Japan Titanium Society

Incorporated educational institutions

C2C Global Education Japan
AIKOKU JUNIOR & SENIOR HIGH SCHOOL
Kyoto Bunkyo Gakuen

National University Corporation, Independent Administrative Institutions, Local Incorporated Administrative Institutions

Asahikawa Medical University
Sapporo Medical University



