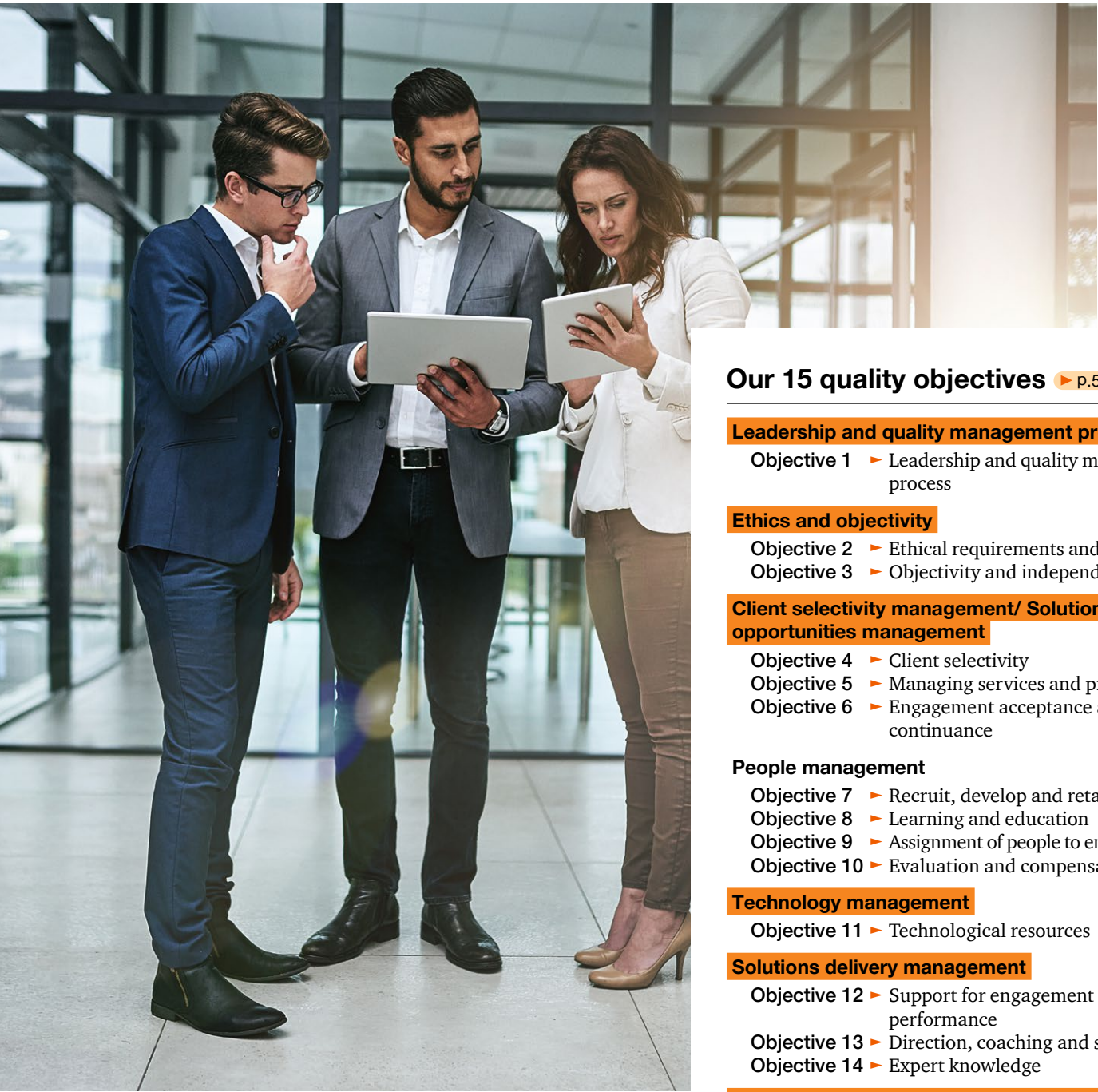


2

Quality Management



Our 15 quality objectives ▶ p.54

Leadership and quality management process

Objective 1 ▶ Leadership and quality management process

Ethics and objectivity

Objective 2 ▶ Ethical requirements and values
Objective 3 ▶ Objectivity and independence

Client selectivity management/ Solutions and opportunities management

Objective 4 ▶ Client selectivity
Objective 5 ▶ Managing services and products
Objective 6 ▶ Engagement acceptance and continuance

People management

Objective 7 ▶ Recruit, develop and retain
Objective 8 ▶ Learning and education
Objective 9 ▶ Assignment of people to engagements
Objective 10 ▶ Evaluation and compensation

Technology management

Objective 11 ▶ Technological resources

Solutions delivery management

Objective 12 ▶ Support for engagement performance
Objective 13 ▶ Direction, coaching and supervision
Objective 14 ▶ Expert knowledge

Monitoring and enhancement process for the system of quality management

Objective 15 ▶ Quality controls in performing engagements

Leadership message

To adapt to a changing era, we will relentlessly evolve and deliver unwavering trust to society.

Responding to rules on the system of quality management

Japan is entering an era of uncertainty characterised by climate change, rapid technological advancements and growing social and economic instability. In this dynamic environment, people are seeking trust more than ever in everything around them. To meet these expectations, we provide high-quality assurance across various domains, including financial statements.

We have established, and are operating and evaluating, our system of quality management to ensure the appropriate execution of such assurance services. Since last year, we have begun disclosing our evaluation results externally, in accordance with the International Standard on Quality Management (ISQM) 1. In preparation for QC1000, issued by the U.S. Public Company Accounting Oversight Board (PCAOB) and effective December 15, 2026, the Firm is taking proactive actions to ensure readiness.

Leveraging AI and introducing a next-generation audit platform

The use of AI is crucial not only for improving efficiency but also for enabling more effective audits. The PwC network is actively promoting the use of generative AI. The Firm began utilising tools such as ChatPwC in audit engagements in December 2024. While the current scope of use is limited, the next generation audit tools scheduled for future deployment will be equipped with AI capabilities, which are expected to significantly broaden the range of AI usage.

Risk & Quality is committed to carefully managing the risks associated with AI usage and supporting the enhancement of audit quality.

Integrating people

It has been over a year and a half since the integration of PricewaterhouseCoopers Aarata LLC and



Neil Weingarten
Senior Officer/Risk & Quality Co-Leader

Takaki Suzuki
Executive Officer/Chief Quality Officer

PricewaterhouseCoopers Kyoto. From the outset, we have operated under PwC's unified quality management framework; however, since quality management is ultimately conducted by people, the most critical factor is the trust between individuals. To foster this trust, we recognised the importance of face-to-face interaction. Over the past year, Risk & Quality members from our Tokyo office have made regular visits to Kyoto to establish an on-site support desk, strengthening the connection between Kyoto audit team members and Risk & Quality.

As environmental shifts and technological advancements accelerate, fulfilling our mission to build trust in society requires each of us to transform and evolve ourselves. Risk & Quality will continue to actively support these changes.

Quality management: QMSE Framework (compliant with ISQM1)

International Standard on Quality Management 1 (ISQM 1)

In December 2020, the International Auditing and Assurance Standards Board (IAASB) published three standards that strengthen and modernise a firm’s approach to quality management, including ISQM 1. This standard, which became effective December 15, 2022, required all firms to design and implement the requirements of the standard and evaluate their system of quality management (SoQM) every year.

ISQM 1 is an objectives-based approach that expects firms to have a SoQM that operates in a continuous and iterative manner, taking into consideration the conditions, events, circumstances, actions and inactions that impact a firm. It enhances the firm’s responsibilities around monitoring and remediation, emphasising the need for more proactive, real-time monitoring of the SoQM, a more effective, efficient and timely root cause analysis process, and timely and effective remediation of deficiencies.

ISQM 1 states that the objective of the firm is to design, implement and operate an SoQM that provides the firm with reasonable assurance that:

- ▶ the firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- ▶ engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

ISQM 1 further emphasises that the public interest is served by the consistent performance of quality engagements and that this is enabled by an effective system of quality management.

A specific focus on audit quality across the network

The PwC network’s Assurance QMSE framework

Delivering high-quality work is at the heart of what we do at PwC; it is what our stakeholders rightly expect of us.

To deliver services in an effective and efficient manner that meet the expectations of our clients and other stakeholders, the PwC network has established the Quality Management for Service Excellence (QMSE) framework which integrates quality management into how each firm runs its business and manages risk.

The QMSE framework is designed to align with the objectives and requirements of ISQM 1 and provides a model for quality management in PwC member firms that integrates quality management into business processes and the firm-wide risk management process. Under QMSE, our overall quality objective is supported by a series of underlying quality management objectives and each firm’s SoQM should be designed and operated so that the overall quality objective, which includes meeting the objectives and requirements of ISQM 1, is achieved with reasonable assurance.

Overall quality objective

To have the necessary capabilities in our organisation and to deploy our people to consistently use our methodologies, processes and technology to deliver services in an effective and efficient manner to fulfil the expectations of our clients and other stakeholders



Integrated and aligned in the right way

Our SoQM includes quality objectives which are identified from the following components of ISQM 1 as well as any additional objectives the PwC network has identified in the QMSE framework:

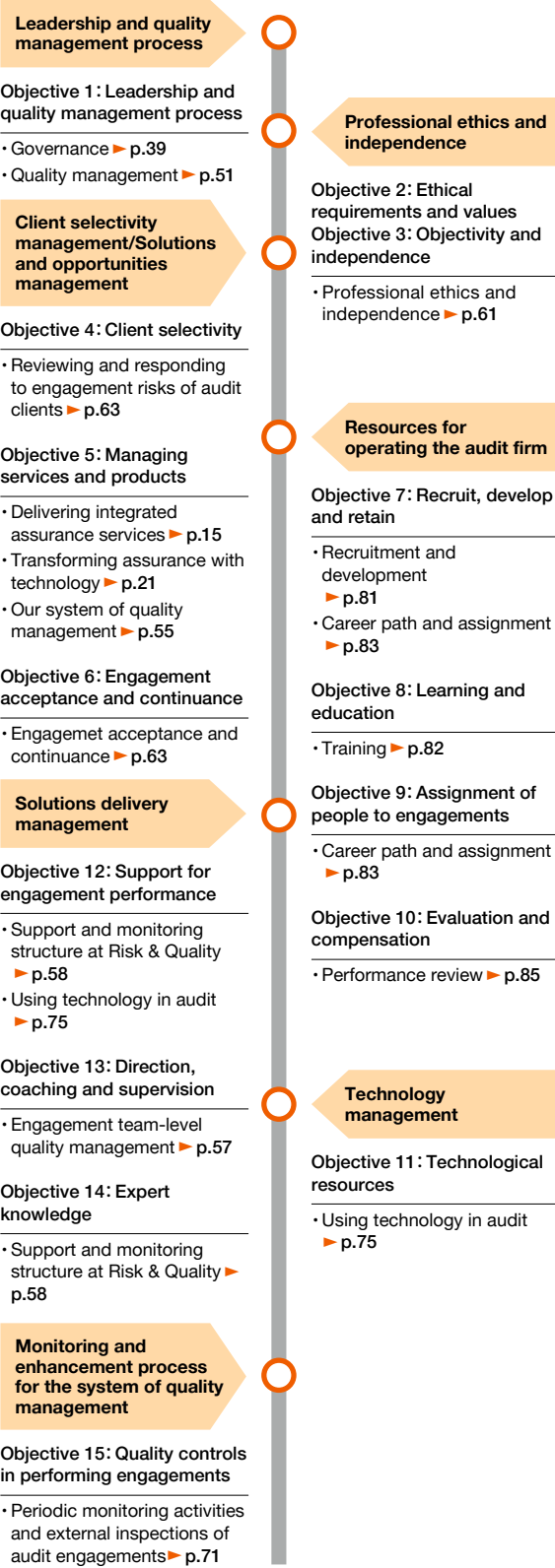
- ▶ Governance and leadership
- ▶ Relevant ethical requirements
- ▶ Acceptance and continuance of client relationships and specific engagements
- ▶ Engagement performance
- ▶ Resources
- ▶ Information and communication

To help us achieve these objectives, the PwC network invests significant resources in the continuous enhancement of quality across our network. This includes having a strong quality infrastructure supported by the right people, underlying tools and technology at both the network level and within our firm, and a programme of continuous innovation and investment in our technology.

The PwC network’s Global Assurance Quality (GAQ) organisation aims to support PwC firms in promoting, enabling, and continuously improving Assurance quality through effective policies, tools, guidance and systems used to further promote and monitor quality and to build an appropriate level of consistency in what we do.

These elements have been integrated and aligned by our network to create a comprehensive, holistic and interconnected quality management framework that each firm tailored to reflect our individual circumstances. Each firm is responsible for utilising the resources provided by the network as part of our efforts to deliver quality to meet the expectations of our stakeholders.

Our 15 quality objectives



The quality management process

The achievement of these objectives is supported by a quality management process established by the Firm and Assurance leadership, business process owners and partners and staff. This quality management process includes:

- ▶ identifying risks to achieving the quality objectives;
- ▶ designing and implementing responses to the assessed quality risks;
- ▶ monitoring the design and operating effectiveness of the policies and procedures through the use of process-integrated monitoring activities such as real-time assurance as well as appropriate Assurance quality indicators;
- ▶ continuously improving the system of quality management when areas for improvement are identified by performing root cause analyses and implementing remedial actions; and
- ▶ establishing a quality-related recognition and accountability framework to both set clear expectations of expected quality behaviours and outcomes and reinforce those expectations through consistent and transparent use in appraisals, remuneration and career progression decisions

Our system of quality management

Our SoQM must be designed, implemented and operating on an ongoing basis to achieve the quality objectives. This ongoing process includes monitoring, assessing, evaluating, reporting and being responsive to changes in quality risks, driven by the Firm’s internal and external environment. This is our Quality Management Process (QMP).

Our focus on quality management is therefore not to apply prescribed rules but rather to design and implement responses which are fit for the purpose of managing the risks we identify in our own risk assessment and achieving the quality objectives taking into consideration the conditions, events, circumstances, actions and/or inactions that may impact our SoQM.

Our risk assessment process

The past several years have seen unprecedented

challenges, and our firm’s SoQM has helped us navigate and respond to the impact that identified factors had on our ability to achieve the overall assurance quality objective - to deliver quality audit engagements. Our SoQM includes the performance of a risk assessment over the quality objectives identified in the QMSE framework. We consider how and the degree to which a condition, event, circumstance, action or inaction may adversely affect the achievement of the quality objectives which may result in:

- ▶ New or changing quality risks to achieving one or more of the quality objectives
- ▶ Changes to the risk assessment of existing quality risks
- ▶ Changes to the design of the firm’s SoQM, including responses to quality risks

A quality risk is defined as one that has a reasonable possibility of occurring, and individually or in combination with other quality risks, could adversely affect the achievement of one or more quality objectives.

Our monitoring and remediation process

In the section ‘Periodic monitoring activities and external inspections of audit engagements’ ▶ p.71 , we have described the types of ongoing and periodic monitoring our firm has designed, implemented and operates to provide relevant and reliable information about our firm’s SoQM and to help us take appropriate actions over any identified deficiencies so we can remediate those deficiencies effectively and on a timely basis. To support the timely and effective remediation of any identified deficiencies, the Firm has designed, implemented and operates a root cause analysis program ▶ p.71 .

The information gathered from our monitoring and remediation process, along with other sources of information such as external reviews, is used to help us evaluate our SoQM.

The Firm has implemented the quality enhancement initiatives called ‘4 + 1,’ which covers high priority remedial measures developed in the process of past QMSE initiatives.

Statement on the Firm’s system of quality management

During the year, we completed our evaluation of the Firm’s system of quality management under ISQM 1. On behalf of the Firm, the CEO has evaluated whether our SoQM provides us reasonable assurance that:

- ① The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- ② Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

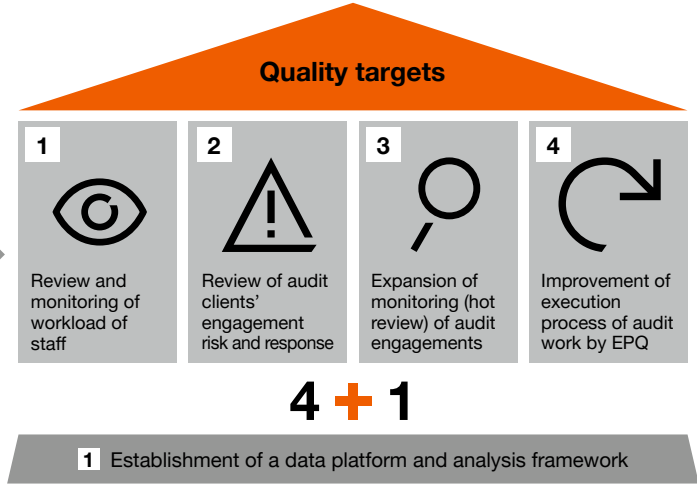
Based on all the relevant information of the Firm’s SoQM, as at December 31, 2024 and June 30, 2025, we believe our SoQM provides us with reasonable assurance that the quality objectives noted above have been achieved.

Our value creation activity

Assessment process of the quality management system – QMSE –



Quality improvement initiative ‘4+1’



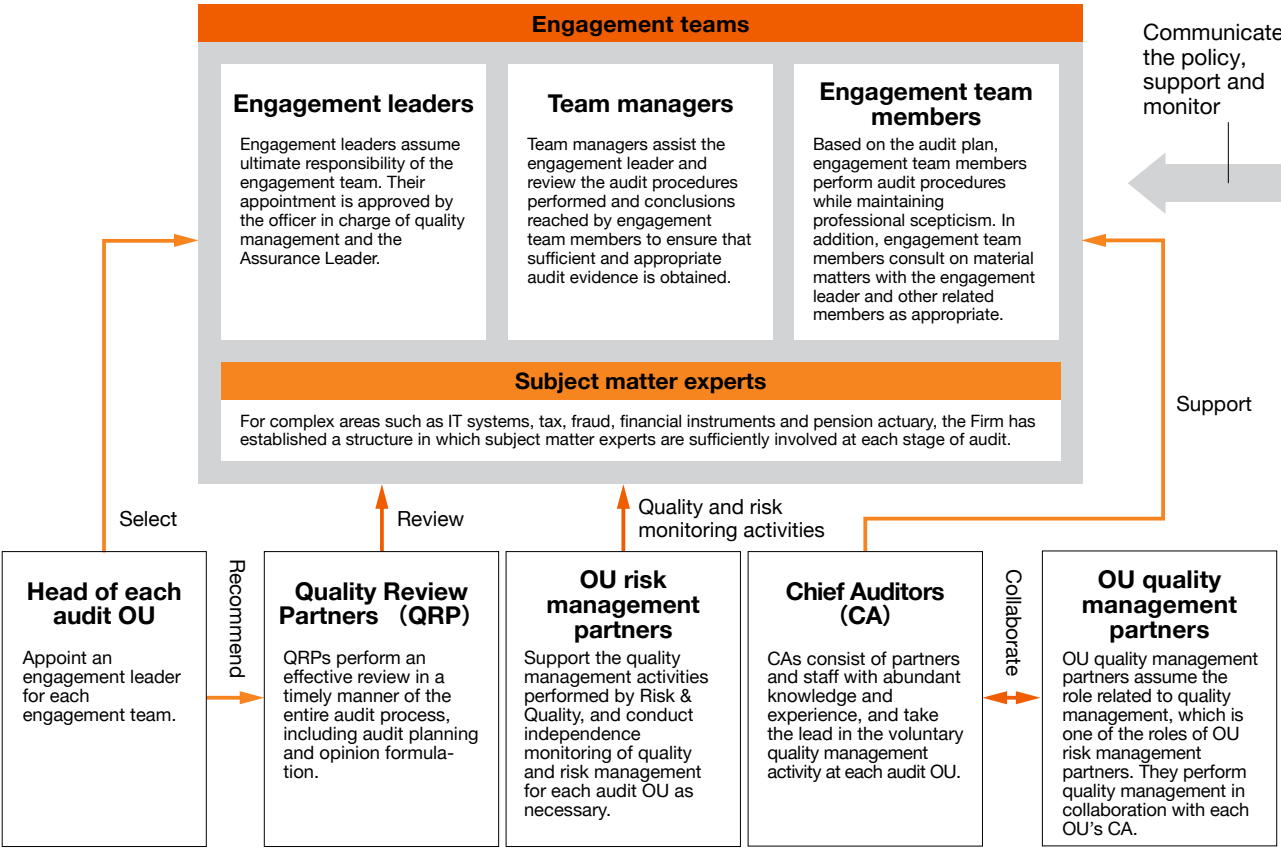
Our quality management structure

The Firm has established a structure to support engagement teams by bringing together all resources of the PwC network, including Risk & Quality, subject matter experts and the Japan Business Network (JBN). This structure enables engagement teams to solve issues through engagement team-level quality management, support and monitoring by Risk & Quality, and collaboration with subject matter experts and the PwC network.

Forming engagement teams and support structure

The engagement team is composed of professionals sufficient to perform high quality audits. In addition, a structure is in place to provide support from outside the engagement team, including a quality review partner and chief auditor.

Engagement team-level quality management structure



Quality management indicators at the engagement team level

Quality management indicators at the engagement team level		FY2024	FY2025
Supervision of audit staff	Ratio of partners to professionals who are managers or above	1:3	1:3
	Ratio of partners to all professionals	1:13	1:12
Annual average working hours of audit practitioners*	Partners	2,177 hours	2,110 hours
	Other than partners	1,918 hours	1,904 hours

* Audit practitioner means a person who is engaged in audit work for 35 hours or more in a year.

Risk & Quality

Risk & Quality is staffed with partners and staff who are specialists in accounting and auditing. They identify and resolve issues at an early stage by communicating with engagement teams. They also respond to consultation related to technical views.

Support and monitoring structure at Risk & Quality



Number of personnel engaged in quality management activity

Risk & Quality (Function)	FY2025		
	Partners	Professionals who are managers or above	Total
Risk & Quality in total (A)*1	21	121	142
Supervision of Risk & Quality	2	1	3
Management of independence/professional ethics*2	2	36	38
Risk management/Oversight activities (e.g. periodic monitoring activities)	7	32	39
Legal affairs	1	2	3
Response to inquiries for technical views on accounting	6	15	21
Response to inquiries for technical views on audits	2	24	26
Education/training and people development	1	11	12
Partners and professionals who are managers or above engaged in audits (B)*3	161	467	628
Percentage (C)*4	13%	26%	23%

*1 Risk & Quality in total (A) only includes those who are the members of Risk & Quality.
*2 Management of independence/professional ethics is performed by the independence group and the compliance group of Internal Firm Services (p.46), instead of Risk & Quality.
*3 Of partners/professionals engaged in audit work for 35 hours or more in a year, those audit practitioners who worked for the Firm as of end of June.
*4 Percentage (C) is derived by dividing Risk & Quality in total (A) by partners and professionals who are managers or above engaging in audits (B).

1. Independence and contract monitoring
See ▶ p.61 .

2. Workload monitoring
The engagement leader is appointed by the leader of each audit OU, which takes into consideration the competence, capabilities and experience necessary. Risk & Quality reviews the results of these selections. This review includes checking annual workload concentration for each partner and examining each partner’s engagement portfolio. Risk & Quality also conducts detailed monitoring, including requesting a review of assignments as necessary.

3. Consultation on technical views
The Firm defines matters subject to mandatory consultation for which engagement teams are required to obtain the views of Risk & Quality. Risk & Quality includes staff who have previously been seconded to external institutions and are specialised in technical areas. Risk & Quality has detailed discussions with the engagement team to understand the nature of the consultation, the initial consideration by the engagement team and their tentative conclusions, and then conducts technical research and provides technical views.

4. Survey on certain issues (Reach-out)
To support engagement teams, Risk & Quality conducts a reach-out survey to compile and analyse information on audit areas to which special attention should be paid. The scope of this survey (e.g., audit clients in certain industries) is determined on a case-by-case basis. Risk & Quality conducts profiling based on the current status of individual audit engagements obtained through this reach-out activity, financial information of audit clients and information from engagement teams, and identifies engagement teams that may need additional support.

5. Accessing electronic audit documentation to detect anomalies (Real Time Assurance)
In addition to the reach-out activity, Risk & Quality monitors the progress of audits based on automatically-aggregated data from Aura, our electronic audit documentation platform. This activity is referred to as ‘Real Time Assurance,’ and helps Risk & Quality identify in real time audit engagements that may not be compliant with PwC Audit methodology or engagement teams that are delayed in the audit process, and provide support. Risk & Quality also performs analysis of firm-level quality based on data aggregated using digital tools.

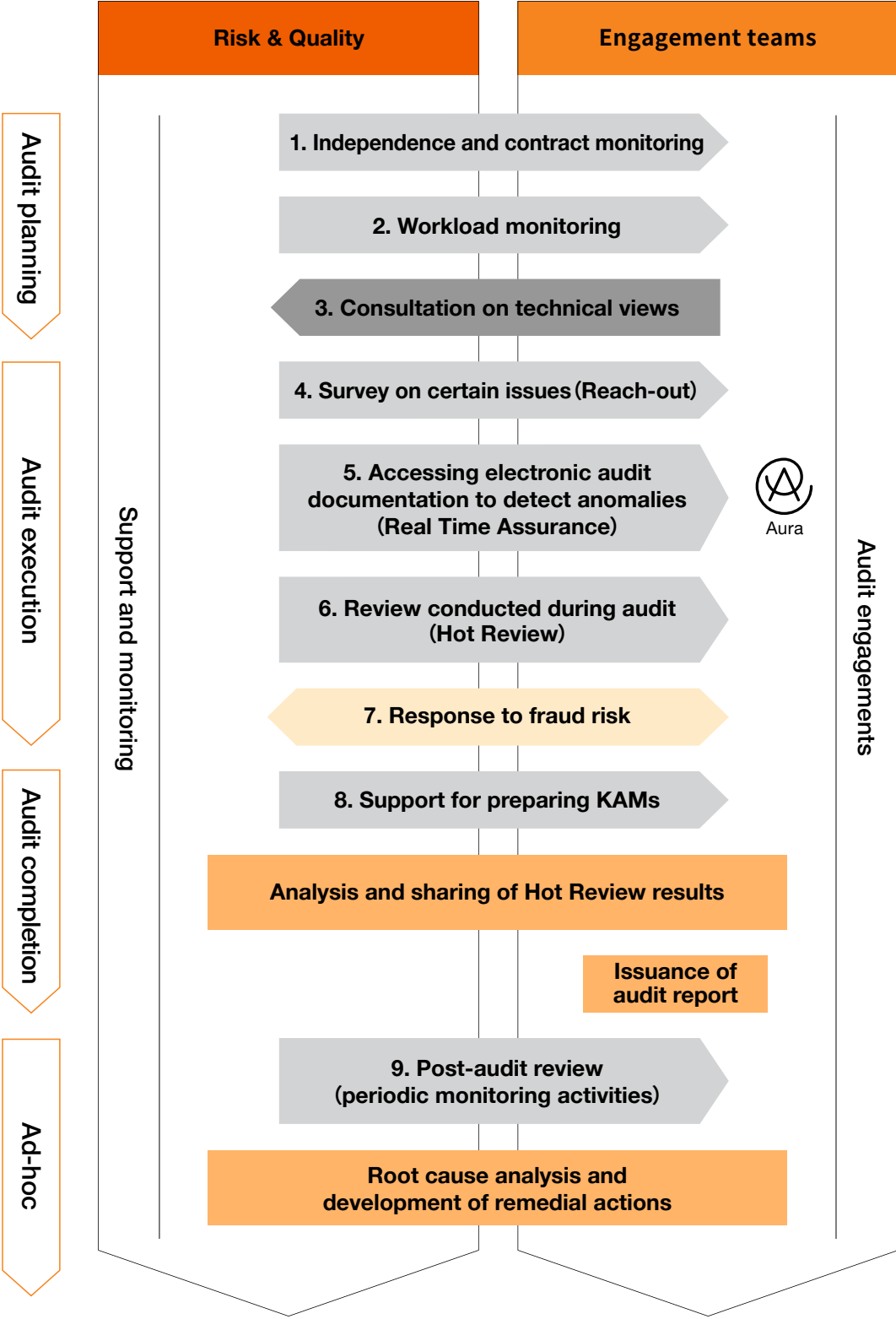
6. Review conducted during audit (Hot Review)
In a Hot Review, experienced reviewers review selected engagement teams’ testing approach and results with a focus on higher risk areas, and provide advice to the engagement team during the planning and execution of the audit. The purpose of this review is to support the engagement team while monitoring audit quality.

7. Response to fraud risk
See ▶ p.67 .

8. Support for preparing KAMs
See ▶ p.66 .

9. Post-audit review (periodic monitoring activities)
See ▶ p.71 .

■ Support and monitoring structure at Risk & Quality in the audit process



Professional ethics and independence

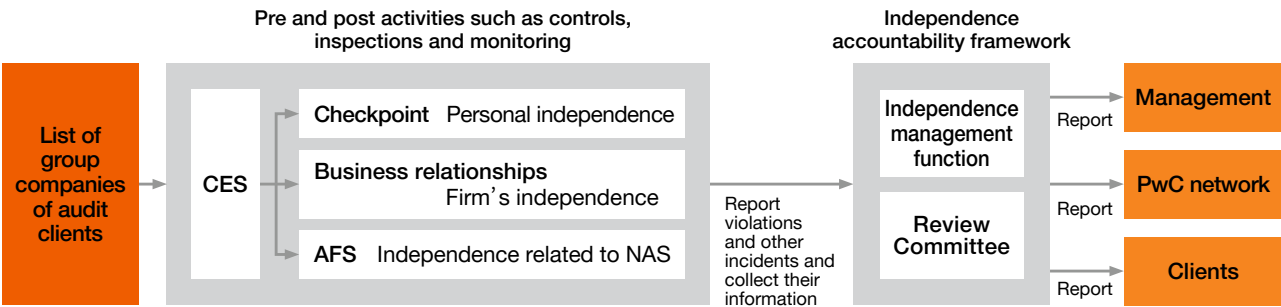
Independence policies and procedures

Maintaining independence is essential for audit professionals. Building a cooperative relationship with audit clients grounded in trust helps us deliver PwC’s Purpose. As a member firm of the PwC network, the Firm has established independence policies and procedures as its independence guidelines to comply with the PwC Global Independence Policy developed based on the International Ethics Standards Board for Accountants’ (IESBA) International Code of Ethics for Professional Accountants, applicable laws and regulations in Japan and the code of ethics of the Japanese Institute of Certified Public Accountants (JICPA). To ensure a thorough

understanding of independence policies and procedures, the Firm regularly conducts independence training for all partners and staff, and confirms that they understand and comply with the independence policies and procedures through an annual compliance confirmation.

In accordance with these policies and procedures, the Firm has established a system to identify restricted entities of both the Firm and the PwC network by registering audit clients in the PwC network’s master client database (CES). The Firm maintains and operates this system to ensure compliance with the independence rules.

Overview of the processes for ensuring independence



Professional ethics

The Firm has established a code of conduct and related guidance for professional ethics in accordance with applicable laws and regulations in Japan, the code of ethics of the JICPA, and the common Code of Conduct of the PwC network. The Code of Conduct and related guidance covers rules to address a wide range of cases, including anti-money laundering, antitrust and anti-corruption, responses to antisocial forces, information protec-

tion, prevention of insider trading and responses to illegal activities by audit clients. The Firm’s partners and staff confirm their compliance with the Code of Conduct and the related guidance through an annual compliance confirmation.

Further, PwC Japan Group has in place the ethics helpline (for PwC Japan Group) and the audit hotline (for the Firm) with the aim of detecting early violations of laws and misconduct.

Personal independence of partners and staff

The Firm ensures the independence of partners and staff through an annual compliance confirmation and an independence check conducted prior to engaging in an audit. All partners and staff are also required to conduct pre-clearance and register their securities and indirect investments through insurance and pension products in a database (Checkpoint) prior to purchasing such securities and products. Through these measures, the Firm ensures that partners and staff do not breach various independence rules. Additionally, the Firm annually conducts an in-depth inspection for randomly selected partners and staff, as well as officers and partner candidates, to ensure their compliance with the independence policies and procedures.

To prevent inappropriate relationships with audit clients, the Firm ensures adequate rotation of engagement leaders, quality review partners and team managers who assist the engagement leader by limiting the number of consecutive years for which they can serve as the auditor, and by defining the ‘cooling off’ period for which they may not be involved with that audit client. This is monitored accordingly.

The Firm’s independence

To maintain independence between the Firm and its audit clients, when purchasing goods and services from external suppliers or developing a business relationship with third-party entities and individuals, the Firm’s rules require pre-approval on the permissibility and nature of the transaction from the responsible division. The Firm also periodically checks that there are no issues in independence with lenders and lessors. The Firm also registers its securities holdings in the Checkpoint database to ensure that it does not breach various independence rules.

Independence in providing non-assurance services

There are certain restrictions on the provision of services to audit clients. When considering the provision of a non-audit service, the Firm first assesses whether there are any independence restrictions related to the client to which the service is to be provided, based on the master client database used to register and manage audit clients of the PwC network (CES), and determines the permissibility of the service by referring to guidance from the PwC network. A permissible non-assurance service is required to be pre-approved by the engagement leader through a process called Authorisation for Services (AFS).

Actions for a breach of applicable laws, regulations, etc. relating to independence

If the independence rules are breached, the Firm resolves the conflict of interest that caused the breach as promptly as possible and discusses the matters, including the breach and action, in writing with those charged with governance of the audit client. The partner(s) and/or team member(s) who are involved in the breach of internal rules, such as independence policies and procedures, or applicable law and regulation, are subject to penalties.

We have confirmed that all breaches of laws and regulations detected as a result of independence checks in FY2025 were related to monetary conflict of interest of individuals and did not affect our individual audit engagements nor the Firm’s objectivity and fairness.

Independence assessment procedure

To express an audit opinion, auditors are required to continuously maintain independence from the audit client and its subsidiaries and affiliates from the beginning of the accounting period through the audit opinion date. Due to a change in the group structure of an audit client (e.g. acquisition or integration), an entity may be newly included in the group of the audit client, and the scope of entities subject to the independence assessment (e.g., the permissibility of providing a non-assurance service, or employment relationship of family members) may increase. To address such a situation, the Firm requests all of its audit clients to cooperate and provide related information timely.

Acceptance and continuance

Based on generally accepted auditing standards in Japan and PwC network's policy, the Firm has established a policy for accepting new clients or continuing services provided to existing clients for all services, including audit engagements.

Prior to accepting a new client or a new audit engagement, the Firm considers whether it has the aptitude and competence to perform the audit, including time and human resources. The Firm may decline a new engagement if we do not consider we have the appropriate resources. In addition to assessing conflict of interests (e.g., independence) between the new audit client and the Firm (including its partners and staff), the engagement team conducts risk assessment procedures taking into account the company's reputation, tone at the top, status of governance and internal controls, any issues in accounting or audit and other factors, and obtains appropriate approval according to the assessed risks.

Upon continuance, the engagement team performs a risk assessment at least annually and obtains appropriate approval based on the results.

These series of procedures are implemented through the Acceptance and Continuance assessment system used across the PwC network.

Reviewing and responding to engagement risks of audit clients

When renewing an existing contract with audit clients, the Firm makes a decision on continuance by carefully considering engagement risks of audit clients and other factors, including profitability, to maintain an environment in which high quality audits can be delivered.

Our response to the revisions to the IESBA Code

The Firm has applied the revised International Code of Ethics for Professional Accountants (non-assurance services and compensation) issued by the IESBA (IESBA Code) as of its effective date, regardless of revisions to JICPA's Code of Ethics. With increasing societal expectations regarding compliance, including independence, several revision projects pertaining to the IESBA Code are currently underway.

Recently, the Firm has applied rules related to the definition of a public interest entity (PIE), tax planning and related services and technology-related revisions. Additionally, the Firm is preparing for the upcoming initial application of the IESBA's ethics and independence standards for sustainability assurance, as well as rules related to using the work of an external expert.

To ensure the application and effectiveness of the revised IESBA Code and revised JICPA's Code of Ethics, the Firm has amended its internal policies and guidance, shared information and provided training to its partners and staff on the revisions, and developed and enhanced various tools and templates. Alerts called IESBA Newsletter are distributed on an ad-hoc basis to share subsequent developments of the IESBA and JICPA.

To fulfil its critical roles and responsibilities for the public interest and to maintain the trust of audit clients and society, the Firm will maintain a structure to ensure compliance with the robust rules of auditor independence.

The IESBA's ethics and independence standards for sustainability assurance

Due to the recent surge in demand from the markets and society for sustainability information, the volume of readily accessible sustainability information has rapidly increased. Alongside this trend, there is a growing and urgent need to ensure public interest in addressing the risks of fraud and errors in sustainability information. Against this backdrop, and to meet strong societal expectations for assurance that supports transparent, relevant and reliable sustainability information, the IESBA has developed the International Ethics Standards for Sustainability Assurance (IESSA), which includes the International Independence Standards. The IESSA sets out ethics (including independence) standards for practitioners engaging in sustainability assurance that meet certain criteria.

Key features of the IESSA are as follows:

- ▶ It applies to all sustainability assurance practitioners, including those who are not professional accountants, and is designed to be profession-agnostic.
- ▶ It is compatible with all reporting and assurance frameworks and is designed to be framework-neutral.
- ▶ It serves as a robust standard for sustainability assurance engagements, meeting a level of public interest equivalent to that of financial statement audits.
- ▶ It is an independent standard, introduced as a new Part 5 of the IESBA Code.

Except for certain provisions applicable to value chain components that will take effect on or after July 1, 2028, the IESSA will become effective for sustainability assurance engagements for periods beginning on or after December 15, 2026, or as at a specific date on or after December 15, 2026. At PwC, a working group has been established to prepare for the implementation of the IESSA, with a focus on policies, systems, processes, training, assurance, methodology and communications. Additionally, an update to the global independence policy is planned for early 2026.

The Firm will continue to address revisions to Japan's code of ethics while effectively leveraging

resources from the PwC network. We plan to implement guidance within the Firm from the beginning of 2027 onward, including PwC's assurance engagement tools and group instructions aligned with the IESSA. Since many of the IESSA requirements closely align with those for audits, we aim to facilitate a smooth and practical implementation, while developing supplementary requirements and guidance specific to sustainability assurance engagements. Specific considerations related to value chains and the use of other practitioners will also be addressed. Assuming that the Firm will conduct IESSA-compliant assurance engagements primarily for audit clients, we will additionally develop guidance on the provision of non-assurance services. For related systems and processes, we will build on existing frameworks while introducing more robust mechanisms. In addition, we plan to deliver effective training at appropriate times by utilising resources from the PwC network.

Engagement team-level quality management

Our audit approach - PwC Audit

Engagement teams perform audits in accordance with the auditing standards in Japan and PwC Audit, which sets out the PwC network’s common audit methodology and process. This methodology is based on the International Standards on Auditing (ISAs), with additional PwC policy and guidance provided where appropriate.

PwC Audit policies and procedures are designed to facilitate audits conducted in compliance with all requirements of ISAs that are relevant to each audit engagement. Our common audit methodology provides the framework to enable PwC firms to consistently comply in all respects with applicable professional standards, regulations and legal requirements.

In recent years, key auditing standards have been revised annually. In 2025, the IAASB issued the revised ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*. Meanwhile, the audit environment continues to evolve year by year, driven by technological advancements and the growing demand for sustainability-related disclosures. PwC Audit is revised at least annually to reflect changes in auditing standards, changes in the audit landscape and other relevant developments. The revised policies and guidance are incorporated into Aura, an electronic audit documentation platform used by engagement teams, enabling engagement teams to perform audits by referencing the new requirements in a timely manner.

Engagement team’s response to environmental changes and other developments inside and outside the Firm

Engagement teams respond to environmental changes and other developments inside and outside the Firm that affect audits as described below:

The Firm utilises the latest audit support system implemented by PwC. When employing technology in audit, engagement teams are required to appropriately assess the logic and programming behind the technology, as well as the reliability of the data. In addition, reviewers of audit working papers should focus on the appropriateness of the technology’s intended use and its functionality when supervising and reviewing work performed.

The use of AI is becoming increasingly prevalent among companies, both in Japan and overseas. Many companies are disclosing risks associated with AI usage in the section highlighting business risks in their annual securities reports. Concurrently, cyber incidents, such as business email compromises and ransomware attacks, have been frequently reported in recent years, leading to heightened cybersecurity risks. In response to these environmental changes, and in accordance with ISA 315 *Identifying and Assessing the Risks of Material Misstatement* and Auditing Standards Committee Statement (ASCS) 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, which are standards addressing the identification and assessment of risks, engagement teams are gaining an understanding of the risks above and identifying and assessing the relevant risk of material misstatement, considering a potentially significant impact that the use of AI by companies and cybersecurity risks could have on companies’ financial statements.

In response to the growing demand for assurance on sustainability disclosures, the Firm is also providing sustainability assurance services. These services cover a wide range of topics, such as greenhouse gas emissions and human capital indicators, and are conducted in accordance with the International Standard on Assurance Engagements (ISAE) 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements*. For the execution of these engagements, PwC Audit provides policies and guidance specific to sustainability assurance. Engagement teams plan risk assessments and assurance engagement procedures and perform procedures for the topics in accordance with the applicable standards and PwC Audit.

Risk & Quality’s response to environmental changes and other developments inside and outside the Firm

To respond to environmental changes affecting audits and comply with new standards, Risk & Quality has been promoting various initiatives in collaboration with Chief Auditors. These initiatives include compiling inquiries gathered from engagement teams, releasing related guidance, documentation examples, FAQs and templates as well as providing updates on audit considerations. Through these activities, implemented in close collaboration with engagement teams, Risk & Quality has established a framework that enables audits to remain responsive to environmental changes and comply with new standards.

Our initiatives on key audit matters (KAMs)

The Firm’s KAM preparation policy

The Firm continues to enhance KAMs by considering what information is useful for stakeholders. The Firm’s policy is to include specific descriptions of how the situation of each company relates to the selection of KAMs, specifics of KAMs and relevant audit response, avoiding general information common to audits of all companies as much as practicable.

Risk & Quality’s support for KAMs

Risk & Quality provide support to engagement teams to ensure KAMs are prepared in accordance with this policy. Risk & Quality established and implemented an easy-to-consult structure in which a KAM team member is assigned to each engagement team. Risk & Quality also introduces good practices of KAMs, and recommendations to include more specific descriptions in KAMs. When a KAM has a significant social impact or includes unusual descriptions, the engagement team is required to go through a formal technical inquiry procedure. Risk & Quality responded to a number of other technical inquiries on KAMs in FY2025 as well.

In-depth dialogue with management and those charged with governance and ongoing improvement of KAMs

KAMs are those matters that require significant auditor attention in performing the audit and are selected from matters communicated with those charged with governance. To prepare KAMs that are useful for stakeholders, it is essential to have deep dialogue on changes in the company’s situation and risk assessment between management and those charged with governance of the audit client and the engagement team. Until KAMs are finalised, there are discussions with audit clients covering a wide range of topics, including not only KAMs but also corporate disclosure. As a result of this in-depth dialogue, companies’ disclosures have been enhanced and contents of KAMs (e.g., the nature of KAM, why the matter is determined to be KAM and how the matter was addressed in the audit) are described more clearly.

In this process, Risk & Quality continuously sup-

ports engagement teams to ensure consistency among the footnotes, KAMs and audit response. Due to the collaborative effort between engagement teams and Risk & Quality, the Firm can develop KAMs that appropriately reflect the judgement of the engagement teams, and are easy to understand and reliable for stakeholders. KAM case studies released by the Securities Analysts Association of Japan include a number of KAMs prepared by the Firm.

Issues related to KAMs (i.e., how to avoid KAM descriptions becoming boilerplate or how to reflect changes in the company’s situations in KAMs) need to be continuously considered. We will continue to work on the development of KAM practices to meet the expectations of our stakeholders.

Response to fraud risk

Risks of material misstatement due to fraud

Auditing standards generally accepted in Japan stipulate that auditors must pay close attention as professionals and exercise professional scepticism when performing audits. The Standards for Response to Fraud Risk in Audits also emphasises the importance of scepticism (professional scepticism) as professionals in appropriately addressing fraud risk.

Maintaining and exercising professional scepticism

The Firm believes that communication within the engagement team is indispensable for team members to maintain and exercise professional scepticism. By exchanging candid opinions among engagement leaders and team members, matters that may be significant issues in the audit (e.g., the identification of audit risk, including potential fraud risk and unusual transactions) and a plan to address such issues can be shared.

To help team members obtain information to identify risks of material misstatement due to fraud, the Firm requires partners and staff with experience in leading audit engagements to attend case study training. The Firm also invites practitioners and legal specialists from outside the Firm as lecturers to provide training on digital risks and responses to such risks by companies, the use of AI, legal risk management and key points of internal whistle-blowing programs for early detection and response to fraud risk.

Additionally, the Firm has established an audit hotline* as a whistle-blowing program for both inside and outside the Firm.

* How to report via the audit hotline is posted on the Firm's website. The Firm's policy sets out that whistleblowers should not be treated disadvantageously. The leader of Risk Management appoints people who have access to the information provided. People who are involved in the reported matter are not granted access to protect the confidentiality of whistleblowers.

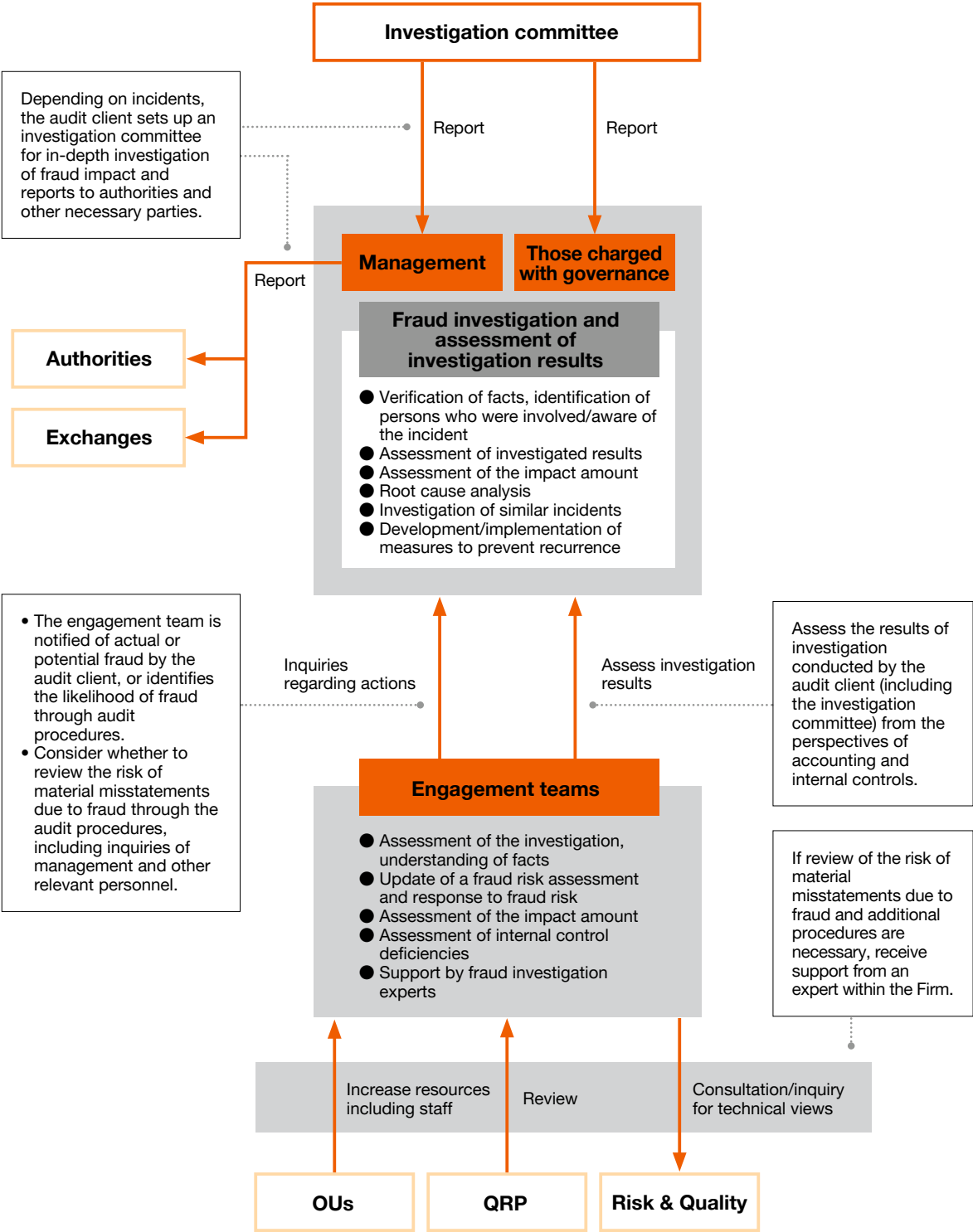
Response to potential material misstatement due to fraud

When an engagement team identifies a potential material misstatement due to fraud, this is shared within the Firm and necessary action is taken according to the circumstances shown in the figure on the right. The engagement team may receive additional review by the quality review partner, advice from an OU risk management partner or support from Risk & Quality. Furthermore, a fraud specialist may be involved.

Analyses of financial data of audit clients

The Firm performs various analyses to address fraud. These include inquiring with the engagement team about any abnormal values using multiple analyses (e.g., multiple-year trends in financial data extracted from annual securities reports or earnings release published by the audit client, or analysis of trends in financial ratios and turnover period of accounts receivable) in reference to fraud cases, and assessing any signs of fraud. Through discussions with the engagement teams, Risk & Quality can understand financial information and the nature of business of audit clients, which helps Risk & Quality enhance their risk profiling. Additionally, Risk & Quality has been developing AI-enabled fraud detection tools to analyse financial statements of audit clients based on corrections to annual securities reports in the past, and to use the results of analysis for the assessment of fraud and error risks.

Response to fraud risk



Technology-focused audit approach

Importance of technology in audits and changes in risks from DX promotion

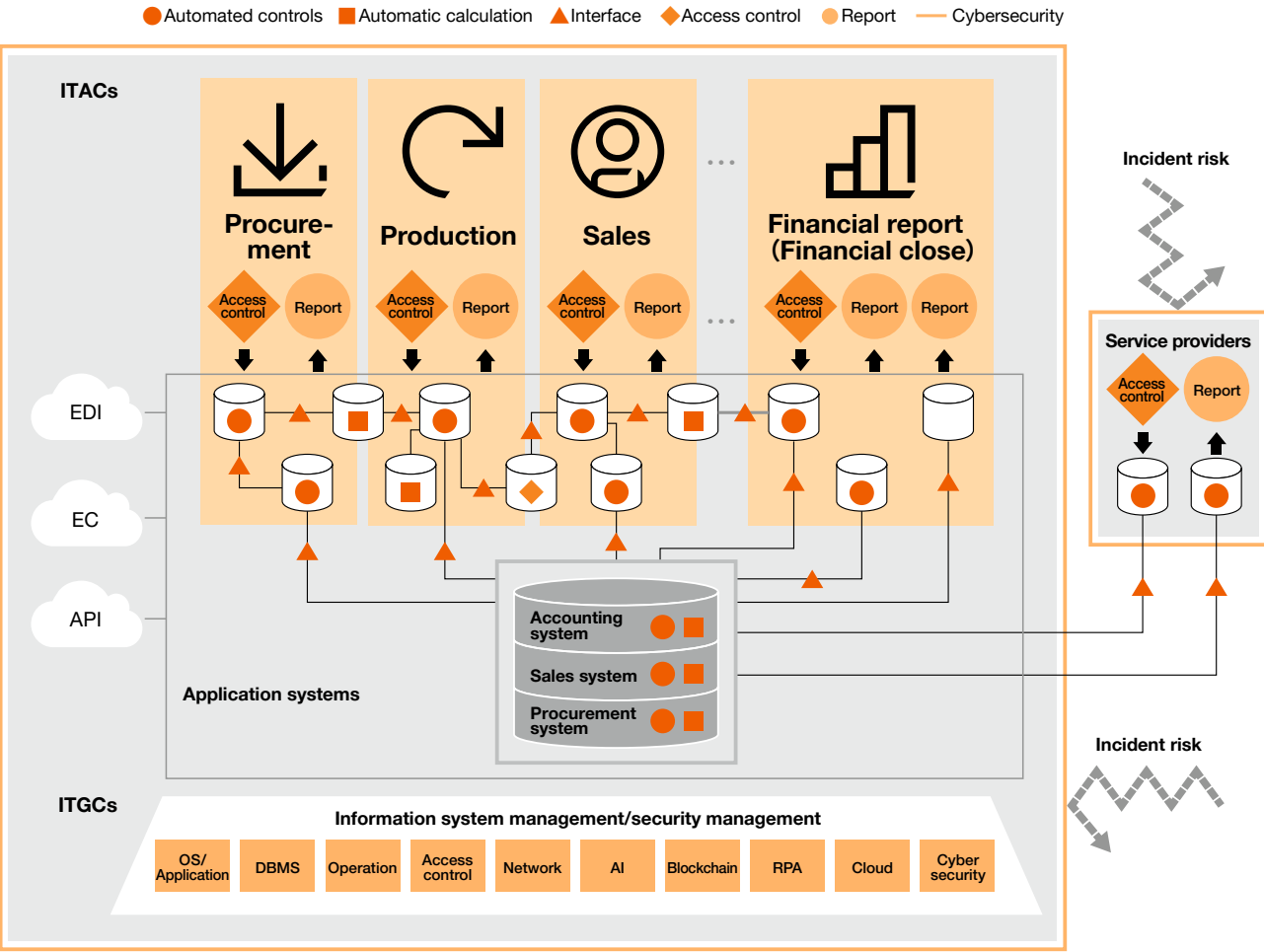
The use of technology has been expanding and deepening. Many entities are using advanced technology such as cloud and RPA by promoting digital transformation (DX). The use of generative AI and Blockchain has also been accelerated to improve efficiency and enhance operations through the use of data. At the same time, technological advancement has posed new types of risks.

In today's highly technology-dependent environment, third-party management and cybersecurity risks, such as those associated with the use of cloud services, are prevalent across all entities. Recently,

complex risk events, including damage caused by ransomware, misconfigurations in cloud-specific environments and deficiencies caused by third parties, have occurred with increasing frequency. Auditors need to address these as risks associated with financial reporting since such incidents affect the timely processing of period-end closing and disclosures due to the extended recovery period after such incidents, and lead to system failures that disrupt business activities.

To respond to these incidents, the reliability of IT used for financial reporting needs to be assessed for audit purposes and the importance of such assessments is increasing as digitisation initiatives of audit clients progress.

IT and business process diagram



IT application controls and IT general controls

There are two types of IT controls: IT application controls (ITACs), which are controls over the functions and processing of systems (e.g. access restriction and interfaces) and IT general controls (ITGCs), which underpin the reliability of systems, including system development, maintenance, operation and security management. In the context of IT controls, it is crucial to understand the roles these two types of controls play.

Taking a sales process as an example, the sales management system generates shipment instructions based on order data received and automatically calculates the sales amount using the amount registered in the unit price master. In this scenario, if a series of processes up to interfacing the sales data to the accounting system where journal entries are auto-generated is automated without human intervention, interface failures in processing due to a system problem or journal entry programming errors can result in inaccurate sales figures. This series of processes form ITACs. Inappropriate implementation of these controls can lead to risks that directly impact financial figures.

To prevent inappropriate updates to the individual programs and data that comprise the processes above, it is also essential to implement controls over system development, maintenance and operation. This includes setting access restrictions for developers, log monitoring and problem monitoring for timely detection of errors and recovery. These are ITGCs and failure to implement ITGCs throughout the year without giving rise to significant deficiencies raises doubts about the effectiveness of ITACs that relies on the effectiveness of ITGCs. Consequently, other business process controls that depend on the effective ITACs may also be affected, thereby indirectly impacting financial risk.

Given the above, as shown in the figure on the left page, ITGCs are the foundation for internal controls over financial reporting. Therefore the evaluation of ITGCs is essential in audits.

Our audit approach related to IT

With the expansion of technology deployment by companies, auditors cannot sufficiently respond to heightening IT risks through only testing paper-based supporting documents and manual controls, and simply gaining an understanding and evaluating the IT environment.

We perform in-depth audit procedures on controls over IT. For ITACs, we understand the configuration of the system through inspection of specifications in addition to inquiries, and use actual data to verify whether the process is performed according to the specifications.

With respect to ITGCs, we test log data of program changes and security settings to ensure the reliability of programs and data. Authority settings of complex ERP systems are also tested in a complete manner using evaluation tools developed by the PwC network.

The incorporation of technology into business processes enables the consistent processing of a huge volume of transactions and data in accordance with the rules, and helps strengthen internal controls by preventing fraudulent data alteration through limiting access only to appropriate persons.

However, the use of technology also creates other risks.

Since, in recent years, cyber security risk also has a significant impact on financial reporting, our audit approach to this risk is to perform procedures regardless of whether cyber incidents have occurred. We incorporate the PwC network's latest audit approach for cyber security risk. When there are no cyber incidents, this includes the assessment of common cybersecurity risks that may affect financial reporting and the evaluation of internal controls including intrusion detection, patch management, and backup and restoration to address ransomware attacks.

To adapt to the pace of clients' transformation and proactively respond to emerging risks arising from such transformation, we will continuously monitor changes in IT environment and trends and appropriately identify and assess risks arising from the use of technology, thereby contributing to valuable audits.

Periodic monitoring activities and external inspections of audit engagements

1. Post-audit review (periodic monitoring activities)

The Firm periodically monitors the system of quality management and individual audit engagements. As part of these periodic monitoring activities, we use a quality management review program adopted globally by the PwC network. The quality management review program is based on professional standards relating to quality management, including the International Standard on Quality Management No.1 and the PCAOB’s Quality Control Standards. Review teams are composed of staff at Quality Review and partners, directors and senior managers of overseas PwC member firms, and perform monitoring using common PwC network policies, procedures, tools and guidance.

Periodic monitoring activities of the system of quality management

Periodic monitoring activities of the system of quality management review whether internal controls over the system of quality management are appropriately developed and operated in accordance with the quality management standards.

Periodic monitoring activities of individual audit engagements

Periodic monitoring activities of individual audit engagements review whether individual audit engagements are appropriately performed in accordance with applicable standards related to audits. Partners who serve as an audit engagement leader are, in principle, subject to periodic monitoring activities of individual audit engagements once every three years. In addition, audit engagements with a high social impact and those whose risks are assessed as heightened are also taken into account when selecting those subject to periodic monitoring activities.

2. Assessment, communication and remediation of identified deficiencies

If the periodic monitoring activities identify a significant finding, the engagement leader is required to develop and implement a remediation plan. Risk & Quality monitors whether the remediation plan is developed and implemented in a timely and appropriate manner. The results of periodic monitoring activities and the set of remedial actions are also shared with the PwC network and are reflected in personnel evaluation of each engagement team staff, including the partner, considering their roles and responsibilities within the engagement team.

3. Root cause analysis and thorough implementation of remedial actions

Based on the results of periodic monitoring activities and external inspections, the Firm promptly conducts a root cause analysis to help improve audit quality. Specifically, the Firm conducts various analyses, including the analysis of matters that need improvement, comparison of audit engagements with issues identified with those with no issues, and consideration of objective factors and potential issues. The Firm assesses the results of these analyses and takes necessary actions, including reviewing the assignment policy, revising the written audit procedures, developing guidance to prevent recurrence, monitoring the progress of in-progress audit engagements and conducting adequate education and training.

4. Reflection in next fiscal year’s measures

Remedial measures are taken individually based on the root cause analyses. Findings are recognised as risks in the QMSE and are reflected in the Firm-wide quality management measures.

Results of periodic monitoring activities

In FY2025, as shown in the table on the right, 47 audit engagements were subject to periodic monitoring activities, without any significant findings. These activities covered 52% of the partners engaged in audit engagements.

Initiatives to improve quality based on the results of periodic monitoring activities

Based on the results of FY2024 periodic monitoring activities, the Firm implemented initiatives to improve the behaviour (direction, supervision and review) of engagement partners and team managers, releasing audit alerts on specific areas and providing follow-up training. The Firm will continue its efforts for further improvement. We have also performed a root cause analysis for the findings identified in FY2025 periodic monitoring activities and are taking actions to address individual issues.

The Firm has been enhancing audit procedures in the areas of journal entries and accounting estimates. Given drastic changes in the business environment surrounding companies, it is increasingly important for audit clients to enhance their business management frameworks. This includes continuously strengthening internal controls and creating detailed supporting documents for estimates by taking into account changes in their business environment.

The Firm encourages audit professionals to reconfirm their understanding of standards and required audit procedures and documentation. Furthermore, Risk & Quality, together with the chief auditors, promotes the standardisation of procedures.

The Firm has fostered a culture to understand global trends of quality improvement in audits, and to learn from findings raised in periodic monitoring activities. The Firm continues to place top priority on improving audit quality and, in cooperation with audit clients, improve quality of financial reporting in Japan.

Review and root cause analysis



Results of periodic monitoring activities

Results of periodic monitoring activities	FY2024	FY2025
Number of in-scope engagements	36 cases	47 cases
Required modification of the audit opinion	0 cases	0 cases
No significant findings identified	32 cases	47 cases
Significant findings identified	4 cases	0 cases
Partner coverage rate	38%	52%

Reviewer’s working hours

By review type	FY2024	FY2025
Review during audit (Hot review)	9,049 hours	8,707 hours
Post-audit review (Periodic monitoring activities)	4,724 hours	4,526 hours
Total	13,773 hours	13,233 hours

Quality management reviews by the JICPA

With a view to maintaining and ensuring societal trust in audit by maintaining and enhancing an appropriate audit quality level, the JICPA has in place a self-regulatory program to review the status of audit quality management activities conducted by audit firms (quality management reviews). The quality management reviews are generally conducted once every three years, with their results being notified to audit firms and where necessary, recommendations for remediation being issued.

Results of recent quality management review

Date of issuing the quality management review report	April 30, 2025
Review results	Results with no significant deficiencies

Inspections by the Certified Public Accountants and Auditing Oversight Board

The Certified Public Accountants and Auditing Oversight Board (CPAFOB) receives reports on quality management reviews from the JICPA, examines the details, and conducts on-site inspections at an audit firm, as necessary. If the CPAFOB identifies that quality management of audits is significantly inadequate, or that the audit engagement is not in compliance with laws and regulations,

the CPAFOB recommends the Financial Services Agency (FSA) to take administrative action or other measures necessary to ensure the appropriate operation of that audit firm.

The Firm was not subject to any administrative action by the FSA as of June 30, 2025.

Inspections by the Public Company Accounting Oversight Board

The Public Company Accounting Oversight Board (PCAOB) periodically conducts inspections for accounting firms that audit public companies. The results of inspections are disclosed on the PCAOB's website.

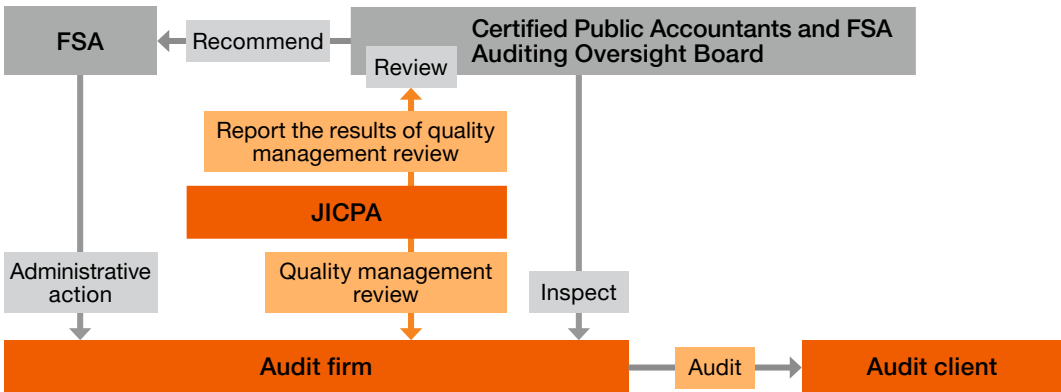
Response to findings

When findings are raised in the quality management reviews by the JICPA or inspections by the CPAFOB or PCAOB, the Firm takes appropriate measures, analyses root causes, develops guidance to prevent recurrence, implements education and training, and takes other necessary measures.

Administrative action resulting from external inspections



Overview of inspections by external institutions



Collaboration with the PwC network

The Firm collaborates with the PwC network to introduce audit methodologies, monitor audit engagements, and develop technology. It also coordinates audits of overseas subsidiaries of audit clients with the PwC network firms.

PwC Japan Group Annual Review

<https://www.pwc.com/jp/ja/about-us/annual-review.html>



Global audit

In order to appropriately perform group audits of companies that operate business globally, it is necessary to identify audit risk related to overseas subsidiaries and take appropriate responses. PwC firm members apply PwC Audit which is audit methodologies commonly applied across the PwC network. While gaining a deep understanding of society, culture, legal system and language of overseas subsidiaries and other entities of companies, the Firm closely collaborates with local PwC network firms to perform global, consistent, high-quality audits while taking into account business environment surrounding overseas subsidiaries and other entities at each country.

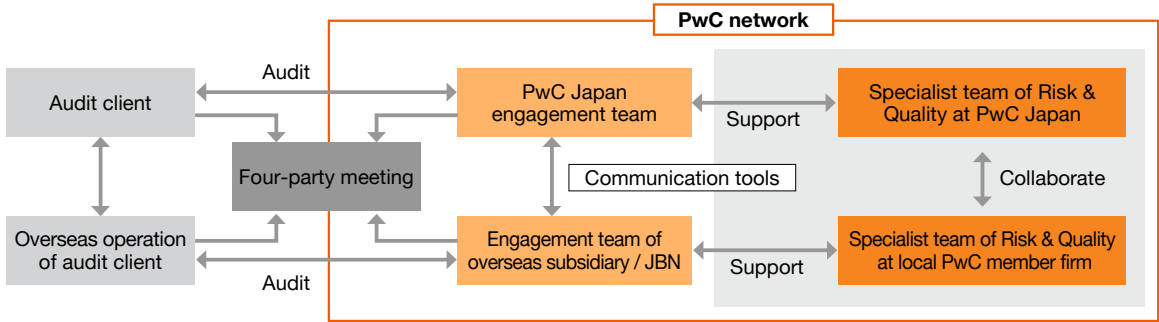
When performing audits of companies operating globally, the Firm engages the Japan Business Network (JBN) members as necessary and works closely with engagement teams that perform audits of overseas subsidiaries and other entities.

If a serious issue, such as fraud, were to occur, we hold face-to-face discussions with local management at an early stage with local auditors even if the issue has occurred overseas. Risk & Quality supports significant issues at an early stage and communicates directly with local Risk & Quality as necessary to resolve them. Additionally, four-party meetings are conducted involving the audit client, its overseas subsidiary, the Firm and the local PwC member firm for discussions to promptly address and resolve issues with the audit client.

Japan Business Network (JBN)

In order to support the business of Japanese companies, the PwC network has built a support network for Japanese companies consisting of accounting, auditing and other professionals in each territory across the world. As of July 1, 2025, the Firm has deployed 658 specialists in the JBN (of which 447 are capable of Japanese language support).

Global audit structure



Four-party meeting

Flexibly hold to discuss matters such as an important issue or a new significant subsidiary, as necessary

Face-to-face discussion

Hold a face-to-face discussion with local management at an early stage, even overseas, with local auditors to solve issues as soon as possible

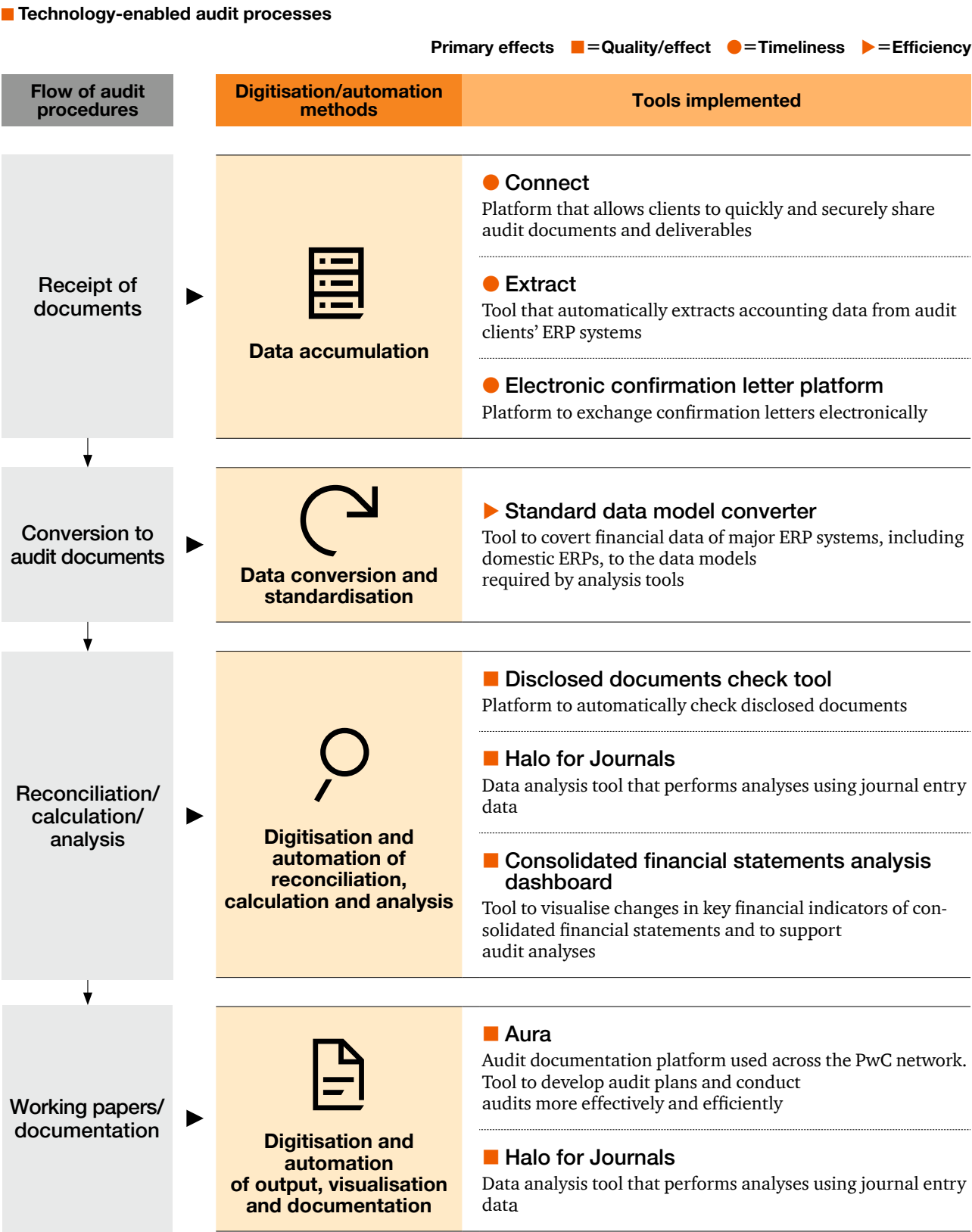
Collaboration between Risk & Quality

Risk & Quality supports significant issues at an early stage. Risk & Quality communicates directly with the specialist team of Risk & Quality at the local PwC member firm

Mobilisation of a specialist team

When a local specialist team is mobilised, a specialist team is also mobilised in Japan, which will respond to issues together with the engagement team

Using technology in audit



The Firm invests in technology and audit transformation efforts, as the use of technology for audit quality enhancement leads to higher audit satisfaction not only for audit clients but for all stakeholders. As demonstrated in each stage of the audit procedures below, the Firm has deployed many tools to improve the timeliness, quality, effectiveness and efficiency of audit.

Data acquisition and conversion

Data from audit clients, as well as various external third-party data, are automatically fed into PwC's systems and converted.

Tool example ► Extract
Extract is a tool developed by PwC that can automatically extract data from ERP systems. By improving the efficiency of the data extraction process, the tool reduces the time required for both the audit client and the auditor. It enables more frequent and secure data sharing and helps detect high-risk journal entries at an early stage.

Analysis of accounting figures and performance of audit procedures

By utilising a variety of audit tools, auditors can identify potentially significant audit matters earlier and engage in discussions with audit clients to enable efficient and high-quality audits.

Tool example ► Halo for Journals
Halo for Journals is an audit tool designed to handle large volumes of journal entry data and analyse entire populations. Based on predefined extraction criteria, it identifies relevant journal entries for analysis and facilitates exploration and visualisation to initiate testing procedures.

Tool example ► Consolidated financial statements analysis dashboard
Consolidated financial statements analysis dashboard developed by the Firm is a tool that supports audit analyses and visualises changes in key financial indicators. When this dashboard is use in our communication within teams and with audit clients, we deliver dialogue informed by data and data-driven audits, thereby transforming the audit experience for audit clients.

Working papers and documentation

By generating the results of reconciliations and analyses and preparing audit working papers based on those results, auditors can focus on their professional activities, such as interpretation and judgement.

Tool example ► Aura
Aura is a global audit documentation platform used across the PwC network that clearly links risks, required procedures, controls and risk response procedures. By providing comprehensive guidance and project management capabilities, Aura supports the effective application of audit methodology and facilitates the development and implementation of audit plans.

Initiatives for business process improvement and quality enhancement

Initiatives for operational standardisation and delivery model transformation

At PwC Japan Group, the Technical Competency Centre (TCC), which comprises more than 500 members in Japan, is enhancing the standardisation of the audit process and provides audit procedure support to other territories as well.

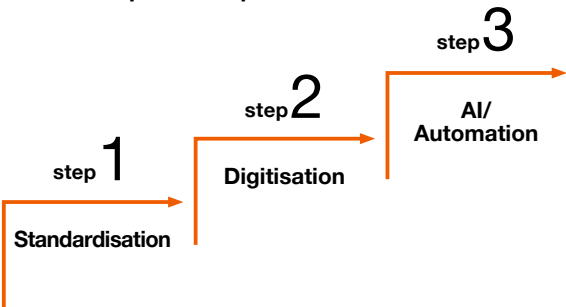
TCC is an organisation that works closely with the digital-tool development department and engagement teams, and is composed of staff who have digital skills and/or basic accounting qualifications. In addition to improving the audit process, we aim to improve audit quality through standardisation and automation by leveraging know-how of the digital tool development department.

TCC centrally manages the audit and other operations and performs audit procedures according to the standardised process. Specifically, a team within the department performs testing of certain accounts for which the required audit procedures are the same for most audit clients, thereby ensuring quality. Every year, TCC staff and CPAs collaborate to review the business processes to improve the quality of the audit procedures.

We have implemented a tool to verify that disclosure documents on EDINET match the final version agreed with audit clients. Additionally, we have established a process to automatically verify certain disclosures in the annual securities report using XBRL data, thereby enhancing support for engagement teams.

To support these initiatives, more than 20 dedicated CPAs are assigned as managers for quality management within TCC. TCC's work is also subject to quality management reviews by the Firm.

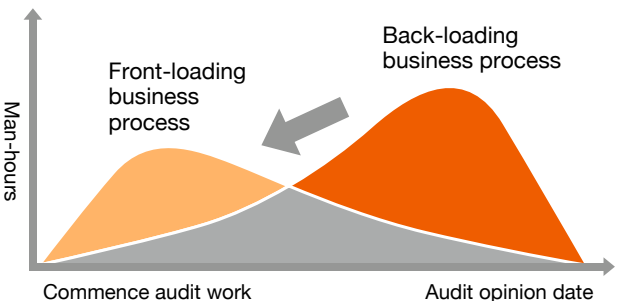
Three steps for DX promotion



Engagement Performance and Quality (EPQ) initiatives

EPQ is the Firm's key quality enhancement initiative, known as '4 + 1' [p.56](#), which focuses on improving business processes. EPQ aims to cultivate a culture where people act autonomously by helping engagement teams and their respective staff members understand the benefits of accelerating the timing of performing procedures to improve audit quality.

Front-loading business process



Information security

Information security management structure

Through collaboration between the PwC network's information security department and member firms in each territory, PwC is working to strengthen information security. Initiatives at the PwC network level enable the prompt implementation of measures using the latest advanced technology globally and efficiently promote compliance with laws and guidelines. This ensures a higher level of information security compared to the initiatives implemented at an individual member firm level.

The Firm has promptly introduced cybersecurity measures based on the PwC network's zero trust security model and is responding to emerging new threats in a timely manner. In addition to these technological measures, we have launched information security measures at both the organisation and individual levels. These include conducting information security assessments in accordance with the PwC network's common standards, providing training and drills based on common contents, identifying information security risks arising from Japan-specific working environment and culture,

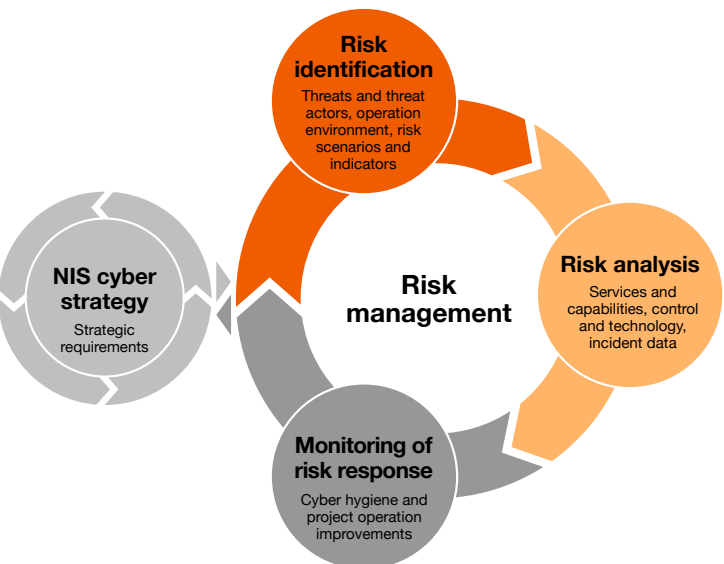
and raising awareness among partners and employees.

Through these initiatives, we strive to continuously ensure robust information security that protects our clients' information. To maintain and strengthen information security, the Firm acquired ISO/IEC 27001 (ISMS) certification in June 2022.

Cybersecurity incident management

Threats of cyberattacks, including ransomware, are increasing each year. PwC has been implementing measures to identify, prioritise and mitigate cyber risks existing in the PwC network's technological environment. The Firm has also established a structure to prevent cyberattacks, such as network protection, endpoint protection, cloud protection, identity security and 24/365 monitoring. It also has a mechanism whereby the information security department deals with incidents by sharing information and collaborating with the related departments, including the risk management department, the legal department and the department where the incident occurred.

Risk management based on NIS cyber strategy



Cybersecurity management system

