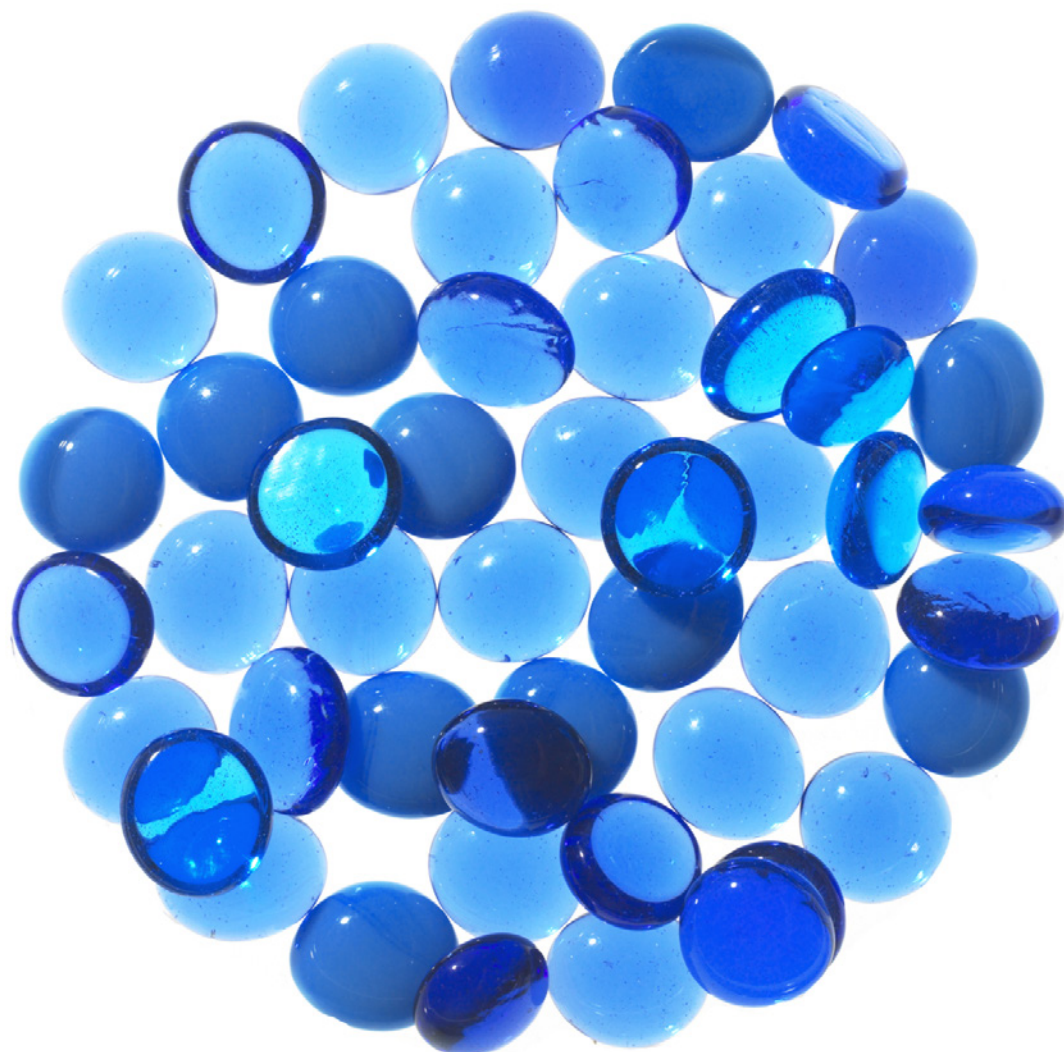


**Deloitte.**

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**Transparency Report 2017**  
**- based on EU Directives**

Deloitte Touche Tohmatsu LLC

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# A Message from Leadership

Our firm is registered with competent authorities in the United Kingdom, Luxembourg and Germany pursuant to the EU Directive 2006/43/EC (as amended by Directive 2014/56/EU) to provide audit services to Japanese companies listed on the stock exchanges in these countries. As required by Article 73 of the Law of 18 December 2009 on the Audit Profession of Luxembourg for audit firms registered in third countries (those outside the European Union (EU)), our firm has published the attached Transparency Report 2017 (the "Report") on our website as with the previous year.

This Report provides basic information related to our auditing practice, including a description of our organization, governance, quality control, independence, and continuing professional education and training, for our firm's fiscal year ended May 31, 2017.

Our firm's management principles are as follows:

- Ensure fairness within our economic society and take the lead in contributing to its development,
- Offer intellectual professional services that exceed the expectations of our clients, and
- Respect the individuality of each person, and create a fulfilling workplace in which individuals can make full use of their abilities.

"Deloitte makes an impact that matters." This is our "Purpose" and the guideline that Deloitte Touche Tohmatsu Limited has proposed to each of its member firms. Our Purpose articulates "why we exist." To pursue this Purpose, every member of our firm maintains Integrity, Outstanding Value to Markets & Clients, Commitment to Each Other, and Strength from Cultural Diversity as Shared Values.

By sharing these management principles among every member of our firm, we establish the "Deloitte Tohmatsu Group Code of Conduct" described as specific behaviors and actions for Purpose and Shared Values, which include a component of Deloitte Tohmatsu Principles of Business Conduct. We strive to make Deloitte Touche Tohmatsu LLC the most trusted professional services firm to our stakeholders, and to be recognized for our commitment to the highest quality of professional service.

We hope this information will contribute to providing our stakeholders with a better understanding of our firm.



**Yoichiro Ogawa**  
Chief Executive Officer  
Deloitte Tohmatsu LLC  
August 2017



**Kohei Kan**  
Audit & Assurance and Risk Advisory CEO  
Deloitte Touche Tohmatsu LLC  
August 2017

# Legal Structure, Ownership and Governance

## LEGAL STRUCTURE AND OWNERSHIP

In April 2014, Deloitte Tohmatsu Limited Liability Company (DT LLC), whose entire capital was financed by all of the partners of Deloitte Tohmatsu Group (the "DT Group"), was incorporated in accordance with the Companies Act of Japan.

The DT Group consists of major professional service firms such as Deloitte Touche Tohmatsu LLC (the "Firm"), a limited liability company, delivering auditing services and other related services, incorporated in accordance with the Certified Public Accountants Act of Japan (the "CPA Act"), and other professional service firms including their subsidiaries.

Subsequent to its incorporation, DT LLC became the Japan member firm of the Deloitte Network which is an association of firms that are members of Deloitte Touche Tohmatsu Limited (DTTL).

Simultaneously, DT LLC, the Firm and the other major professional service firms of the DT Group concluded the DT Group bylaws which stipulate the rights and obligations to be abided by.

The DT Group bylaws oblige DT LLC and the Firm to comply with DTTL member firm agreements despite there being no ownership between them.

The Firm is owned and governed, independently of DTTL, by its partners. As of May 31, 2017, the Firm had 578 partners, including 49 non-CPA partners.

## GOVERNANCE

### 1. Governance Structure

The DT Group provides audit & assurance, risk advisory, consulting, financial advisory, tax and legal services in Japan.

We hold ourselves to very high standards, and take seriously the importance of public interest entrusted to us. In order to achieve our quality objectives, we have changed the governance structure, as follows:

- On December 1, 2015, the Board of the Firm (the "Audit Firm Board") was separately established from the Board of the DT Group (the "Group Board"). The Group Board is responsible for the overall governance of the DT Group and overseeing the management of the DT Group, while the Audit Firm Board is responsible for the overall governance of the Firm and overseeing the management of the Firm.
- The scope of responsibilities of the Audit Firm Board includes approving the admission of the Firm partners, allocating units and earnings to the Firm partners, the financial aspects of Firm business plans, and disciplinary actions.
- Two-thirds of the Audit Firm Board seats are held by non-executive partners, to enable the Audit Firm Board to objectively fulfill its governance and oversight role over the Firm.
- As of August 1, 2017, the Audit Firm Board has four standing sub-committees, namely, the nomination committee, the compensation committee, the audit committee, and the public interest oversight committee, enabling the Audit Firm Board to fulfill its substantive governance role in an effective and organized manner.
- To ensure organizational operations required in accordance with "The Audit Firm Governance Code" published by Japan's Financial Services Agency and fulfill public interest obligations, we appointed three Independent Non-Executives (INEs) in addition to two lawyers as the external members of the audit committee (Independent Lawyers). Since June 2017, they have participated in the Audit Firm Board as non-voting

members. They are expected to enhance the effectiveness of the Firm governance by providing advice and recommendations.

- In the process of selecting INEs, we confirmed that they are not principal stockholders, board members, nor other stakeholders who could potentially influence the financial reporting of our audit clients. The term of the INEs expires after the 2nd annual general meeting of partners.

## 2. Role of the Audit Firm Board

The Firm is led by the elected Chairman of the Board (the "Chairman") and the elected the Audit & Assurance and Risk Advisory CEO (the "A&A and RA CEO"). The Chairman is independent of the A&A and RA CEO and leads the Audit Firm Board. The A&A and RA CEO is responsible for leading and managing the Firm's operations and is also responsible for focusing on quality and the provision of audit services by the Firm.

The Audit Firm Board provides oversight of the management and monitors the performance of the executive members of the Firm. Also through the sub-committees, the Audit Firm Board reviews and approves actions on operational and administrative matters.

The Audit Firm Board		As of May 31, 2017*
Chairman of the Board		Takashi Nagata
A&A and RA CEO		Kohei Kan
Non-Executive Board Member		Koji Inagaki
Non-Executive Board Member		Kappei Isomata
Non-Executive Board Member		Toshiharu Matsuura
Non-Executive Board Member		Ko Asami
Non-Executive Board Member		Yasuyoshi Ichikawa
Non-Executive Board Member		Tadashi Shirai
Non-Executive Board Member		Junko Watanabe
Managing Partner of Audit		Hiroharu Nakamura
Managing Partner of Risk Advisory Services		Kenichi Kimura
Managing Partner of Reputation & Risk Office		Shuji Kawamoto
Independent Lawyer		Hiroshi Naito
Independent Lawyer		Hiroki Wakabayashi

The Audit Firm Board		As of July 1, 2017**
Chairman of the Board		Takashi Nagata
A&A and RA CEO		Kohei Kan
Non-Executive Board Member		Koji Inagaki
Non-Executive Board Member		Eiji Yoshida
Non-Executive Board Member		Toshiharu Matsuura
Non-Executive Board Member		Ko Asami
Non-Executive Board Member		Yasuyoshi Ichikawa
Non-Executive Board Member		Tadashi Shirai
Non-Executive Board Member		Junko Watanabe
Managing Partner of Audit & Assurance		Hiroharu Nakamura
Managing Partner of Risk Advisory Services		Kenichi Kimura
Managing Partner of Reputation Quality Risk Management Office***		Masahiro Ishizuka
Independent Lawyer		Hiroshi Naito
Independent Lawyer		Hiroki Wakabayashi
Independent Non-executive		Koichi Tsukihara
Independent Non-executive		Yasumasa Masuda
Independent Non-executive		Takashi Miyoshi

\* Fiscal year-end.

\*\* The Board members as of July 1, 2017 were appointed at the end of the general meeting of partners on June 8, 2017.

\*\*\* Reputation & Risk Office has been renamed to Reputation Quality Risk Management Office since July 1, 2017.

# Network Arrangements

## DELOITTE NETWORK DESCRIPTION

DT LLC is the Japan member firm of the Deloitte Network. The "Deloitte Network" is an association of firms that are members of DTTL, a UK private company limited by guarantee.

DTTL does not provide professional services to clients, or direct, manage, control or own any interest in any member firm or any member firm's affiliated entities. Member firms in the Deloitte Network provide services to clients, either directly or through their affiliates (member firms and their affiliates are collectively referred to herein as "Member Firms"). Member Firms operate under the Deloitte brand and related names, including "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," and "Tohmatsu."

Member Firms provide professional services in particular geographic areas and are subject to the laws, regulations and professional requirements of the jurisdictions in which they operate. Each Member Firm is structured differently in accordance with, among others, national laws, regulations and customary practices.

Member Firms are not subsidiaries or branch offices of DTTL and do not act as agents for DTTL or other member firms. Rather, they are locally-formed entities with their own ownership structure independent of DTTL that have voluntarily become members of the Deloitte Network with a primary purpose of coordinating their approach to client service, professional standards, shared values, methodologies, and systems of quality control and risk management. DTTL has adopted certain policies and protocols in each of these areas in an effort to establish a consistently high level of quality, professional conduct and service in all member firms. This structure confers significant strengths, combining high quality standards and methodologies with a deep understanding of local markets and a sense of responsibility and initiative among professionals who have a direct stake in the integrity and growth of their respective practices.

# Overview of Quality Control Procedures

The Firm provides audit and related assurance services through its engagements with clients. When taken as a whole, this overview provides a summary of the Firm's quality control policies and procedures related to such engagements, and is organized into the following sections:

- Leadership responsibilities for the system of quality control
- Ethical requirements
- Client and engagement acceptance and continuance
- Human resources
- Engagement performance
- Monitoring

## LEADERSHIP RESPONSIBILITIES FOR THE SYSTEM OF QUALITY CONTROL

The Firm maintains policies and procedures to promote an internal culture based on the recognition that quality is our number one priority. The Firm focuses on professional excellence as the foundation for achieving outstanding audit quality on a consistent basis. While the Firm's leadership assumes ultimate responsibility for the system of quality control, the National Professional Practice Directors are assigned operational responsibility for the Firm's quality control system and have the necessary experience and authority to assume those responsibilities, including establishing of quality control policies.

## ETHICAL REQUIREMENTS

### Ethics

The Firm maintains policies and procedures that are designed to provide reasonable assurance that it and its partners, professional staff, and support staff comply with relevant ethical requirements.

The ethical requirements for audit and related assurance services provided by the Firm are the Code of Ethics of the Japanese Institute of Certified Public Accountants (JICPA). The Firm also complies with the DTTL policies and procedures, which align with the requirements and guidance set out in Parts A and B of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), a standard-setting body of the International Federation of Accountants (IFAC) (the "IESBA Code of Ethics"). When the Code of Ethics of the JICPA is more restrictive than the DTTL policies and procedures, the Firm follows the applicable Code of Ethics of the JICPA.

The Firm has appointed an Ethics Officer who is an experienced partner, other than the A&A and RA CEO of the Firm, who has direct access to the A&A and RA CEO and the Firm's governing body. In addition, the Firm and other Japanese member firms of DTTL have developed and implemented its own code of conduct (Deloitte Tohmatsu Group Code of Conduct) which incorporates Deloitte's Global Principles of Business Conduct and describes, in some detail, critical professional behavior that reflects local customs, regulations, and legal requirements.

The Firm provides communication channels through which partners, professional staff, and support staff can consult on and report ethical issues and situations. The Firm reinforces its commitment to ethics and integrity through communication tools, learning programs, compliance processes, and measurement systems.

The Firm requires all partners, professional staff, and support staff to confirm annually that they have read and understood the code of conduct and understand that it is their responsibility to comply with it.

## Independence

The Firm has policies and procedures that are designed to provide reasonable assurance that it complies with applicable professional standards that relate to independence. These policies and procedures are based on DTTL policies and procedures, which align with the IESBA Code of Ethics, and are enhanced, as appropriate, to reflect local requirements or the Code of Ethics of the JICPA that may be more restrictive.

The Firm's system of quality control related to independence includes the following:

- Independence policies and procedures
- Compliance process tools, including the Deloitte Entity Search and Compliance (DESC) system, the Global Independence Monitoring System (GIMS), Confirmation process, and Consultations
- Business relationship assessments and monitoring
- Independence learning
- Monitoring of independence systems and controls relating to personal independence, and engagement and practice reviews
- Disciplinary process
- Assignment of responsibility for independence systems and controls
- "Tone-at-the-Top" culture relating to independence

### 1: Independence Policies and Procedures

The Firm's independence policies and procedures cover the Firm, and the Firm's partners, professional staff, and support staff, and certain relatives thereof, where applicable. These policies and procedures are, in some instances, more restrictive than the independence standards in the IESBA Code of Ethics and contain specific independence requirements that are applicable when the Firm is to maintain independence with respect to an audit client and its affiliates ("restricted entity").

Policies require that the Firm, and its partners and professional staff determine, among other things, whether an entity is a restricted entity before the Firm, partners or professional staff and their immediate family members (including their spouse, spousal equivalent, and dependents) acquire financial interests in or enter into another financial relationship with the entity. The Firm, partners and managerial personnel record their financial interests and securities accounts in their individual portfolios within GIMS. GIMS enables an electronic review of financial interests and securities accounts to help identify if independence restrictions may affect a professional's ability to hold such items. The Firm obtains confirmations from its partners, professional staff and support staff upon joining the Firm, as well as ongoing confirmations on an annual basis, that such individuals are in personal compliance with the Firm's independence policies.

The Firm's independence policies and procedures are made available electronically to the Firm's partners, professional staff and support staff. Updates to these policies and procedures are also made and communicated electronically to the Firm's partners, professional staff and support staff. Moreover, other independence-related materials are available on an internal independence website. Reminders on policy and other matters are published frequently by DTTL as part of routine communications to strengthen awareness and understanding of the independence policies and to highlight changes to entities that are internationally restricted, as relevant, and announced within the Firm, as appropriate.

Policies and procedures are in place at the engagement level to require the audit engagement partner to consider independence matters during the course of an audit engagement and to conduct communications with the audit committee or those charged with governance, where required.



## 2: DESC System, GIMS, Confirmation Process and Consultations

There are three related aspects of the Firm's systems and controls related to the Firm's independence and the personal independence of its partners, professional staff, and support staff: DESC system, GIMS, and Confirmation Process. These three aspects support each other in that (1) partners and professional staff search DESC system (which includes a database of internationally restricted entities) and/or GIMS (which has a database of financial interests and securities accounts), to identify if an entity or its financial interests or securities accounts are restricted, (2) partners and managerial personnel record their financial interests and securities accounts in their individual portfolios within GIMS and (3) the Firm annually obtains confirmations from its personnel as to their compliance with the Firm's independence policies, and also confirms to DTTL its compliance and the compliance of its personnel with the Firm's independence policies.

### **DESC system**

DESC system is operated by DTTL on behalf of the DTTL member firms. At a minimum, each DTTL member firm reports the names of its audit clients and their affiliates that meet the definition of an international restricted entity. The policy definition of an international restricted entity includes public audit clients, as well as other audit clients that may be of public interest. Such restricted entity information is recorded in DESC system. The entity information provided by the Firm to DTTL is continuously updated to help ensure its accuracy and completeness, including periodic validation processes performed by engagement teams and/or the DTTL member firms. Updates to DESC system's entity information are made daily based upon these processes. The Firm's partners and professional staff access DESC system online.

DESC system also has features that are used to request and document approvals related to

providing services to an entity. In many jurisdictions, a restricted entity's audit committee or others charged with governance must preapprove services that will be delivered within the restricted-entity group. Where such features are enabled, DESC system's features establish a standard business process among the DTTL member firms whereby service requests are submitted to the lead client service partner, who is responsible for obtaining and documenting appropriate authorizations prior to approving the service requests.

### **GIMS for Financial Interests and Securities Accounts**

Each DTTL member firm also identifies and reports the publicly available financial interests and securities accounts at financial institutions that are associated with an international restricted entity. Such financial interests and securities accounts are recorded in GIMS. GIMS is operated by DTTL on behalf of the DTTL member firms, and each DTTL member firm administers the related monitoring processes related to its partners and managerial personnel. Partners and professional staff search DESC for an entity, and partners, senior managers and managers search GIMS before acquiring a financial interest or establishing a securities account, to determine if restrictions apply that affect them. This includes investments and securities accounts of a spouse, spousal equivalent, and dependent. Partners and managerial personnel record defined types of such financial interests and securities accounts into their individual portfolios within GIMS for monitoring purposes.

In addition, GIMS assists partners and managerial personnel by identifying situations which may not comply with the Firm's policies so that the item may either be reviewed or corrected. When such a situation is detected, the system advises the individual that an independence-impairing situation may exist, and poses questions which aid the individual to determine whether or not the item is

permitted in the particular circumstances. This includes generating notices to the individual in situations where a once-permissible holding becomes newly restricted, so that appropriate and timely actions can be taken. The Firm monitors and follows-up on such notices until the individual resolves the item.

#### ***Confirmation Process***

The Firm obtains confirmations from its professional staff and support staff upon joining the Firm, partners before being admitted to the partnership and existing partners when a change in location or role may change their independence requirements. Ongoing confirmations are also obtained on an annual basis from all individuals. Annually, the Firm reports to DTTL that the Firm has taken appropriate steps to obtain sufficient evidence that it and its partners, professional staff and support staff comply with applicable independence requirements (including that the Firm itself is independent of restricted entities).

#### ***Consultation Network***

The Firm communicates with its partners, professional staff and support staff regarding the consultation policies and procedures for independence matters and identifies the individuals who are to be contacted. Additionally, the Firm consults with DTTL's independence group and other member firms when the Firm determines that additional input or advice is needed under the circumstances.

### **3: Business Relationship Assessments and Monitoring**

The Firm has a business relationships assessment and monitoring process. The objective of such process is to ensure that prior to entering into any business relationship with a restricted entity or its management or substantial stockholders, a determination is made to ensure such a relationship does not impair independence with respect to that restricted entity. Before entering into any significant business relationships with a restricted entity or its management or substantial stockholders, approval from the lead client service partner is required. All written contracts of business relationships are registered in the Firm's business processing system and are monitored periodically by the Firm's independence group.

### **4: Independence Learning**

The Firm provides independence learning to its partners and professional staff. An e-learning course concerning awareness of independence rules is mandatory for newly employed professional staff and an e-learning course concerning financial interests is mandatory for partners and managerial personnel who are subject to monitoring by GIMS.

### **5: Monitoring of Independence Systems and Controls Relating to Personal Independence, and Engagement and Practice Reviews**

#### ***Inspection of Personal Independence***

On a periodic basis, the Firm performs inspections and testing of compliance with the Firm's independence policies and procedures. The objective of the inspection and testing program is to determine whether the representations and information submitted by partners and managerial personnel relating to independence matters and the information contained in GIMS are accurate and complete.

### **Inspection of Firm's Compliance**

The Firm is subject to a practice review at intervals not to exceed three years. Compliance with independence policies both at a firm level and at a client level is reviewed.

See further details of engagement and practice reviews in the Monitoring section below.

### **6: Disciplinary Process**

The Firm has disciplinary policies and procedures in place to address noncompliance with the Firm's independence policies and procedures. These disciplinary policies and procedures are designed to provide an appropriate response to breaches of such policies and procedures by partners, professional staff and support staff.

### **7: Assignment of Responsibility for Independence Systems and Controls**

The Firm has assigned a Director of Independence who has the responsibility to implement and maintain quality controls over independence. More specifically, the Director of Independence is responsible for taking the lead on all significant independence issues within the Firm, including the implementation and maintenance of the Firm's business processes related to: (1) independence consultations, (2) independence learning programs, (3) restricted entity information in DESC system, (4) use and monitoring of the features of DESC system, (5) use and monitoring of GIMS, (6) annual confirmations, (7) inspection and testing program, and (8) disciplinary process. Communication channels exist between the Firm's Director of Independence, Firm management, and DTTL's independence group. Further, the Director of Independence provides an update to the Firm's Board at least annually about the significant independence matters that are relevant to the Firm.

DTTL has assigned a senior leader and DTTL independence group members who provide access to timely and accurate information designed to facilitate the independence function at the Firm level.

### **8: "Tone-at-the-Top" Culture Relating to Independence**

Firm leadership reinforces the importance of compliance with independence and related quality control standards, thereby setting the appropriate "Tone-at-the-Top" and instilling its importance into the professional values and culture of the Firm. Strategies and procedures to communicate the importance of independence to partners, professional staff, and support staff have been adopted, emphasizing each individual's responsibility to understand the independence requirements.

### **Conflicts of Interest**

Potential conflicts of interest are considered on all prospective engagements and prior to the Firm entering into a financial or business relationship with a third party. The Firm has policies and procedures in place to identify potential conflicts of interest in connection with the Firm either (i) accepting a prospective engagement or (ii) entering into certain business or financial relationships with another entity.

The Deloitte Conflict Checking System (DCCS) is designed to support the Firm's conflict checking process to identify and manage potential conflicts relating to prospective engagements and business or financial relationships. The Firm currently uses DCCS for cross-border conflict checking. For each new engagement or relationship opportunity, DCCS captures the principal parties to the engagement, the scope of work, engagement team, and specific questions which are driven by the proposed service offering. As part of each conflict check recorded in DCCS, there is an automated search of DESC system to identify any potential audit/attest relationships. Overall DCCS provides a record of existing engagements and business or financial relationships, which is automatically searched when proposing for new engagements or relationships.

## CLIENT AND ENGAGEMENT ACCEPTANCE AND CONTINUANCE

The Firm has rigorous policies and procedures in place for accepting prospective clients and engagements and assessing engagement risk, regardless of the proposed services to be rendered.

These policies and procedures are designed to provide the Firm with reasonable assurance that it will only accept engagements where it:

- Is competent to perform the engagement and has the capabilities, including time and resources, to do so;
- Can comply with relevant ethical requirements, including independence and conflict of interest assessments and consideration; and
- Has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity.

Engagement risk associated with accepting an engagement is assessed as "normal," "greater than normal," or "much greater than normal" and is completed prior to accepting a client and engagement. The engagement risk assessment process includes approval by the recommending partner and concurrence by at least one other Firm partner that the Firm may accept the client and the engagement. In addition, the decision to accept appointment is approved by the Business Risk Leader or his designees if engagement risk is assessed as "greater than normal" or "much greater than normal."

On international engagements, engagement acceptance and continuance procedures are performed at the member-firm level. The Firm does not assume the acceptability of a client and/or the engagement merely because it has been referred from another member firm.

In assessing acceptability of an engagement, client and professional service risks are considered, which generally include the following factors:

- Management characteristics and integrity
- Organization and management structure
- Nature of the business
- Business environment
- Financial results
- Business relationships and related parties
- Prior knowledge and experience

The Firm's engagement risk assessment procedures identify related risks and provide a basis for tailoring the audit approach in order to address engagement-specific risks.

The engagement risk assessment begins during the engagement acceptance/continuation process, and is an ongoing process that continues throughout the engagement. Risk assessment tools and programs are encompassed in the audit approach and common documentation to facilitate the comprehensive risk assessment for planning the audit once the engagement is accepted.

On an annual basis, engagements in process for more than one year are evaluated to determine if the Firm should continue the engagement. Factors discussed above are revisited to ascertain whether the relationship should continue.

In addition, any time an entity undergoes a significant change (e.g., change in ownership or management, financial condition, or nature of entity's business), continuation of the relationship is reevaluated. Decisions of engagement continuance are concurred by one other partner.

## ENGAGEMENT PERFORMANCE

### Audit Approach

The Firm's audit approach includes requirements and guidance to assist in the planning and performance of audit engagements and is based on the International Standards on Auditing issued by the International Auditing and Assurance Standards Board of IFAC. The Firm has further supplemented these requirements and guidance to reflect local requirements, as applicable. The audit software platform, including documentation templates, is a tool that enhances the consistent implementation of the Firm's audit approach and promotes effectiveness and efficiency.

The following are the main elements of the Firm's audit approach:

#### ***Understanding of the Entity and its Environment***

An understanding of the entity and its environment, including its internal control, to assess the risks of material misstatement at the financial statement and assertion level is vital to performing an effective audit. The Firm's engagement teams develop this understanding and assess financial statement risks of material misstatement in a number of ways, including analyzing financial information to identify trends and unusual balances; holding in-depth discussions with management and those charged with governance; considering the inherent nature of each financial statement component and the risks associated with that component; evaluating the design of relevant internal controls and determining if they have been implemented; assessing the extent to which technology is used in the financial reporting process; and, if applicable, reviewing internal audit findings.

As necessary, based on the nature of the entity's information systems and the extent to which technology plays a role in the transaction processing and financial reporting processes, information technology specialists may be involved in the audit engagement.

### ***Audit Procedures***

Engagement teams develop the audit plan to address the risks associated with the entity, the audit engagement, and the financial statements as a whole.

Throughout the audit, engagement teams continually assess risk and how audit findings bear on the audit procedures. The Firm's audit approach allows partners and professional staff to modify the audit procedures to address issues that arise in the course of the audit.

Audit procedures to address risks of material misstatement include tests of the operating effectiveness of controls and substantive procedures, which comprise tests of details and substantive analytical procedures.

### ***Use of experts***

While the audit engagement partner retains responsibility for all aspects of the engagement, there are instances when the engagement team utilizes an expert. In such instances, an engagement team evaluates whether the expert has the necessary competence, capabilities, and objectivity.

In evaluating whether or not the expert's work constitutes appropriate audit evidence in support of the financial information, the engagement team considers:

- The source data used;
- The assumptions and methods used and, if appropriate, their consistency with those used in the prior period; and
- The results of the expert's work in light of the engagement team's overall knowledge of the business and of the results of its audit procedures.

### **Engagement documentation**

The Firm maintains policies and procedures to support the assembly and archiving of audit files whereby the audit engagement team submits the audit files for archiving within the shorter of: (1) 45 days from the date of the report; or (2) the period set out in applicable professional standards and regulatory and legal requirements. The Firm's policies and procedures address the retention of documents (in paper and electronic form), including those that address the confidentiality, safe custody, integrity, accessibility, and retrievability of archived documentation.

### **Engagement Team Reviews**

A review of the audit documentation is required to be performed by a member of the engagement team who has more experience than the preparer. In some cases, elements of audit documentation may be reviewed by several team members.

### **Engagement Quality Control Reviews**

An engagement quality control review is performed for all audit and related assurance services, with limited exceptions. The review is performed by a partner who is not directly involved in the engagement and who has the appropriate experience and knowledge about applicable accounting and auditing standards and regulations. The engagement quality control reviewer is not part of the engagement team and is not portrayed in fact or appearance as a member of the engagement team. Appropriate experience and knowledge includes experience and knowledge of the entity's industry, economic environment, and accounting principles. For all engagements, the review is performed by a partner with sufficient and appropriate experience and professional qualifications to act as an engagement partner on these types of audits.

The reviewer is appropriately briefed by the engagement team and conducts the review in such a manner that sufficient knowledge and understanding is obtained in order to reach conclusions. The reviewer's responsibility is to perform an objective review of significant auditing, accounting, and financial reporting matters, to document

the procedures the reviewer performed, and to conclude, based on all the relevant facts and circumstances of which the reviewer has knowledge, that no matters that have come to his or her attention would cause the reviewer to believe that the significant judgments made and the conclusions reached were not appropriate in the circumstances.

### **Special Reviews**

For engagements that have been identified as having much greater than normal engagement risk, a special review partner is assigned to provide an additional level of competence and objectivity in planning and performing the engagement. The special review partner is independent of the engagement. Normally this partner possesses specialized industry and technical skills applicable to the engagement and, in certain situations, is independent of the practice unit to enhance objectivity or to provide specialized resources.

### **Consultation Network and Differences of Opinions**

The Firm has established a consultation network to assist in resolving issues identified by the engagement team. Consultations include technical accounting and auditing questions regarding the application and interpretation of applicable standards and reporting issues or on any other matter pertaining to an audit engagement that requires specialized knowledge.

To facilitate the technical consultation process, the Firm has an accounting and auditing consultation structure. National Professional Practice Directors with specialized technical skills and experience are supported by Professional Practice Directors and experts in areas such as regulatory filing requirements; technical auditing requirements; and complex accounting matters like off-balance-sheet transactions, derivatives, and consolidations.

The Firm maintains policies and procedures for the resolution of differences of opinion among partners and others who are assigned to the engagement team, including those who serve in a consultative capacity.

## HUMAN RESOURCES

### Hiring

The Firm has established policies and procedures designed to provide reasonable assurance that it has sufficient partners and professional staff with the competencies, capabilities and commitment to ethical principles necessary to:

- Perform engagements in accordance with professional standards and applicable legal and regulatory requirements.
- Enable the Firm to issue reports that are appropriate in the circumstances.

In order to ensure the hiring of quality personnel for the Firm, the four recruitment standards below have been established based on the abilities required and skill requirements, which involve performance of duties/ specialist skills, project management, personnel development/internal relations and client relations. These abilities and skills can be evaluated in the recruitment interviews, while considering the recruit's potential suitability as a Firm accountant after entering the Firm and evaluating the recruit's personality to assess that there are no faults as a member of society.

#### <Recruitment Standards>

- 1) Specialist skill
- 2) Management ability (The ability to manage and coordinate one's own tasks)
- 3) Leadership
- 4) Communication skills

### Advancement

The Firm's policies and procedures for advancement have been established to provide reasonable assurance that professional staff selected for advancement have the qualifications necessary to fulfill the responsibilities they will be called on to assume. A few of the policies and procedures are identified below:

- Various professional staff levels within the Firm and descriptions of the related competencies required to perform effectively at each level have been established.
- Advancement policies and procedures that identify the experience and performance qualifications for advancement to each level have been established and communicated to the Firm's professional staff.
- Procedures for periodic performance evaluation have been established.
- A counseling program to assist professional staff in identifying realistic career paths and developing action plans to help realize professional goals has been established.

### Professional Development

All partners and professional staff take personal responsibility for ensuring that their own continuing professional development and education is appropriate to their roles, responsibilities, and professional requirements. However, the Firm establishes minimum levels of continuing professional development to be undertaken by audit partners and professional staff within a specific period of time. These levels include a minimum of 40 hours of structured learning per year, i.e. 120 hours of structured learning in every three-year period. To achieve these levels of development, the Firm offers structured, formal learning programs such as internal or external courses, seminars, or e-learning covering all areas of the competency model (e.g., shared competencies, function-specific technical competencies, and competencies in areas of specialization).

The Firm provides formal continuing professional development programs in relevant subject areas. To help partners and professional staff maintain and enhance their leadership and technical/professional capabilities, the Firm's Learning and Development Program encompasses more than formal learning; it includes Education, Experience, and Exposure guided by clear Expectations.

### Assignment of Partners and Professional Staff to Audit Engagements

The Firm assigns responsibility for each audit engagement to an audit engagement partner. The Firm's policies define the responsibilities of the audit engagement partner and those responsibilities are communicated to partners. The identity and role of that audit engagement partner is communicated to key individuals of the client's management team and those charged with governance at the client.

The Firm also has policies and procedures in place so that partners and professional staff assigned to all audit engagements have the appropriate degree of proficiency for their role and the responsibilities to be performed.

An engagement team ordinarily includes one or more of each of the following: audit engagement partner, audit manager, field senior, and staff. However, the engagement team will be developed based on the size, nature, and complexity of the entity's operations. Every audit engagement team is under the control and supervision of the audit engagement partner to whom responsibility for the conduct of all audit processes on the engagement is assigned. The audit manager assigned to the engagement is responsible for providing primary supervision and direction to the professional staff in the execution of the audit plan and in the performance of the audit engagement. The field senior is responsible for the day-to-day supervision of the other members of the engagement team. Specialists and other experts are also involved as needed.

The audit engagement partner considers many factors to determine that the engagement team collectively has the appropriate capabilities, competencies, and time to perform the audit engagement. Factors considered in this determination include, among others:

- The size and complexity of the entity's business
- The applicable financial reporting framework used in preparing the financial statements
- Applicable independence considerations, including any possible conflicts of interest and rotation requirement of the CPA Act
- The qualifications and experience of professional staff



## MONITORING

### Annual Quality Assurance Review

In accordance with DTTL policies, the audit practice of the Firm is subject to an annual quality assurance review, commonly referred to as a “practice review.” Compliance with this policy is achieved by an annual practice review covering the audit practice over a three-year cycle.

The annual practice review program is designed to cover a number of practice offices each year. The audit partners with engagement responsibilities ordinarily have a sample of their engagements reviewed at intervals not to exceed three years. Consideration is also given to assessing the performance of managers. Candidates for partner nomination would ordinarily be considered in the evaluation of the most recent practice review prior to their expected admission.

The Firm is responsible for the practice review. DTTL provides guidance and oversight regarding the practice review plans and procedures. The general coordination and administration of the practice review program is the responsibility of the Firm’s practice review director, in conjunction with the DTTL regional practice review director.

The practice review plan, process, and results are reviewed and concurred on by a partner from another member firm (the “external partner”) every year. The external partner works closely with the Firm’s practice review director and the regional practice review director in overseeing and challenging the planning and performance of the practice review.

### **Types of Engagements Reviewed**

The engagements selected for review include national engagements and inbound/outbound transnational engagements (audits of financial statements that are or may be used across national borders), including public interest entities, as well as a number of high risk audit engagements. All major industries served by the Firm or practice office are considered.

### **Scope of Practice Reviews**

Reviewers are chosen from regional and international pools and from other practice offices within the Firm as appropriate. The assignment of reviewers is based on skill level, industry knowledge, and experience on transnational engagements.

The reviews of individual engagements consist of discussions with the engagement partners and/or engagement managers and reviews of related reports, working papers, and, where appropriate, correspondence files.

Engagements are reviewed to:

- Determine whether quality control procedures have been properly applied.
- Assess the adequacy of implementation of the audit approach and compliance with the policies and procedures contained in the Firm’s policy manuals.
- Monitor compliance with applicable local laws.
- Assess the overall quality of service provided to clients.

The overall risk management and quality control policies and procedures of practice offices within the Firm are also reviewed, including the following:

- Risk management program, including client and engagement acceptance and continuance
- Independence
- Recruitment and advancement
- Professional development
- Public filings in other countries
- Information technology specialist reviews
- Consultation with Firm experts
- Consultation with outside experts
- Engagement quality control reviews

### **Results of Practice Reviews**

The findings and recommendations resulting from the practice reviews are included in the Firm's audit quality plan and presented to the Firm's A&A and RA CEO and other appropriate Firm leaders as well as members of the DTTL regional and global leadership. The purpose of the audit quality plan is to provide suggestions for improvement in response to findings noted and to drive audit quality within the Firm overall. The Firm addresses findings by conducting a root cause analysis and drawing up a detailed action plan setting out the specific remedial actions to be taken, the person(s) responsible, and the timing for implementation.

In addition, the Firm communicates deficiencies identified as a result of the practice review (if any) and recommendations for appropriate remedial actions to the relevant partners and other appropriate individuals. The Firm also communicates annually the results of the practice review and ongoing consideration and evaluation of its system of quality control to its partners and other appropriate individuals within the Firm.

### **Complaints and Allegations**

The Firm's policies and procedures are designed to provide it with reasonable assurance that it deals appropriately with complaints and allegations that the work performed by the Firm failed to comply with professional standards, and regulatory and legal requirements, and allegations of noncompliance with the Firm's system of quality control.

# Statement by the Administrative or Management Body on the Effectiveness of the Internal Quality Control System's Functioning

The Firm adopts and complies with quality control policies and processes applicable to the acceptance/recurrence and planning of audit engagements, the conduct of auditing, and the issuance of auditor's reports in accordance with the "Quality Control Standards on Auditing" issued by the Business Accounting Council on October 28, 2005.

Under the supervision of the A&A and RA CEO of the Firm who is ultimately responsible for the quality control system of the Firm, the National Professional Practice Directors are responsible for design, implementation, and operation of the quality control policies and processes, as well as refinements of these duties. In addition, the Reputation Risk Leader is responsible for monitoring design, implementation, and operation of such policies and processes.

The Firm establishes and enforces quality control policies and processes of audit and related services, and reasonably ensures the quality of audit and related services.

# External Quality Assurance Review

## JICPA

The Quality Control Committee of the JICPA performs a quality control review of the Firm's system of quality control. The review is performed to evaluate whether the Firm's system of quality control is designed and operated in conformity with the standards of quality control.

The JICPA has informed us that we cannot disclose any information, in whole or in part, about the review by the JICPA or its review report due to reasons of confidentiality.

## CPA AOB

For the overview of the Certified Public Accountants and Auditing Oversight Board (CPA AOB), refer to "Chapter II Quality Control Review System 1. Overview" of "The CPA Profession in Japan" published by the JICPA, which can be accessed at the following website :

[http://www.hp.jicpa.or.jp/english/about/publications/pdf/PUBLICATION-CPA\\_Profession\\_in\\_Japan2008.pdf](http://www.hp.jicpa.or.jp/english/about/publications/pdf/PUBLICATION-CPA_Profession_in_Japan2008.pdf)

Based on Paragraph 2 of Article 49-3 of the Certified Public Accountants Act of Japan, the CPA AOB conducts inspection of the Firm.

The CPA AOB has informed us in writing that we cannot disclose any information, in whole or in part, about the inspection by the CPA AOB or its inspection report due to reasons of confidentiality.

## PCAOB

At least once in every three calendar years, U.S. Public Company Accounting Oversight Board (PCAOB) inspections are required for a registered public accounting firm that, during any of the three prior calendar years, issued an audit report with respect to at least one, but no more than 100, issuers, or that played a substantial role in the preparation or furnishing of an audit report with respect to at least one issuer. The scope of the inspections includes an evaluation of the quality of the audit work performed on selected audits and a review of practices, policies, and procedures of the quality control system.

The public portion of the PCAOB's most recent inspection report is available on the following website :

<https://pcaobus.org/Inspections/Reports/Documents/2014-Deloitte-Tohmatsu-Japan.PDF>

# Financial Information

The following table summarizes the revenues of the Firm:

(Japanese yen in millions)

Service	2016	2017
<b>Revenue</b>	96,478	70,977
<b>Audit</b>	70,459	52,408
<b>Non-audit services</b>	26,019	18,569

Effective May 31, 2017, the Firm changed its fiscal year-end from September 30 to May 31. Accordingly, fiscal year 2017 consists of only 8 months of operations whereas fiscal year 2016 consists of twelve months.

## Outline of Business

### Audit services

The Firm provides a broad range of audit services including statutory audits conducted for entities that are required under the Financial Instruments and Exchange Act and/or the Companies Act of Japan to be audited and for educational and other entities, as well as voluntary audits. The number of audit clients as of the end of this fiscal year decreased by 28 from the previous year to 3,399. Revenues from the audit services for the fiscal year were ¥52,408 million.

### Non-audit services

The Firm also provides a broad range of advisory services to meet the diverse needs of the economic community and stakeholders, which include, but are not limited to, services related to industry regulations, accounting and finance, and risk management in technology areas. The number of non-audit clients was 2,940 and revenues from non-audit services were ¥18,569 million.

As a result, total revenues from audit services and non-audit services for the year were ¥70,977 million.

# Partner Remuneration

The Partner Evaluation Committee determines respective partners' remuneration based on the results of partner evaluations and other relevant information. Our partner evaluation process consists of two aspects: professional ability evaluation and performance evaluation. In professional ability evaluation, we assess respective partners' professional ability based on the requirements applicable to each position level, with an emphasis on their quality in professional work, expertise and skills, while performance evaluation is based on the results of assignments allocated to respective partners including their operational efficiency and working hours.

# Public Interest Entities

A list of our public interest entity audit clients as reported in EU Member States<sup>1</sup> as of May 31, 2017 is as follows:

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Development Bank of Japan Inc.

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OMRON Corporation

<sup>1</sup> Relevant audit clients generally include companies incorporated outside the EU/Europe Economic Area (EEA) whose transferable securities are admitted to trading on a regulated market of any Member State of the EU/EEA, with certain exceptions, as described in the Frequently Asked Questions (FAQ) Annexes to the Forms A & B (EU) Common Application Forms. Each of the EU Member States in which Deloitte Touche Tohmatsu LLC is registered defines relevant audit client in a similar manner.

# Deloitte.

## デロイト トーマツ

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