

**Audit and Supervisory Committee Audit Practice Standards for Internal Control Systems**

Japan Audit & Supervisory Board  
Members Association

Enacted on September 29, 2015

Final revision on December 16, 2021

**Revision of Audit and Supervisory Committee Audit Practice Standards for Internal Control Systems**

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The amended Companies Act, amended Ordinance for Enforcement of the Companies Act, and the like took effect in March 2021, and the Corporate Governance Code was revised twice in 2018 and 2021, in addition to which the auditing standards for auditors have been revised several times. Accordingly, in addition to revising the Code of Audit and Supervisory Committee Auditing and Supervising Standards on December 16, 2021, the Association has decided to review and make necessary revisions to the Practice Standards at this time in order to respond to these environmental changes.

# **Enactment of Audit and Supervisory Committee Audit Practice Standards for Internal Control Systems**

Japan Audit & Supervisory Board  
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## **I Background**

In the amended Companies Act that took effect in May 2015, provisions were added regarding companies with audit and supervisory committees, a new organizational structure, and in response thereto, the Association formulated the Code of Audit and Supervisory Committee Auditing and Supervising Standards as specific behavioral guidelines for audit and supervisory committees. In Article 25 (Audit of Internal Control Systems), paragraph 7 of the Code, provisions were added that state, “Audits regarding Internal Control Systems will be governed by the ‘Audit and Supervisory Committee Audit Practice Standards for Internal Control Systems’ enacted separately in addition to this Code,” thereby stipulating that more specific audit practice standards for internal control systems be separately developed. In response to those provisions, the Association has decided to enact the “Audit and Supervisory Committee Audit Practice Standards for Internal Control Systems.”

## **II Main Perspectives of the Practice Standards**

The Practice Standards respond to Article 25, paragraph 7 of the Code of Audit and Supervisory Committee Auditing and Supervising Standards and are based on the same basic awareness and views as those of the Code, and the Practice Standards are intended to be understood and utilized together with the Code.

The main perspectives of the Practice Standards are as follows.

1. The Practice Standards set out standards and behavioral guidelines for conducting audits performed by the audit and supervisory committee in relation to the internal control systems of the company pursuant to the Code of Audit and Supervisory Committee Auditing and Supervising Standards (Article 1).
2. The matters subject to audits under the Practice Standards are whether or not there are grounds for finding that the contents of board of directors’ resolutions regarding internal control systems are not appropriate, whether or not there are any inadequacies in the status of the directors’ establishment and operation of internal control systems, and whether or not there are grounds for finding that summaries of internal control resolutions and statements regarding the status of the establishment and operation of internal control systems stated in business reports are not appropriate (Article 3).
3. It is expressly stated that when performing internal control system audits, the company’s control environment is a particularly important audit focus for the audit and supervisory committee, in addition to which focusing on whether or not internal control systems respond to risks anticipated by the company that are likely to cause significant damage to the company (risk approach) and monitoring and verifying whether or not the components of internal control systems are effectively functioning as processes to respond to material risks (process check) are set out as basic audit approaches (Article 4).
4. In the Practice Standards, coordination with the internal audit division, etc. includes instructions and orders thereto (Article 6, paragraph 5). This is because it was considered necessary to expressly provide for maintaining the right to issue instructions and orders to the internal audit division, etc. in order for the audit and supervisory

committee to effectively conduct systematic audits.

5. Chapter IV lists material risks that should be given a significant audit focus in regard to legal compliance systems, risk of loss management systems, information retention and management systems, systems for ensuring efficiency, and corporate group internal controls, each provided for in the Companies Act. Additionally, points to check and bear in mind (important points for internal controls) when auditing each system are also listed. However, those risks and points are only examples, and naturally, it is necessary to select risks and points that are neither excessive nor insufficient in light of the characteristics, etc. of the company.
6. Chapter V lists matters to focus on, points for making determinations, methods of determination, and other such matters for when the audit and supervisory committee performs monitoring and verification in regard to financial report internal controls.

### **III Other Points to Note**

The Practice Standards apply to large companies, as defined in the Companies Act, and have been formulated mainly in consideration of listed companies.

The provisions set out in the Practice Standards stipulate behavioral guidelines for audit and supervisory committees to carry out the responsibilities imposed on them under the Companies Act, and audit and supervisory committees are required to act in consideration of matters such as the company's scale, business type, business format, management risks, other audit environment matters specific to the company, and the status of the delegation of authority to make decisions on business execution from the board of directors to the representative directors and other executive directors.

# **Audit and Supervisory Committee Audit Practice Standards for Internal Control Systems**

## **Chapter I Purpose, etc. of these Practice Standards**

### **Article 1 Purpose**

These Practice Standards set out standards and behavioral guidelines for conducting audits performed by the audit and supervisory committee in relation to the internal control systems of the company (“Internal Control System Audits”) pursuant to Article 25, paragraph 7 of the Code of Audit and Supervisory Committee Auditing and Supervising Standards (enacted September 29, 2015; final revision on December 16, 2021).

### **Article 2 Definition of Internal Control Systems, etc.**

In these Practice Standards, the following terms have the following meanings. References to chapters and articles in these Practice Standards refer to chapters and articles herein unless otherwise specified.

- (i) “Internal Control Systems” means the systems provided for in the items of Article 25, paragraph 1 of the Code of Audit and Supervisory Committee Auditing and Supervising Standards.
- (ii) “Legal Compliance Systems” means systems to ensure that the performance of the duties of directors and employees complies with all laws, regulations, and the articles of incorporation.
- (iii) “Risk of Loss Management Systems” means company rules and other systems relating to the management of the risk of loss.
- (iv) “Information Retention and Management Systems” means systems to retain and manage information related to the directors’ performance of their duties.
- (v) “Systems to Ensure Efficiency” means systems to ensure the efficiency of the directors’ performance of their duties.
- (vi) “Corporate Group Internal Controls” means systems to ensure the appropriateness of corporate affairs in the corporate group consisting of the company, its parent companies, and its subsidiaries.
- (vii) “Financial Report Internal Controls” means systems to ensure the appropriateness of financial reports regarding the company and the corporate group to which it belongs.
- (viii) “Directors in Charge of Financial Affairs” means directors in charge of financial reports.
- (ix) “Systems to Ensure the Effectiveness of Audit and Supervisory Committee Audits and Supervision” means the systems provided for in the items of Article 17 of the Code of Audit and Supervisory Committee Auditing and Supervising Standards.
- (x) “Audit and Supervisory Committee Reporting Systems” means the systems for the directors and employees to report to the audit and supervisory committee and other systems for reporting to the audit and supervisory committee.
- (xi) “Selected Audit and Supervisory Committee Members” means the audit and

supervisory committee members provided for in the items of Article 10, paragraph 1 of the Code of Audit and Supervisory Committee Auditing and Supervising Standards.

- (xii) “Internal Audit Division, Etc.” means the Internal Audit Division, Etc. defined in Article 20, paragraph 1 of the Code of Audit and Supervisory Committee Auditing and Supervising Standards.
- (xiii) “Supporting Employees, Etc.” means the Supporting Employees, Etc. defined in Article 15, paragraph 1 of the Code of Audit and Supervisory Committee Auditing and Supervising Standards.
- (xiv) “Internal Control Division” means the Internal Control Division defined in Article 9, paragraph 3 of the Code of Audit and Supervisory Committee Auditing and Supervising Standards.
- (xv) “Internal Control Resolutions” means board of directors’ resolutions regarding Internal Control Systems made pursuant to Article 399-13, paragraph (1), items (i)(b) and (i)(c) of the Companies Act and Article 110-4, paragraphs (1) and (2) of the Ordinance for Enforcement of the Companies Act.
- (xvi) “Meetings, Etc.” means meetings of the board of directors, the compliance committee, and the risk management committee and other related meetings, committee meetings, and the like.
- (xvii) “Representative Directors, Etc.” means the executive directors, including the representative directors.
- (xviii) “Material Fault” means an inadequacy in internal controls in regard to which it is found that there is a material fact regarding the establishment and operation of the Internal Control Systems constituting a breach of the directors’ duty of care.

## **Chapter II**

### **Basic Policies and Methods, etc. for Internal Control System Audits**

#### **Article 3 Matters Subject to Internal Control System Audits**

The audit and supervisory committee will perform audits in regard to the following matters relating to Internal Control Systems as part of its audits regarding the directors’ performance of their duties:

- (i) whether or not there are grounds for finding that the contents of Internal Control Resolutions are not appropriate;
- (ii) whether or not there are any inadequacies in the status of the directors’ establishment and operation of Internal Control Systems; and
- (iii) whether or not there are grounds for finding that summaries of Internal Control Resolutions and statements regarding the status of the establishment and operation of Internal Control Systems included in business reports are not appropriate.

#### **Article 4 Basic Policies for Internal Control System Audits**

1. The audit and supervisory committee will monitor and verify the contents of Internal Control Resolutions and the status of the establishment and operation of Internal Control Systems as its own responsibility with an awareness that the appropriate establishment and operation of Internal Control Systems is essential in order to establish a good

corporate governance system.

2. The audit and supervisory committee will perform Internal Control System Audits with a significant audit focus on the company's governance environment, such as the representative directors' and other directors' awareness of the importance of Internal Control Systems, the status of measures to establish and operate Internal Control Systems, and the status of supervision by the board of directors (including the status of reports to the board of directors regarding necessary matters).
3. The audit and supervisory committee will perform Internal Control System Audits with a focus on whether or not Internal Control Systems respond to risks anticipated by the company and the corporate group to which it belongs that are likely to cause significant damage to the company. If the audit and supervisory committee finds that Internal Control Systems do not respond to such risks, it will take appropriate measures regarding that inadequacy of the Internal Control Systems, such as making suggestions or recommendations to the Representative Directors, Etc. or making reports or proposals or expressing opinions to the board of directors.
4. The audit and supervisory committee will monitor and verify whether or not the components of Internal Control Systems, such as company rules and organizational systems for implementing internal controls, systems for ascertaining and communicating information, and monitoring systems, are effectively functioning as processes to respond to the risks stated in the preceding paragraph.
5. The audit and supervisory committee will monitor and verify whether or not the board of directors and the Representative Directors, Etc. are establishing and operating Internal Control Systems through appropriate decision-making processes and other appropriate procedures.

#### **Article 5 Audits Regarding Internal Control Resolutions**

1. The audit and supervisory committee will monitor and verify Internal Control Resolutions by applying the following considerations:
  - (i) whether the contents of Internal Control Resolutions include all of the matters provided for in Article 399-13, paragraph (1), items (i)(b) and (i)(c) of the Companies Act and Article 110-4, paragraphs (1) and (2) of the Ordinance for Enforcement of the Companies Act;
  - (ii) whether resolutions have been made regarding how Internal Control Systems should respond to risks that are likely to cause significant damage to the company;
  - (iii) whether necessary reviews of the contents of Internal Control Resolutions are conducted in a timely and appropriate manner; and
  - (iv) whether the matters commented upon by the audit and supervisory committee in reports, proposals, or expressed opinions regarding Internal Control Resolutions (including comments regarding Systems to Ensure the Effectiveness of Audit and Supervisory Committee Audits and Supervision provided for in Chapter III) are appropriately reflected in board of directors' resolutions, and if not, whether there are legitimate reasons therefor.
2. In regard to the status of the establishment and operation of Internal Control Systems in each business year, the audit and supervisory committee will request the Representative Directors, Etc. to evaluate matters such as whether Internal Control Systems are established and operated in accordance with the basic policies set out in Internal Control Resolutions and whether there are points in regard to those basic policies that should be

reviewed and will receive explanations in regard thereto. Additionally, if it is necessary in order to examine the necessity of matters such as a review of the contents of Internal Control Resolutions, the audit and supervisory committee will request the Representative Directors, Etc. to report the contents of that evaluation to the board of directors.

## **Article 6 Audits Regarding the Status of the Establishment and Operation of Internal Control Systems**

1. Through the audit activities provided for in this article and other daily audit activities, the audit and supervisory committee will monitor and verify whether or not each of the Internal Control Systems provided for in the articles of Chapter IV (in this article and Article 8, “Each System”) responds to the material risks stated in paragraph 1 of each article of Chapter IV. The audit and supervisory committee will perform audits and take appropriate measures in accordance with Chapter V for Financial Report Internal Controls and with Chapter III for Systems to Ensure the Effectiveness of Audit and Supervisory Committee Audits and Supervision.
2. When beginning Internal Control System Audits for each business year, the audit and supervisory committee will ascertain the contents of Internal Control Resolutions and the status of the establishment and operation of Internal Control Systems at that time and formulate a plan for Internal Control System Audits. If the contents of Internal Control Resolutions are amended during a business year, the audit and supervisory committee will perform any necessary review of audit plans or the like in response to those amendments.
3. Through attendance at Meetings, Etc., exchanging information and opinions with the Representative Directors, Etc., and other such methods, the audit and supervisory committee will ascertain the status of the establishment and operation of Each System and the directors’ awareness in regard thereto and will as necessary request reports from the Representative Directors, Etc. regarding matters such as the status of the establishment and operation of Each System.
4. The audit and supervisory committee will receive timely and appropriate reports from the Internal Audit Division, Etc. regarding internal audit plans, plans for implementing other monitoring, the status of the implementation thereof, and audit results. The audit and supervisory committee will regularly receive reports from the Internal Audit Division, Etc. regarding the status of responses to material risks by Each System and other matters relating to the status of the establishment and operation of Each System and will as necessary request that Selected Audit and Supervisory Committee Members or Supporting Employees, Etc. be present during or attend investigations and the like performed by the Internal Audit Division, Etc. or request the Internal Audit Division, Etc. to perform additional investigations or the like and report the results thereof to the audit and supervisory committee.
5. Through the coordination with the Internal Audit Division, Etc., including instructions and orders thereto, provided for in the preceding paragraph, the audit and supervisory committee will monitor and verify the effectiveness of the monitoring function of Internal Control Systems, such as whether or not the Internal Audit Division, Etc. continually examines and evaluates the status of the establishment and operation of Each System and whether or not the Representative Directors, Etc. implement necessary improvements in consideration thereof.
6. In addition to the coordination with the Internal Audit Division, Etc. provided for in paragraph 4, the audit and supervisory committee will receive reports regularly and

whenever needed and will request explanations as necessary from the Internal Control Division regarding the status of the establishment and operation of Each System, any material events affecting the effectiveness of Each System, and the status of responses to such events.

7. Through regular meetings and the like with the accounting auditor, the audit and supervisory committee will ascertain the opinions and the like of the accounting auditor in relation to the status of the establishment and operation of Internal Control Systems and will as necessary request reports in regard thereto.

#### **Article 7 Audits of Matters Stated in Business Reports Regarding Internal Control Systems**

The audit and supervisory committee will verify whether a summary of the contents and operation of Internal Control Resolutions is accurately and appropriately stated in the business report. Additionally, in any of the following cases, the audit and supervisory committee will verify whether the status of the establishment and operation of Internal Control Systems for the relevant business year is appropriately stated in the business report:

- (i) cases where significant corporate wrongdoing or the like has occurred, and improvements to Internal Control Systems, including measures to prevent reoccurrence, are required; or
- (ii) other than the cases stated in the preceding item, cases where it is found appropriate to state such matters as important matters relating to the current status of the company, such as the progress and results of business or issues to be addressed.

#### **Article 8 Measures, etc. in Response to Inadequacies, etc. in Internal Control Systems**

1. If the audit and supervisory committee finds any points that should be reviewed in the contents of Internal Control Resolutions, it will make proposals and express opinions to the board of directors. If the board of directors does not take appropriate measures despite such proposals or expressed opinions without a legitimate reason, as a result of which it is found that the contents of Internal Control Resolutions are not appropriate, the audit and supervisory committee will make a comment to that effect in audit reports. The same measures will be taken in cases where it is found that statements in business reports regarding Internal Control Systems are significantly inappropriate.
2. The audit and supervisory committee will examine the methods of implemented audits and audit results of audits regarding the status of the establishment and operation of Internal Control Systems and any inadequacies that were discovered, deliberate on whether or not there are any matters regarding which measures such as making suggestions or recommendations to the Representative Directors, Etc. or making reports or proposals or expressing opinions to the board of directors should be taken and the details of such measures, and as necessary determine such measures.
3. If the audit and supervisory committee determines any matters to be suggested or recommended based on deliberation under the preceding paragraph, the audit and supervisory committee will explain to the Representative Directors, Etc. or the board of directors the findings of the audit and supervisory committee and the basis of its determinations relating to the status of the establishment and operation of Internal Control Systems and any inadequacies in regard thereto and will make suggestions or recommendations regarding improvement measures or the like.



4. If the Representative Directors, Etc. or the board of directors does not take appropriate measures despite the suggestions or recommendations of the audit and supervisory committee under the preceding paragraph without a legitimate reason, as a result of which it is found that there is a Material Fault in the status of the establishment and operation of Each System, the audit and supervisory committee will make a comment to that effect in audit reports. The same measures will be taken in cases where it is found that statements in business reports regarding a summary of the status of the establishment and operation of Internal Control Systems are significantly inappropriate.
5. The deliberations and determinations of the audit and supervisory committee provided for in this article will not preclude any audit and supervisory committee member from exercising his or her own powers provided for in laws and regulations.

### **Chapter III**

#### **Audits of Systems to Ensure the Effectiveness of Audit and Supervisory Committee Audits and Supervision**

##### **Article 9 Matters Relating to Supporting Employees, Etc.**

1. If any of the following circumstances is found in relation to Supporting Employees, Etc., the audit and supervisory committee will make necessary requests to the Representative Directors, Etc. or the board of directors:
  - (i) In light of the audit system of the audit and supervisory committee, the number or level of expertise of Supporting Employees, Etc. found necessary for the audit and supervisory committee to perform its duties is not satisfied;
  - (ii) Attendance at Meetings, Etc., collecting of information, and other necessary acts performed by Supporting Employees, Etc. pursuant to instructions from the audit and supervisory committee are found to be inappropriately restricted;
  - (iii) The rights of the audit and supervisory committee to control and direct Supporting Employees, Etc. as necessary are found to be inappropriately restricted;
  - (iv) The audit and supervisory committee is not granted the right to consent to personnel changes (including the department to which the Supporting Employees, Etc. are transferred), personnel evaluations, disciplinary actions, and the like regarding Supporting Employees, Etc.;
  - (v) A situation has arisen that restricts or limits the effectiveness of instructions from the audit and supervisory committee to Supporting Employees, Etc.; and
  - (vi) Other particular circumstances are found that hinder the effectiveness of audit and supervisory committee audits and supervision.
2. If the Representative Directors, Etc. or the board of directors does not take appropriate measures in response to a request under the preceding paragraph without a legitimate reason, the audit and supervisory committee will comment to that effect in audit reports and the like.

##### **Article 10 Audit and Supervisory Committee Reporting Systems**

1. If any of the following circumstances is found in relation to Audit and Supervisory Committee Reporting Systems, the audit and supervisory committee will make necessary

requests to the Representative Directors, Etc. or the board of directors:

- (i) In regard to important Meetings, Etc. that Selected Audit and Supervisory Committee Members or Supporting Employees, Etc. are required to attend other than board of directors' meetings, measures are not taken to ensure the opportunity for Selected Audit and Supervisory Committee Members or Supporting Employees, Etc. to attend such Meetings, Etc.;
  - (ii) In regard to Meetings, Etc. not attended by Selected Audit and Supervisory Committee Members or Supporting Employees, Etc., measures enabling the Audit Committee to view in a timely manner upon request materials submitted to such Meetings, Etc., minutes thereof, and the like are not taken;
  - (iii) Measures enabling the Audit Committee to view in a timely manner upon request materials circulated for approval relating to decision-making for business execution and other material documents are not taken;
  - (iv) Matters that should be regularly reported to the audit and supervisory committee by the Representative Directors, Etc., Internal Audit Division, Etc., or Internal Control Division are not reported;
  - (v) Other than the reporting matters under the preceding item, matters that should be reported in a timely manner to the audit and supervisory committee by the Representative Directors, Etc., Internal Audit Division, Etc., or Internal Control Division are not reported;
  - (vi) Information that should be provided to the audit and supervisory committee from the internal reporting systems for whistleblowers established in the company is not reported in a timely manner; and
  - (vii) It is not ensured that persons who make reports to the audit and supervisory committee or who provide information to the internal reporting systems for whistleblowers do not receive disadvantageous treatment due to having done so.
2. If the Representative Directors, Etc. or the board of directors does not take appropriate measures in response to a request under the preceding paragraph without a legitimate reason, the audit and supervisory committee will comment to that effect in audit reports and the like.

#### **Article 11 System of Coordination, etc. with the Internal Audit Division, Etc.**

1. If any of the following circumstances is found, the audit and supervisory committee will make necessary requests to the Representative Directors, Etc. or the board of directors:
  - (i) It is found that the coordination between the audit and supervisory committee and the Internal Audit Division, Etc. provided for in Article 6, paragraph 4 is not conducted effectively;
  - (ii) Other than as provided for in the preceding item, it is found that there is an obstacle to effective coordination between the audit and supervisory committee and the Internal Audit Division, Etc.; and
  - (iii) Matters requested by the audit and supervisory committee in relation to reports from the Internal Control Division provided for in Article 6, paragraph 6 are not being complied with.
2. If the audit and supervisory committee finds that the monitoring functions of the Internal Audit Division, Etc. are not being effectively fulfilled, the audit and supervisory committee will take measures such as issuing specific instructions for improvement to the

Internal Audit Division, Etc. and will as necessary make necessary requests to the Representative Directors, Etc. or the board of directors.

3. If the Representative Directors, Etc. or the board of directors does not take appropriate measures in response to a request or the like under the preceding two paragraphs without a legitimate reason, the audit and supervisory committee will comment to that effect in audit reports and the like.

#### **Article 12 Audit Expenses**

If any of the following circumstances is found in regard to audit expenses, the audit and supervisory committee will make necessary requests to the Representative Directors, Etc. or the board of directors:

- (i) In regard to expenses necessary for daily audit activities and the like, procedures for advance payment or reimbursement of audit expenses, such as budgetary procedures, are not established;
- (ii) The audit and supervisory committee is unable to receive advance payment or reimbursement of expenses for receiving advice from outside professionals found necessary by the audit and supervisory committee;
- (iii) Audit and supervisory committee members are unable to receive advance payment or reimbursement of expenses for regular training and the like suitable for acquiring or appropriately updating, etc. the knowledge necessary in order to deepen their understanding of their roles and responsibilities;
- (iv) Procedures for advance payment of expenses necessary for extraordinary activities, such as expenses for the audit and supervisory committee to respond when corporate wrongdoing occurs, are not established; and
- (v) Other than as in the cases provided for in the preceding items, it is found that there is an obstacle to the effective implementation of audit activities or the like in relation to the advance payment or reimbursement of audit expenses and the like.

### **Chapter IV**

#### **Audits of Legal Compliance Systems and Risk of Loss Management Systems, etc.**

#### **Article 13 Audits Regarding Legal Compliance Systems**

1. The audit and supervisory committee will monitor and verify Legal Compliance Systems with a significant audit focus on whether or not they respond to the material risks listed below:
  - (i) the risk that acts in violation of laws, regulations, or the like will be performed under the initiative or with the involvement of the Representative Directors, Etc.;
  - (ii) the risk that as a result of the Representative Directors, Etc. not ascertaining the status of legal compliance in a timely and appropriate manner, acts in violation of laws, regulations, or the like will be performed systematically or repeatedly and continually; and
  - (iii) the risk that acts in violation of laws, regulations, or the like ascertained by the Representative Directors, Etc. that are likely to cause significant damage to the company and should be publicly reported or announced are concealed.

2. The audit and supervisory committee will determine whether or not Legal Compliance Systems respond to the risks provided for in the preceding paragraph after specifying important points for internal controls, including the following matters (however, the following matters are only examples, and the audit and supervisory committee will specify important points that are neither excessive nor insufficient in light of the business details, scale, and other characteristics of the company; the same applies below in paragraph 2 of each article up to and including Article 18):
  - (i) whether the Representative Directors, Etc. recognize that compliance with laws, regulations, and the like and the establishment and operation of effective systems therefor are essential in corporate management;
  - (ii) in regard to decision-making and individual acts of business execution by the board of directors, management committee, and other important Meetings, Etc., whether systems to ensure that decision-making and business execution are performed in compliance with laws, regulations, and the like are established and operated, such as systems for consulting in a timely and appropriate manner with the department in charge of legal affairs or outside professionals regarding matters relating to compliance with laws, regulations, and the like; whether the board of directors, management committee, or other important Meetings, Etc. do not actually engage in decision-making that prioritizes securing profit or the like over compliance with laws, regulations, and the like;
  - (iii) whether basic policies, standards of conduct, or the like regarding compliance with laws, regulations, and the like have been established, and whether the contents of material laws and regulations related to business activities and the like are thoroughly known within the company; whether appropriate policies for responding to anti-social forces are thoroughly known within the company; additionally, whether ethical standards, quality standards, safety standards, and the like are thoroughly known within the company;
  - (iv) whether a monitoring department that supervises the status of compliance with laws, regulations, and the like is established, problems relating to the company's compliance with laws, regulations, and the like are discovered, and improvement measures are taken; whether disciplinary rules relating to violations of laws, regulations, and the like have been developed and appropriate measures are taken in accordance therewith; and
  - (v) in regard to matters that may materially affect the effectiveness of Legal Compliance Systems, whether systems through which such matters are regularly reported to the board of directors and the audit and supervisory committee are established and operated; whether systems through which transactions and activities of which the Internal Control Division is suspicious are communicated in a timely and appropriate manner to the Internal Audit Division, Etc. and the audit and supervisory committee are established and operated; whether systems through which the status of compliance with laws, regulations, and the like is ascertained independently from the business execution line, such as internal reporting systems for whistleblowers, are established and operated.

#### **Article 14 Audits Regarding Risk of Loss Management Systems**

1. The audit and supervisory committee will monitor and verify Risk of Loss Management Systems with a significant audit focus on whether or not they respond to the material risks listed below:

- (i) the risk that the company will incur significant damage as a result of a material omission or mistake in the advance identification, analysis, or evaluation of, or response to, various elements necessary for the appropriate management of the risk of loss;
  - (ii) the risk that business activities that are likely to cause significant damage to the company are continued without a legitimate reason; and
  - (iii) the risk that if an accident or other event likely to cause significant damage to the company actually occurs, damage will spread or it will become impossible to continue business as a result of appropriate response systems not being established or operated.
2. The audit and supervisory committee will determine whether or not Risk of Loss Management Systems respond to the risks provided for in the preceding paragraph after specifying important points for internal controls, including the following matters:
- (i) whether the Representative Directors, Etc. recognize that risk of loss management and the establishment and operation of effective systems therefor are essential in corporate management;
  - (ii) whether the board of directors, management committee, and other important Meetings, Etc. discuss measures in response to events that are likely to cause significant damage to the company following risk analysis based on sufficient information;
  - (iii) whether the Representative Directors, Etc. are aware of risks relating to damage to the trust in and brand of the company and other risks relating to the continuation of the company for each business of the company; whether appropriate evaluations have been performed regarding the possibility of such risks occurring and the extent of damage if such risks occur; whether examples of accidents in other companies, changes in social values regarding safety and the environment, and changes in legal restrictions, other management environment matters, and risk factors are recognized, and whether systems for responding in a timely and appropriate manner thereto are established and operated;
  - (iv) whether a plan for responding to risks that should be focused on for the business year has been formulated; whether a mechanism through which the implementation status of that plan is regularly reviewed is established and operated;
  - (v) whether management rules that provide for how to identify, analyze, evaluate, and respond to all types of risks are established and operated; whether business is performed in accordance with the established company rules and division of duties; whether a monitoring department that supervises the status of risk of loss management is established, problems relating to the company's risk of loss management are discovered, and improvement measures are taken;
  - (vi) whether timely and appropriate examinations are conducted regarding the continuation of business activities that are likely to cause significant damage to the company; whether such business activities are not being left unaddressed without a legitimate reason;
  - (vii) in regard to matters that may materially affect the effectiveness of Risk of Loss Management Systems, whether systems through which such matters are regularly reported to the board of directors and the audit and supervisory committee are established and operated; whether systems through which the status of risk of loss management is ascertained independently from the business execution line, such as

- internal reporting systems for whistleblowers, are established and operated; and
- (viii) anticipating cases in which a situation that will cause significant damage to the company actually occurs, in order to minimize the damage, whether policies regarding matters such as the establishment of a task force in which the Representative Directors, Etc. are members, an emergency contact network and other systems for communicating information, responses to customers, media, supervisory authorities, and the like, and business continuity are determined in advance.

## **Article 15 Audits Regarding Information Retention and Management Systems**

1. The audit and supervisory committee will monitor and verify Information Retention and Management Systems with a significant audit focus on whether or not they respond to the material risks listed below:
  - (i) the risk that the company will incur significant damage as a result of documents and other information necessary to ensure appropriate business execution, such as material contracts, meeting minutes, and statutory forms, not being appropriately prepared, retained, and managed;
  - (ii) the risk that the company will incur significant damage as a result of a leak of material business secrets, know-how, or confidential information or of information required under laws and regulations to be retained and managed, such as personal information; and
  - (iii) the risk of false statements or Material Faults in regard to disclosed material company information.
2. The audit and supervisory committee will determine whether or not Information Retention and Management Systems respond to the risks provided for in the preceding paragraph after specifying important points for internal controls, including the following matters:
  - (i) whether the Representative Directors, Etc. recognize that information retention and management and the establishment and operation of effective systems therefor are essential in corporate management;
  - (ii) whether company rules and the like regarding how to prepare, retain, and manage information are enacted and internal systems for effectively implementing those company rules are established and operated;
  - (iii) in regard to board of directors' meeting minutes and other statutory materials to be prepared, whether internal systems through which appropriate contents are recorded and retained are established and operated;
  - (iv) whether management systems, such as appropriate settings for access authority and retention periods, security policies, backups, and the like in accordance with the classification of the importance of the documents and information to be retained and managed, are established and operated;
  - (v) in regard to personal information and other information for which certain management is required under laws and regulations, whether efforts are made to make the management methods required under those laws and regulations thoroughly known within the company;
  - (vi) whether a department in charge of timely disclosure of material information of the company, investor relations, and other disclosure is established; whether systems through which information that should be disclosed is promptly and

- comprehensively gathered and is accurately and fully disclosed in a timely manner in accordance with laws, regulations, and the like are established and operated;
- (vii) whether information is managed in accordance with the established company rules and division of duties relating to information retention and management; whether a monitoring department that supervises the status of information retention and management is established, problems relating to the company's information retention and management are discovered, and improvement measures are taken; and
  - (viii) in regard to matters that may materially affect the effectiveness of information retention and management, whether systems through which such matters are regularly reported to the board of directors and the audit and supervisory committee are established and operated; whether systems through which the status of information retention and management is ascertained independently from the business execution line, such as internal reporting systems for whistleblowers, are established and operated.

#### **Article 16 Audits Regarding Systems to Ensure Efficiency**

1. The audit and supervisory committee will monitor and verify Systems to Ensure Efficiency with a significant audit focus on whether or not they respond to the material risks listed below:
  - (i) the risk that the company will incur significant damage as a result of excessive inefficiency resulting from matters such as the formulation of management strategies, allocation of management resources, establishment of organizations, and establishment and operation of performance management systems not being appropriately performed;
  - (ii) the risk that the company will incur significant damage as a result of the company's soundness being damaged by an excessive pursuit of efficiency; and
  - (iii) the risk that a decision that will cause significant damage to the company will be made as a result of a material and careless error in understanding the relevant facts on which material business decisions by the Representative Directors, Etc. are based.
2. The audit and supervisory committee will determine whether or not Systems to Ensure Efficiency respond to the risks provided for in the preceding paragraph after specifying important points for internal controls, including the following matters:
  - (i) whether the Representative Directors, Etc. recognize that the formulation of management plans and business targets that ensure the sustainable growth of the company, an appropriate balance between securing profit and ensuring soundness, and other such matters are important in corporate management;
  - (ii) whether mechanisms through which the formulation of management plans, allocation of management resources, establishment of organizations, management systems, IT measures, and the like are appropriately decided, implemented, and corrected are established and operated;
  - (iii) whether management plans, business targets, and the like that are difficult to achieve in light of factors such as the company's management resources and management environment are not established and excessive efficiency that damages the company's soundness is not pursued in order to achieve those management plans, etc.; and

- (iv) whether systems to ensure that material decision-making and individual business decisions by the Representative Directors, Etc. are made in compliance with the considerations provided for in the items of Article 23, paragraph 2 of the Code of Audit and Supervisory Committee Auditing and Supervising Standards are established and operated.

#### **Article 17 Audits Regarding Corporate Group Internal Controls**

1. The audit and supervisory committee will monitor and verify Corporate Group Internal Controls with a significant audit focus on whether or not they respond to the material risks listed below:
  - (i) the risk that the company will incur significant damage as a result of an inadequacy in Legal Compliance Systems, Risk of Loss Management Systems, Information Retention and Management Systems, or Systems to Ensure Efficiency in a significant subsidiary;
  - (ii) the risk that the company will incur significant damage as a result of the company not ascertaining in a timely and appropriate manner the status of the establishment and operation of Internal Control Systems in a significant subsidiary; and
  - (iii) the risk that the company will incur significant damage as a result of inappropriate acts being performed using a subsidiary or under inappropriate pressure from a parent company or person that controls the management of the company (in this article, a “Parent Company, Etc.”).
2. The audit and supervisory committee will determine whether or not Corporate Group Internal Controls respond to the risks provided for in the preceding paragraph after specifying important points for internal controls, including the following matters:
  - (i) whether the Representative Directors, Etc. recognize that Corporate Group Internal Controls and the establishment and operation of effective systems therefor are essential in corporate management;
  - (ii) whether management philosophies, standards of conduct, and issues to be addressed that should be shared throughout the corporate group are thoroughly known; whether standards in line with the foregoing regarding matters such as compliance with laws, regulations, and the like, risk of loss management, and information retention and management are established; whether appropriate educational activities and monitoring for compliance with those standards are implemented;
  - (iii) whether subsidiaries that occupy significant positions within the corporate group, subsidiaries with high internal control risk, significant overseas subsidiaries, and the like are not excluded from the scope of management and monitoring of Corporate Group Internal Controls;
  - (iv) whether a general headquarters or the like that regularly ascertains and monitors the status of the establishment and operation of Internal Control Systems of subsidiaries is established within the company, problems regarding material issues relating to Internal Control Systems of subsidiaries are discovered, and appropriate improvement measures are taken; whether information communication systems through which, in cases where acts in violation of laws, regulations, and the like or other situations that would cause significant damage have occurred in a subsidiary, the company is able to ascertain the status thereof in a timely and appropriate manner are established and operated; whether systems through which the company ascertains the status of subsidiaries, such as group internal reporting systems for



- whistleblowers, are established and operated;
- (v) if subsidiaries have audit and supervisory board members, audit committees, or audit and supervisory committees (in this article, “ASBMs, Etc.”), whether those ASBMs, Etc. appropriately conduct audits regarding the Internal Control Systems of the subsidiaries in accordance with Article 13 to this article, and whether communication and information exchanges with the company’s general headquarters or the like and the company’s audit and supervisory committee are performed in a timely and appropriate manner; if subsidiaries do not have ASBMs, Etc., whether appropriate systems to support the auditing function are separately established and operated within the subsidiaries or the corporate group as a whole;
  - (vi) whether matters such as information processing that should be standardized throughout the corporate group are appropriately systematized;
  - (vii) whether business targets and management plans that are difficult to achieve are not established for subsidiaries and excessive efficiency that damages the soundness of the subsidiaries or the corporate group as a whole is not pursued in order to achieve those business targets and management plans;
  - (viii) whether systems for the company to ascertain in a timely manner the status of inappropriate acts that use subsidiaries and to take appropriate improvement measures are established and operated; and
  - (ix) if the company has a Parent Company, Etc., whether systems to prevent the interests of the Parent Company, Etc. being inappropriately pursued at the expense of the interests of minority shareholders are established and operated.

## **Chapter V**

### **Audits of Financial Report Internal Controls**

#### **Article 18 Audits Regarding Financial Report Internal Controls**

1. The audit and supervisory committee will monitor and verify Financial Report Internal Controls with a significant audit focus on whether or not they respond to the material risks listed below:
  - (i) the risk that inappropriate financial reports will be made under the initiative or with the involvement of the representative directors and the Directors in Charge of Financial Affairs (in this article, the “Directors in Charge of Financial Affairs, Etc.”);
  - (ii) the risk that as a result of the Directors in Charge of Financial Affairs, Etc. not ascertaining in a timely and appropriate manner financial information that would materially affect the company’s management performance or financial status, inappropriate financial reports will be made systematically or repeatedly and continually; and
  - (iii) the risk that inappropriate financial reports will be made with the involvement, or due to being overlooked by, the accounting auditor.
2. The audit and supervisory committee will determine whether or not Financial Report Internal Controls respond to the risks provided for in the preceding paragraph after specifying important points for internal controls, including the following matters:
  - (i) whether the Directors in Charge of Financial Affairs, Etc. recognize that ensuring

the reliability of financial reports and the establishment and operation of effective systems therefor are essential in corporate management; additionally, whether a basic plan for establishing, operating, and evaluating Financial Report Internal Controls is established based on an understanding of the importance of the risk of false statements in financial reports not being discovered or prevented in a timely and appropriate manner;

- (ii) whether persons with sufficient expertise regarding accounting and financial matters are assigned to the department in charge of financial reports; additionally, whether mid- to long-term efforts to develop persons with that expertise are made;
  - (iii) whether the Directors in Charge of Financial Affairs, Etc. establish and operate systems to enable appropriate determinations and responses regarding the following important matters in order to ensure the reliability of financial reports (however, the following matters are only examples, and the audit and supervisory committee will specify important points that are neither excessive nor insufficient in light of the business details, scale, and other characteristics of the company):
    - (a) the appropriateness and suitability of accounting treatment (timing of recording and existence of sales and accounts receivable; existence of inventory assets; suitability of recording various reserves; suitability of tax effect accounting; suitability of asset-impairment accounting; and appropriateness and suitability of other material accounting treatment);
    - (b) the suitability of changes in material accounting policies;
    - (c) responses to revisions, etc. to accounting standards or systems;
    - (d) the suitability of material contracts in capital transactions and profit and loss transactions;
    - (e) the suitability of acquisitions and disposals, etc. of material assets;
    - (f) the suitability of fund management (including derivative transactions, etc.);
    - (g) the suitability of the extent of consolidation and the extent of equity-method affiliated companies;
    - (h) appropriate accounting treatment of each of the above matters in relation to subsidiaries and affiliated companies that would have a material effect on consolidated account settlement; and
    - (i) the suitability of the ascertainment of subsequent events and determinations of the importance thereof;
  - (iv) whether systems through which financial information that should be disclosed is promptly and comprehensively gathered and is accurately and fully disclosed in a timely manner in accordance with laws, regulations, and the like are established and operated;
  - (v) whether systems for the accounting auditor to appropriately perform audits are established and operated; whether any particular relationships have not been formed that would raise doubt concerning the accounting auditor's independence from the company; and
  - (vi) in regard to matters found to be highly likely to materially affect the company's management performance or financial status, whether information is appropriately shared between the Directors in Charge of Financial Affairs, Etc. and the accounting auditor.
3. If the Financial Report Internal Controls of the company are subject to the evaluation

reports regarding Financial Report Internal Controls provided for in Article 24-4-4, paragraph (1) of the Financial Instruments and Exchange Act (in this article, “Internal Control Reports”), the audit and supervisory committee will make the determination under the preceding paragraph by the following methods:

- (i) The audit and supervisory committee will receive reports from the Directors in Charge of Financial Affairs, Etc. and the Internal Control Division regarding the following matters relating to the evaluation of Financial Report Internal Controls (however, the following matters are only examples, and the audit and supervisory committee will specify important matters that are neither excessive nor insufficient in light of the business details, scale, and other characteristics of the company); if necessary, the audit and supervisory committee will confirm the actual status through means such as viewing logs and being present at operation tests and the like:
  - (a) the status of basic plans and systems for establishing, operating, and evaluating Financial Report Internal Controls;
  - (b) the suitability of the specification of financial report risks and information disclosure risks (including the status of systems to enable appropriate determinations and responses regarding the risks relating to the important matters listed in item (iii) of the preceding paragraph);
  - (c) the suitability of the scope of evaluation (including the specification of material businesses and business locations);
  - (d) the suitability of the specification and selection of material business processes;
  - (e) the evaluation status of the establishment and operation of company-wide internal controls using checklists or the like;
  - (f) the evaluation status of the establishment and operation of material business processes;
  - (g) the evaluation status of the establishment and operation of consolidated group account settlement and financial report processes;
  - (h) the evaluation status of the establishment and operation of overall IT controls and business processing controls;
  - (i) the suitability of processes to detect, improve, and correct inadequacies;
  - (j) the suitability of the preparation process and contents of Internal Control Reports; and
  - (k) whether there is excessive documentation and logs, whether there are redundant controls, and whether there are other excessive measures in light of the business details, scale, and other characteristics of the company.
- (ii) Taking into consideration the main points relating to the evaluation of Financial Report Internal Controls stated in the preceding item, the audit and supervisory committee will receive reports in a timely and appropriate manner from the person who performs audit certification regarding the Internal Control Reports in accordance with Article 193-2, paragraph (2) of the Financial Instruments and Exchange Act (in this article, the “Financial Report Internal Control Auditor”) regarding matters found to likely have a material effect on the status of responses to material risks by Financial Report Internal Controls or other effectiveness of Financial Report Internal Controls.
- (iii) The audit and supervisory committee will endeavor to share information with the

Directors in Charge of Financial Affairs, Etc. and the Financial Report Internal Control Auditor regarding information learned by the audit and supervisory committee in the course of its audit duties that is found likely to have a material effect on the effectiveness of Financial Report Internal Controls.

- (iv) If the Directors in Charge of Financial Affairs, Etc. and the Financial Report Internal Control Auditor have different opinions regarding matters such as the evaluation scope, evaluation methods, and evaluations of effectiveness of Financial Report Internal Controls (including opinions on the scope of important matters that are neither excessive nor insufficient in light of the business details, scale, and other characteristics of the company), the audit and supervisory committee will request the Directors in Charge of Financial Affairs, Etc. and the Financial Report Internal Control Auditor to report to the audit and supervisory committee in a timely manner.
  - (v) The audit and supervisory committee will request the Directors in Charge of Financial Affairs, Etc. to regularly report to the board of directors or the like regarding the following matters:
    - (a) the status of the evaluation of Financial Report Internal Controls by the Directors in Charge of Financial Affairs, Etc.; and
    - (b) the status of audits by the Financial Report Internal Control Auditor.
  - (vi) At the time that the audit reports provided for in the Companies Act regarding Internal Control Systems are prepared, the audit and supervisory committee will receive a written report from the Financial Report Internal Control Auditor regarding the results of the audit of Financial Report Internal Controls. If receiving such report orally, it is desirable to leave a record of the contents thereof in the audit and supervisory committee meeting minutes. If there is a comment to the effect that there is a material inadequacy to be disclosed regarding Financial Report Internal Controls (meaning inadequacies defined in Article 2, item (x) of the Cabinet Office Order on the System for Ensuring the Adequacy of Documents on Financial Calculation and Other Information; the same applies below in this article), the audit and supervisory committee will request explanations from both the Directors in Charge of Financial Affairs, Etc. and the Financial Report Internal Control Auditor, confirm matters such as the details and materiality of that inadequacy, improvement measures already implemented, future improvement policies, and the effect on accounting-related documents and the results of the accounting audit thereof, verify the statements in the business report relating to the inadequacy, and examine the contents of audit reports in accordance with paragraph 4 of this article.
4. If the audit and supervisory committee determines through the audit methods provided for in this article and other audit activities provided for in the Companies Act that Financial Report Internal Controls do not respond to the material risks provided for in paragraph 1, the audit and supervisory committee will comment to that effect in a timely and appropriate manner to the Directors in Charge of Financial Affairs, Etc. and request necessary improvements therefrom and will examine the matters (including whether or not such matters constitute a Material Fault) to be stated in audit reports regarding Internal Control System Audits in accordance with Article 8, paragraph 4. Additionally, the audit and supervisory committee will provide necessary information to the accounting auditor and exchange opinions therewith regarding treatment in the accounting audit. If the audit and supervisory committee finds that the accounting auditor has not sufficiently considered that information and is not performing an appropriate accounting audit, the

audit and supervisory committee will examine the matters to be stated in audit reports regarding the reasonableness of the methods and results of the audit by the accounting auditor.

5. After preparing audit reports, if the audit and supervisory committee discovers a material inadequacy to be disclosed in regard to the Financial Report Internal Controls for the business year relating to those audit reports, the audit and supervisory committee will ask for opinions from both the Directors in Charge of Financial Affairs, Etc. and the Financial Report Internal Control Auditor, confirm matters such as the details thereof and improvement measures, and will as necessary provide explanations at the annual shareholders' meeting for that business year regarding the relationship of the material inadequacy to the audit reports and the like.

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