

# Audit Committee Report



**Masataka Mitsuhashi**  
Independent Director  
Audit Committee Chairperson

## Contributing to MSV by enhancing the effectiveness of the “Audit on Audit” system

Every year, the Audit Committee performs a self-evaluation of the effectiveness of our audit activities. The Committee reports to the Board of Directors the results of this evaluation and improvement status of the items that require improvements on a regular basis. Through this process the Audit Committee shares information and exchanges opinions with Directors

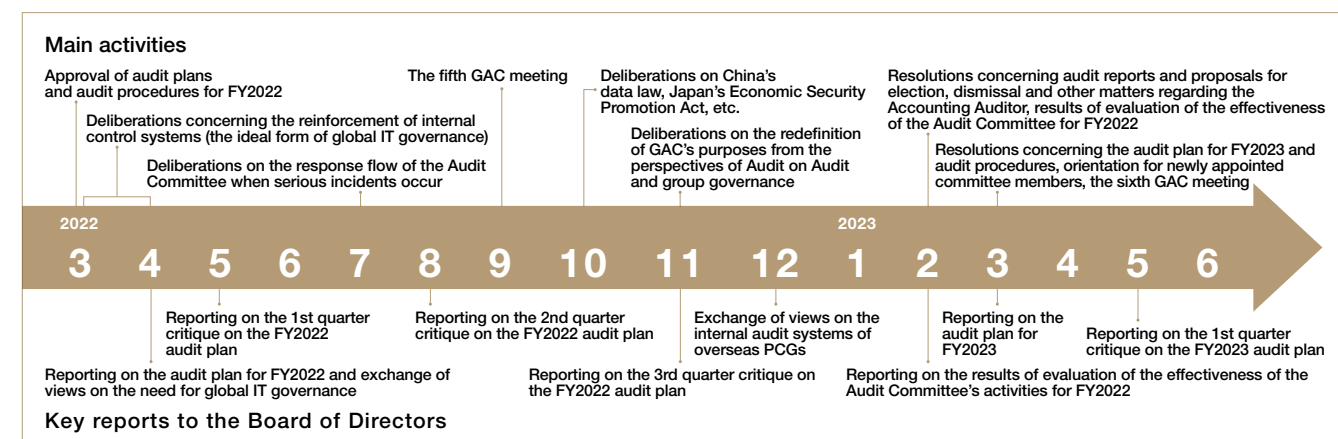
who are not Audit Committee members, and this raises the objectiveness of our self-evaluation.

In FY2023, based on the results of the FY2022 evaluation, the Audit Committee has been continuously working on strengthening “Audit on Audit” framework in the Group, which is based on the results of internal and external audits (see the next page). In March 2023, we held the first in-person Group Audit Committee (GAC) meeting which facilitated direct communications among the people who are responsible for our Group’s internal audits. Participants examined the results of risk assessment of the PCGs and confirmed the “Audit on Audit” approach. We also discussed common issues among PCGs, such as cyber security and the risk profiles of newly acquired companies. By bringing everyone together, this meeting became a valuable occasion for internal auditors to exchange information about the best practices, to openly discuss various problems they have and to have better communication. We will continue to reinforce relationships rooted in mutual trust and maintain an effective auditing system that can contribute to MSV based on Asset Assembler model.

Peter Kirby, an Independent Director, was appointed as a member of the Audit Committee in FY2023. I am confident that his knowledge, professional skills and management experience of the global paint industry will further enhance the effectiveness of the “Audit on Audit” system.

## Overview and main activities

<b>Chairperson</b>	Masataka Mitsuhashi (Independent Director)	<b>Number of meetings</b>	FY2022 (late March 2022 to mid-March 2023) 13 FY2023 (late March 2023 to end of June 2023) 2
<b>Committee members</b>		<b>Main activities</b>	The Audit Committee: ・ Prepared audit reports based on the results of audits on the status of the execution of duties by the Executive Officers and Directors and other items. ・ Resolved on proposals regarding the election, dismissal and refusal of reelection of Accounting Auditor to be submitted to the Ordinary General Meeting of Shareholders. ・ Conducted audits concerning financial results and the Ordinary General Meeting of Shareholders. ・ Shared best practices (e.g., audit cases, audit findings, risk management, reasons for selecting audit themes) and held theme discussions (J-SOX evaluations, reinforcement of the Audit on Audit system) at GAC.
<b>Roles of the Committee</b>	Conduct audits on the execution of duties by Executive Officers and Directors, prepare audit reports, and determine proposals regarding the election, dismissal and refusal of reelection of the Accounting Auditor to be submitted to the General Meeting of Shareholders.		



## Supervision of the group-level internal audit activities by the Audit Department

The Audit Department, which supports the activities of the Audit Committee, ensures the committee's independence from the executives by establishing dual reporting lines to the Audit Committee and the Representative Executive Officers & Co-Presidents. Specifically, the Audit Department performs J-SOX evaluations, as well as periodically checks the status of audits as part of the supervision of the audit activities conducted by internal audit units of PCGs and reports the results to the Audit Committee.

At the biannual GAC meetings, best practices of internal audits at PCGs are shared within the Group. In addition, the results of analysis by the Audit Department on material risks identified by each PCG are shared within the Group, which will allow all group companies to have a shared risk recognition. The results are reflected in the internal audit plans of PCGs to enhance the effectiveness of our group-level internal audits.

## Coordination with Accounting Auditor, local audit firms, and corporate auditors

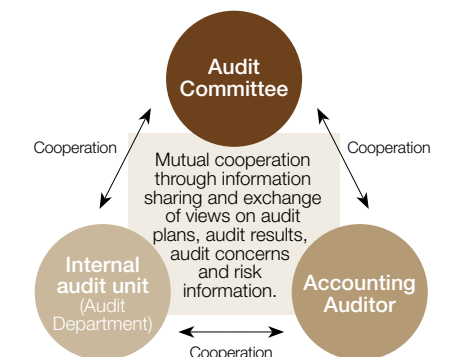
The Audit Committee has continuously been monitoring and verifying whether the Accounting Auditor conducts appropriate audits while maintaining its independence. At the Trilateral Audit Meeting held on a regular basis participated by the Audit Committee, the Audit Department and the Accounting Auditor, participants share information and exchange views on matters such as the audit plan, the status of audits during period and risk responses. (See the figure on the right.) With regard to Key Audit Matters (KAM), the Audit Committee closely cooperates with the Accounting Auditor by taking actions such as holding discussions on items that involve significant management decisions, including accounting estimates and items likely to have a significant impact on financial statements, including estimates of provisions for doubtful accounts and reasonableness of estimates of goodwill recorded due to acquisitions.

The Audit Committee also conducts interviews and discussions with local audit firms in charge of accounting audits of major overseas partner

companies (PCs). The topics of discussions include audit findings at PCs which they are responsible for, financial and tax risks, and the status of communications with local management teams and NPHD's Accounting Auditor. Through these activities, the Audit Committee identifies risk factors and determines the status of the performance of local audit firms.

In Japan, the Audit Committee holds regular meetings with corporate auditors of PCs to share information and exchange views on issues identified through audits and other matters. Through these and other activities, the Audit Committee is working on further enhancing the effectiveness of its activities.

## Trilateral audit system: Promoting efficient and effective audits



## “Audit on Audit” Group audit system

