

KUDO International Federation
Internal Audit Report for the Fiscal Year from April 2023 to March 2024

To: Mr. Hideaki TAKAHASHI
Head Director of the KUDO International Federation (NPO)

Prepared by Mr. Takeshi SATO and further endorsed by Mr. Fabien SIMON, both auditors of the KUDO International Federation (NPO)

June 3, 2024

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Takeshi SATO



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The Auditor, Mr. Tsuyoshi Sato, reviewed how the Board of Directors discharged its duties over the course of FYE2023, starting April 1, 2023 and ending on March 31, 2024. The methods and outcomes of such review are mentioned below.

1. Audit method and content

The Auditor communicated with relevant parties such as directors and employees, endeavoring to collect information and enhance the internal control environment. Practically this was done through

- (1) Attending board meetings and other important meetings, receiving reports from directors and employees on the status of execution of their duties, requesting explanations as necessary, inspecting important documents pertaining to decision-making, activities and financials.
- (2) Examining Board Resolutions pertaining to the establishment of processes necessary to ensure proper compliance with by the Articles of Incorporation and practices pertaining to the operations of an NPO, and the conduct of activities reported by the Board. When necessary this entailed asking for explanations and

expressing opinions.

- (3) Maintaining an independent position as an accounting auditor, monitoring and verifying whether activities were being carried out appropriately, receiving reports on activities, and requesting explanations as necessary.

2. Outcome of the Audit (Auditor's Opinion)

(1) Outcome of the Audit of Activity Report.

- ① We acknowledge that the Activity Report and its annexed schedules accurately represent the circumstances of the Federation and are in accordance with the Articles of Incorporation.
- ② We do not find any breach or material violation of the Articles of Incorporation in relation to the performance of their duties by the directors.
- ③ The content of the Board of Directors' resolution regarding the internal control system was deemed appropriate, and internal audits were conducted accordingly. We do however point out below improvement items regarding the contents of the business report as it pertains to internal control and the execution of duties by the directors, and request that the FYE2024 report be improved in that regards.

- (2) With regards to the audit of financial statements and asset records, we recognize that activity reports, accounting-related documents and asset records are appropriate.

Auditor's opinion

① On conduct of activities

The Board of Directors was appropriately informed, for instance via email, of matters relevant to elections of directors, activity reports, etc. Sounding of opinions, votes on Board Resolutions, and requests for approvals were conducted as needed.

We believe that there were no irregularities or problems in the presentation of proposals and the voting process.

② Regarding financial statements

We are of the view that the contents of the financial report are appropriate and that they contain no misrepresentation or wrong information.

The following reference material was obtained from the Head Director, Mr. Takahashi on May 15:

"Business Report Submission Form" of KIF for FYE2023, addressed to the Tokyo Metropolitan Government"

"General Ledger of KIF"

③ About financial statements

In FYE2024, we request that the secretariat present the materials promptly after the end of the fiscal year on the last day of March (from mid-April to early May).

④ Membership fee income (Japan Domestic membership fee)

The auditor finds that the domestic membership fee for FYE2023 is properly apportioned between KAJF and KIF. The membership fee, arising from 4,210 domestic members (taking into account membership fee exemptions) was ¥ 3,060,200.

Reference material

For KAJF (May 15, 2024) "KUDO All Japan Federation Financial Report" by Mr. Takeshi SATO, Accounting Auditor

"Business Report Submission Form" of KIF for FYE2024, addressed to the Tokyo Metropolitan Government (Obtained on May 15, 2024)

⑤ Overseas Membership Fee Income (JPY4,348,870, from 30,170 overseas members) From FYE2024 onwards, we request the secretariat of the Federation to promptly provide at the end of the fiscal year supporting material evidencing the number of overseas members and related membership fee income, for both KMS and non-KMS managed memberships.

Reference material

"Business Report Submission Form" of KIF for FYE2023, addressed to the Tokyo Metropolitan Government (Obtained on May 15, 2024)

⑥ The membership fee income for the "Business Report Submission Form" addressed to the Metropolitan Government of Tokyo only takes into account amounts actually received during the fiscal year, without accruals. Article 12 (Membership Fees Receiving) of NPO Accounting Standards indeed states that, "Membership Fees Income will be recorded as income when the payment is actually made, except in some cases.

⑦ Regarding Overseas Branch Membership Fees

For overseas branch, membership fee amount is branch-specific.

For the purpose of facilitating audits, but also to allow for budgeting and financial forecasting by the Board of Directors, it is recommended that the secretariat studies a way to present the latest conditions, support materials, payments status, and how to escalate and handle payment delinquencies.

Membership fees are currently paid by KMS or via other means (cash payment to the secretariat, Bank transfer together with other expenses), resulting in report by the secretariat of cases of inconsistencies between the respective branches' explanations and the Federation's understanding.

We also request that this data be presented as reference materials.

⑧ About the New Japanese Tax Regime called "Qualified Invoice System"

NPO with taxable income of 10 million yen or less in the base period are not obligated to file tax returns for both corporate tax and consumption tax.

However, with the introduction of the new Qualified Invoice System, the decision to register or not may have a material impact to the Federation, depending on the counterparties. If registering, a need to prepare for tax payments may arise.

We therefore recommend that a tax accountant be consulted to determine what impact may arise before a decision be made to register or not.

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