



# Transparency Report 2017

**The whole picture**

March 2018

---

KPMG Lower Gulf Limited

[kpmg.com/ae](http://kpmg.com/ae)  
[kpmg.com/om](http://kpmg.com/om)

# Contents



# Introduction



# Message from the local Senior Partner

Welcome to the Transparency Report for KPMG in the Lower Gulf for the year ended 30 September 2017.

We recognize the importance of sharing what we do to advance quality, manage risk and maintain independence. This publication focuses principally on our audit practice and plays an important role in helping us to communicate to all of our stakeholders the measures we take to help ensure we deliver high quality audits.

Our vision is one that sees KPMG as the clear choice professional services firm in the United Arab Emirates and Oman. Our firm is built on a foundation of trust and integrity. We are committed to ensuring all our people do the right thing, every time, and that we continue to provide the highest quality services to our clients. Together with our global colleagues, we are united in our commitment to providing independent assurance on what matters to all our stakeholders: regulators, clients, people and the public.

Our focus on quality is underpinned by:

- **Our culture.** We drive a relentless focus on quality and service excellence and aspire to be the standard of trust in our profession. We recognize that trust is not a given: it must be earned and maintained. A quality audit means the delivery of an appropriate and independent opinion that is properly supported in compliance with the applicable auditing standards, laws and professional requirements. This means being seen to be independent in mind and complying with our legal and professional obligations.
- **Our people.** We approach all matters in an audit with objectivity and professional skepticism to offer relevant, valued insight and impartial views through candid communications.

- **Our approach to audit quality.** This includes having globally consistent methodologies and policies, enabled by innovative tools. The expanding role of innovation and technology in audit continues to evolve, providing greater clarity and generating deeper and richer insights. Innovation in audit is an area where KPMG continues to invest significantly.
- **Our monitoring programmes.** These are fundamental to sustaining quality and to building on our success. We have a number of programmes and initiatives aimed at identifying opportunities for continuous improvement and relevant remedial actions. That means we also work closely with regulators, audit committees, investors and businesses to meet the expectations of stakeholders.



**Vijay Malhotra**  
CEO and Chairman  
KPMG in the Lower Gulf Limited

A large iceberg is shown floating in a dark blue sea. The top part of the iceberg is visible above the water, while the much larger, jagged part is submerged below the surface. The scene is lit with a cool, blue light, creating a serene yet mysterious atmosphere. The text 'Who we are' is written in a clean, white, sans-serif font on the left side of the image, partially overlapping the water.

# Who we are

# Who we are



## 2.1 Our business

KPMG Lower Gulf Limited is a provider of audit, tax and advisory services to a broad range of domestic and international clients across all sectors of business and the economy. We work closely with our clients, assisting them to mitigate risks and grasp opportunities. Established in 1973, KPMG Lower Gulf now consists of more than 1,198 staff members, including more than 70 partners and directors, across six offices: Dubai (three), Abu Dhabi, Sharjah and Muscat. The KPMG member firm in the United Arab Emirates, along with the branch office in Oman, form KPMG Lower Gulf.

In addition to its presence in the UAE, KPMG is widely represented in the Middle East and has offices in Saudi Arabia, Bahrain, Qatar, Egypt, Kuwait and Lebanon. Full details of all the services we offer can be found on our website <https://home.kpmg.com/ae/en/home.html>.

KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms. The KPMG network includes approximately 200,000 professionals in over 150 countries around the world. KPMG in the UAE is well connected with its global member network and combines its local knowledge with international expertise, providing the outstanding sector and specialist skills required by our clients. KPMG was the first major firm of its kind to organize itself along industry lines – a structure which enabled us to develop in-depth knowledge of our clients' businesses and provide them with an informed perspective.

Over the years, KPMG has developed specialist industry and discipline groups to meet client needs for professional advisors who understand and are experienced in a wide variety of business fields. We have significant experience across key geographic areas, and are engaged with leading industry players on a range of issues critical to the future of their industries. In addition to having many of the Middle East's leading organizations and government-related entities as its clients, KPMG in the Lower Gulf has been party to numerous milestone engagements in the region.

# Who we are



## 2.2 Our strategy

Our strategy is set by the KPMG Lower Gulf Limited board and has remained consistent for some time. It has been determined that our overall ambition remains to be the number one multidisciplinary professional services firm in the UAE and Oman.

The KPMG Lower Gulf board has articulated that a commitment to quality in everything we do is the most important element of our strategy. We understand that our reputation depends on it, as does our ability to achieve all other elements of our strategy. The ability to articulate clearly and consistently what quality means to us, as well as being able to demonstrate how we safeguard the quality of the service we provide, underpins all components of our strategy.

Our strategy is grouped around the following themes:

- Relentless focus on quality and service excellence
- Driving growth by investing in the talent, technology, solutions and capabilities needed to deliver real results to our clients' biggest challenges
- Continuous improving quality, consistency and efficiency
- Bringing insights and innovative ideas
- Collaborating seamlessly to ensure clients benefit from our collective understanding, insight and innovation
- Driving our inclusive and high-performance culture where extraordinary people thrive and the contribution they make to clients, colleagues, our global network and the public at large goes beyond the here and now

- Acting with integrity, supporting literacy and prosperity, and making decisions that build trust because they make a lasting, positive impact on society, our communities and the wider world.

In addition, we value diversity and inclusion, while fostering a positive and encouraging culture. As a result, we tend to attract individuals who share a common ambition of inspiring confidence and empowering change for their clients and the communities in which they live and work.





# Our structure and governance

# Our structure and governance



## 3.1 Legal structure and ownership

### Legal structure and ownership

KPMG Lower Gulf Limited is an exempted company incorporated and registered in the Cayman Islands with limited liability and operates all the branches registered in the United Arab Emirates and the Sultanate of Oman. KPMG Lower Gulf is wholly owned by the equity partners.

KPMG Lower Gulf is affiliated with KPMG International Cooperative (“KPMG International”). KPMG International is a Swiss cooperative which is a legal entity formed under Swiss law. It is the entity with which all the member firms of the KPMG network are affiliated. Further details about KPMG International and its business activities, including our relationship with it, are available in Appendix 1 to the [KPMG International Transparency Report](#).

KPMG is a global network of professional services firms providing Audit, Tax, and Advisory services to a wide variety of public and private sector organizations. KPMG’s structure is designed to support consistency of service quality and adherence to agreed values wherever its member firms operate.

During the year ended 30 September 2017, there was an average of 13 equity partners in KPMG Lower Gulf (2016: 9 equity partners).



# Our structure and governance



## 3.2 Name and legal relationships

KPMG is the registered trademark of KPMG International and is the name by which its member firms are commonly known. The rights of member firms to use the KPMG name and marks are contained within agreements with KPMG International.

Member firms are generally locally owned and managed. Each member firm is responsible for its own obligations and liabilities. KPMG International and other member firms are not responsible for a member firm's obligations or liabilities.

Member firms may consist of more than one separate legal entity. If this is the case, each separate legal entity will be responsible only for its own obligations and liabilities, unless it has expressly agreed otherwise.



# Our structure and governance



## 3.3 Responsibilities and obligations of member firms

Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multinational clients, manage risk, and deploy global methodologies and tools.

Each member firm takes responsibility for the management and quality of its work.

Member firms commit to a common set of KPMG Values.

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and is consistently applied to the member firms. A firm's status as a KPMG member firm and its participation in the KPMG network may be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.

# Our structure and governance



## 3.4 Governance structure

KPMG Lower Gulf applies high standards of corporate governance.

### The Board

The main governing bodies of KPMG Lower Gulf are the Board and the Executive Committee for the UAE and Oman practice. The principal governance and oversight body of KPMG Lower Gulf is the Lower Gulf Board which provides leadership to the organization and is responsible for our long term growth and sustainability, setting our strategy and overseeing its implementation, monitoring performance against our business plan and protecting and enhancing the KPMG brand. The Senior Partner chairs the Board ensuring that the Board members receive accurate, timely and clear information and ensuring effective communication.

As at 30 September 2017, the Lower Gulf Board consists of 7 members, including the Senior Partner, 2 non-executive members and 4 additional members. The constitution of the Board is as determined by the governance documents. As a general matter, members of the Board other than the Senior Partner serve a two year term which may be extended by a further term of two years. The Board meets from time to time to undertake duties for KPMG Lower Gulf (including approving the annual accounts and the transparency report). The Board met 4 times in the year to 30 September 2017.

The Executive Committee and the Remuneration Committee report to the Board.

### The Executive Committee

The Executive Committee is responsible for management of the day-to-day activities of KPMG Lower Gulf, recommending policy to the Board and developing the business plan within the overall strategy set by the Board, together with its subsequent implementation. It deals with operational matters affecting the firm (including monitoring operating and financial performance, budgets, new business proposals, marketing, technology development, recruitment, and retention and general remuneration, prioritization and allocation of resources and investment and managing the risk profile of KPMG Lower Gulf.

The Executive Committee members are all KPMG Lower Gulf service line leaders and heads of departments and are appointed by the Senior Partner. As at 1 October 2016, in addition to the Senior Partner, the Executive Committee included the heads of Audit, Management Consulting, Risk Consulting, Deal Advisory, Risk Management, Markets and Operations.

The Executive Committee aims to meet at least monthly and during the year to 30 September 2017, it met formally 13 times either face-to face or via video link/conference call supplemented by frequent additional telephone calls and ad hoc meetings.

### The Remuneration Committee

The Remuneration Committee is responsible for determining the remuneration of the Senior Partner and making recommendations on policies for partners' remuneration. It is also responsible for approving the process for determining partner remuneration and hearing appeals from partners regarding their remuneration.

As part of its activities, the Remuneration Committee receives and considers appraisals on (i) the approach to ensuring that quality issues are appropriately considered in partner counseling and (ii) whether or not there are any quality concerns about specific partners.

The Remuneration Committee comprises 3 members. The Remuneration Committee met 4 times in the year ended 30 September 2017 and has held 3 meetings to discuss 2017 partner pay (2 of which occurred after the year-end).

Further information regarding partner remuneration is set out in section 6.



# System of quality control

# System of quality control

## Overview

A robust and consistent system of quality control is an essential requirement in performing high-quality services. Accordingly, KPMG International has quality control policies that apply to all member firms. These are included in KPMG’s Global Quality & Risk Management Manual (Global Q&RM Manual) available to all personnel. These policies and associated procedures are designed to assist member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances, as well as help member firm personnel act with integrity and objectivity and perform their work with diligence.

These policies and procedures are based on the International Standard on Quality Control 1 (ISQC-1) issued by the International Auditing and Assurance Standards Board (IAASB), and on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). Both of these are relevant to member firms that perform statutory audits and other assurance and related services engagements.

KPMG Lower Gulf implements KPMG International policies and procedures and adopts additional policies and procedures that are designed to address rules and standards issued by national regulators and other relevant regulators as well as applicable legal and regulatory requirements.

Amendments to risk and quality policies, including ethics and independence policies, are communicated through Quality and Risk Management email alerts and where necessary reinforced through training. KPMG Lower Gulf is required to timely implement changes specified in the alerts and the effectiveness of confirmed through internal monitoring activities.

Quality control and risk management are the responsibility of all KPMG Lower Gulf personnel. This includes the need to understand and adhere to firm policies and associated procedures when carrying out their day-to-day activities. The system of quality control applies to KPMG personnel wherever they are based.

While many KPMG quality control processes are cross-functional, and apply equally to tax and advisory work, the remainder of this section focuses on the delivery of audit quality.

## Audit quality framework

At KPMG Lower Gulf audit quality is not just about reaching the right opinion, but how that opinion is reached. It is about the processes, thought and integrity behind the auditors’ report. The outcome of a quality audit is the delivery of an appropriate and independent opinion in compliance with relevant professional standards and applicable legal and regulatory requirements.

To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver audit quality, KPMG International developed the Audit Quality Framework. This framework uses a common language that is adopted by all KPMG member firms, including KPMG Lower Gulf to describe what the KPMG network believes drives audit quality, and to highlight how every audit professional at each KPMG member firm contributes to the delivery of audit quality.

‘Tone at the top’ sits at the core of the Audit Quality Framework’s seven drivers of audit quality and helps ensure that the right behaviors permeate across the entire KPMG network. All of the other drivers are presented within a virtuous circle because each driver is intended to reinforce the others. Each of the seven drivers is described in more detail in the following sections of this report.



# System of quality control



## 4.1 Tone at the top

The culture of KPMG International and KPMG member firms is underpinned by a strong set of values and supporting policies and processes which enables the right attitudes and behaviors to permeate throughout the KPMG network. At KPMG Lower Gulf we promote a culture in which consultation is encouraged and recognized as a strength.

Tone at the top means that KPMG Lower Gulf leadership demonstrates commitment to quality, ethics and integrity and communicates its commitment to clients, stakeholders, and society at large.

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG Value: "Above all, we act with integrity." Integrity means constantly striving to uphold the highest professional standards, providing sound and good quality advice to our clients while rigorously maintaining our independence.

Our Values, which have been explicitly codified for a number of years, are embedded into the working practices and values-based compliance culture at KPMG Lower Gulf. Our Values form the foundation of our culture and set the tone at the top. They also form the foundation of our approach to audit and shape how we work together.

We communicate our Values clearly to our people and embed them into our people processes — induction, performance development and reward. Specific consideration is given to our KPMG Values for promotions as well.

Our Values are set out in Appendix.

### Code of Conduct

Building on the KPMG Values is the KPMG International Global Code of Conduct. Member firms, including KPMG Lower Gulf are required to adopt, as a minimum, the Global Code of Conduct.

The KPMG Lower Gulf Code of Conduct incorporates the KPMG Values and defines the standards of ethical conduct that is required from all KPMG people. It sets out our ethical principles and helps partners and employees at KPMG Lower Gulf to understand and uphold those principles. In addition, the Code of Conduct emphasizes that each partner and employee is personally responsible for following the legal, professional, and ethical standards that apply to his or her job function and level of responsibility. The Code of Conduct includes provisions that require KPMG personnel to:

- Comply with all applicable laws, regulations and KPMG Lower Gulf policies
- Report any illegal acts, whether committed by KPMG Lower Gulf personnel, clients or other third parties
- Report breaches of KPMG policies
- Uphold the highest levels of client confidentiality
- Not offer, promise, make, solicit or accept bribes (whether directly or through an intermediary).

All KPMG Lower Gulf personnel are required to:

- Confirm their understanding of, and compliance with, the Code of Conduct upon joining the firm, and annually thereafter; and
- Complete training on the Code of Conduct upon joining the firm and on a biennial basis thereafter.

Our personnel are encouraged to raise their concerns when they see behaviors or actions that are inconsistent with our Values or professional responsibilities and required to do so when they see breaches of KPMG policies, laws and regulations, and professional standards.

We have procedures and established channels of communication so that our personnel can report ethical and quality issues and individuals who report in good faith will not suffer any adverse impact regardless of whether the concern is ultimately substantiated.

In addition, the [KPMG International hotline](#) is a mechanism for KPMG partners, employees, clients and other external parties to confidentially report concerns they have relating to certain areas of activity by KPMG International itself, KPMG member firms or the senior leadership or employees of a KPMG member firm.

At KPMG Lower Gulf, we regularly monitor the extent to which our people feel we live our Values through the Global People Survey (refer to section 4.4.6).

#### 4.1.1

##### Leadership responsibilities for quality and risk management

KPMG Lower Gulf demonstrates commitment to quality, ethics and integrity, and communicates our focus on quality to clients, stakeholders and society. Our leadership plays a critical role in setting the right tone and leading by example — demonstrating an unwavering commitment to the highest standards of professional excellence and championing and supporting major initiatives.

Our leadership team is committed to building a culture based on quality, integrity and ethics, demonstrated through their actions - written and video communications, presentations to teams and one-to-one discussions.

The following individuals have leadership responsibilities for quality and risk management at KPMG Lower Gulf.

##### Senior Partner

In accordance with the principles in ISQC-1, the Senior Partner, Vijay Malhotra, has assumed ultimate responsibility for KPMG Lower Gulf system of quality control. Details of some of the measures that he and the rest of the Board have taken to ensure that a culture of quality prevails within KPMG Lower Gulf are set out as following:

- Leadership is responsible for Audit Quality
- Recognition that quality is essential in performing all engagements
- Annual self assessment regarding compliance with the firm's Risk Compliance Program and follow-up of matters arising from Global Compliance Review Program

- Regular messaging from Audit Leadership on Audit Quality
- Allocation of Engagement Quality Control Reviewers (EQCRs) on selected engagements by Head of Audit. Effectiveness reviews performed on EQCRs
- Quality Performance Review (QPR) ratings/results considered in evaluating audit service team performance. Partner KPIs include Audit Quality/QPR results
- The Lower Gulf firm now has a fully operational DPP team who also conducts regular inflight reviews to check for adherence to KPMG Audit Methodology (KAM) and applicable accounting frameworks, e.g. IFRS or US GAAP. Findings with recommendations are circulated to audit teams for appropriate actions.
- The audit team has an annual 2-day breakaway workshop where key audit matters, including Audit Quality, are addressed by Audit leadership with audit managers and partners.
- Training is key to Audit Quality. KAM training is conducted across all levels. There is a mandatory IFRS training session for all partners and directors. Some examples of global audit training include, eAudit, MUS, Caseware, US GAAP, etc. CPE hours are monitored by HR and L&D.
- All modified reports that meet pre-issuance review are subject to review by local DPP.
- The comprehensive online Audit Knowledge Management portal with online guidance, including flashes, bulletins and alerts, is available along with other audit support tools, such as templates for substantive analytical reviews, estimate working papers, etc.

##### National Risk Management Partner

Operational responsibility for the system of quality control, risk management and compliance in KPMG Lower Gulf has been delegated to the National Risk Management Partner (RMP) who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for the firm. The RMP has a seat on the Executive Committee (ExCom) and has a direct reporting line to the Senior Partner. The RMP consults with the appointed Area Quality and Risk Management Leader.

His role, position, and seniority underlines the importance that the firm places on quality and risk management matters. The RMP is supported by a team of partners and professionals in each of the functions.

##### Ethics and Independence Partner (EIP)

The Risk Management Partner also holds the position of Ethics and Independence Partner and has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG Lower Gulf and reports these issues to the Senior Partner and the firm's leadership.

### The Audit, Tax and Advisory functions – Function Heads

The three heads of the client service functions (Audit, Tax and Advisory) are accountable to the Senior Partner for the quality of service delivered in their respective functions. Between them, they determine the operation of the risk management, quality assurance and monitoring procedures for their specific functions within the framework set by the National Risk Management Partner. These procedures make it clear that, at the engagement level, risk management and quality control is ultimately the responsibility of all professionals.

KPMG Lower Gulf Head of Audit is responsible for leading a sustainable high-quality Audit practice that is attractive to KPMG personnel. This includes:

- Setting the right ‘tone at the top’ by demonstrating an unwavering commitment to the highest standards of professional excellence, including skepticism, objectivity, and independence
- Developing and implementing strategies to monitor and maintain knowledge and skills required of partners and employees to fulfil their professional responsibilities
- Working with the risk management partner to monitor and address audit quality and risk matters as they relate to the audit practice, including an annual evaluation of activities considered to be key to audit quality.

### Lower Gulf Audit Team – Lower GulfAT

In addition to the Audit Leadership team, the Lower GulfAT meets on a monthly basis. Lower GulfAT consists of all audit partners and directors as well as Heads of business units and selected invitees such as Risk Management. Audit quality is a standing agenda item. The meetings include regular discussions on current and emerging audit quality issues arising from external and internal quality review processes, key issues faced by audit teams, and operational results.



# System of quality control



## 4.2 Association with the right clients

### 4.2.1 Acceptance and continuance of clients and engagements

Rigorous client and engagement acceptance and continuance policies and processes help protect KPMG's reputation, support our brand and are an important part to our ability to provide high-quality professional services.

Accordingly, KPMG International has established policies and procedures which all member firms are required to implement in order to decide whether to accept or continue a client relationship, and whether to perform a specific engagement for that client.

### 4.2.2 Client and engagement acceptance process

#### Client evaluation

KPMG Lower Gulf undertakes an evaluation of every prospective client.

This involves an assessment of the prospective client's principals, its business and other service-related matters. This also involves obtaining and analyzing 'Know Your Customer' information on the prospective client, its key management and significant beneficial owners. A key focus is on the integrity of management at a prospective client, and the evaluation considers breaches of law and regulation, anti-money laundering, anti-bribery and corruption, and ethical business practices, including human rights, among the factors to consider.

A second partner, as well as the evaluating partner, approves each prospective client evaluation. Where the client is considered to be 'high risk' the Risk Management Partner is involved in approving the evaluation. KPMG Lower Gulf undertakes an evaluation of every prospective client, which involves a robust Client Due Diligence.

#### Engagement evaluation

Each prospective engagement is also evaluated so as to identify any potential risks in relation to the engagement. A range of factors are considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel™, KPMG's conflicts and independence checking system), as well as factors specific to the type of engagement. For audit services, these include the competence of the client's financial management team and the skills and experience of personnel assigned to staff the

engagement. The evaluation is made in consultation with other senior KPMG Lower Gulf personnel and includes review by quality and risk management leadership as required.

Where audit services are to be provided for the first time, the prospective engagement team is required to perform additional independence evaluation procedures, including a review of any non-audit services provided to the client and of other relevant business and personal relationships.

Similar independence evaluations are performed when an existing audit client becomes a public interest entity or additional independence restrictions apply following a change in the client's circumstances.

We follow specific procedures (detailed further in section 4.3.1.7) to identify and evaluate threats to independence for prospective audit clients that are public interest entities.

Depending on the overall risk assessment of the prospective client and engagement, additional safeguards may be introduced to help mitigate the identified risks. Any potential independence or conflict of interest issues are required to be documented and resolved prior to acceptance.

A prospective client or engagement will be declined if a potential independence or conflict issue cannot be resolved satisfactorily and in accordance with professional standards and our policies, or if there are other quality and risk issues that cannot be appropriately mitigated.

#### 4.2.3 Continuance process

KPMG Lower Gulf undertakes an annual re-evaluation of all its audit clients. The re-evaluation identifies any issues in relation to continuing association and any mitigating procedures that need to be put in place (this may include the assignment of additional professionals such as an Engagement Quality Control (EQC) reviewer or the need to involve additional specialists on the audit).

Recurring or long running non-audit engagements are also subject to re-evaluation.

In addition, clients and engagements are required to be re-evaluated if there is an indication that there may be a change in their risk profile.

#### 4.2.4 Withdrawal

Where we obtain information which indicates that we should withdraw from an engagement or from a client relationship, we consult internally and identify any required legal and regulatory steps. We also communicate as necessary with those charged with governance and any other appropriate authority.

#### 4.2.5 Client portfolio management

Our leadership appoints engagement partners who have the appropriate competence, capabilities, time and authority to perform the role for each engagement.

Each partner's client portfolio is regularly reviewed to ensure that he or she has sufficient time to manage it and ensure that the risks are being appropriately managed.

The Head of Audit continues to monitor Partner and Director workloads and, in conjunction with the Head of Audit Operations, annually (or when the need arises) reallocates portfolios based on factors such as utilization, area of expertise, firm's mandatory rotation policy requirements. Heads of Departments, in conjunction with the business unit (BU) partners, continue to analyze manager portfolios.

# System of quality control



## 4.3 Clear standards and robust audit tools

All KPMG Lower Gulf professionals are expected to adhere to KPMG International and KPMG Lower Gulf policies and procedures, including independence policies, and are provided with a range of tools and guidance to support them in meeting these expectations. The policies and procedures set for audit engagements incorporate the relevant requirements of accounting, auditing, ethical and quality control standards, and other relevant/applicable local and international laws and regulations.

### 4.3.1 Audit methodology and tools

Significant resources are dedicated to keeping our standards and tools complete and up to date. The global audit methodology, developed by the Global Service Centre (GSC), is based on the requirements of the International Standards on Auditing (ISAs). The global audit methodology is set out in KPMG International's Audit Manual (KAM) and includes additional requirements that go beyond the ISAs, which KPMG International believes enhances the quality of the audit. KPMG member firms may add local requirements and/or guidance in KAM to comply with additional professional, legal, or regulatory requirements.

The global audit methodology is supported by eAudit, KPMG International's electronic audit tool, which provides KPMG Lower Gulf auditors with the methodology, guidance, and industry knowledge needed to perform high-quality audits.

eAudit's activity-based workflow provides engagement teams with ready access to relevant information at the right time throughout the audit, thereby enhancing effectiveness and efficiency and delivering value to stakeholders.

KAM contains examples and guidance for, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks.

The global audit methodology encourages use of specialists when appropriate, and also requires the involvement of relevant specialists in the core audit engagement team when certain criteria are met or where the audit team considers it appropriate or necessary.

KAM includes the implementation of quality control procedures at the engagement level that provide us with reasonable assurance that engagements comply with the relevant professional, legal, regulatory and KPMG International's policy requirements.

The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the Global Q&RM Manual that is applicable to all KPMG member firms, functions and personnel (and is tailored by KPMG Lower Gulf for any local policies and procedures).

### Data & Analytics (D&A) and Clara

- The KPMG Lower Gulf firm initiated a plan to create a central D&A team, with the objective to ensure standardization, specialization and better security over client data, leading to further efficiencies in audit.
- The central D&A team will comprise of individuals who have a background in audit and D&A
- We will collate all the routines performed on our clients and create a central repository which can then grow into a knowledge base
- We will provide training on effective use of D&A in audit to increase the involvement of audit staff in the defined standard methodology
- We have attended the regional training on Clara and are looking to deploy the solution in the near future. KPMG Clara brings together our globally deployed audit platform, advanced D&A solutions and future innovations
- We are recruiting staff with specialized skills and working closely with Information Risk Management (IRM) and Management Consulting (MC) Data Hub teams to supplement our skill needs.
- We believe that there is potential to grow the client base on which D&A supports audit procedures and help other member firms in the region
  - We will create industry specific routines and audit FS caption based routines to increase the usage of D&A in audit
  - We will work with member firms in the region to share our learnings in our journey to create the central D&A team

### 4.3.2 Independence, integrity, ethics and objectivity

#### 4.3.2.1 Overview

KPMG International has detailed independence policies and procedures, incorporating the requirements of the IESBA Code of Ethics. These are set out in KPMG's Global Q&RM Manual. Automated tools facilitate compliance with these requirements.

The automated tools include:

- An online application for investments reporting tool, KPMG Independence compliance system (KICS): a global risk application used for the tracking of investments such as stocks, bonds and mutual funds, as well as financial relationships, such as loans and other banking relationships. The use of KICS is mandatory for Partners, client-facing Managers, and for the reporting of member firm investments.
- An online database engagement approval system called Sentinel (insert "TM" as trademark sign): KPMG's proprietary system which facilitates compliance with firm and regulatory policies. Every engagement entered into by each KPMG member firm is required to be submitted through Sentinel and receive a Sentinel Approval Number (SAN) prior to starting work. Sentinel enables Lead Audit Engagement Partners (LAEP) to review and approve, or deny, any proposed services for restricted, publicly traded, and certain other audit clients and their affiliates wherever in the world the proposed service is to be provided. Sentinel is also used to identify and manage potential conflicts of interest within and across member firms.
- KPMG Independence Checkpoint, a web based solution that automates, formalizes and standardizes the Independence Clearance process (ICP)

These policies are supplemented by other processes to ensure compliance with the standards issued by local regulators and those of other applicable regulatory bodies. These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services.

KPMG International has a Partner-in-Charge of the Global Independence Group, who is supported by a core team of specialists to help ensure that robust and consistent independence policies and procedures are in place across KPMG member firms, and that tools are available to help them and their personnel comply with these requirements.

KPMG Lower Gulf has a designated Ethics and Independence Partner (EIP) who is primarily responsible for the direction and execution of ethics and independence policies and procedures in KPMG Lower Gulf.

Amendments to KPMG International's ethics and independence policies in the course of the year are communicated through Quality and Risk Management email alerts and where necessary reinforced through trainings. KPMG LG is required to timely implement changes specified in the alerts and the effectiveness of confirmed through internal monitoring activities.

KPMG Lower Gulf personnel are required to consult with the EIP wherever required on specific matters requiring evaluation thereof, such matters may include for example, proposed Non-Assurance Services (NAS) that may have an element of threat impairing our independence as external auditor, financial or business relationships of the firm or any covered persons, proposed employment or directorship positions etc.

#### 4.3.2.2 Personal financial independence

KPMG International policies require that each KPMG member firm and its professionals are free from prohibited financial interests in, and prohibited relationships with, KPMG’s audit clients, their management, directors, and significant owners. The policies also extend the IESBA Code of Ethics restrictions on ownership of audit client securities to every KPMG member firm partner in respect of any audit client of any member firm.

KPMG Lower Gulf professionals are responsible for making appropriate inquiries and taking other appropriate actions on an ongoing basis to ensure that they do not have any personal financial, business or family interests that are restricted for independence purposes.

Similar to the practice in other KPMG member firms, we leverage KPMG Independence Compliance System (KICS) to assist KPMG management to comply with personal independence policies. KICS is a system used by all KPMG member firms and contains an inventory of publicly available investments.

Partners and all client-facing personnel at manager level or above are required to use the KICS system prior to entering into an investment to identify whether they are permitted to do so. They are also required to maintain a record of all of their investments in KICS, which automatically notifies them if their investments subsequently become restricted and must dispose of that investment within five business days of the notification. KPMG Lower Gulf monitors partner and manager compliance with this requirement as part of its program of independence compliance audits of a sample of professionals.

Partners in leadership positions are audited once every three years. Below are the criteria for other levels:

Criteria	Number to be tested
Partners and Directors (excluding those in leadership positions)	Approximately 10% annually
Client facing managers (including senior managers and directors)	Approximately 2% annually
Other client-facing professionals	Up to 1% annually

#### 4.3.2.3 Employment relationships

All professionals providing services to an audit client irrespective of function are required to notify the KPMG Lower Gulf Ethics and Independence Partner (EIP) if they intend to enter into employment negotiations with that particular audit client. For partners, this requirement extends to any audit client of any KPMG member firm that is a public interest entity.

Former members of the audit team or former partners of KPMG Lower Gulf are prohibited from joining an audit client in certain roles unless they have disassociated from KPMG Lower Gulf financially and have ceased participating in KPMG Lower Gulf business and professional activities.

Key audit partners and members of the chain of command for an audit client that is a public interest entity are subject to time restrictions (referred to as ‘cooling-off’ periods) that preclude them from joining that client in certain roles until a defined period of time has passed.

We communicate and monitor requirements in relation to employment of KPMG Lower Gulf professionals by audit clients.

KPMG professionals engaged in negotiations regarding possible employment with an entity we audit are immediately removed from the on-going audit engagement.

If a professional accepts employment with an entity being audited by KPMG Lower Gulf, the engagement team gives active consideration to the appropriateness or necessity of modifying the audit procedure to adjust for risk of circumvention by the former professional of the member firm.

#### 4.3.2.4 Firm financial independence

KPMG Lower Gulf also uses KICS to record its own investments in SEC entities and affiliates (including funds), locally listed companies and funds, direct and material indirect investments held in pension, and employee benefit plans (including non-public entities and funds).

Additionally, KPMG Lower Gulf is required to record in the system all borrowing and capital financing relationships, and custodial, trust and brokerage accounts that hold member firm assets.

On an annual basis, KPMG Lower Gulf confirms compliance with independence requirements as part of the Risk Compliance Program.

#### 4.3.2.5 Business relationships/suppliers

KPMG Lower Gulf has policies and procedures in place which are designed to ensure that its business relationships are maintained in accordance with the IESBA Code of Ethics and other applicable independence requirements.

These include establishing and maintaining a process to evaluate potential third-party arrangements (for example business alliances and joint working arrangements, procurement relationships and marketing and public affairs activities) with particular regard to whether they have a bearing on auditor independence.

All prospective business relationships are evaluated to assess association risks and to identify potential auditor independence and conflicts of interest issues. A relationship involving a third-party service provider - that a member firm will use to assist with client engagements or other purposes - is also required to be evaluated to determine whether the third party has the competence to provide the relevant services. The individuals providing the services are required to confirm they understand and will comply with applicable ethics and independence requirements, and they are also required to complete an Ethics Training. Third parties providing services to audit or assurance clients are required to complete independence training.

#### 4.3.2.6 Business acquisitions, admissions and investments (if applicable)

If KPMG Lower Gulf is in the process of considering the acquisition of, or investment in, a business, it is required to perform sufficient due diligence procedures on the prospective target to identify and address any potential independence and risk management issues prior to closing the transaction. Specific consultation requirements are applied to enable independence and other issues to be addressed when integrating the business into KPMG Lower Gulf and the wider KPMG network.

#### 4.3.2.7 Independence clearance process

KPMG Lower Gulf follows specific procedures to identify and evaluate threats to independence related to prospective audit clients that are public interest entities; these procedures, also referred to as 'the independence clearance process,' must be completed prior to accepting an audit engagement for these entities.

A 'KPMG Independence Checkpoint' tool was introduced in October 2015 to automate and standardize all the workflows that comprise the independence clearance process. This is in anticipation of the increasing number of audit tenders member firms will be participating in and the number of independence clearances that need to be completed as a result of mandatory firm rotation of statutory audits in certain parts of the world.

#### 4.3.2.8 Independence training and confirmation

KPMG Lower Gulf provides all relevant personnel (including all partners and client service professionals) with independence training that is appropriate to their grade and function on an annual basis. New personnel who are required to complete this training must do so by the earlier of (a) thirty days after joining KPMG Lower Gulf or (b) before providing any services to, or becoming a member of the chain of command for, any audit client-including any of its related entities or affiliates.

We also provide all personnel with training on the Code of Conduct and ethical behavior, including KPMG's anti-bribery policies, compliance with laws, regulations, and professional standards, and reporting suspected or actual non-compliance with laws, regulations, professional standards, and KPMG's policies on a biennial basis. New personnel are required to complete this training within a month of joining the firm.

In addition, certain non-client-facing personnel who work in finance, procurement or sales and marketing departments, and are at manager level and above, are also required to undertake anti-bribery training.

Upon acceptance of employment, all KPMG personnel are required to confirm that they are in compliance with, and will abide by, applicable ethics and independence rules and policies. Thereafter, all KPMG personnel are required to sign an annual confirmation stating that they have remained in compliance with applicable ethics and independence policies throughout the year covered by the confirmation as well as their understanding of, and compliance with, the applicable Code of Conduct. This confirmation is used to evidence the individual's compliance with and understanding of KPMG's independence policies.

#### 4.3.2.9 Non-audit services

We have policies that are consistent with IESBA principles and applicable laws and regulations, which address the scope of services that can be provided to audit clients.

We are required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG Lower Gulf. KPMG Lower Gulf's EIP is involved in the review of potential independence issues, and the Global Independence Group is involved in the case of services developed which are intended to be delivered to audit or assurance clients in more than one jurisdiction.

In addition we ensure Sentinel™ is used consistently throughout the document to identify potential conflicts of interest, and facilitate compliance with these policies. Certain information on all prospective engagements, including service descriptions and fees must be entered into Sentinel™ as part of the engagement acceptance process. Using Sentinel™, lead audit engagement partners are required to: maintain group structures for their publicly traded and certain other audit clients as well as their affiliates, and identify and evaluate any independence threats that may arise from the provision of a proposed non-audit service and the safeguards available to address those threats. Sentinel™ enables lead audit engagement partners, for those entities for which group structures are maintained, to review and approve, or deny, any proposed service for those entities worldwide.

#### 4.3.2.10 Fee dependency

KPMG International's policies recognize that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the member firm expressing the audit opinion. In particular, KPMG International's policies require that in the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10 percent of the total fees received by a particular member firm for two consecutive years:

- This would be disclosed to those charged with governance at the audit entity; and
- An experienced Partner from another KPMG member firm would be appointed as the EQC reviewer.

No audit client accounted for more than 10 percent of the total fees received by KPMG Lower Gulf over the last two years.

#### 4.3.2.11 Conflicts of interest

Conflicts of interest can arise in situations where KPMG personnel have a personal connection with the client which may interfere, or be perceived to interfere, with their ability to remain objective, or where they are personally in possession of confidential information relating to another party to a transaction. Consultation with the RMP or the EIP is required in these situations.

All KPMG member firms and personnel are responsible for identifying and managing conflicts of interest, which are circumstances or situations that have, or may be perceived by a fully informed, reasonable observer, to have an impact on a member firm or its personnel in their ability to be objective or otherwise act without bias.

All KPMG member firms must use Sentinel™ for potential conflict identification so that these can be addressed in accordance with legal and professional requirements.

KPMG Lower Gulf has a risk management resource ('Resolver') which is responsible for reviewing an identified potential conflict and working with the affected member firms to resolve the conflict, the outcome of which must be documented and retained. It may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise, or be perceived to arise, so that the confidentiality of all clients' affairs is maintained. Such procedures may, for example, include establishing formal dividers between engagement teams serving different clients, and making arrangements to monitor the operation of such dividers.

Escalation and dispute resolution procedures are in place for situations in which agreement cannot be reached on how to manage a conflict. If a potential conflict issue cannot be appropriately mitigated, the engagement is declined or terminated. Any potential conflict matters that raise important points of principle for our group are referred to our Risk Management Partner for resolution; in cases of difficulty, a panel of partners may be convened to resolve the matter.

#### 4.3.2.12 Breaches of independence policy

All KPMG Lower Gulf personnel are required to report an independence breach as soon as they become aware of it. In the event of failure to comply with our independence policies, whether identified in the compliance review, self-declared or otherwise, professionals are subject to firm-wide disciplinary policies.

KPMG Lower Gulf has a documented disciplinary policy in relation to breaches of independence policies. The disciplinary policy is communicated to all professionals and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations. Our Risk Management team led by the Ethics and Independence Partner (EIP) oversees policies and procedures in relation to ethical matters and breaches of requirements. Any breaches of auditor independence regulations are reported to those charged with governance at the audit client, on the basis agreed with them.

Matters arising are factored in our promotion and compensation decisions and, in the case of engagement leaders and managers, are reflected in their individual quality and risk metrics.

#### 4.3.2.13 Compliance with laws, regulations, anti-bribery and corruption

Compliance with laws, regulation and standards is a key aspect for all KPMG Lower Gulf personnel. In particular, we have zero tolerance of bribery and corruption.

We prohibit involvement in any type of bribery — even if such conduct is legal or permitted under applicable laws or local practice. We also do not tolerate bribery by third-parties, including by our clients, suppliers or public officials.

Further information on KPMG International anti-bribery and corruption can be found on the [anti-bribery and corruption site](#).

Please also refer to KPMG International's annual communication on progress report for the [UN Global Compact](#).

#### 4.3.2.14 Partner and firm rotation

##### Partner rotation

KPMG International partner rotation policies are consistent with the IESBA Code of Ethics and require all member firms to comply with any stricter applicable rotation requirements.

KPMG Lower Gulf partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG International policy. These requirements place limits on the number of consecutive years that partners in certain roles may provide statutory audit services to a client, followed by a 'cooling off' period during which time these partners may not participate in the audit, provide quality control for the audit, consult with the engagement team or the client regarding technical or industry-specific issues or in any way influence the outcome of the audit.

KPMG Lower Gulf monitors the rotation of audit engagement leaders (and any other key roles, such as the Key Audit Partner and EQC Reviewer, where there is a rotation requirement) and develops transition plans to enable allocation of partners with the necessary competence and capability to deliver a consistent quality of service to clients. The partner rotation monitoring is subject to compliance testing.

#### Firm rotation

KPMG Lower Gulf has processes in place to track and manage audit firm rotation. The relevant regulatory requirements are as follows:

#### Abu Dhabi Accountability Authority (ADAA):

ADAA issued a rotation requirement In accordance with article 14 of Law number (14), specifying a rotation requirement of Four (4) Years for auditors. This requirement is applicable for ADAA regulated government entities. There is no cooling-off period specified. So it can be treated as one (1) year.

#### Government of UAE, Ministry of economy (MOE) and ESCA:

New law for commercial companies reference "Federal Law No. 2 of 2015" Issued on 1/04/2015. Article 243 clause 2 of this new law specifies the term for auditor's appointment as "The General Assembly may appoint one or more auditors for one (1) renewable year, provided that such term shall not exceed three (3) successive years, so that the auditor shall undertake his duties until the end of the next annual General Assembly".

#### Emirates Securities and Commodities Authority (applicable for all the local public joint stock company/companies of UAE)

As per ESCA board resolution, Article 11, The Company or the Fund are not permissible to appoint an Audit Firm for more than three (3) successive financial years and reappointment can be made after two (2) financial years from disengagement date.

#### DIFC registered companies

The DFSA Rulebook – Auditor Module specifies in section 5.2.2 (1) that a Registered Auditor must not consent to an appointment or continue to act as the Auditor of a Public Listed Company if the Audit Principal who has responsibility for the conduct of the audit of the public listed company has acted as Audit Principal in relation to that Company for a period exceeding the maximum period permitted under the Code of Ethics for Professional Accountants and has not been rotated as required under that Code, consequently seven (7) years as per KPMG policy.

# System of quality control



## 4.4 Recruitment, development personnel

One of the key drivers of quality is ensuring that our professionals have the appropriate skills and experience, passion and purpose, to deliver high-quality audit. This requires appropriate recruitment, development, promotion, retention and assignment of professionals. KPMG global behaviors, which are linked to the KPMG Values, are designed to articulate what is required for success — both individually and collectively. One of KPMG's global behaviors is 'Delivering Quality'.

### 4.4.1 Recruitment

KPMG Lower Gulf strives to be an employer of choice by creating an environment where our people can fulfill their potential and feel proud and motivated to perform at their best. KPMG Lower Gulf also recruits a significant number of experienced hires, including Directors and Partners.

All candidates submit an application and are employed following a rigorous selection process, which may include application screening, competency-based interviews, psychometric and ability testing, and qualification/reference checks.

KPMG Lower Gulf recruited over 50 new graduates in the year ended 30 September 2017 (2016: approximately 50).

Where individuals are recruited for senior grades, a formal independence discussion is conducted with them by the Ethics and Independence Partner or a delegate. KPMG Lower Gulf does not accept any confidential information belonging to the candidate's former firm/employer.

The Partner hire process is rigorous and thorough, involving appropriate members of leadership. Our criteria for Partner hires are consistent with our commitment to professionalism and integrity, quality, and being an employer of choice. These are strongly aligned to KPMG's behavioral capabilities and are based on consistent principles.

### 4.4.2 Personal development

It is important that all our professionals possess the necessary business and leadership skills in addition to technical skills to be able to perform quality work (see section 4.5.1). Our professional staff are required to complete 40 hours of Contentious Professional Development (CPD) each year.

In relation to audit, opportunities are provided for professionals to develop the skills, behaviors, and personal qualities that form the foundations of a successful career in auditing. Courses are available to enhance personal effectiveness and develop technical, leadership, and business skills.

KPMG Lower Gulf professionals are also developed for high performance through access to coaching and mentoring on the job, stretch assignments, and country rotational and global mobility opportunities.



#### 4.4.3 Inclusion and Diversity programs

KPMG Lower Gulf works hard to foster an inclusive culture. Being inclusive enables us to bring together successful teams with the broadest range of skills, experience and perspectives.

Our leadership and management teams also need to reflect the diversity within our firm and the diversity of our clients.

We believe that the established Global Inclusion and Diversity strategy of KPMG International provides the framework to drive the actions that are necessary to promote inclusive leadership at KPMG Lower Gulf and across the KPMG network.

For more about Inclusion & Diversity at KPMG International and its member firms read here: <https://home.kpmg.com/xx/en/home/about/inclusion-and-diversity-new.html>

#### 4.4.4 Performance and Reward

##### Evaluation process including quality and compliance metrics

KPMG Lower Gulf professionals, including partners, have goal-setting, interim and year-end performance reviews, as well as a project specific feedback mechanism. Each professional is evaluated on their agreed goals, demonstration of our global behavior, technical capabilities and market knowledge. A culture of continuous improvement is encouraged to drive feedback, both positive and developmental, from junior and senior colleagues as well as peers. The feedback gathered forms an integral part of performance reviews.

Going beyond performance reviews and compensation, the KPMG Global Behaviors are designed to extend across all our people processes, including recruitment methodologies, recognition approaches and development planning. The behaviors are a constant reference point, articulating to our people what is required for success individually and collectively.

KPMG Lower Gulf monitors quality and compliance incidents and maintain quality metrics in assessing overall evaluation, promotion and remuneration of partner and certain personnel. These evaluations are conducted by performance managers and partners who are in a position to assess performance.

KPMG Lower Gulf's policy prohibits audit partners from being evaluated on or compensated based on their success in selling non-assurance services to audit clients.

##### Reward

We have compensation and promotion policies that are clear, simple, and linked to the performance review process which, for partners, includes the achievement of key audit quality and compliance metrics. This helps our partners and employees know what is expected of them, and what they can expect to receive in return.

Reward decisions are based on consideration of both individual and organizational (member firm) performance. The extent to which our people feel their performance has been reflected in their reward is measured through the Global People Survey, (refer to section 4.4.6).

##### Promotion

The results of performance evaluations directly affect the promotion and remuneration of partners and staff and, in some cases, their continued association with KPMG.

##### Partner admissions

The KPMG Lower Gulf process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. Our criteria for admission to the KPMG Lower Gulf partnership are consistent with our commitment to professionalism and integrity, quality, and being an employer of choice. These are strongly aligned to KPMG's behavioral capabilities and are based on consistent principles.

#### 4.4.5 Assignment of professionals

KPMG Lower Gulf has procedures in place to assign both the engagement partners and other professionals to a specific engagement on the basis of their skills set, relevant professional and industry experience, and the nature of the assignment or engagement.

The Head of Audit is responsible for the partner assignment process. Key considerations include partner experience and capacity - based on an annual partner portfolio review - to perform the engagement, taking into account the size, complexity and risk profile of the engagement and the type of support to be provided (i.e. the engagement team composition and specialist involvement).

Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies, training and capabilities, including time, to perform audit engagements in accordance with KPMG Audit Methodology (KAM), professional standards, and applicable legal and regulatory requirements. This may include involving specialists from our own firm or other KPMG member firms.

When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner's considerations may include the following:

- An understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation
- An understanding of professional standards and legal and regulatory requirements
- Appropriate technical skills, including those related to relevant information technology and specialized areas of accounting or auditing
- Knowledge of relevant industries in which the client operates
- Ability to apply professional judgment
- An understanding of KPMG Lower Gulf's quality control policies and procedures
- Quality performance review (QPR) results and results of regulatory inspections.

#### 4.4.6 Insights from our people – Global People Survey (GPS)

KPMG Lower Gulf annually invites all its people to participate in an independent Global People Survey (GPS) which measures their overall level of engagement with the firm. The GPS provides an overall Employee Engagement Index (EEI) and Performance Excellence Index (PEI) as well as insights into areas driving engagement which may be either strengths or opportunities. Results can be analyzed by functional or geographical area, grade, role and gender, to provide greater understanding. Additional insight is provided on how the firm performs on categories known to impact employee engagement.

The survey also specifically provides leadership with information on employee and partner attitudes to quality, leadership and tone at the top.

KPMG Lower Gulf participates in the GPS. This includes monitoring GPS results including those related to audit quality and tone at the top, referred to in the GPS as 'leadership behavior', and employee engagement through the EEI, and employee performance through PEI.

The results of the GPS are also aggregated for the KPMG network and are presented to the global board each year and appropriate follow-up actions agreed.



# System of quality control



## 4.5 Commitment to excellence and quality

All KPMG Lower Gulf professionals are provided with the technical training and support they need. This includes access to specialists and the professional practice department, which are made up of senior professionals with extensive experience in audit, reporting and risk management, either to provide resources to the engagement team or for consultation. Where the right resource is not available within KPMG Lower Gulf, access is provided to a network of highly skilled KPMG professionals in regional or global roles across the network of member firms.

### 4.5.1 Lifetime learning strategy

In addition to personal development discussed in the section above, our lifetime learning strategy is underpinned by policies requiring all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

#### Formal training

Annual training priorities for development and delivery are identified by the Audit Learning and Development steering groups at global, regional and, where applicable, KPMG Lower Gulf. Training is delivered using a blend of classroom, digital learning and performance support to assist auditors on the job. Audit Learning and Development (L&D) teams work with subject matter experts and leaders from the Global Service Centre (GSC), the International Standards Group (ISG) and member firm Department of Professional Practice (DPP) as appropriate, to ensure the training is of the highest quality, is relevant to performance on the job and is delivered on a timely basis.

#### Mentoring and on the job training

Learning is not confined to the classroom — rich learning experiences are available when needed through coaching and just-in-time learning, available at the click of a mouse and aligned with job specific role profiles and learning paths. All classroom courses are reinforced with appropriate performance support to assist auditors on the job.

In relation to audit, KPMG Lower Gulf:

- Deploys a variety of learning solutions that are designed to reinforce our Values and ensure our professionals get the fundamentals right, and develop the necessary skills and attitudes to make judgments, and apply professional skepticism that enhance audit quality and the value of audit
- Provides instructor-led and virtual classroom training, performance support tools, coaching guides and just-in-time learning. Guidance is available on judgmental audit topics — this is used by audit teams and this guidance is embedded across audit learning solutions
- Has also developed professional judgment tools, designed to reinforce the importance of independence and objectivity, and to assist engagement teams in demonstrating professional skepticism
- Provides courses to enhance personal effectiveness and develop leadership and business skills. Our personnel are developed further for high performance through coaching and mentoring on the job, stretch assignments and country rotational and global mobility opportunities.



#### 4.5.2 Licensing and mandatory requirements for IFRS and U.S. GAAP engagements

##### Licensing

All KPMG Lower Gulf professionals are required to comply with applicable professional license rules and satisfy the Continuing Professional Development (CPD) requirements in the jurisdiction where they practice. Policies and procedures are designed to facilitate compliance with licence requirements. We are responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge, and experience in the local predominant financial reporting framework

##### Mandatory requirements – IFRS and U.S. GAAP engagements

In addition, we have specific requirements for partners and managers working on IFRS engagements in countries where IFRS is not the predominant financial reporting framework. Similar policies apply to engagements performed outside the U.S. to report on financial statements or financial information prepared in accordance with U.S. GAAP and/or audited in accordance with U.S. auditing standards, including reporting on the effectiveness of the entity's internal control over financial reporting (ICOFR). These require that the partner, manager, and EQC reviewer have completed relevant training and that the engagement team, collectively, has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

#### 4.5.3 Access to specialist networks

KPMG Lower Gulf engagement teams have access to a network of local KPMG specialists as well as specialists in other KPMG member firms. Engagement partners are responsible for ensuring that their engagement teams have the appropriate resources and skills.

The need for specialists (e.g. Information Technology, Tax, Treasury, Actuarial, Forensic, Valuation) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process. Specialists who are members of an audit team and have overall responsibility for specialist involvement on an audit engagement have the competencies, capabilities and objectivity to appropriately fulfill their role. Training on audit concepts is provided to these specialists.

#### 4.5.4 Consultation

KPMG Lower Gulf promotes a culture in which consultation is recognized as a strength and that encourages personnel to consult on difficult or contentious matters. To assist audit engagement professionals in addressing difficult or contentious matters, protocols have been established for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. In addition, our Global Q&RM Manual includes mandatory consultation requirements where certain matters are identified such as concerns over client integrity.

Appropriate consultation support is provided to audit engagement professionals through our professional practice resources.

Auditing and technical accounting support is available to all member firms and their professionals through the GSC and the ISG as well as the US Capital Markets Group for SEC foreign registrants.

Across KPMG Lower Gulf, the Role of DPP is crucial in terms of the support that it provides to the Audit Function. It provides technical guidance to client service professionals on specific engagement related matters, develops and disseminates specific topic related guidance on emerging local technical and professional issues and disseminates international guidance on IFRS and ISAs.



Consultation with a team member at a higher level of responsibility than either of the differing parties usually resolves differences. In other circumstances, the matter may be elevated through the chain of responsibility for resolution by technical specialists. In exceptional circumstances, a matter may be referred to the Head of Audit, Head of DPP, Head of Quality and Risk (or appropriate nationally qualified delegates) or ultimately the national senior partner (or appropriate nationally qualified delegates).

#### Global Service Centre (GSC)

The GSC develops, maintains and deploys KPMG's global audit methodology and technology-based tools used by KPMG audit professionals to facilitate effective and efficient audits.

#### International Standards Group (ISG)

The ISG works with Global IFRS and ISAs topic teams with geographic representation from around the world to promote consistency of interpretation of IFRS and auditing requirements between member firms, identify emerging issues, and develop global guidance on a timely basis.

Further details about the GSC and ISG and its activities are available in the KPMG International Transparency Report here: <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/12/transparency-report-2017.pdf>

The ISG also supports the following groups to facilitate information sharing between the DPP network, and to ensure sector-specific issues are dealt with proactively.

- The Global ISA Panel, chaired by the Global Audit Quality and Risk Management Partner, and which includes senior DPP partners from key member firms and is responsible for monitoring the development of ISA guidance, and the development of response letters to the International Auditing and Assurance Board and/or regulators. .
- Global Topic Teams, which formulate guidance on IFRS accounting and reporting practice on sector specific or specific technical areas, and act as central contact points for their regions/home practices in identifying and addressing issues related to relevant topics.
- The Global IFRS Panel is responsible for monitoring the development of IFRS guidance and response letters to the International Accounting Standards Board and/or regulators by the ISG and the Topic Teams. The panel is chaired by the Global IFRS Leader and includes Global IFRS topic leaders.

#### 4.5.5. Developing business understanding and industry knowledge

A key part of quality is having a detailed understanding of the client's business and industry.

For significant industries, global audit sector leads are appointed to support the development of relevant industry information, which is made available to audit professionals within eAudit. This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes). In addition, industry overviews are available which provide general and business information in respect of particular industries, as well as a summary of the industry knowledge provided in eAudit.

How an audit is conducted is as important as the final result.



# System of quality control



## 4.6 Performance of effective and efficient audits

KPMG Lower Gulf personnel are expected to demonstrate certain key behaviors and follow certain policies and procedures in the performance of effective and efficient audits.

### 4.6.1 KPMG audit process

Our audit workflow is enabled through eAudit, KPMG International's activity based workflow and electronic audit file. eAudit integrates the KPMG audit methodology, guidance and industry knowledge, and the tools needed to manage audits consistently. The KPMG high-quality audit process includes:

- Timely partner and manager involvement
- Timely access to the right knowledge – specialists, accredited individuals and relevant industry expertise
- Critical assessment of audit evidence— exercise of professional judgment and professional skepticism
- Ongoing mentoring, supervision, and review
- Appropriately supported and documented conclusions
- Robust challenge and review, including eqc review.

#### 4.6.1.1 Timely partner and manager involvement

To help identify and respond to the significant audit risks applicable to each audit, the engagement team requires an understanding of the client's business, its financial position, and the environment in which it operates.

The engagement partner is responsible for the direction, supervision and performance of the engagement and therefore responsible for the overall quality of the audit engagement.

Involvement and leadership from the engagement partner during the planning process helps set the appropriate scope and tone for the audit, and helps the engagement team obtain maximum benefit from the partner's experience and skill. Timely involvement of the engagement partner at other stages of the engagement allows the engagement partner to identify and appropriately address matters significant to the engagement, including critical areas of judgment and significant risks.

The engagement partner is responsible for the final audit opinion and reviews key audit documentation. In particular, documentation relating to significant matters arising during the audit and conclusions reached. The engagement manager assists the partner in meeting these responsibilities and in the day-to-day liaison with the client and team, building a deep business understanding that helps the partner and team deliver valued insights.



#### 4.6.1.2 Critical assessment of audit evidence with emphasis on professional skepticism

We consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence. The nature and extent of the audit evidence we gather is responsive to the assessed risks. We critically assess audit evidence obtained from all sources. For the purpose of obtaining sufficient appropriate audit evidence each team member is required to exercise professional judgment and maintain professional skepticism throughout the audit engagement.

Professional skepticism involves a questioning mind and alertness to contradictions or inconsistencies in audit evidence. Professional skepticism features prominently throughout auditing standards and receives significant focus from regulators. The KPMG Audit Quality Framework emphasizes the importance of maintaining an attitude of professional skepticism throughout the audit.

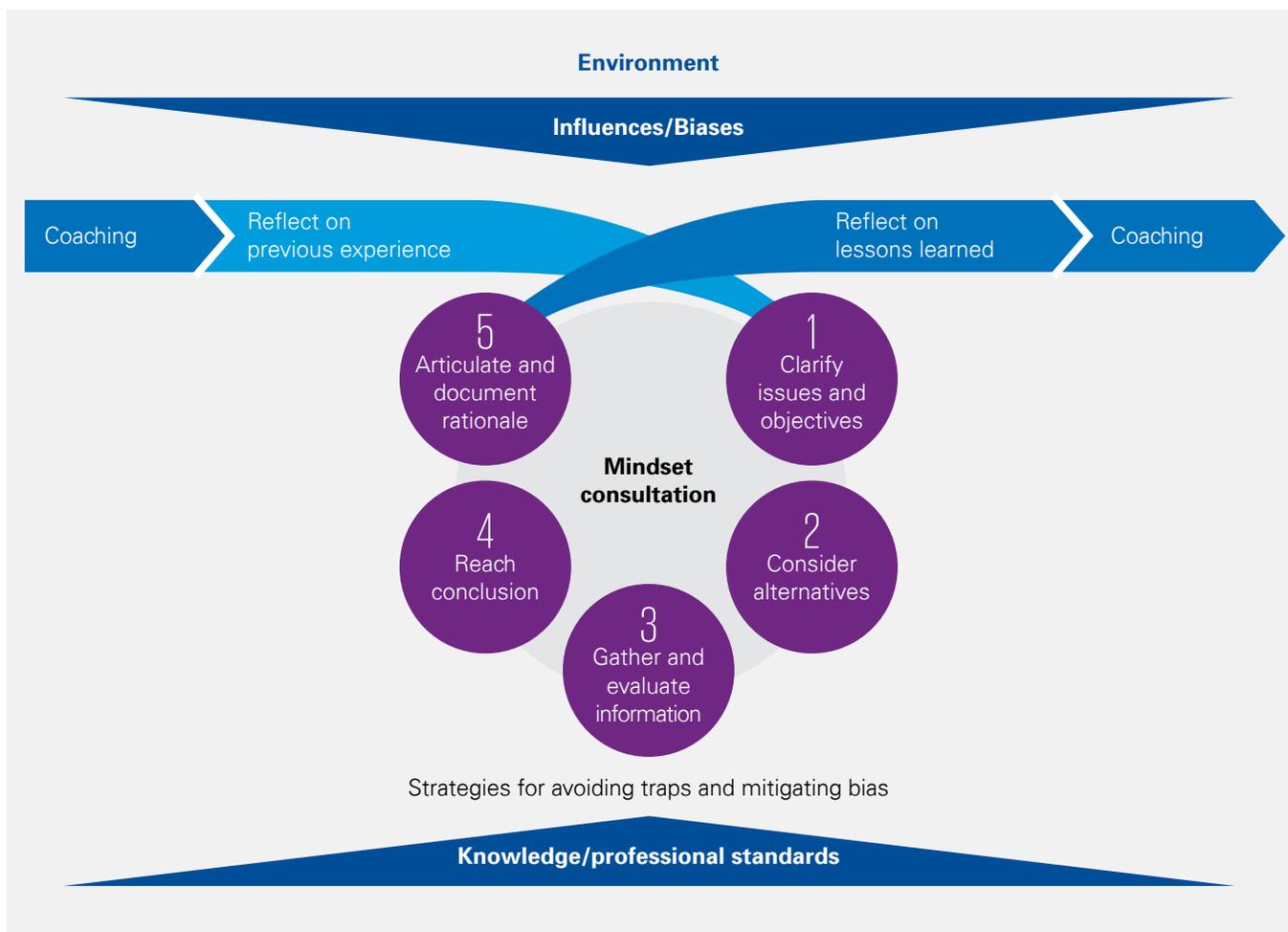
The KPMG professional judgment process facilitates good judgment by introducing a structured approach to auditing areas that require significant judgment. It also reinforces the importance of independence and objectivity and emphasizes the importance of having the right mindset - the need to apply professional skepticism.

Our professional judgment process recognizes the need to be aware of, and alert to, biases which may pose threats to good judgment. The structured approach to auditing areas that require significant judgment involves:

- Considering alternatives
- Critically assessing audit evidence by challenging management's assumptions and following up contradictory or inconsistent information
- Documenting the rationale for conclusions reached on a timely basis as a means of evaluating their completeness and appropriateness.

The use of the professional judgment process and the application of professional skepticism is reinforced through coaching and training, acknowledging that judgment is a skill developed over time and with different experiences.

Professional judgment training has been embedded in our core Audit Technical training program for junior professionals as well as being included in our periodic and annual update training for qualified and experienced professionals and partners.



#### 4.6.1.3 Ongoing mentoring, supervision and review

We understand that skills build over time and through exposure to different experiences. To invest in the building of skills and capabilities of KPMG professionals, without compromising on quality, KPMG Lower Gulf promotes a continuous learning environment and supports a coaching culture.

The engagement partner, supported by the engagement manager, is responsible for driving a culture of coaching and continuous learning throughout the audit process and setting an example in the performance of the audit to drive a culture of continuous audit quality improvement.

Ongoing mentoring, coaching and supervision during an audit involves:

- Engagement partner participation in planning discussions
- Tracking the progress of the audit engagement
- Considering the competence and capabilities of the individual members of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement
- Helping engagement team members address any significant matters that arise during the audit and modifying the planned approach appropriately
- Identifying matters for consultation with more experienced team members during the engagement.

A key part of effective mentoring and supervision is timely review of the work performed so that significant matters are promptly identified, discussed and addressed.

#### 4.6.1.4 Appropriately supported and documented conclusions

KPMG Lower Gulf uses the KAM and KPMG International's electronic audit tool, eAudIT, to provide guidance, mechanisms for and documentation of, the supervision and control of the audit engagement. Audit documentation records the audit procedures performed, evidence obtained and conclusions reached on each audit engagement. KPMG policies require review of documentation by more experienced engagement team members.

KAM recognizes that documentation prepared on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before our report is finalized.

Engagement teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period, which is ordinarily not more than 60 calendar days from the date of the auditors' report but may be more restrictive under certain applicable regulations.

The key principle that engagement team members are required to consider when preparing audit documentation is whether an experienced auditor, having no previous connection with the engagement, will understand:

- the nature, timing, and extent of audit procedures performed to comply with the ISAs, KAM and other requirements applicable legal and regulatory requirements
- the results of the procedures performed, and the audit evidence obtained

- significant findings and issues arising during the audit, and actions taken to address them (including additional audit evidence obtained)
- the basis for the conclusions reached, and significant professional judgments made in reaching those conclusions.

#### 4.6.1.5 Appropriate involvement of the EQC reviewer

EQC reviewers are independent of the engagement team and have the appropriate experience and knowledge to perform an objective review of the more critical decisions and judgments made by the engagement team and the appropriateness of the financial statements.

An EQC reviewer is required to be appointed for audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with a high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements as designated by the risk management partner or country head of audit.

The EQC review takes place before the date of the auditor's report and includes, among other matters:

- Review of selected audit documentation relating to significant judgments the engagement team made and the conclusions it reached
- Review of the financial statements and proposed auditor's report
- Evaluation of the conclusions reached in formulating the auditors' report and consideration of whether the proposed report is appropriate.

Although the engagement partner is ultimately responsible for the resolution of financial reporting and auditing matters, the EQC reviewer must be satisfied that all significant questions raised have been resolved before an audit can be considered complete.

KPMG Lower Gulf is continually seeking to strengthen and improve the role that the EQC reviewer plays in audits, as this is a fundamental part of the system of audit quality control. In recent years, a number of actions have been taken to reinforce this, including:

- Issuing leading practices guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EQC reviewers
- Incorporating specific procedures in e-Audit to facilitate effective reviews
- Implementing policies relating to recognition, nomination and development of EQC reviewers, as well as monitoring and assessing the nature, timing and extent of their involvement.

#### 4.6.1.6 Reporting

Auditing standards and relevant local legislations and regulations largely dictate the format and content of the auditors' report that includes an opinion on the fair presentation of the client's financial statements in all material respects. Experienced engagement partners form all audit opinions based on the audit performed.

In preparing auditors' reports, engagement partners have access to extensive reporting guidance and technical support through consultations with our DPP, especially where there are significant matters to be reported to users of the auditors' report (e.g. a modification to the opinion or through the inclusion of an 'emphasis of matter' or 'other matter' paragraph, as well as key audit matters to be communicated).

Effective for December 2016 year ends onward in compliance with the new IAASB requirements, we have enhanced auditor reporting for those auditors' reports prepared under the ISAs. The changes in auditors' reporting give users more insight into the audit and improve transparency.

#### 4.6.1.7 Insightful, open, and honest two-way communication

Two-way communication with Those Charged With Governance (TCWG), often identified as the audit committee, is key to audit quality and is a key aspect of reporting and service delivery.

At KPMG Lower Gulf we stress the importance of keeping those charged with governance informed of issues arising throughout the audit and the need to listen to and understand their views. We achieve this through a combination of reports and presentations, attendance at audit committees or board meetings, and, when appropriate, ongoing informal discussions with management and members of the audit committee.

Communications with audit committees include:

- An overview of the planned scope and timing of the audit, which includes communicating significant risks identified
- Significant findings from the audit which may include control deficiencies and audit misstatements
- An annual written communication that states the engagement team and kpmg Lower Gulf have complied with relevant independence requirements; describes all relationships and other matters between KPMG Lower Gulf and the audit client that, in our professional judgment, may reasonably be thought to bear on independence; and states related safeguards we have applied to eliminate (or reduce to an acceptable level) identified threats to independence.

We ensure such communications meet the requirements of professional standards.



#### 4.6.1.8 Focus on effectiveness of group audits

The KPMG Audit Methodology (KAM) covers the conduct of group audits in detail. We stress the importance of effective two-way communication between the group engagement team and the component auditors, which is a key to audit quality. The group audit engagement partner is required to evaluate the competence of component auditors, irrespective of whether they are KPMG member firms, as part of the engagement acceptance process.

Consistent methodology and tools are used across the KPMG network. Lead Audit Engagement Partners (LAEPs) are provided with information on component auditors within the KPMG network to help them evaluate their competence and capabilities. In addition, for PCAOB engagements, the results of relevant inspections related to the KPMG component member firms are made available to the lead audit engagement partner. KPMG Lower Gulf Limited is not a PCAOB registered Audit firm

Lead audit engagement partners may review component auditor engagement documentation in person or obtain electronic access.

Additional guidance, training and material has been issued in this area as follows:

- eAudit includes guidance and functionality based on revised ISA 600 for group audit engagements and heightened attention is being given to key risk areas for group audits, for example emerging markets and business environments that may be subject to heightened fraud risk;

- Training for partners and managers in 2017 reinforced key principles and requirements about the responsibility of the group engagement team for the work undertaken by component auditors.

#### 4.6.2 Client confidentiality, information security, and data privacy

The importance of maintaining client confidentiality is emphasized through a variety of mechanisms including the Code of Conduct, training, and the annual affidavit/confirmation process, that all KPMG professionals are required to complete.

We have a formal document retention policy concerning the retention period for audit documentation and other records relevant to an engagement in accordance with the relevant IESBA requirements as well as other applicable laws, standards and regulations.

We have clear policies on information security that cover a wide range of areas. Data Privacy policies are in place governing the handling and processing of Personal Identifiable Information (PII), and associated training is required for all KPMG Lower Gulf personnel.

We are committed to providing a secure and safe environment for the personal data and confidential information we hold, as well as protecting the privacy of our clients, service providers and other third parties.

The importance of maintaining client confidentiality is emphasised through a variety of mechanisms including through regular communications on the topic, the Code of Conduct, training and the annual independence/confirmation process, which all of our professionals are required to complete.

Within Quality and Risk Management the Firm has a dedicated National IT Security Officer (NITSO) who has the necessary authority, skills and experience to lead the Lower Gulf Firm's information protection function.

Our information protection requirements are set out in the Global Information Security Policy published by KPMG International. Compliance monitoring against these standards and policies is carried out through our internal information security audit programme, including independent internal audits annually.

In addition, KPMG Lower Gulf is ISO27001 certified- an international standard for Information Security Management System (ISMS). The scope of our certification includes our IT processes, IT business assets, client data in core systems, offices and physical locations. Obtaining and maintaining ISO27001 is part of our commitment to information security. We are independently audited against the standard at six monthly intervals by an accredited external third party.

We believe that everyone has a role to play in protecting client and confidential information. Policies and practices are communicated to all personnel and, as appropriate, reinforced through guidance, awareness and training. Our personnel are required to comply with our Acceptable Use Policy – this policy encourages effective and appropriate use of KPMG information technology resources, and highlights the protection requirements of all employee, KPMG and client confidential information. Data privacy and Information Management policies are also in place governing the handling of personal and confidential information.

# System of quality control



## 4.7 Commitment to continuous improvement

We are committed to continually improve the quality, consistency and efficiency of our audits. Integrated quality monitoring and compliance programs enable member firms to identify quality deficiencies, to perform root cause analysis and develop, implement and report remedial action plans, both in respect of individual audit engagements and the member firm's system of quality control. KPMG International's integrated quality and monitoring programs include the Quality Performance Review (QPR) program, the Risk Compliance Program (RCP) and the Global Compliance Review (GCR) program.

The quality monitoring and compliance programs are globally administered and consistent in their approach across member firms, including the nature and extent of testing and reporting. KPMG Lower Gulf compares the results of its internal monitoring programs with the results of those of any external inspection programs and take appropriate action.

### 4.7.1 Internal monitoring and compliance programs

Our monitoring programs evaluate both:

- Engagement performance in compliance with the applicable standards, applicable laws and regulation and KPMG International policies and procedures
- KPMG Lower Gulf compliance with KPMG International policies and procedures and the relevance, adequacy and effective operation of key quality control policies and procedures.

The results and lessons from the integrated monitoring programs are communicated internally, and the overall results and lessons from the programs are considered and appropriate action is taken at local, regional and global levels. Our internal monitoring program also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively.

Two inspection programs developed and administered by KPMG International are conducted annually across the Audit, Tax, and Advisory functions: Quality Performance review (QPR) and Risk Compliance Process (RCP).

Additionally, all member firms are covered at least every three years by the cross functional GCR program. Participation in QPR, RCP and GCR is a condition of ongoing membership of the KPMG network.

### Audit Quality Performance Reviews (QPRs)

The QPR program assesses engagement level performance and identifies opportunities to improve engagement quality.

### Risk-based approach

Each engagement leader is reviewed at least once in a three year cycle. A risk-based approach is used to select engagements.

KPMG Lower Gulf conducts the annual QPR program in accordance with KPMG International QPR instructions. The reviews are performed at KPMG Lower Gulf level and are monitored regionally and globally. Member firm Audit QPR reviews are overseen by a senior experienced lead reviewer independent from the member firm.

### Reviewer selection, preparation and process

There are robust criteria for selection of reviewers. Review teams include senior experienced lead reviewers that are independent of the member firm under review.

Training is provided to review teams and others overseeing the process, with a focus on topics of concern identified by audit oversight regulators and the need to be as rigorous as external reviewers.

### Evaluations from Audit QPR

Consistent criteria are used to determine engagement ratings and member firm Audit practice evaluations.

Audit engagements selected for review are rated as 'Satisfactory', 'Performance Improvement Needed' or 'Unsatisfactory'.

### Reporting

Findings from the QPR program are disseminated to member firm professionals through written communications, internal training tools, and periodic partner, manager and staff meetings.

These areas are also emphasized in subsequent inspection programs to gauge the extent of continuous improvement.

Lead Audit Engagement Partners are notified of less than satisfactory engagement (defined as 'Performance Improvement Needed' or 'Unsatisfactory') ratings on their respective cross-border engagements. Additionally, lead audit engagement partners of parent companies/head offices are notified where a subsidiary/affiliate of their client group is audited by a member firm where significant quality issues have been identified during the QPR.

### Global Audit Quality Monitoring Program (GAQMP)

To further enhance the quality, rigor and consistency of the QPR program, the Global Audit Quality Monitoring Program was launched by KPMG International in 2016.

The GAQMP is comprised of a team of partners, directors and senior managers experienced in performing QPR program reviews of listed and related entity (LRE) audit engagements. The team also includes partners and professionals with experience in auditing general information technology controls and application controls.

Each of the GAQMP reviewers attends the Global QPR training delivered for their respective member firm. The GAQMP team is responsible for performing selected QP reviews of LRE audit engagements as determined by Global Quality & Risk Management. KPMG Lower Gulf have been subjected to QPR in 2017 under this program.

### Risk Compliance Program (RCP)

KPMG International develops and Quality and Risk Management policies and processes that apply to all member firms. These policies and processes, and their related procedures, include the requirements of ISQC-1. During the annual RCP, we perform a robust assessment program consisting of documentation of quality controls and RM procedures, related compliance testing and reporting of exceptions, action plans and conclusions.

The objectives of the RCP are to:

- Monitor, document and assess the extent of compliance of KPMG [insert name] system of quality control with Global Quality & Risk Management policies and key legal and regulatory requirements relating to the delivery of professional services
- Provide the basis for KPMG Lower Gulf to evaluate that the firm and its personnel comply with relevant professional standards and applicable legal and regulatory requirements.

Where deficiencies are identified, we are required to develop appropriate action plans.

### Global Compliance Review (GCR) program

Each member firm is subject to a GCR conducted by KPMG International's GCR team, independent of the member firm, at least once in a three year cycle.

The GCR provides independent oversight of our assessment of our system of quality control, Risk Management, Independence, Finance and Information Protection frameworks, including:

- Our commitment to quality and risk management (tone at the top) and the extent to which the overall structure, governance and financing support and reinforce this commitment
- The completeness and robustness of our RCP - overall compliance with KPMG policies.

The GCR team performing the reviews is independent of KPMG Lower Gulf, objective and knowledgeable of Global Quality and Risk Management policies.

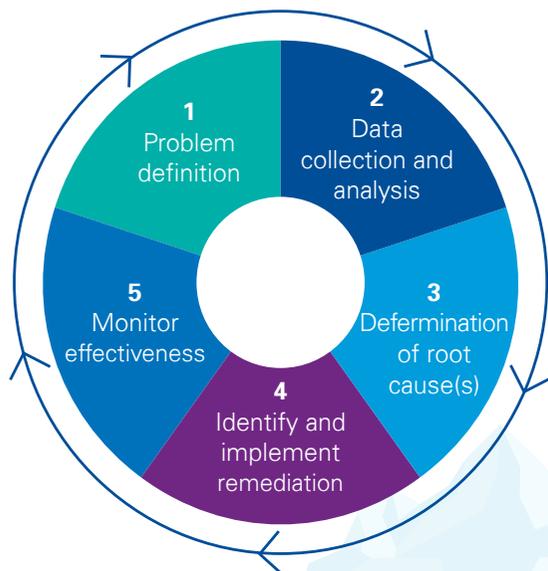
We develop action plans to respond to all GCR findings and agree these with the GCR team. Our progress on action plans is monitored by the GCR central team. Results are reported to the Global Quality & Risk Management Steering Group (GQRMSG) and, where necessary, to appropriate KPMG International and regional leadership, to help ensure timely remedial actions taken by the member firm

**4.7.1.1 Root Cause Analysis (RCA)**

KPMG Lower Gulf performs root cause analysis to identify and address audit quality issues in order to prevent them from recurring and help identify good practices as part of continuous improvement.

In 2016, KPMG Lower Gulf adopted the KPMG Global approach to perform RCA, with the adoption, several members of the leadership attended the training to ensure compliance with the required process of planning and execution.

The Global RCA 5 Step Principles are as follows:



It is the responsibility of member firms to perform RCA and thereby identify and subsequently develop appropriate remediation plans for the audit quality issues identified.

KPMG Lower Gulf’s Head of Audit is responsible for the development and implementation of action plans as a result of RCA, including identification of solution owners. The Risk Management Partner monitors their implementation. Following the adoption of the KPMG Global approach 2 projects have been undertaken.

**4.7.2 Recommendations for improvement**

At a global level, through the GAQIC and the GQRMSG, KPMG International reviews the results of the quality monitoring programs, analyzes member firm root causes and action plans and develops additional global actions as required.

The GAQIC considers network-wide issues arising from internal quality control reviews and external inspections, monitors progress being made in addressing audit quality issues and makes recommendations to the Global Audit Steering Group (GASG) on audit quality issues.

To date, Global remediation plans developed by KPMG International have been aimed at changing culture and behavior across the KPMG network and at driving consistent engagement team performance within KPMG member firms. The remediation plans have been implemented through the development of global training, tools and guidance to drive consistency, ensure the fundamentals are right and that best practice is shared across the network.

## 4.7.2 External feedback and dialogue

### 4.7.3.1 Regulators

In the UAE and Oman there are multiple regulatory bodies, the details of two (2) active regulatory bodies are listed as below, others are not active in reviews:

#### 1. Dubai Financial Services Authority (DFSA):

##### Details of scope:

DFSA is a regulator only in respect of audits carried out for clients registered with DFSA. The DFSA primarily focus on audit engagement reviews. It also reviews risk management controls relating to client and engagement acceptance and training on anti-money laundering. Important aspects of their review are stated below:

- The DFSA undertakes periodic visits of Registered Auditors (RA) as part of its risk based approach to supervising firms. The DFSA may include Registered Auditors in some thematic visits.
- A Registered Auditor must complete an annual information return form for each calendar year and submit the form to the DFSA by 31 January of the following year.
- The DFSA is likely to undertake a desk-top review of the content of the annual information return form it receives from a Registered Auditor. Prior to scheduling an onsite visit, the DFSA may make a request for further information from the Registered Auditor.

- The on-site assessment involves the DFSA undertaking an analysis of the RA's operations and business and how it conducts an audit of an Authorised Firms (AFs), Authorised Market Institutions (AMIs), and Public Listed Companies (PLCs). The onsite visit is likely to include interviews with senior management and a review of files/documentation.

##### Frequency:

A RA is subject to at least one (1) on-site assessment every three (3) years.

##### Reporting of results:

The on-site Assessment results in the RAs being assigned a risk rating. The frequency of on-site assessments can be varied depending on the risk rating that has been assigned to the RA.

Selection for an on-site assessment is based on a number of factors including risk rating of the RA, the risk rating and activity type of the AF, AMI or PLC that the RA audits, results of any previous on-site assessments and any other relevant information.

#### 2. Abu Dhabi Accountability Authority (ADAA):

##### Details of scope:

ADAA's audit methodology is developed with standards and guidelines issued by International Federation of Accountants (IFAC) and International Organization of Supreme Audit Institutions (INTOSAI) and other internationally accepted standards.

ADAA performs its assignments in accordance with the standardized audit methodology to ensure the quality of audit work performed which is then reflected the reports and outputs. ADAA's Audit methodology involves three phases:



Planning



Execution



Reporting

##### Frequency:

Every Audit report Issued is subject to review no set frequency of reviews.

##### Reporting of results:

ADAA's financial examination reports findings are classified as follows:

- I. Significant improvement required: Significant finding that requires immediate action.
- II. Needs improvement: Finding indicates issues on audit quality that require action to improve the audit.

- III. Needs improvement - Specific exception noted: Had this exception been noted during the audit process, it might have resulted in an adjustment.

None of the external inspections have identified any issues that have a material impact on the conduct of our statutory audit business.

#### 4.7.3.2 Client feedback

We proactively seek feedback from clients through in-person conversations and third-party surveys to monitor their satisfaction with services delivered.

We endeavor to take this feedback and make dynamic changes at both the engagement level and firm level to meet clients' needs.

#### 4.7.3.3 Monitoring of complaints

We have procedures in place for monitoring and addressing complaints received relating to the quality of our work. These procedures are detailed in our general terms of business.

#### 4.7.3.4 Other assessments of audit quality

KPMG Lower Gulf has a dedicated DPP team that supports audit teams by providing timely assistance on technical matters. These include:

- Pre-issuance reviews: DPP performs a limited risk based pre-issuance review as well as complete Pre-issuance review of financial statements. The objective of a pre-issuance review is to perform an independent review of the financial statements before they are issued. These pre-issuance reviews as required in scenarios which are mandated in KAM which includes but is not limited to first time audit of a listed client, restatement of previously issued financials, newly listed companies etc.
- In-flight reviews: DPP also undertakes in-flight reviews, to evaluate whether sufficient appropriate audit evidence was obtained to support the audit team's conclusions and whether the documentation maintained on file is adequate to support the conclusions reached.
- Query resolution: Formal queries are raised by audit teams in a predefined format to obtain formal written clearance from DPP on technical accounting, reporting and auditing matters, especially those involving unusual or complex transactions and where consultations are mandated by KAM.
- Publications: DPP also issues publications and provides training to KPMG Partners and staff on technical matters and ensures that any regulatory changes/updates are communicated in a timely manner.





# Financial information

# Financial information

Description	NFR FY 2017 – Amount in 000's	GFR FY 2017 – Amount in 000's
Financial Statement Audit revenue - All PIE Clients - including non-EU audit clients that are listed in the EU	63,670.42	77,578.33
All types of revenue firm wide - except disclosed above to all clients	350,842.89	413,819.46
<b>Total Revenue</b>	<b>414,513.31</b>	<b>491,397.79</b>





# Partner remuneration

# Partner remuneration



## Partners' profit share

Partners are remunerated out of the distributable profits of the KPMG Lower Gulf (such profits being determined by the KPMG Lower Gulf Board) and are personally responsible for funding pensions and most other benefits. The final allocation of profits to partners is made by the KPMG Lower Gulf after assessing each partner's contribution for the year. The KPMG Lower Gulf Board's Remuneration Committee (comprising members of the Board) approves this process and oversees its application.

There are two elements to partner remuneration:

- Base component – a proportion of the KPMG Lower Gulf budgeted profits are allocated to members as base component; this is effectively member salary. The amount of base component reflects the role and seniority of each partner and
- Profit related performance component – rewards performance in the year by each partner against individual objectives previously agreed and the overall profits of their part of KPMG Lower Gulf and KPMG Lower Gulf as a whole.

Our policies for this variable element of partner remuneration take into account a number of factors including quality of work, excellence in client service, growth in revenue and profitability, leadership and living the Values of KPMG Lower Gulf. Audit partners are not permitted to have objectives related to, or receive any remuneration from, selling non-audit services to their audit clients.

In addition, a part of their performance-related component is based on an assessment of their ability to deliver audit quality.



# Network arrangements



# Network arrangements



## 7.1 Legal structure

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law.

KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

One of the main purposes of KPMG International is to facilitate the provision by member firms of high-quality Audit, Tax, and Advisory services to their clients. For example, KPMG International establishes and facilitates the implementation and maintenance of uniform policies, standards of work and conduct by member firms, and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity that is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture, or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

The name of each audit firm that is a member of the network and the EU/EEA countries in which each network member firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available at this link

### Total turnover achieved by EU/EEA audit firms resulting from the statutory audit of annual and consolidated financial statements\*

Aggregated revenues generated by KPMG audit firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.7 billion during the year ending 30th September 2017. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent calculable and translated at the average exchange rate prevailing in the 12 months ended 30th September 2017.

\*The financial information set forth represents combined information of the separate KPMG member firms from EU and EEA Member States that perform professional services for clients. The information is combined here solely for presentation purposes. KPMG International performs no services for clients nor, concomitantly, generates any client revenue.

# Network arrangements



## 7.2 Responsibilities and obligations of member firms

Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools.

Each member firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG Values.

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the member firms. A firm's status as a KPMG member firm and its participation in the KPMG network may be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.



# Network arrangements



## 7.3 Professional indemnity insurance

A substantial level of insurance cover is maintained in respect of professional negligence claims. The cover provides a territorial coverage on a worldwide basis and is principally written through a captive insurer that is available to all KPMG member firms.



# Network arrangements



## 7.4 Governance structure

The key governance and management bodies of KPMG International are the Global Council, the Global Board, and the Global Management Team. Further details on KPMG International's governance structure can be found in the 2017 KPMG International Transparency Report.



# Network arrangements



## 7.5 Area Quality & Risk Management Leaders

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders who:

- Assess the effectiveness of a member firm's quality and risk management efforts to identify and mitigate significant risks to the member firm and network, and actively monitor alignment with global quality and risk management strategies and priorities
- Share leading best practices in quality and risk management
- Report to global head of quality, risk and regulatory.



# Statement by the Board

# Statement by the Board of KPMG Lower Gulf on the effectiveness of quality controls and independence

The measures and procedures that serve as the basis for the system of quality control for KPMG Lower Gulf outlined in this report aim to provide a reasonable degree of assurance that the statutory audits carried out by our firm comply with the applicable laws and regulations. Because of its inherent limitations, the system of quality controls is not intended to provide absolute assurance that non-compliance with relevant laws and regulations would be prevented or detected.

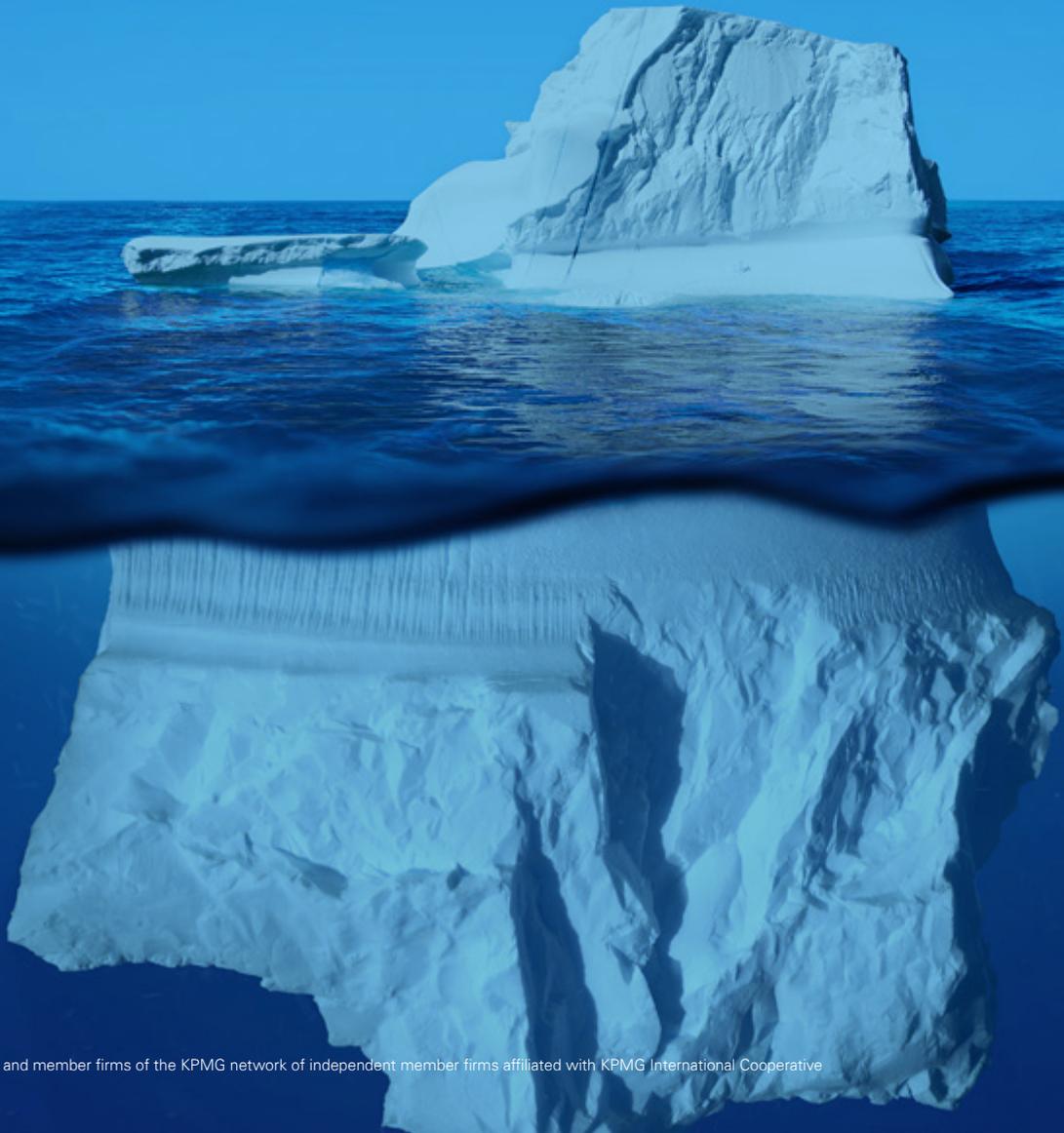
The Board of KPMG Lower Gulf has considered:

- The design and operation of the quality control systems as described in this report;
- The findings from the various compliance programs operated by our firm (including the kpmg international review programs as described in section 4.7.1 and our local compliance monitoring programs); and
- Findings from regulatory inspections and subsequent follow up and/or remedial actions.

Taking all of this evidence together, the Board of KPMG Lower Gulf confirms with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 30 September 2017.

Further, the Board of KPMG Lower Gulf confirms that an internal review of independence compliance within our firm has been conducted in the year to 30 September 2017.

# Appendices



# Appendices



## A. Public Interest Entities

KPMG Lower Gulf only has one PIE client namely, First Abu Dhabi Bank P.J.S.C. as the firm's relevant audit client whose transferable securities are admitted to trading on a regulated market within the EU as of 30 September 2017.



# Appendices



## B. KPMG's values

KPMG people work together to deliver value to clients. We believe strongly in a common set of shared values which guide our behavior when dealing with both clients and each other:



### We lead by example:

At all levels we act in a way that exemplifies what we expect of each other and our clients.



### We respect the individual:

We respect people for who they are and for their knowledge, skills, and experience as individuals and team members.



### We are open and honest in our communication:

We share information, insight, and advice frequently and constructively and manage tough situations with courage and candor.



### We work together:

We bring out the best in each other and create strong and successful working relationships.



### We seek the facts and provide insight:

By challenging assumptions and pursuing facts, we strengthen our reputation as trusted and objective business advisers.



### We are committed to our communities:

We act as responsible corporate citizens by broadening our skills, experience, and perspectives through work in our communities and protecting the environment.



### Above all, we act with INTEGRITY:

We are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.



## Contact us



**Vijay Malhotra**  
CEO and Chairman  
T: +971 4 403 0444  
E: [vmalhotra@kpmg.com](mailto:vmalhotra@kpmg.com)



**Anders Ling**  
Risk Management Partner, Ethics &  
Independence Partner and Money  
Laundering Reporting Officer  
T: +971 4 356 9889  
E: [andersling@kpmg.com](mailto:andersling@kpmg.com)

Follow us on:



[@kpmg\\_lowergulf](https://twitter.com/kpmg_lowergulf)

kpmg-mesa



This proposal is made by KPMG, the United Arab Emirates member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative ("KPMG International"), and is in all respects subject to the negotiation, agreement, satisfactory clearance of KPMG's client and engagement evaluation process, and signing of a specific engagement letter or contracts. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

© 2018 KPMG Lower Gulf Limited and KPMG LLP, operating in the UAE and member firms of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in the United Arab Emirates.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.