



# Transparency Report 2019

**Advancing trust in audit**

**KPMG Australia**

October 2019

[KPMG.com.au](https://www.kpmg.com.au)

# Foreword

Audit is core to our business, critical to our brand, and key to our identity. It is a sector of business we intend to expand and grow, and we are committed to continually improving the quality of our audits.

Fundamental to this is our capacity as a broad, multidisciplinary firm. Throughout our history, our audit clients have benefited from significant investments we have made into new services, technology, and talent. We can and do draw on the full capacities of our diverse firm to undertake our audits.

Our diversity helps us to attract, develop, and retain outstanding people with a broad range of skills, interests, and backgrounds. This breadth of talent means we are continually able to draw on the knowledge and experience of people from across audit, tax, and advisory to build balanced, high-performing audit teams.

Another benefit, and one I am familiar with as the chairman of KPMG's Global Audit Quality Committee, is the industry and country knowledge possible through our global reach. As the world becomes ever more intimately connected, this global perspective is indispensable.

While we are proud of what we have achieved in audit over our history, we are also acutely conscious of the need to stay vigilant when it comes to engendering public trust. Audit quality is critical to maintaining trust in the capital markets and society more broadly. We know there is more work to do when it comes demystifying the role of audit and the audit process itself. Pivotal to these efforts will be increasing transparency on what we do and how we go about it.

I believe this Transparency Report is a constructive step in the process, highlighting the importance of KPMG's audit work and the efforts we apply to its ongoing improvement.



A handwritten signature in black ink, appearing to read 'Alison Kitchen'.

**Alison Kitchen**  
National Chairman,  
KPMG Australia

# Introduction

We recognise greater transparency is needed if the public is to develop a good understanding of audit services. This Transparency Report outlines how we as a firm drive audit quality, our systems of quality control, and the initiatives we are continuously pursuing to improve it. Our mindset has been that there is always room to improve, develop and evolve, and we are pleased to report here on progress.

Our people's knowledge and experience, enabled by technology, are essential to meeting the challenges of evolving stakeholder expectations. We outline how we are investing significantly in equipping our people to do the best work by building their skills and capabilities.

While our people lead the way, we believe that audit quality is best achieved when inquiring minds and professional skepticism are matched with the power of smart technology. This year we have been updating our audit methodology and embedding it in our recently launched smart audit platform, KPMG Clara. From 2020, the new workflow methodology KPMG Clara Workflow, is set to enhance audit quality in a range of new ways.

Our increasing ability to use data and analytic capabilities to allow us to audit entire data sets, instead of using sampling techniques, is creating greater audit coverage. We will continue to enhance our audit technology platform, enabling us to incorporate emerging technologies such as predictive analytics, machine learning, cognitive technologies, and AI.

This year we have introduced dedicated teams at a new National Service Centre in Sydney so that common engagement processes can be centralised and standardised. This frees senior audit team capacity to focus on high-risk audit areas.

We have also expanded our second line of defence (2LD) program, led by an independent team reviewing and challenging the work of audit teams as the audit is taking place. This team focuses on higher risk companies and audit areas where formal inspection and monitoring processes suggest we can do better.

This year has also seen the Australian Senate commence an inquiry into regulation of auditing, and we recently presented our ideas for advancing trust in audit.

Understanding that greater transparency is necessary for stakeholders to gain insight into audit quality, we have appended in full ASIC's private inspection report to KPMG for the 18 months ended 30 June 2018 to this Transparency Report.

Within this context, we hope this year's Transparency Report provides a useful overview of our audit quality measures and the steps we are taking to ensure every audit is a quality audit.



A handwritten signature in black ink, appearing to read 'A. Yates'.

**Andrew Yates**  
National Managing Partner,  
Audit, Assurance &  
Risk Consulting (AARC)



A handwritten signature in black ink, appearing to read 'Eileen Hoggett'.

**Eileen Hoggett**  
National Partner in Charge,  
External Audit

# Our commitment to audit quality

Audit quality is fundamental to maintaining public trust in the capital markets and the financial reports issued by audited organisations. When we talk about how we are striving to maintain and improve quality, it is not an abstract aspiration. Quality is fundamental to our purpose, and we constantly monitor and evaluate it.

We recognise that greater transparency is needed for the public to gain insight into audit services. This report outlines KPMG's approach and commitment to audit quality, including actions taken to enhance audit quality during the year.

KPMG defines audit quality as the outcome when audits are:

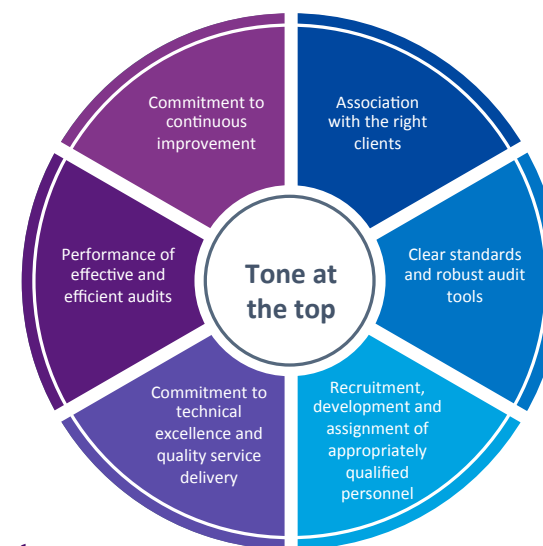
- executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality control; and
- undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity<sup>1</sup>.

Our firm-wide commitment to audit quality is founded upon and delivered through our governance structures, the role of leadership and management, our culture, our people, our systems and processes, and our organisation.

It can be difficult for clients and stakeholders to determine whether the audit is of high quality because what drives audit quality is a complex set of direct and indirect factors that are often obscure and hard to measure. Our *Audit Quality Framework* focuses on the aspects we can directly control; however, we acknowledge a number of indirect influences exist including our legal and regulatory environment and client preparedness.

The *KPMG Audit Quality Framework* demonstrates we view audit quality as having seven key drivers. We comment on each of these on the following pages.

**The KPMG Audit Quality Framework<sup>2</sup>**



## Our commitment

This report focuses on how we as a firm drive quality, our systems of quality control, and the initiatives we are continuously pursuing to improve it. We highlight actions taken to enhance audit quality, having listened to feedback that actions speak louder than words. We recognise the risks associated with trying to measure something as hard to define as audit quality, along with unintended consequences such as managing to a particular number or benchmark.

We commit to consistently delivering quality independent audits, enabled by the power of technology and strength of our people.

We consider this report helps our performance to be evaluated by users and purchasers of audit services, including audit committees, to evaluate our performance. We trust that our approach assists you in the execution of your responsibilities.

<sup>1</sup> KPMG's definition is consistent with and builds on ASIC's definition of audit quality — see ASIC information sheet INFO222 *Improving and maintaining audit quality*, June 2017.

<sup>2</sup> ©2019 KPMG

# 1. Tone at the top



Code of  
Conduct



Coaching

## In this chapter

- Our culture, values and Code of Conduct
- Our Strategy — a foundation of uncompromising quality
- Governance structure

Strong leadership and management are critical for audit quality. Setting the tone and establishing responsibility at the top builds accountability and consistency through the complete chain of leadership and our teams. Tone at the top is the core of our *Audit Quality Framework*.

There are a number of critical components to an effective tone at the top including:

- **Culture, values and Code of Conduct:** our commitment to audit quality is underpinned by our values, which form the foundation of our culture and set the tone for governance and leadership.
- **Focused and well-articulated strategy:** incorporating audit quality at all levels.
- **Governance structure:** our governance structure sets the formal framework for establishing, managing and monitoring audit quality.

## Our culture, values and Code of Conduct



Our values define our diverse and inclusive culture and our commitment to personal and professional conduct.

Our values emphasise that, above all, we act with integrity. We uphold the highest professional standards and provide sound advice — while rigorously maintaining our independence and objectivity and complying with laws, regulations and professional standards. We communicate our values clearly to our people and embed them in people processes including induction, performance development and reward.

Building on our values is the KPMG Global Code of Conduct. All partners and staff are required to act in line with this. Everyone at KPMG is required to take regular training covering the Code, and to confirm their compliance. Adherence is monitored and managed.

The firm has clear procedures and established channels of communication in place so that anyone can report ethical, quality or other issues. In addition, KPMG International has a Whistleblower Hotline for all KPMG partners, employees, clients and other external parties to report any concerns they may have. We encourage speaking up so that we can take action when inappropriate behaviour is identified and seek to learn and improve from feedback.

Our culture promotes consultation, challenge and open discussion of issues and is a fundamental contributor to audit quality. This encourages partners and staff to debate and discuss difficult or contentious matters.

## Our Strategy — a foundation of uncompromising quality

Our divisional strategy states it is built on a foundation of uncompromising quality. The National Managing Partner Audit, Assurance and Risk Consulting (AARC), Andrew Yates, reinforces this in his regular communications and meetings with partners and staff.

## Governance structure

Our governance structure sets the formal framework for establishing, managing and monitoring audit quality. In our view, strong leadership and management are critical for audit quality. Setting the tone and establishing responsibility at the top builds accountability and consistency through the complete chain of leadership and our teams.

The Board is the principal governance and oversight body of KPMG in Australia<sup>3</sup>. Led by National Chairman, Alison Kitchen, the Board's key responsibilities include overseeing strategy implementation, protecting and enhancing the KPMG brand and overseeing management of the firm.

Alison chairs KPMG's Global Audit Quality Committee (GAQC), established at the start of FY19. GAQC plays a critical role in setting the quality agenda, working with regional and member firm leadership to promote audit quality, including a strong focus on global consistency and accountability.

The governance structure includes committees that have risk and quality responsibilities to oversee and influence the firm's quality agenda. Risk management and quality control are not simply the jurisdiction of one national group or leadership role. We view risk management and quality as the responsibility of every one of our people.

### Leadership responsibilities for audit quality

Our CEO, Gary Wingrove, has overall responsibility for our system of quality control and the performance of the firm. All KPMG Australia's initiatives to improve audit quality are underpinned by strong leadership from the firm's National Executive Committee. From 1 July 2018, our CEO assigned every member of the firm's National Executive Committee an audit quality focused goal, which feeds directly into annual performance and remuneration outcomes. This is to ensure that all our senior leaders, not just auditors, understand, and are held accountable for audit quality.

As an example, the audit quality goal for the National Managing Partner of the firm's Management Consulting division is:

*" Monitor and report bi-annually to the Chief Executive Officer the division's activities that have assisted in the enhancement of audit quality. Additionally, any issues or actions arising from this reporting will be included in the Audit Quality Action Plan, to enable subsequent monitoring and remediation."*

Our National Partner in Charge, External Audit, Eileen Hoggett, is directly accountable to the National Managing Partner of KPMG's Audit, Assurance & Risk Consulting division, Andrew Yates, for the delivery of the firm's audit quality strategy.

Our National Head of Audit Quality, Bernie Szentirmay, is responsible for monitoring internal and external audit quality signals and driving actions for continuous improvement. The National Head of Audit Quality is a member of the Global Audit Quality Steering Committee and responsible for leading the implementation in Australia of initiatives determined by the Global Audit Quality Steering Committee. Together with a dedicated Divisional Risk Management Partner, Martin McGrath<sup>4</sup>, they are accountable to the Chief Risk Officer, Tanya Gilerman, who retains overall operational responsibility for our system of quality control and risk management.

Audit quality is also integral to when we appoint and promote new partners in our audit practice. We require audit partner candidates to have specific audit quality oversight experience as part of their progression to partner.

<sup>3</sup> Refer to Appendix 5 and 6 for details on the Board

<sup>4</sup> Marcus McArdle commenced 1 July 2019

## Committee structures

A number of dedicated committees have risk and quality responsibilities to oversee and influence the firm's audit quality. These include the below. Further details about the firm's governance bodies are contained in Appendix 5.

### External Audit Leadership Group (ALG)

This group is the governance body for our external audit practice. Led by Eileen Hoggett, it is responsible for the development and implementation of our external audit strategy and operations. Members included the Divisional Risk Management Partner, the Head of People for Audit and the Partners in charge of each of the audit groups, structured by location. Audit quality is discussed by the National Head of Audit Quality during dedicated time at each meeting.

### Audit Quality Committee

The Audit Quality Committee, chaired by the National Head of Audit Quality, reports to the ALG and ensures the quality of financial statement audits and associated risks are a priority for audit leadership.

Its responsibilities include:

- Reviewing proposed significant audit initiatives ensuring the objectives and outcomes align with maintaining or enhancing audit quality.
- Recommending the strategic prioritisation, resourcing and timetabling of audit initiatives as they impact audit quality across all offices.
- Implementing global initiatives to deliver audit quality outcomes in a globally consistent manner.
- Overseeing the activities of the National Audit Quality Group led by the National Head of Audit Quality, including its strategy, work plan and resourcing.

| <b>Profile of the National Audit Quality Group<sup>5</sup></b>                | <b>FY19</b> | <b>FY18</b> | <b>FY17<sup>6</sup></b> |
|---|-------------|-------------|-------------------------|
| No. of Full Time Equivalent professionals in the National Audit Quality Group | 4           | 3           | -                       |
| Average years of experience of the National Audit Quality Group professionals | 18          | 19          | -                       |

| <b>Profile of the Department of Professional Practice</b> | <b>FY19</b> | <b>FY18</b> | <b>FY17</b> |
|---|-------------|-------------|-------------|
| No. of Full Time Equivalent professionals in the DPP      | 30          | 39          | 37          |
| Average years of experience of the DPP professionals      | 15          | 14          | 14          |

The figures are as at 30 June of each financial year. For the year ended 30 June 2019, DPP averaged 35 FTE professionals, and are in the process of recruitment.

### **National Audit Quality Group**

The National Audit Quality Group, led by the National Head of Audit Quality, comprises senior auditors dedicated to developing and implementing our strategy to continuously improve audit quality.

Key achievements during the year include operating a second line of defence (2LD) program, standardising our documented approach to work on revenue from long term contracts, and the setting and monitoring of milestones for timely audit planning activities.

### **Department of Professional Practice**

The Department of Professional Practice (DPP) is the national centre of technical excellence responsible for: conducting technical research, interacting with local and global professional standards-setters and regulators, and providing technical accounting and auditing guidance and support to our people in the field. It is organised into three areas: Audit Quality, Financial Reporting, and US Desk.

Partners and senior staff primarily from the audit groups are members of the DPP. They are our technical experts, with deep understanding of Australian and international standards. They challenge audit teams on positions taken, bringing a further independent lens, and are the firm's authority on audit matters.

The Australian DPP has an influential role in many specialist areas in our Asia Pacific region and internationally. Our partners can hold key positions with standard setters, professional bodies and other stakeholders. They take a non-partisan and collaborative approach to improving industry standards.

### **KPMG Clara Workflow Deployment Group**

The KPMG Clara Workflow Deployment Group, led by a Deployment Partner, is responsible for the staged implementation of our new audit workflow. Established in FY19, auditors are seconded to the group from lines of business including the DPP to specifically focus our support on this significant local and global investment to improve audit quality.

<sup>5</sup> Figures are as at 30 June of each financial year disclosed, throughout the report, unless otherwise specified.

<sup>6</sup> The National Head of Audit Quality established the National Audit Quality Group in October 2017



## Our embedded networks



KPMG uses embedded networks within each of the audit groups and offices to maintain our focus on audit quality. In FY19, to further develop the audit quality skills of our partner candidates, we introduced the Partner Promotion Policy and supporting activities. We require candidates to have specific audit quality oversight experience as part of their progression to partner, for example via a role in our embedded networks, either as a second line of defence (2LD) reviewer, a Quality Performance (QP) reviewer, or spend at least 6 months within the DPP Audit Quality group or the National Audit Quality Group.

The visibility and proximity of these specialists to audit teams makes it easy to seek assistance and consult on a daily basis. Our embedded networks include the following dedicated groups.

### Second Line of Defence (2LD) Reviewers

2LD reviewers support specific audit teams during the conduct their work and navigate key audit areas: revenue, impairment, and business combinations. All 2LD reviewers are specifically trained high performing senior staff. They coach teams to develop and robustly evidence risk assessment, the audit approach, and execution of procedures in the key audit areas. Their goal is to improve audit quality on these specific audits as they are occurring and before opinions are issued, and more broadly through active engagement in the embedded quality networks.

### Audit Quality Partners and Managers

Audit Quality Partners are responsible for assisting the local office, disseminating guidance and information to audit teams relating to our interpretations of auditing standards and national initiatives to enhance quality, identifying improvement opportunities and leading our Audit Quality Managers. Audit Quality Managers facilitate local workshops on topical matters, communicate new methodology guidance and key audit quality messages and provide input into the development of national audit quality initiatives.

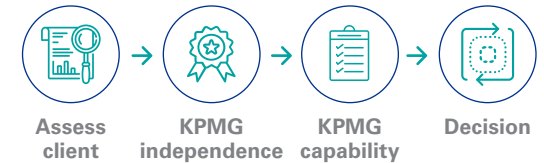
## Risk Management Partners

Risk Management Partners are responsible for providing leadership on audit quality and risk management and directing adherence to firm policy and professional standards. These highly experienced audit partners consult on audit technical issues, assist in the identification and management of risks to audit service delivery, and have a consultative role in the identification, prioritisation and response to risks to audit quality. Our Risk Management Partners continue to dedicate significant amounts of time to one on one audit team support for complex issues such as going concern and impairment and their impact on our audit report.

| Profile of embedded networks            | FY19 | FY18            | FY17 |
|---|------|-----------------|------|
| No. of Audit Quality Partners           | 15   | 15              | 15   |
| No. of Second Line of Defence reviewers | 20   | 16              | -    |
| No. of Audit Quality Managers           | 50   | 59 <sup>7</sup> | 87   |
| No. of Risk Management Partners         | 16   | 18              | 16   |

<sup>7</sup> In FY18, with the introduction of the National Head of Audit Quality we realigned participants in and objectives of our embedded networks. The responsibilities of 2LD Reviewers, Audit Quality Partners and Audit Quality Managers reflect this and update our previous Audit Methodology and Deployment Partners and Methodology Coaches roles.

## 2. Association with the right clients



### In this chapter

- Prospective client and engagement evaluation process
- Continuance process
- Safeguards and High Risk Register
- Managing Conflicts of Interest
- Client portfolio management

Understanding the nature of our clients and the issues they face is key to audit quality, allowing us to build a robust audit response to the identified risks.

We understand our clients are linked to the quality of our work and our reputation.

We have established policies and procedures for determining whether to accept or continue a client relationship, or perform a specific engagement. Rigorous client acceptance and continuance policies are vital to our ability to provide high-quality professional services.

### Prospective client and engagement evaluation process



A key focus of our prospective client assessment is the integrity of management and those charged with governance. With every prospective client the partner responsible conducts an evaluation of the client's principals, business and other service-related matters. This evaluation includes completion of a customised questionnaire to assess the client's risk profile and obtaining background information on the client, its key management, directors and owners.



When the engagement is to provide audit services, at least two additional risk assessment steps are incorporated. These include focusing on whether we are capable (have sufficient resources, industry expertise and consider persuasive evidence is obtainable) of delivering a quality audit, plus, for a first time audit, performing a review of any non-audit services provided to the client and any other relationships that may compromise audit independence.



We decline to act for a client where we are unable to deliver to our expected level of quality or would not be willing to be associated with them. Some circumstances where we consider declining are: potential impairment of independence, conflict of interest issues, concerns about management integrity, concerns about the client business model or governance structure, overly aggressive or conservative accounting policies, disputes with previous advisors, management being subject to investigation by authorities, and concerns about the competence of the client's financial management team.

## Continuance process

Regardless of the length of time we have been associated with an audit client, we re-evaluate our association to ensure we remain capable of independence and audit quality. We evaluate client relationships at least annually; and additionally if there is significant change in their business, financial position, ownership structure or issues reflecting on their integrity.

A Risk Management Partner, independent of the audit team, assesses the circumstances of our continuance and their acceptability.

## Safeguards and High Risk Register

KPMG maintains a High Risk Register which is routinely reviewed by our Risk Management Partners.

Clients are placed on the High Risk Register when non-standard or additional risks are identified during acceptance or re-evaluation and we are still capable of ensuring independence and audit quality. In these cases, we mandate additional risk management or quality control safeguards to the conduct of the audit. Examples include: supplementing the existing skills and experience of the audit team with an additional audit partner (Engagement Quality Control Review Partner), mandated consultations, specialist involvement to deliberate on a specific matter such as valuations and impairment, and performing additional audit testing. Prior to acceptance, and at least annually, an individual independent of the audit team, assesses circumstances of our continuance and the proposed safeguards for adequacy.

## Managing Conflicts of Interest

Sentinel, KPMG's proprietary global web-based application, facilitates compliance with auditor independence requirements and identifies potential conflicts of interest for prospective engagements.

All KPMG partners and staff are responsible for identifying and managing conflicts of interest. KPMG engagement teams are required to use Sentinel to identify potential conflicts of interest so these can be addressed in accordance with legal and professional requirements. For example, any non-audit services proposed to be provided to audit clients are required to be entered into Sentinel, which assigns proposed engagements for consideration by the Lead Audit Engagement Partner prior to any approval.

A Commercial Conflicts Resolution Committee, comprising the National Managing Partners of all divisions and the Chief Risk Officer, assesses complex cases involving multiple areas of the firm. If a potential conflict cannot be resolved, we decline the engagement or prospective client.

## Client portfolio management

We review each audit partner's client portfolio at least annually in individual discussions with the audit partner. The reviews consider the industry, nature and risk of the client portfolio as a whole along with the competence, capabilities and capacity of the partner to deliver a quality audit for every client.

# 3. Clear standards and robust audit tools



Code of conduct



Data & analytics



Technology



Tools



Systems & processes



Audit manual

## In this chapter

- KPMG Audit Manual
- KPMG Clara
- Accounting and financial reporting
- Ethics and Independence

Acting in the public interest, risk management and quality control are the responsibilities of every KPMG partner and staff member. We expect our people to adhere to the clear standards we set and provide a range of tools to support them in meeting these expectations.

These standards incorporate the relevant requirements of the *Corporations Act 2001* and of accounting<sup>8</sup>, auditing<sup>9</sup>, quality control<sup>9</sup>, ethical and professional standards<sup>10</sup>, and other relevant laws and regulations. We dedicate significant resources to keeping our standards and tools complete and up to date. Amendments to these are communicated by regular alerts and learning programs.

## KPMG Audit Manual



KPMG's Global Solutions Group<sup>11</sup> develops the audit methodology adopted by all KPMG member firms, based on the International Standards on Auditing<sup>12</sup> (ISAs) and compliant with the International Standard of Quality Control (ISQC 1).

In Australia, auditing standards<sup>13</sup> (ASAs) are legally enforceable and the DPP customises the global methodology for these standards, relevant laws and regulations, and for additional requirements we believe enhance the quality of our audits. This is set out in our *KPMG Audit Manual* (KAM).

8 Australian Accounting Standards Board [www.aasb.gov.au](http://www.aasb.gov.au)

9 Auditing and Assurance Standards Board [www.auasb.gov.au](http://www.auasb.gov.au)

10 Accounting Professional and Ethical Standards Board [www.apesb.org.au](http://www.apesb.org.au)

11 Previously Global Services Centre

12 International Auditing and Assurance Standards Board [www.iaasb.org](http://www.iaasb.org)

13 Australian Auditing Standards

## KPMG Clara

We use technology to improve audit quality by driving better audit insights, create greater consistency in the performance of audits and to strengthen monitoring of engagements. We believe that audit quality is best achieved when the power of smart technology is matched with inquiring minds and professional skepticism. We are updating our audit methodology and embedding it in our recently launched 'smart' audit platform, known as KPMG Clara. KPMG Clara unites in a single sharing platform our data and analytics capabilities, innovative new technologies, collaboration capabilities to improve data flows between the audit team and our client, and audit capabilities and workflow to enhance quality and efficiency. Our new audit workflow, KPMG Clara workflow, is being deployed globally from 2020.

### Digital workflow supporting the audit process

A cornerstone of our KPMG Clara platform is the new KPMG Clara Workflow, a new global methodology for performing the audit combined with modernised look-and-feel technology. Through it we will enhance global consistency.

It enables a better experience for our people powered by extensive libraries of standardised audit performance tools. We piloted the risk assessment, auditing estimates and group scoping capabilities in FY19 with further capabilities now in testing.

Our current audit workflow technology is eAudIT, KPMG's electronic audit tool. It integrates our methodology and industry knowledge with tools to facilitate the conduct of the audit and production of an electronic audit file. eAudIT's activity-based workflow is scalable to customise the audit approach for major multi-national groups through to small or medium enterprises.

### Data and analytics (D&A) in the audit



D&A is not a single process or a single product. It is the collection, transformation, analysis and visualisation of large sets of data to discover patterns, trends, outliers and other relevant information. Our D&A capabilities leverage technology to analyse populations using statistical sciences, applying algorithms similar to sampling, but considering additional data points. We use D&A to better understand the entities we audit, contribute to risk assessment, and provide rich audit evidence, adding confidence and valuable insights. For example, we use a tailored D&A routine to profile a client's whole population of journal entries, allowing us to quarantine high risk items for detailed testing.

In FY19, we extended our capabilities and piloted a range of new KPMG Clara D&A capabilities in our audits.

Realising an opportunity to standardise our approach, concentrate our specialised resources, and produce consistent high quality outputs, we created a centralised team of D&A specialists. We are increasingly recruiting and using data scientists, data analysts and other science, technology, engineering and mathematics educated people in our audit business, improving our D&A capabilities.

We may use these techniques throughout the audit and to provide better business reporting to our clients. Data and analytics provides rich objective audit evidence, allowing us to focus our judgements on higher risk areas.

### Technology enabling evidence-gathering



We use a range of technologies in performing audit procedures, from off-the-shelf packages to customised in-house developed systems. No matter how big or small the procedure is we evaluate and test the software enabling our evidence-gathering process. Our digital solutions must be reliable and support high quality audits.

KPMG's alliances with some of the world's most advanced technology companies, such as Microsoft, allow us to stay on the forefront of technology developments as well as D&A capabilities to effectively lead the future of audit.

### Other tools and templates to assist the audit process



To maximise audit effectiveness and efficiency, we regularly develop and distribute audit quality updates. These include tools, templates, checklists, quick reference cards and practice aids. In FY19, we introduced tools improving the quality and efficiency of our audits including: *BRISK* a self-service Q&A tool supporting engagement management decisions, templates for performing a common audit procedure to predict revenue based on cash receipts, and guidance for more precise consideration of revenue where the business activity originates through long-term contracts across several reporting years.

## Accounting and financial reporting

Accounting and financial reporting knowledge is core to quality service delivery and the performance of effective and efficient audits. To support the technical excellence of our people the DPP produce publications and reference materials describing KPMG's positions on accounting standards. Our DPP financial reporting team dedicate significant time to supporting teams auditing their client's transition to the new suite of accounting standards, including most recently AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*, and upcoming AASB 16 *Leases*. This ranges from one on one audit team support to developing and instructing learning on complex issues.

An important weekly publication is the *DPP Bulletin* distributed to all audit partners and staff outlining relevant accounting, auditing and regulatory topics, new tools, and frequently asked questions and answers.

## Ethics and Independence



### Quality and Risk Management Manual

Our *Quality and Risk Management Manual* collates our policies, procedures and guidance. Based on a globally developed manual it reflects the key elements of the IESBA<sup>14</sup> Code of Ethics combined with Australian specific provisions. Where applicable, US Securities and Exchange Commission (SEC)<sup>15</sup>, US PCAOB<sup>16</sup> and other regulatory requirements are included. These policies and procedures cover personal independence, business relationships, post-employment relationships, partner rotation and approval of audit and non-audit services. Our people annually confirm their compliance with these policies and procedures.

A dedicated Ethics and Independence Partner with a core team of specialists assist with the interpretation of the independence policies and implement controls to safeguard against non-compliance or inconsistent application.

## Personal independence



To help ensure independence, as prescribed by our policies and the *Corporations Act 2001* and Accounting Professional & Ethical Standards Board (APES)<sup>17</sup>, our partners and the staff members assigned to each audit engagement must be free from prohibited financial interests in, and prohibited relationships with, our audit clients, their management, directors and significant owners. Independence also extends to our contractors and subcontractors, using a process tailored to their circumstances. Our people are responsible for making appropriate enquiries to ensure they do not enter into or have any prohibited personal financial interests.

We use an online independence tracking system, KPMG Independence Compliance System (KICS), with other member firms in the KPMG global network to assist our partners and staff in complying with independence policies. This system contains a current inventory of publicly available investment products, specifically identifying restricted investments. All partners, client-facing managers and audit staff are required to maintain a record of all of their investments in the system and check their permissibility before entering into any personal investments. If investments become restricted, these individuals receive automatic notification to take appropriate action which may include prompt divestment.

## Audit partner rotation

All audit partners are subject to the rotation provisions of the *Corporations Act 2001* and Australian professional and ethical requirements. FY19 saw the first-year impact of significant changes enacted to extend the time period a partner must 'cool-off' after their time on an audit, enhancing independence. Where relevant, the rotation requirements of foreign regulators such as the US SEC and other local regulatory requirements are also taken into account. Rotation requirements limit the number of years certain partners can provide audit services to a client.

Our Audit Regulatory Compliance database (ARC) logs and tracks a partner's period of service on a relevant audit client and can be used to manage succession planning when appointing a new audit partner to a client. It is important to us, and our clients, to maintain high quality service over the transition period.

14 International Ethics Standards Board for Accountants [www.ethicsboard.org](http://www.ethicsboard.org)

15 US Securities and Exchange Commission [www.sec.gov](http://www.sec.gov)

16 US Public Company Accounting Oversight Board [www.pcaobus.org](http://www.pcaobus.org)

17 Accounting Professional & Ethical Standards Board [www.apesb.org.au](http://www.apesb.org.au)

## Non-audit services provided to audit clients



The regulatory rules and systems relating to the provision of non-audit services to an audited entity are extensive. *The Corporations Act 2001* and Code of Ethics for Professional Accountants<sup>18</sup> restrict certain non-audit services, for example, certain tax planning and other tax advisory services, designing or implementing certain IT systems and acting in an advocacy role in resolving a dispute or litigation. All other services require careful evaluation to ensure they do not create, or appear to create, an independence issue.

Lead Audit Engagement Partners are required to maintain group structures for their publicly traded and certain other audit clients, as well as related entities of these audit clients in Sentinel and to annually confirm compliance through a declaration process.

Certain information on all prospective engagements, including service descriptions and fees, must be entered into Sentinel as part of the engagement acceptance process. Sentinel enables Lead Audit Engagement Partners to review and approve, or deny, any proposed service for those entities worldwide. From 1 November 2019, in addition the approval of the Ethics & Independence Partner is also required for all non-audit services to listed audit clients.

Lead Audit Engagement Partners are responsible for identifying and evaluating any independence threats that may arise from the provision of a proposed non-audit service and ensuring that safeguards available to address them, or declining the services should there be an independence issue or the appearance of one.

## Internal Ethics and Compliance Hotline

KPMG maintains a confidential Whistleblower Hotline, supported by an independent third party, available to KPMG partners and staff globally. We encourage speaking up so that we can take action when inappropriate behaviour is identified and seek to learn and improve from feedback. In FY19 and FY18 there were no calls to the hotline relating to audit quality.

The hotline is another method of reporting concerns about possible illegal, unethical or improper conduct in circumstances where our people feel uncomfortable reporting a concern through other channels. Callers' reports are handled confidentially with no retaliation or retribution.

## External complaints

KPMG maintains an international hotline available to external parties to confidentially report complaints relating to the quality of our work or our people. This is accessible through our website and via telephone and surface mail. In FY19 and FY18 there were no complaints regarding audit quality at KPMG in Australia to the international hotline.

During FY19, we received anonymous correspondence on one circumstance regarding audit quality. The matter referred to was promptly reviewed and we were satisfied appropriate procedures had been performed that addressed the matters raised.

18 APES 110 Code of Ethics for Professional Accountants

# 4. Recruitment, development and assignment of appropriately qualified personnel



Accreditation and licensing



Industry experience

## In this chapter

- Development of skills and personal qualities
- Accreditation and licensing
- Recognition and reward
- Retention and promotion
- Partner remuneration
- Partner and staff engagement
- Assignment of audit partners and staff to audit teams

Our people have a direct impact on the planning and performance of our audits, and therefore audit quality. Their calibre and integrity are key to us being considered trustworthy.

The assignment of audit partners and staff members with deep understanding of the client's risks and industry is one of the key drivers of audit quality. We strive for a high performing audit culture embracing continual improvement.

<sup>19</sup> The reduction in partner and staff numbers from FY18 largely reflects operational changes implemented in FY19 which impacted the number of partners and staff from our CFO Advisory group who perform financial statement audits.

| Profile of KPMG audit personnel  | FY19 <sup>19</sup> | FY18  | FY17  |
|--|--------------------|-------|-------|
| No. of audit partners  | 121                | 128   | 128   |
| No. of client service audit staff (excluding partners)   | 1,142              | 1,205 | 1,239 |
| No. of client service audit staff in the audit Capability Hub, established in October 2018, centralising common audit procedures for audit areas such as cash, fixed assets and data and analytics | 23                 | -     | -     |
| Ratio of client service audit staff to audit partners  | 9.4:1              | 9.4:1 | 9.7:1 |
| Ratio of client service audit staff below manager to those who are manager, senior manager and director  | 3.2:1              | 3.1:1 | 3.4:1 |

## Average years of experience with KPMG

(With the exception of partners, this table does not include time spent with other KPMG member firms)

|                    | FY19 | FY18 | FY17 |
|--------------------|------|------|------|
| Partner            | 22.8 | 22.2 | 22.4 |
| Director           | 14.5 | 12.5 | 11.7 |
| Senior manager     | 8.8  | 9.4  | 9.2  |
| Manager            | 4.6  | 4.9  | 5.5  |
| Senior team member | 2.3  | 2.7  | 2.7  |
| Team member        | 0.9  | 0.9  | 0.9  |



## Development of skills and personal qualities

We continually review and assess our people's capabilities and competence to perform engagements in accordance with professional standards, legal and regulatory requirements.

We understand skills develop over time and through exposure to different experiences.

Our *Be Extraordinary* program promotes a high performing audit culture focusing on best practice behaviours in three themes: development (Get Better), coaching and feedback (Help Others), recognition and innovation (Look for Good).

We invest significantly in equipping our people to do the best job by building their skills and capabilities. We cultivate a continuous learning environment and support a coaching culture. On-the-job development and training includes participating in interstate and overseas assignments, secondments, and community involvement through pro-bono and volunteering opportunities.

Our learning curriculum offers programs focusing on maintaining and developing capabilities in technical competence, building industry knowledge, innovation and emerging technologies, and leadership behaviours.

## Accreditation and licensing



Only Registered Company Auditors can perform audits conducted in accordance with the *Corporations Act 2001*. Registration is granted by ASIC<sup>20</sup> after an assessment of qualifications and competency. All our partners who sign statutory audit reports are Registered Company Auditors.

Our partners and directors are subject to additional internal accreditation and knowledge requirements in relation to International Financial Reporting Standards (IFRS)<sup>21</sup>, US accounting and auditing standards, and an Assurance Accreditation framework, acknowledging the need for specific skills in auditing. These frameworks specify the professional qualifications, training and experience, and satisfactory results from the firm's Quality Performance Review Program to become accredited.

For the year ended 30 June 2019, 100 percent (FY18: 100 percent) of our eligible audit partners maintained their relevant accreditations.

<sup>20</sup> [www.asic.gov.au](http://www.asic.gov.au)

<sup>21</sup> [www.ifrs.org](http://www.ifrs.org)

## Recognition and reward

Formal goal setting and evaluation of performance is conducted and documented annually in our proprietary system *Open*. Our approach to performance and career development is centred on regular, impactful and open coaching conversations between staff and their Performance Development Manager. *Open* focuses on development and skills transformation, enhancing our people's experience so they may inspire trust, seek growth and deliver impact.

An individual's accountability in achieving audit quality is a core benchmark used to assess performance and progression. Assessment of audit quality features explicitly in performance evaluation. The provision of example audit quality goals and role profiles, specifying audit quality and independence expectations, assist in both setting goals and evaluating performance against expectations. Assessed skills and behaviours relating to audit quality include: delivers quality, exercises professional judgement, and strives for continual improvement.

## Retention and promotion

The results of our annual performance evaluation directly affects the promotion and remuneration of our partners and staff and, in some cases, their continued association with KPMG.

In FY19, to further develop the audit quality skills of our partner candidates, we introduced the Partner Promotion Policy and supporting activities. We require candidates to have specific audit quality oversight experience as part of their progress to partner, for example via a role in our embedded networks, either as a 2LD reviewer, a QP reviewer, or spend at least 6 months within the DPP Audit Quality group or the National Audit Quality Group.

## Partner remuneration

Partner remuneration is determined annually by our National Executive Committee (NEC) and is subject to review by the Partner Remuneration and Nomination Committee before Board approval. Partners are remunerated out of the profits of the firm and are personally responsible for funding superannuation and most other benefits. The NEC determines the final profit allocation to partners after assessing each partner's contribution for the year.

There are two elements to partner remuneration: a base component reflective of role and seniority, and a performance-related bonus, expressed as a percentage of base remuneration, rewarding high performance against previously agreed goals, including audit quality.

Compensation is based on factors including results of internal and external reviews, risk management and independence monitoring, leadership, quality client impact, delivering on our strategy, coaching and developing staff, and living the values of the firm. KPMG has a clear policy of not remunerating any audit partners for selling non-audit services to any audit clients of the firm. There is zero financial incentive for audit partners to put revenue ahead of audit quality. By contrast, actions taken, or not taken, by an audit partner that risk impairing audit quality can, and do, have a direct negative impact on remuneration.

## Partner and staff engagement

KPMG globally invites all partners and staff to participate in our independent Global People Survey. The results, by country and function, provide leadership with information about drivers of business performance, employee engagement and motivation, and enables us to see how we are progressing.

## Assignment of audit partners and staff to audit teams

### Composition of the audit team

Audit teams generally comprise an audit partner, manager, an assistant manager or in-charge, specialists, and junior team members. Some junior members may still be completing their post-graduate accounting qualification, usually the Chartered Accountants (CA) Program<sup>22</sup>.

Larger engagements often have more than one audit partner assigned to support the signing partner. With multi-national audits, appropriately capable audit partners and staff are assigned from the relevant KPMG member firms.

Audit partners consider the competence and capabilities of their team, including specialists. This includes considering whether the team has the appropriate resources, with the experience, skills and time to conduct a quality audit. In early FY19 we introduced a specific policy prohibiting assigning staff from working on higher risk engagements for a period of at least 12 months, where they are rated below effective performance, have failed 3 or more CA modules, or have received an unsatisfactory rating in internal or external reviews.

We know that the number of team members does not necessarily equate to the quality of the audit. We take care to assign the right people to the right clients.

### Industry expertise



Our people generally align their profile of work to an industry specialised portfolio, maximising their understanding of the relevant business, operational and systems-based risks their clients face and allowing them to respond appropriately to address any industry specific accounting issues.

# 5. Commitment to technical excellence and quality service delivery



KPMG CA pass rate



Training offering



Access to specialists



CA credential

## In this chapter

- Learning programs
- Attendance and assessment of learning
- Continuing professional development
- Access to specialists

We provide learning opportunities enabling the most complex audit issues to be solved.

## Learning programs

Our learning curriculum offers education programs to hone technical expertise, industry and sector knowledge, and leadership and behavioural capabilities. Our Learning & Development groups develop global, regional and local learning to ensure both global consistency and local applicability.

## The Chartered Accountants Program



The Chartered Accountant (CA) qualification, awarded by Chartered Accountants Australia and New Zealand<sup>23</sup> (CAANZ), is highly regarded by business, regulators and members of the public. It forms the foundation of our partners' and staff members' audit technical, business and ethical knowledge.

KPMG engage CAANZ to run tailored CA Study Masterclass sessions specifically for KPMG candidates. Sessions are held on KPMG premises and are facilitated by CAANZ accredited facilitators who are Chartered Accountants.

KPMG continues providing high quality support for our CA candidates and results show our people consistently achieve better results than the average national pass rate.

## CA Program Results

|   | FY19  | FY18              | FY17  |
|---|-------|-------------------|-------|
| No. of CA program exams undertaken by staff             | 1,200 | 1,313             | 1,095 |
| No. of staff who completed the CA Program <sup>24</sup> | 203   | 335 <sup>25</sup> | 209   |
| CA Program results — national KPMG pass rate            | 89.4% | 91.1%             | 85.2% |
| CA Program results — (excl. KPMG) national pass rate    | 77.0% | 83.4%             | 74.6% |
| No. of merits awarded to KPMG candidates (top 5%)       | 93    | 105               | 91    |

## Technical learning — auditing, financial reporting and independence

KPMG embraces a culture of active learning. We believe that our people need to continuously enhance their technical expertise in a relevant way that builds on their existing capabilities.

Technical courses covering independence, financial reporting and auditing topics are mandatory at all audit staff levels. These range from independence learning as part of induction and annually thereafter through to audit partners and qualified staff attending mandatory accounting and auditing technical updates.

<sup>23</sup> Chartered Accountants Australia and New Zealand is a trading name for The Institute of Chartered Accountants in Australia and the New Zealand Institute of Chartered Accountants [www.charteredaccountantsanz.com](http://www.charteredaccountantsanz.com)

<sup>24</sup> Number of staff completing the CA Program in any given year coincides with the scheduling of the final CA Program module, *Capstone*

<sup>25</sup> Number of staff across the firm undertaking CA Program exams increased due to more modules offered

The topics included in audit learning are prioritised based on information from many sources such as:

- a needs analysis, conducted in Australia, and at a regional and global level
- findings from continuous improvement activities, including our quality performance reviews and ASIC audit inspections
- new, revised or emerging standards and regulations
- feedback from learners' course evaluations, including post course assessments that indicate gaps in understanding
- input nationally from our embedded networks in each office or group.

Dedicated facilitators travel throughout Australia to deliver our technical learning for staff working towards their CA qualification.

### Developing business understanding and industry knowledge



To provide quality service delivery and valued insights to our clients we frame our technical expertise within broader business knowledge. Our learning curriculum includes courses to develop business acumen, relationship skills and industry knowledge.

### Attendance and assessment of learning

Partners and staff must attend<sup>26</sup> mandatory technical learning and successfully complete a post course assessment. The assessment tests their understanding of the topics covered and has a minimum pass rate and completion deadline. Penalties for non-completion by the deadline include limiting their performance rating to 'effective' performance, which may directly impact remuneration, and/or disciplinary action.

<sup>26</sup> If a staff member fails to attend compulsory technical learning that contributes to their accreditation they are required to review either a video recording of the learning or the leader's manual to ensure there are no knowledge gaps.

<sup>27</sup> A CA candidate completes 2 or 3 modules in a 12 month period depending on CAANZ module scheduling.

<sup>28</sup> Leadership and behavioural skills learning includes business acumen, relationship skills, leadership skills and industry knowledge learning. Certain modules are offered across staff levels and completed once.

Learning and development offered to audit partners and staff during FY19 included:

| Core learning days  | Team member | Senior team member | Manager & Senior manager | Director & Partner |
|---|-------------|--------------------|--------------------------|--------------------|
| Auditing and assurance (including professional judgement & skills)  | 16.3        | 11.1               | 1.2                      | 1.2                |
| Revenue audit focus   | -           | 1.1                | 1.1                      | 1.1                |
| Accounting and financial reporting (including new standards AASB 15 and 16, and new AASB Interpretation IFRIC 23) | -           | 0.6                | 0.6                      | 0.6                |
| CA candidate in-house <sup>27</sup>   | 4.4         | 4.4                | -                        | -                  |
| Risk Management, including independence   | 1.0         | 1.0                | 1.0                      | 1.1                |
| Leadership and behavioural skills <sup>28</sup>   | 2.0         | 5.0                | 9.9                      | 7.8                |
| <b>Total before specialised and non-core learning</b>   | <b>23.7</b> | <b>23.2</b>        | <b>13.8</b>              | <b>11.8</b>        |

Specialised learning is offered depending on the individual's audit client profile and includes:

- US audit and accounting learning — 2.3 to 6 days mandatory learning depending on the extent to which the client's audit requires US specific audit and accounting application
- Audit Quality Partners, Managers and 2LD Reviewers learning — 3.0 to 4.6 additional days learning including audit methodology, recent monitoring findings, key review focus areas and coaching techniques, with a further 3.7 days mandatory learning for new sampling specialists

Specialised industry knowledge is available through online resources and learning courses for industries and sectors including corporates, energy and natural resources, financial services and infrastructure, government and healthcare.

### Other technical learning

A variety of just-in-time learning and webinars are available on topics including auditing, accounting and commercial behaviour concepts in addition to structured courses.

### Continuing professional development

We require all our audit client service partners and staff to invest in continuing professional development (CPD). They must obtain a minimum of 30 CPD hours annually and at least 120 CPD hours over a three-year period. The CAANZ standard CPD is 120 hours over a three-year period with a minimum of 20 hours in any year. To assist our people in maintaining their CPD records we offer an attendance report tracking CPD hours.

We test a sample of our partners and staff compliance with the CPD requirements in the firm's annual monitoring program.

### Access to specialists



We understand that not all audits are the same or managed in the same way, so KPMG specialists provide input on relevant significant risks in the audit.

In certain situations specialist involvement is mandated. Otherwise, the audit partner and manager determine whether to use a specialist by considering the risks for the engagement, and the nature and complexity of the information, data, or calculations to be audited. We provide additional learning on audit concepts to our specialists who are members of an audit team. Our most frequently used in-house specialist capabilities are in the areas of tax, information technology, actuarial, financial risk management and valuations. Our AARC structure includes specialists such as actuarial and financial risk management, optimising access for audit teams. Aligning reporting lines and objectives increases the opportunity for collaboration and consultation with specialists.

We ensure that the full resources of the firm across all areas of our business are available to assist our audit teams. This encourages them to 'when in doubt, consult'.

# 6. Performance of effective and efficient audits



Exercise  
scepticism  
+ judgement



Coaching



Gather  
evidence  
and opine

## In this chapter

- Exercise of professional judgement and professional scepticism
- Timely partner and manager involvement
- Ongoing mentoring and on the job coaching, supervision and review
- Critical assessment of audit evidence
- Efficient and effective work practices
- Materiality and scoping
- Appropriately supported and documented conclusions
- Engagement quality control review partner involvement
- Insightful, open and honest two-way communications

We understand that how an audit is conducted is as important as the final result. Effective and efficient audits are dependent on the demonstration of certain behaviours. We focus on these behaviours during the performance of the audit, through education sessions and coaching, and via our review processes.

## Exercise of professional judgement and professional scepticism



Professional scepticism involves a questioning mind and alertness to inconsistencies. It features prominently throughout auditing standards and attracts significant focus from regulators. We recognise the exercise of professional scepticism is critically important to our role as auditor.

Our global professional judgement process<sup>29</sup> guides an individual in exercising their professional scepticism. Steps include consideration of possible alternatives, conflicting as well as confirming evidence, and documentation of our final judgements. The professional judgement process includes ways to mitigate the effects of traps and biases which may cloud our judgement.

We reinforce the use of the professional judgement process and the exercise of professional scepticism through coaching and education, acknowledging that judgement is a skill developed over time and with different experiences.

<sup>29</sup> The International Auditing and Assurance Standards Board, the International Ethics Standards Board for Accountants and the International Accounting Education Standards Board jointly published *Toward Enhanced Professional Scepticism*, August 2017, outlining their observations of the current environment. They set out actions global standard-setting boards will take, and the role other stakeholders can play in enhancing professional scepticism. The Association of Chartered Certified Accountants published *Banishing Bias? Audit, objectivity and the value of professional scepticism*, May 2017, exploring the importance of cognitive biases to the audit process. It explains how cognitive biases are central to improving the exercise of professional scepticism and to understanding the fundamental ethical principle of objectivity. These elements are consistent with our professional judgement process.

## Timely partner and manager involvement

To identify and respond to the audit risks for each year's audit, team members require sufficient understanding of the client's business, financial position and its operating environment. Leadership and participation from the partner early in the audit directs the scope and tone and maximises the benefit of the partner's experience and skill. In FY19 we introduced strict milestones for the achievement of planning activities for our June 2019 audits of listed entities, to enhance audit quality, with a 97 percent compliance rate.

The partner sets the tone on the audit by their actions and communications with the audit team, reinforcing the importance of professional scepticism and audit quality. The final audit report is also their responsibility.

The manager supports the partner in these responsibilities and the day-to-day liaison with the client and team, building deep business understanding to enable the team to deliver a quality audit and valued insights.

## Ongoing mentoring and on the job coaching, supervision and review



Coaching and on the job experience play key roles in developing the personal qualities important for a successful career in auditing, including professional judgement and scepticism.

We understand that skills build over time and through exposure to different experiences. We use a continuous learning environment to invest in the building of skills and capabilities, acknowledging that a significant portion of learning occurs on the job and through others, supplementing classroom learning. A key part of effective supervision is timely review of the work performed so significant matters are promptly identified, fed back to the individual responsible and addressed in the audit.

We support a culture where every team member is responsible for developing the capability of the team, coaching and sharing experiences.

## Critical assessment of audit evidence



The fundamental role of the auditor is to design and perform procedures to gather persuasive evidence that the client's financial report is fairly stated and in compliance with accounting standards.

We focus on evidence gathering techniques to ensure the quality and the quantity of the evidence obtained is responsive to the assessed risks. We recognise externally sourced evidence is more persuasive. We consider all audit evidence obtained, including conflicting or missing information, since the consistency of the evidence and the picture it creates is just as important as the individual evidence. The analysis of evidence requires an auditor to use professional judgement and remain professionally sceptical to ensure it is sufficient and appropriate.

## Efficient and effective work practices

A quality audit relies on a balance between effectiveness and efficiency. Inefficiency has the potential to impact quality service delivery and client satisfaction, the wellbeing of our people, and ultimately the quality of the audit itself. For example, if a partner fails to give timely and clear directions, staff may perform unnecessary procedures or lack focus, resulting in rework or overwork.

Efficient does not mean cutting corners. It means planning the audit well, leveraging technology, using tools and templates, and enhancing behaviours that drive audit quality and efficiency. To allow audit teams to focus on key audit judgements we optimise onshore and offshore processes in performing the audit.

In FY19 we transformed our operating model, creating an onshore National Service Centre, located in Rhodes NSW. Staffed with newly trained professionals, we centralised common engagement processes from audit areas such as cash, fixed assets, data & analytics and engagement set up. Our Capability and Admin Hubs standardise testing, producing consistent and high quality outputs, freeing up our on-location staff to be face to face with our clients, focusing on critical judgements, and interpreting results. Our next opportunity is to digitise these processes.

## Materiality and scoping

Performing an audit uses the fundamental principles of materiality and scoping. Materiality references precision in performing our work and assessing errors, ordinarily based on a percentage of a key financial metric, such as profit. Scoping references the nature, timing and extent of procedures we perform: deep into or across certain financial statement line items particularly where the client has multiple sites, businesses, subsidiaries, or other features suggesting a disaggregation of the procedures, or both. We develop our risk-weighted audit approach, unique to each client, based on these fundamental principles.

## Appropriately supported and documented conclusions

The audit documentation records the audit procedures performed, evidence obtained and conclusions reached on each audit engagement. It includes materials prepared by us, received from the client or from relevant third parties. Our policies require review of all working papers by a more experienced team member and audit documentation relating to critical areas of judgement must be reviewed by the partner.

## Engagement quality control review partner involvement

All listed, high risk and high public profile entity audits must have an Engagement Quality Control Reviewer, an independent audit partner assigned as an objective additional reviewer on significant and judgemental elements of the audit. The Engagement Quality Control review is an important part of KPMG's framework for audit quality.

Engagement Quality Control Reviewers are experienced audit partners independent of the team, appointed by the local Risk Management Partner in consultation with the partner and local Partner in Charge. Engagement Quality Control Reviewers must have the same Accreditations as the partner and sufficient time to carry out their review, along with the appropriate experience and knowledge to perform an objective review.

The Engagement Quality Control Reviewer's review must be complete and all significant questions resolved satisfactorily before the issuance of the audit report. The extent of the review depends on the risk and complexity of the audit and does not reduce the responsibilities of the partner. A review includes assessing appropriateness of the financial statements and disclosures, significant judgements made and conclusions reached, communications with those charged with governance, and the proposed audit report. The partner, who signs the audit report, is ultimately responsible for the resolution of accounting, auditing and financial reporting matters.



## Insightful, open and honest two-way communications

Communicating with and reporting to our clients, with no surprises, underpins the quality of our audit service.

We build relationships based on mutual respect.

## Clear reporting of significant findings

A financial statement audit has two main deliverables, the formal audit report and s307C independence declaration<sup>30</sup>, accompanying the signed financial statements. These are the observable elements to shareholders. We believe the quality of our reporting is largely dependent on our ability to optimise the inputs, as depicted in our *Audit Quality Framework*.

## Communications with those charged with governance

Two-way communication with our clients, including management and audit committees, is a key aspect of our reporting and service delivery. We achieve this through reports and presentations, attendance at audit committee or board meetings, and informal discussions with management and members of the audit committee. We stress the importance of keeping the client informed of issues arising throughout the audit and the need to listen and understand their views.

We share insights on the audit, our client's business practices, the appropriateness of accounting policies, the design and operation of financial reporting systems and controls, key accounting judgements, matters where we may disagree with management's view, and any audit differences or errors identified. We ensure these reports meet the requirements of auditing standards and share our industry experience to encourage discussion with the members of the audit committee. We see these insights as a key mechanism to support our clients in the execution of their responsibilities.

30 A s307C independence declaration is required for audits of financial reports prepared to meet the *Corporations Act 2001* obligations and not other types of audit and assurance reports.

31 The Australian Auditing and Assurance Standards Board released revised standards in December 2015, with an effective date for reporting years ending on or after 15 December 2016. These included: the introduction of a new standard, ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*, and revisions to ASA 570 *Going Concern*, ASA 700 *Forming an Opinion and reporting on a Financial Report*, ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*, ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* and ASA 720 *The Auditor's Responsibilities Relating to Other Information*.

32 KAMs are applicable for audit reports of listed entities preparing general purpose financial reports

## Formal audit reports

Auditing standards and the *Corporations Act 2001* largely dictate the format and content of the independence declaration and audit report; including statements on auditor independence and the truth and fairness of the historical financial statements of the client.

Introduced by the AUASB<sup>31</sup> for application in FY17 audits, new sections in the audit report enhance the informational value of the audit report beyond a binary pass/fail opinion, being:

**Key Audit Matters (KAMs)<sup>32</sup>:** tailored narratives of the matters we considered to be key to the audit and where most audit attention was focused, and how our audit addressed those matters.

**Material Uncertainty Related to Going Concern:** drawing attention of users to the existence of a material uncertainty related to going concern. These alerts were previously categorised, amongst others, as an emphasis of matter.

**Other Information:** outlining the auditor's responsibility to read the relevant information accompanying the financial statements and identifying material inconsistencies therein.

Experienced partners form the audit opinion after involvement in and review of work performed by the team. The importance of ensuring the clarification of any uncertainties before signing audit reports is emphasised and well understood.

# 7. Commitment to continuous improvement



Compliance reviews



QP review effort



Root cause analysis



Client feedback

## In this chapter

- Internal monitoring
- Quality Performance Review (QPR) Program
- Other assessments of audit quality
- Assessments of compliance with ethics and independence requirements
- External inspections
- Evaluating and responding appropriately to feedback and findings
- Client feedback

To ensure our work continues to meet the needs of the capital markets, we use a broad range of mechanisms to continuously monitor our performance, respond to feedback and seek opportunities for improvement.

The complexity and dynamic nature of the economic environment, our clients' businesses and the accounting and auditing frameworks are challenging. We always aim to optimise the inputs to the audit process, but opportunities to learn and improve arise. This is why continuous improvement is a specific driver of audit quality.

We use both internal monitoring and external inspections against accepted benchmarks, to evaluate our current performance, to understand the existing quality of our audit work and prioritise the areas for improvement. To deserve the confidence of our clients, the capital markets, regulators and shareholders, we are serious about learning from opportunities, no matter how small.

## Internal monitoring



KPMG uses two formal internal inspection programs, the Quality Performance Review (QPR) Program and the Risk Compliance Program (RCP) to annually assess audit quality and independence compliance. T

hese programs review a sample of audit engagements and our compliance with audit methodology, the risk management and independence policies, and practices supporting our broader system of quality control. They are designed globally and incorporate the requirements of international and Australian quality control standards<sup>33</sup>. In addition to the annual programs, on a triennial basis we participate in a Global Compliance Review<sup>34</sup>, performed by a specialised team of reviewers from other member firms, to assess significant governance, risk management, independence, IT security and finance processes. Participation is a condition of ongoing membership of the KPMG network (see Appendix 2 on network arrangements for further details).

These programs assess the quality and independence of our audits by benchmarking against our global and local standards. The results enable us to provide assurance our system of quality control is complied with in practice, operating effectively and identifies any areas requiring focus and improvement.

<sup>33</sup> International Standard on Quality Control ISQC1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and Auditing Standard ASQC1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

<sup>34</sup> A Global Compliance Review was undertaken during FY17.

## Quality Performance Review (QPR) Program



The global QPR Program is implemented in Australia under the authority of the Quality and Performance Liaison Partner, assigned to oversee the independent and objective assessment of the firm. The program assesses performance at an engagement level and identifies opportunities to improve audit quality. Reviews are completed by a combination of members from a global core review team and Australian reviewers. The global core review team comprises experienced partners, directors and senior managers from member firms across the network. They conduct reviews of listed and related entity financial statement audits in other KPMG member firms, enhancing objectivity and consistency. Partners and directors are selected for review once in a three year rotating schedule at a minimum.

In FY19, no audits of publicly listed entities were rated as non-compliant, 'Unsatisfactory', with KPMG's standards and auditing standards.

| QPR Program (audit and assurance)  | FY19 | FY18 | FY17             |
|--|------|------|------------------|
| Total QPR audit and assurance reviews performed  | 55   | 41   | 52               |
| No. of partners / directors reviewed as a percentage of total audit partners / directors                       | 39   | 33   | 38               |
| Percentage of listed and related entity financial statement audit reviews conducted by global core review team | 52   | 64   | 90 <sup>35</sup> |

Total numbers will vary depending on the rotation schedule of our smaller offices and their relative size and repeat selection criteria.

## Key components of the QPR Program

- Led by an experienced partner from another KPMG member firm. This non-local lead reviewer collaborates with the global core review team and team leaders, promoting consistency across all reviews.
- Our highest profile listed and related entity financial statement audit reviews are performed by a dedicated global core review team comprising experienced partners, directors and senior managers from member firms across the network.
- Additional financial statement audit reviews are performed by a core team of Australian partners and directors, from locations other than the office under review. They are active practitioners and up to date with auditing standard requirements.
- Review of partners and directors work is undertaken on a minimum three year rotating schedule, more often where certain risk criteria are present, such as below satisfactory ratings or a significant number of high risk engagements portfolio.
- Benchmarking our work to the Australian Auditing Standards and KPMG's own standards: achieving a 'Satisfactory' rating represents our very high audit quality bar.
- Performed soon after the conduct of the work subject to review: using two phases during the year optimising timeliness.
- Findings are provided to audit teams for remediation where needed and implementation on future audits.
- Results are provided to leadership at office, division and firm levels. Root cause analysis is performed for pervasive issues, specific accountabilities for remediation are identified, and detailed action plans drawn up. These are reported globally and subject to ongoing review.
- Partners and directors who receive 'unsatisfactory' ratings are subject to additional reviews and remedial actions, amongst other outcomes including performance evaluations and/or remuneration adjustments.

35 Introduced for the first time in FY17, KPMG Australia were the first program launching the global core review team, after which the experience has reverted to a normalised level of involvement.

## Other assessments of audit quality

Other audit quality monitoring mechanisms we use include:

- Accounting technical reviews of client financial statements: Performed on a sample basis by a qualified person outside of the audit team, prior to signing the audit opinion. Over a four-year period, the sample includes all listed and high risk clients.
- Key audit matter and audit report reviews: Performed on a sample basis by the DPP, supporting teams apply the recent audit reporting enhancements to auditing standards. Over a four-year period, the sample includes all listed clients.
- Targeted and real time reviews: Conducted by our 2LD Reviewers using tailored programs to assess particular attributes or focus areas of an audit during the audit. These identify opportunities to improve quality and effectiveness by sharing leading practices. In FY19, eight audits subject to 2LD reviews were subsequently reviewed by QPR or ASIC, providing us an opportunity to assess the effectiveness of the program.
- Evaluation of common consultations: Capturing and evaluating the most common questions raised by our individual teams.
- Post course assessments: These test understanding of specific content and provide evidence about the quality of learning.
- Goal setting and performance evaluation processes: These include explicit evaluation of audit quality inputs and outcomes.

We also review audits in the rare circumstances where the financial statements or audit opinions are reissued. This identifies whether any aspect of the performance of the audit could have contributed to the need for the reissuance.

Evidence of unsatisfactory audit quality can directly impact both partner and staff performance ratings and/or remuneration. Findings from our risk and audit quality monitoring resulted in impacts to remuneration in FY19 for a small number of partners.

## Assessments of compliance with ethics and independence requirements



We monitor our compliance with independence requirements of the *Corporations Act 2001*, professional ethical standards, and our mandated internal policies, systems and processes. This monitoring includes an annual declaration of compliance from partners and staff, the performance of personal independence compliance audits on a sample basis, and partner rotation compliance audits on a sample of engagements. Our annual QPR program and RCP, completed in August 2019, also test for compliance on a sample basis with these requirements, including partner terms on relevant audit engagements and the appropriateness of non-audit services provided.

Our independence policies are set at or above the requirements of professional standards and the *Corporations Act 2001*. In the event of non-compliance, the actions of partners and staff are considered by our Ethics and Independence Disciplinary Committee (EIDC) in accordance with our disciplinary policy. The severity of disciplinary actions have regard to the seniority of the individual and/or when breaches are not self-reported, such as when identified by a compliance audit. Depending on the circumstances, disciplinary action could include: a caution letter, a disciplinary letter on the individual's personnel file, remuneration adjustment, deferring promotion or separation from the firm.

Our compliance testing identified 44 (FY18: 48) instances of individuals not achieving full adherence to our policies and processes. Approximately one-quarter of these are non-compliance with recording our KPMG default superannuation fund into our investments tracking system, which does not raise an independence risk, however our policies require recording. The remaining primary source of non-compliance was failure by individuals to enter or update all their, their spouse's, their spousal equivalent's or their dependant's investments into our investments tracking system on a timely basis. A number of instances related to delays in completing mandatory independence learning (10 percent, FY18: 12 percent) and annual declaration (23 percent, FY18: 5 percent), and Code of Conduct matters arising from responses to an assertion in the annual declaration.

36 Required by the *Corporations Act 2001* section 307C

37 The qualification was due to an immediate family member of a partner holding a financial interest in an audit client with the lead audit engagement partner being located in the same office. The financial interest was disposed of as soon as practical. The partner did not provide any services to the audit client on behalf of the firm nor was a member of the audit team.

38 The qualification was a direct consequence of an audit client takeover of an entity whose CEO was a member of KPMG within the preceding two years and a member of KPMG's audit team of the acquirer.

39 The qualification was due to one advisory partner holding a financial interest in an audit client with the lead audit engagement partner being located in the same office. Upon identification, the partner disposed of the investments immediately. The partner involved did not provide any services to the audit client on behalf of the firm.

40 The qualification was due to one tax partner holding a financial interest in an audit client with the lead audit engagement partner being located in the same office. Upon identification, the partner disposed of the investment immediately. The partner involved did not provide any services to the audit client on behalf of the firm.

41 The qualification was due to one tax partner holding a financial interest in the respective audit client with the lead audit engagement partner being located in the same office. Upon identification, the partner disposed of the investment immediately. The partner involved did not provide any services to the audit client on behalf of the firm.

42 The qualification was due to one advisory partner holding a financial interest in an audit client with the lead audit engagement partner being located in the same office. Upon identification the partner disposed of the investment immediately. The partner involved did not provide any services to the audit client on behalf of the firm.

| Key performance indicators — Ethics and Independence   | FY19            | FY18            | FY17            |
|--|-----------------|-----------------|-----------------|
| No. of partners and staff subject to an independence compliance audit  | 192             | 174             | 155             |
| No. of engagements subject to a partner rotation compliance audit  | 20              | 20              | 20              |
| Total no. of qualifications of an Auditors' Independence Declaration <sup>36</sup> — s9 Corporations Act listed companies and listed registered scheme audit clients | 1 <sup>37</sup> | 1 <sup>38</sup> | 1 <sup>39</sup> |
| Total no. of qualifications of an Auditors' Independence Declaration — other audit clients   | 1 <sup>40</sup> | 1 <sup>41</sup> | 1 <sup>42</sup> |

## External inspections

We believe it is the responsibility of audit firms to invest in continuous improvement and rectify any identified deficiencies in audit quality capable of eroding public trust. We also believe that the regulator has a vital role to play in enhancing public confidence in the audit process.

### Australian Securities and Investments Commission (ASIC)

ASIC conducts an audit inspection program involving a review of compliance with the auditor independence and audit quality provisions of the *Corporations Act 2001*. In terms of identifying which audits to inspect, ASIC understandably skews its sample selection to the most complex and high risk audits.

While we do not necessarily agree with all of ASIC's specific findings, we take the findings seriously and believe that the process provides valuable insights to improve the quality of our audits.

We conduct an evaluation of all matters identified by ASIC. We undertake extensive analysis of ASIC's thematic findings, perform deep-dive root cause analysis to identify possible root causes of the issues and design appropriate solutions.

We maintain a comprehensive audit quality action plan driven by feedback from monitoring activities, including ASIC inspections. Our audit quality action plan is shared and discussed with ASIC.

Our technical learning is heavily weighted to reinforcing ASIC's messages and addressing their findings from recently completed inspections and preliminary observations from the current inspection. For example, we expanded our 2LD Review program in response to regulatory findings and our strategy to enhance quality.

### ASIC Audit Inspection Report for KPMG Australia for 18 months to 30 June 2018

The most recently completed ASIC inspection of our audit files was finalised in May 2019, covering 19 audits (selected from over 5,000 audit opinions signed) conducted for financial reporting years ending from 30 June 2016 to 30 September 2017. KPMG's inspection result of 21 percent was on par with the average (20 percent) of the six largest firms reviewed by ASIC. None of the financial reports or audit opinions relating to KPMG clients examined by ASIC were restated or reissued. We fully accept that continued effort is required to further improve our audit quality results.

At the conclusion of each inspection period, ASIC issues a consolidated public report<sup>43</sup> outlining the findings across its audit firm inspections, and issues a private report to each firm inspected during the period. Recognising that greater transparency is needed for the public to gain insight into audit quality, we have appended in full ASIC's private inspection report to KPMG for the 18 months ended 30 June 2018 to this Transparency Report.

### ASIC Audit Inspection Report for KPMG Australia for 18 months to 31 December 2016

For ASIC's 2015–16 audit inspection program, covering 18 audits conducted for financial reporting years ending from 31 December 2014 to 30 June 2016, KPMG's inspection result of 36 percent compared to 23 percent for the largest six firms. No financial statements or audit opinions were restated or reissued as a result of ASIC's 2015–16 inspection of KPMG audits.

### ASIC Audit Inspection Report for 12 months to 30 June 2019<sup>44</sup>

ASIC is currently completing its eleventh inspection of KPMG covering ten audits conducted for financial reporting years ending from 30 June 2017 to 31 July 2018. Results are expected to be released by the end of this calendar year.

<sup>43</sup> ASIC's most recent public consolidated report Audit inspection program public report for 2017–18 summarises the observations and findings identified by ASIC's audit inspection program in the 18 months to 30 June 2018 (Report 607). This includes observations from ASIC's tenth inspection of KPMG. The report is available on their website [www.asic.gov.au](http://www.asic.gov.au)

<sup>44</sup> In July 2019 ASIC changed their inspection cycle from an 18-month period to 12 months

### Foreign regulators

No deficiencies were identified in the three audit engagements reviewed by the PCAOB in March 2017 inspection of the firm conducted in conjunction with ASIC. The PCAOB released their report<sup>45</sup> in February 2018. Our audit practice is registered with the US PCAOB<sup>46</sup>, Japanese<sup>47</sup>, Canadian<sup>48</sup>, Luxembourg<sup>49</sup>, UK<sup>50</sup> and German<sup>51</sup> authorities. This is necessary to either participate in audits of global clients or conduct audits of Australian clients who, owing to overseas stock exchange listing requirements, file financial statements in those jurisdictions. These regulators have not inspected our firm during FY19.

### Chartered Accountants Australia and New Zealand (CAANZ)

CAANZ regulate and govern the work of chartered accountants that perform audits. CAANZ has advised that it considers the work of ASIC in determining the scope and timing of any review of the large firms, to reduce duplication.

As part of its oversight of the large firms, CAANZ has previously used an online qualitative audit quality survey assessing the perceptions of partner, manager, qualified staff and graduate respondent groups on drivers of audit quality.

The results of the most recent CAANZ survey, conducted in November 2011 and reported in March 2012, highlight that our partners and staff see professional scepticism and objectivity as their most significant contribution to audit quality.

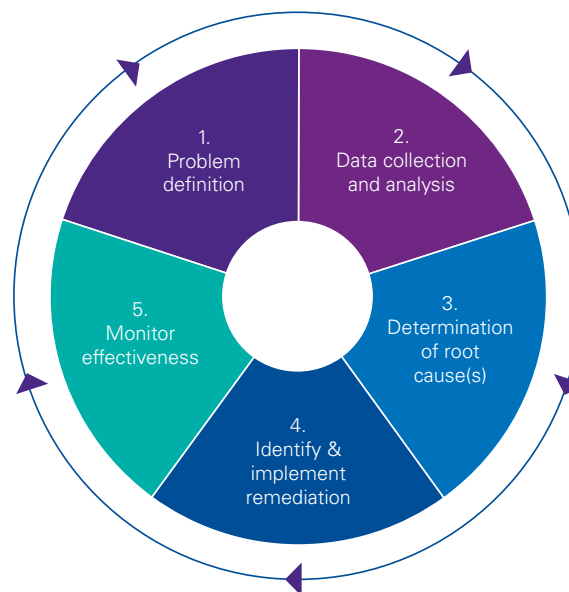
### Evaluating and responding appropriately to feedback and findings



The effectiveness of any response to an issue is dependent on the understanding of the root cause, the pervasiveness of the issue, the ability to tailor a solution in differing circumstances and leadership support for the solution.

We use our knowledge from past experiences and our specifically designed root cause analysis framework<sup>52</sup> to fully understand the root cause of issues and design innovative and appropriate solutions.

### Global<sup>53</sup> Five Step Root Cause Analysis Principles



45 The report is available on their website [www.pcaobus.org](http://www.pcaobus.org)

46 Public Company Accounting Oversight Board

47 Japanese Financial Services Authority

48 Canadian Public Accountability Board

49 Luxembourg Commission de Surveillance du Secteur Financier

50 UK Financial Reporting Council

51 German Audit Oversight Commission

52 Guide to Performing Root Cause Analysis of Audit Quality Issues, outlining the Global Five Step Root Cause Analysis Principles, issued globally and adopted with local considerations

53 ©2019 KPMG

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We use the following solutions tailored for specific situations:

- Face-to-face briefings: with individuals, using coaching techniques, in facilitated workshops, group or office wide meetings, and local or national instructor led learning sessions.
- Topic specific guides and learning: online instruction, guidance papers, example tools and templates, podcasts, access to centrally logged frequently asked questions and answers, and other database resources.
- Reminders and alerts: emails, technical and organisational announcements, intranet alerts, animation and poster reminders.
- Practice management changes: reassignment of partners and/or staff, reassignment of internal operational roles, and additional support.
- Behavioural motivators: including recognition and reward.
- Automated tools: pre-programmed applications for a discrete audit activity.

In presenting the solutions to teams, we tell them why we are focusing on the topic and provide context to enable them to understand how these are driven from our monitoring findings.

We recognise objective feedback and a genuine commitment to continuous improvement is important to driving audit quality.

## Client feedback



The KPMG Client Insights Program actively solicits feedback from clients on the quality of our services. This feedback is considered at an individual audit team level and a firm level to continually learn and improve our client service.



# Statement on effectiveness of system of quality control

We are confident that our framework for audit quality supports our people and enables them to provide a high level of audit quality in an independent, objective and ethical manner, maintaining public and stakeholder confidence.

This report describes our quality control system to conduct our audits in accordance with applicable standards and laws, and highlights certain measures we consider in operating our external audit practice. The results of our internal monitoring programs, consideration of our reported measures, together with feedback from independent regulatory inspections, provides the KPMG Board with a basis to conclude that our system of quality control described in this Transparency Report are functioning effectively.



A handwritten signature in black ink that reads "Alison Kitchen".

**Alison Kitchen**  
National Chairman,  
KPMG Australia



A handwritten signature in black ink that reads "Gary Wingrove".

**Gary Wingrove**  
CEO,  
KPMG Australia

# Appendix

## 1. KPMG in Australia legal structure and ownership

The global KPMG network consists of separate independent firms that individually provide Audit, Tax and Advisory services to a wide variety of public and private sector organisations.

KPMG in Australia is a member firm of KPMG International Cooperative (“KPMG International”), a Swiss cooperative which is a legal entity formed under Swiss law. Further details about KPMG International and its business, including our relationship with it, are available in the 2018 KPMG International Transparency Report<sup>54</sup>.

KPMG operates in Australia through the KPMG Partnership (Australian Partnership) with offices in Adelaide, Brisbane, Canberra, Darwin, Gold Coast, Hobart, Karratha, Launceston, Melbourne, Parramatta, Penrith, Perth, Sydney and Wollongong.

The Australian firm also has two other KPMG practices sublicensed to use the name KPMG: KPMG Papua New Guinea and KPMG Fiji Islands (Sublicensees). The Australian Partnership and the Sublicensees are separate partnerships. However, under the terms of the Sublicense Agreement, the Sublicensees agree to conduct their affairs in a manner consistent with the objectives, policies, standards and procedures adopted by the Australian firm, which seeks to maintain the prestige and high professional standards associated with the KPMG name.

## 2. Network arrangement

KPMG member firms can be found in 153 countries and collectively employ more than 200,000 people across a range of disciplines.

KPMG in Australia is affiliated with KPMG International. 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 provided exclusively by member firms. For the year ended 30 September 2018, KPMG member firms reported total global revenue of US\$28.96 billion<sup>55</sup>. Under agreements with KPMG International, member firms including KPMG in Australia 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. This includes having a structure that ensures continuity and stability and being able to adopt global and regional 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 are required to have the capability to provide certain types of core services and to refer work to other member firms where appropriate (for example, if the engagement concerns work in that other member firm’s country and that other member firm has the required capacity and expertise to perform the work).

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.

<sup>54</sup> <https://home.kpmg.com/xx/en/home/about/governance/transparency-report.html>

<sup>55</sup> Aggregated revenues generated by KPMG statutory auditors and audit firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was Euro 2.8 billion. Revenues for the year ended 30 September 2019 will be published in December 2019 on kpmg.com, and contained within the 2019 KPMG Global Review. An updated statement of EU/EEA statutory audit revenues for the 12 months to 30 September 2019 will be available within the KPMG International Transparency Report, also to be published in December 2019 on kpmg.com. A list of KPMG network firms and sole practitioner statutory auditors in European Union/ European Economic Area Member States is available here (<https://home.kpmg.com/xx/en/home/about/governance/list-of-kpmg-eu-eea-audit-firms.html>).

### 3. KPMG's Global Values

Our commitment to transparency is an important part of our global values that state, 'above all, we act with integrity'.

#### We lead by example

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

#### We work together

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

#### We respect the individual

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

#### 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 open and honest in our communication

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

#### 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.

### 4. Financial and other information

This section sets out financial and other information on the firm that shows the importance of statutory audit work to our overall business and results.

| Revenue  | FY19 \$b | FY18 \$b | FY17 \$b |
|--|----------|----------|----------|
| Total revenue for KPMG in Australia for the financial years ending 30 June                 | 1.78     | 1.64     | 1.50     |
| Note: All figures are in Australian dollars and exclude Sublicensees                       |          |          |          |
| Total revenue split for the firm can be further analysed on the following percentage basis | FY19 %   | FY18 %   | FY17 %   |
| Audits of financial statements <sup>56</sup>   | 20       | 20       | 21       |
| Assurance and other services for audit clients   | 9        | 8        | 9        |
| Services for non-audit clients   | 71       | 72       | 70       |
| Total  | 100      | 100      | 100      |

<sup>56</sup> Includes audits and reviews conducted of financial statements, prepared pursuant to sections 292, 295, 302 and 303 of the *Corporations Act 2001*. Includes AU\$17 million revenues from the statutory audit of annual and consolidated financial statements and AU\$6 million revenues from other services to Australian clients considered EU public interest entities (definition contained in Appendix 7).

## 5. Governance structure

The Board is the principal governance and oversight body of KPMG in Australia. Key responsibilities include overseeing strategy implementation, protecting and enhancing the KPMG brand and overseeing management of the firm.

Reporting to the Board are, amongst others, the following bodies:

- The CEO and National Executive Committee
- Ethics and Independence Disciplinary Committee
- Partner Remuneration and Nomination Committee
- Audit Committee

The National Executive Committee is the principal management body of KPMG in Australia. It is responsible for driving the financial performance of the business, the development and execution of strategy and establishing the processes to monitor and enforce policy compliance. Its members include the National Managing Partners of each of the Audit, Assurance & Risk Consulting, Deals Tax & Legal, Management Consulting and Enterprise divisions, along with the Chief Risk Officer (CRO).

Reporting to the National Executive Committee are:

- The Service Delivery Risk Committee
- The Risk Management Group
- Ethics and Independence Disciplinary Committee

Through the CRO's membership of the NEC, the CRO provides regular updates and escalates key messages from the Service Delivery Risk Committee<sup>57</sup> and the Risk Management Group.

## Primary role as it relates to quality

### Service Delivery Risk Committee

- Oversight of risk management arrangements relating to service delivery to clients
- Discuss emerging business risks, and their potential impact, as they affect service delivery
- Recommend improvements to firm systems and processes as needed
- Support the efficient application of risk management practices across the firm

### Risk Management Group

- Promote processes and structures to support risk management and quality
- Develop risk and quality policies, systems and procedures
- Support the implementation of risk and quality systems and procedures
- Monitor and test risk and quality policies, systems and procedures
- Create tools and templates to manage compliance obligations
- Provide support and guidance to all professionals on application of appropriate policies and systems

### Ethics and Independence Disciplinary Committee

- Deal with referrals of non-compliance with the firm's ethics and independence policies
- Determine disciplinary sanctions with the approval of the National Executive Committee and/or Board
- Recommend improvements to firm policies, systems and processes as needed

<sup>57</sup> The CRO chairs the Services Delivery Risk Committee

## 6. Board members and NEC members

The Board comprises the National Chairman, the CEO, nine other members currently drawn from our Brisbane, Canberra, Melbourne and Sydney offices, including one independent member. The Board met 10 times in the year to 30 June 2019.

Board members as at the date of this report are:

**Alison Kitchen**  
Melbourne  
National Chairman

**Julian Edwards**  
Sydney

**Peter Griffiths**  
Melbourne

**Michael Hiller**  
Deputy Chairman  
Brisbane

**Tony Nimac**  
Sydney

**Martin Dalgleish**  
Independent Board member

**Gary Wingrove**  
Sydney  
CEO

**Christa Gordon**  
Canberra

**Mathew Herring**  
Melbourne

**Eileen Hoggett**  
Sydney

**Helen Sutherland**  
Sydney

NEC members as at the date of this report are:

**Gary Wingrove**  
CEO

**Andrew Yates**  
Audit, Assurance & Risk Consulting

**Paul Howes**  
Enterprise

**Margaret Cowle**  
Global Strategy Group  
and Brand & Engagement

**James Hunter**  
Solutions & Growth

**Damien Templeton**  
CFO and COO

**Deborah Yates**  
People, Performance & Culture

**David Linke**  
Deals, Tax & Legal

**Ian Hancock**  
Management Consulting

**Tanya Gilerman**  
Chief Risk Officer

**Martin Sheppard**  
Clients & Markets

**Sarah Vega**  
Innovation, Digital & Data

## 7. Public interest audit clients of the firm

The Australian listed companies, listed registered schemes, Authorised Deposit-Taking Institutions<sup>58</sup>, General Insurers<sup>59</sup>, Life Companies<sup>60</sup> and EU public interest entities<sup>61</sup> for which KPMG in Australia<sup>62</sup> is statutory auditor for the financial years ended in the 12 months to 30 June 2019 are:

A2B Australia Limited

AAI Limited

Acrow Formwork and Construction Services Limited

Agrimin Limited

Aims Property Securities Fund

Ainsworth Game Technology Limited

ALE Property Group

Alloy Resources Limited

Alpha HPA Limited

ALS Limited

Ansell Limited

ANZ Lenders Mortgage Insurance Pty Limited

Appen Limited

Argent Minerals Limited

Aspen Insurance UK Limited

Asteron Life & Superannuation Limited

Atlas Iron Limited

AusNet Services Holdings Pty Ltd

AusNet Services Limited

Austpac Resources NL

Austral Gold Limited

Australia and New Zealand Banking Group Limited

Australian Agricultural Company Limited

Australian Central Credit Union Ltd (trading as People's Choice Credit Union)

Australian Ethical Investment Limited

Australian Governance and Ethical Index Fund

Australian Leisure & Entertainment Property Management Limited

Australian Leisure & Entertainment Property Trust

Australian Military Bank Limited

Australian Pharmaceutical Industries Limited

Australian United Investment Company Limited

Auto & General Insurance Company Limited

Bank of Queensland Limited

Barristers Sickness & Accident Fund Pty Ltd

Base Resources Limited

Battery Minerals Limited

Beadell Resources Limited

Bell Financial Group Limited

Berkley Insurance Company

BHP Billiton Finance Limited

BHP Marine & General Insurances Pty Ltd

BHP Group Limited

Bigtincan Holdings Limited

Biotron Limited

BNK Banking Corporation Limited

Boom Logistics Limited

BOQ Covered Bond Trust

Boral Insurance Pty Limited

Boral Limited

Buru Energy Limited

BWP Trust

Caltex Australia Limited

Cardno Limited

Carlton Investments Limited

CBG Capital Limited

Centaurus Metals Limited

Centrex Metals Limited

Centuria Capital Fund

Centuria Capital Group

Centuria Capital Limited

Centuria Industrial REIT

Centuria Life Limited

Centuria Metropolitan REIT

Citigroup Pty Ltd

Clean TeQ Holdings Limited

Cochlear Limited

Codan Limited

Collection House Limited

Community CPS Australia Limited

Community First Credit Union Limited

Consolidated Tin Mines Limited

Corrvas Insurance Pty Ltd

Costa Group Holdings Limited

Coventry Group Limited

Credicorp Insurance Pty Ltd

Credit Suisse AG

Credit Union Australia Ltd

Credit Union SA Ltd

CSG Limited

CTI Logistics Limited

CuDeco Limited

Dacian Gold Limited

Deutsche Bank AG — Sydney Branch

Diversified United Investment Limited

Domestic & General Insurance PLC

Downer EDI Limited

Downer Group Finance Pty Limited

58 Within the meaning of the *Banking Act 1959*

59 Within the meaning of the *Insurance Act 1973*

60 As registered under section 21 of the *Life Insurance Act 1995*

61 Within the meaning of Directive 2006/43/EC issued by The European Parliament and of the Council, where a public interest entity is an issuer whose transferable securities are admitted to trading on a regulated market, specific to the EU jurisdiction.

62 Excludes sublicensees

DuluxGroup Limited  
 Duxton Water Limited  
 Eclipx Group Limited  
 Elk Petroleum Limited  
 Employers Mutual Limited  
 Endeavour Mutual Bank Ltd  
 Enero Group Limited  
 Engenco Limited  
 Equus Mining Limited  
 Evans & Partners Australian Flagship Fund  
 Evans & Partners Global Flagship Fund  
 Evans & Partners Global Healthcare Fund  
 Event Hospitality and Entertainment Ltd  
 FE Investments Group Limited  
 Finbar Group Limited  
 Fire Service Credit Union Limited  
 First American Title Insurance Company of Australia Pty Ltd  
 Flinders Mines Limited  
 Freedom Insurance Group Ltd  
 GBST Holdings Limited  
 Generation Development Group Limited  
 Generation Life Limited  
 Genworth Financial Mortgage Indemnity Limited  
 Genworth Financial Mortgage Insurance Pty Limited  
 Genworth Mortgage Insurance Australia Limited  
 Global Petroleum Limited  
 Gold Road Resources Limited  
 Goodman Group  
 Goodman Industrial Trust  
 Goodman Limited  
 Gordian RunOff Limited  
 Great Lakes Reinsurance (UK) SE  
 Growthpoint Properties Australia  
 Growthpoint Properties Australia Limited  
 Growthpoint Properties Australia Trust  
 GUD Holdings Limited

GWA Group Limited  
 Hallmark General Insurance Company Limited  
 Hallmark Life Insurance Company Limited  
 Hammer Metals Limited  
 Heritage Bank Limited  
 Hills Limited  
 Hospitality Employers Mutual Limited  
 Hotel Property Investments  
 Hotel Property Investments Limited  
 Hotel Property Investments Trust  
 HSB Engineering Insurance Limited  
 IAG Finance (New Zealand) Limited  
 identitii Limited  
 IMB Ltd  
 IncentiaPay Limited  
 Indue Ltd  
 Industrial and Commercial Bank of China Limited  
 ING Bank (Australia) Limited  
 Inghams Group Limited  
 Insurance Australia Group Limited  
 Insurance Australia Limited  
 Insurance Manufacturers of Australia Pty Limited  
 IOOF Holdings Limited  
 IOOF Ltd  
 IVE Group Limited  
 Japara Healthcare Limited  
 King Island Scheelite Limited  
 Kogan.com Ltd  
 Korvest Ltd  
 Legend Corporation Limited  
 Lendlease Corporation Limited  
 Lendlease Group  
 Lendlease Trust  
 LFI Group Pty Ltd  
 Linius Technologies Limited  
 Link Administration Holdings Limited

Lovisa Holdings Limited  
 MacArthur Credit Union Ltd  
 Macmahon Holdings Limited  
 MaxiTRANS Industries Limited  
 McGrath Limited  
 Medical Insurance Australia Pty Limited  
 Mercedes-Benz Australia/Pacific Pty Ltd  
 Metrics Credit Partner Income Opportunities Trust  
 Metrics Credit Partner Master Income Trust  
 Midway Limited  
 Millennium Minerals Limited  
 Mitsui Sumitomo Insurance Company Pty Limited  
 Monash IVF Group Limited  
 Motorcycle Holdings Limited  
 Munich Reinsurance Company  
 Munich Reinsurance Company of Australasia Limited  
 Nearmap Ltd  
 Next Science Limited  
 Nickel Mines Limited  
 NuEnergy Gas Limited  
 Nufarm Limited  
 Oilex Limited  
 OnePath General Insurance Pty Limited  
 OnePath Life Limited  
 oOh!media Limited  
 Optus Insurance Services Pty Ltd (Singtel)  
 Orica Limited  
 Origin Energy Finance Limited  
 Origin Energy Limited  
 Over Fifty Guardian Friendly Society Limited  
 Oversea-Chinese Banking Corporation Limited  
 OZ Minerals Limited  
 Pacific Smiles Group Limited  
 Palla Pharma Limited  
 Perpetual Credit Income Trust  
 Perpetual Equity Investment Company Limited

Perpetual Limited  
 Petsec Energy Limited  
 Phoslock Environmental Technologies Limited  
 Pilbara Minerals Limited  
 Planet Gas Limited  
 Police Credit Union Ltd  
 Police Financial Services Limited (trading as BankVic)  
 Poseidon Nickel Limited  
 Propertylink (Holdings) Limited  
 Propertylink Australian Industrial Partnership  
 Propertylink Trust  
 PWR Holdings Limited  
 Qantas Airways Limited  
 QMS Media Ltd  
 Qudos Mutual Ltd  
 Quickstep Holdings Limited  
 RAA Insurance Holdings Limited  
 RAA Insurance Limited  
 RACT Insurance Pty Ltd  
 Rapid Solutions Holdings Pty Ltd  
 Red 5 Limited  
 Redcape Hotel Group  
 Redcape Hotel Trust I  
 Redcape Hotel Trust II  
 Reece Limited  
 Regional Australia Bank Ltd  
 Regis Resources Limited  
 Reliance Worldwide Corporation Limited  
 Rex Minerals Limited  
 Rey Resources Limited  
 Ridley Corporation Limited  
 Ruralco Holdings Limited  
 Santana Minerals Limited  
 Seven West Media Limited  
 SG Fleet Group Limited  
 Silver Chef Limited

Silver Lake Resources Limited  
 Sky and Space Global Limited  
 Smiles Inclusive Limited  
 South West Slopes Credit Union Ltd  
 South32 Limited  
 Southern Cross Benefits Limited  
 Southern Cross Electrical Engineering Limited  
 Spectrum Metals Limited  
 Spicers Limited  
 Spotless Group Holdings Limited  
 St Andrews Insurance (Australia) Pty Ltd  
 St Andrews Life Insurance Pty Ltd  
 Standard Chartered Bank — Sydney Branch  
 StateCover Mutual Limited  
 Steadfast Group Limited  
 Stewart Title Limited  
 Sumitomo Mitsui Banking Corporation  
 Suncorp Group Limited  
 Suncorp Insurance Holdings Limited  
 Suncorp-Metway Limited  
 Sydney Airport  
 Sydney Airport Limited  
 Sydney Airport Trust 1  
 Sydney Credit Union Ltd  
 TAL Dai-ichi Life Australia Pty Limited  
 TAL Life Limited  
 Tanami Gold NL  
 The Bank of New York Mellon  
 The Bank of Nova Scotia — Australian Branch  
 The Lutheran Laypeople's League of Australia Inc  
 The Northern Trust Company  
 The North of England Protecting and Indemnity Association Limited  
 Think Childcare limited  
 TNG Limited  
 Todd River Resources Limited

TPG Telecom Limited  
 Treasury Wine Estates Limited  
 Verdant Minerals Ltd  
 Veriluma Limited  
 Veris Limited  
 Vimy Resources Limited  
 Virgin Australia Holdings Limited  
 White Rock Minerals Limited  
 Whitebark Energy Limited  
 Wisetech Global Limited  
 Wiseway Group Limited  
 WMC Finance (USA) Limited





**ASIC**  
Australian Securities & Investments Commission

# KPMG Australia

## Audit inspection report

### 18 months to 30 June 2018

May 2019

#### About this report

This report summarises findings from our reviews at KPMG Australia (KPMG) including:

- key areas in audits where our reviews were substantially completed in the 18 months to 30 June 2018; and
- firm processes to identify and address root causes of audit deficiencies and project management of audits.

This report also lists findings from our reviews of financial reports audited by the firm in the 18 months to 30 June 2018.

Although this report may describe deficiencies identified, this should not be taken to provide assurance that the firm's audits and systems, or audited financial reports, are free of other deficiencies.

This report is intended to communicate our findings in a clear and concise manner to leadership of the firm who are informed auditing and accounting professionals. While there are no restrictions on the firm providing this report to third parties or releasing the report to the public, other readers of this report may not have the full context of this report and the findings summarised herein.

ASIC Information Sheet 224 *ASIC Audit Inspections* and ASIC Report 607 *Audit inspection report for 2017-18* provide further information on our audit firm inspection process.

## Background

- 1 The objective of ASIC's audit inspection program is to work cooperatively with audit firms to promote improved audit quality. We focus primarily on the review of key areas in the audits of listed entities and other public interest entities.
- 2 This report summarises our findings from substantially completed reviews of audits, good practice recommendations on root cause analysis and project management, and financial reporting surveillances, relating to KPMG and the entities it audits in the 18 months to 30 June 2018. If it has not already done so, the firm should identify underlying root causes for the matters reported, and for findings from internal and global firm reviews, and consider new and improved actions to achieve sustainable improvements in audit quality.
- 3 For more information refer to the detailed comment forms issued to the firm (matters in Tables 1 and 2) or in a media release available from the ASIC website ([www.asic.gov.au](http://www.asic.gov.au)) (matters in Table 4). The comment forms include the firm's response to our findings.

## Audit review findings

- 4 In our view, the auditor did not obtain reasonable assurance that the financial report was free of material misstatement in 15 of the 70 key areas reviewed in total across 19 audits (21% of the key areas reviewed). Audits and audit areas were selected for review on a risk basis.
- 5 Table 1 summarises these findings. The firm did not necessarily agree with all of our findings. The findings should not be taken to infer that the financial report was materially misstated, but rather that the auditor did not obtain sufficient evidence to support their opinion.

**Table 1: Audit file review findings – risk of material misstatement**

| Entity   | Areas with findings           | Findings   |
|----------|-------------------------------|--|
| Entity A | 1 of the 3 key areas reviewed | <ul style="list-style-type: none"> <li>• <i>Impairment testing of mining assets</i> – the auditor did not adequately evaluate key forecast assumptions or consider company specific operational risks. The company recognised an impairment charge to mining assets in its subsequent financial report.</li> </ul>   |
| Entity B | 1 of the 4 key areas reviewed | <ul style="list-style-type: none"> <li>• <i>Revenue and receivables</i> - in testing selected transactions and receivables balances by reference to receipts or subsequent receipts, the auditor did not perform alternative testing for a number of material sales transactions where cash had not been received. There was no testing to purchase orders, delivery documents or contracts. The auditor relied on amounts being within payment terms but these terms were not on file, another part of the file indicated payment terms of "strictly 45 days" and amounts were outstanding up to 138 days.</li> </ul> |

| Entity   | Areas with findings           | Findings  |
|----------|-------------------------------|---|
| Entity C | 1 of the 5 key areas reviewed | <ul style="list-style-type: none"> <li><i>Impairment of assets</i> – the auditor did not make sufficient enquiries of the auditor of a group component nor evidence the appropriateness of a low discount rate used.</li> </ul>   |
| Entity D | 1 of the 3 key areas reviewed | <ul style="list-style-type: none"> <li><i>Property revenue</i> – the auditor did not consider the impact of acquiring the management of a large property portfolio during the year when testing management fee revenue in a substantive analytical procedure. Nor did the auditor disaggregate by geographical location or consider changes to key inputs such as fee rates and gross rental receipts. The threshold for identifying differences for investigation was too large.</li> </ul>  |
| Entity E | 2 of the 3 key areas reviewed | <ul style="list-style-type: none"> <li><i>Premium revenue</i> – the earnings curve to support revenue recognition was not updated for changes in the pattern of claims, premium revenue and the unearned premium liability.</li> <li><i>Outstanding claims provision</i> – the auditor did not adequately test management's model, associated internal controls and source data.</li> </ul>   |
| Entity F | 2 of the 3 key areas reviewed | <ul style="list-style-type: none"> <li><i>Impairment testing of goodwill</i> - the auditor did not adequately evaluate and challenge key forecast assumptions. The company recognised an impairment charge to goodwill in its subsequent financial report.</li> <li><i>Lease revenue</i> – the auditor did not adequately address the completeness and accuracy of revenue through control or substantive testing.</li> </ul>   |
| Entity G | 2 of the 3 key areas reviewed | <ul style="list-style-type: none"> <li><i>Revenue</i> – in performing a substantive analytical procedure for online sales, the auditor did not disaggregate by product categories, consider company specific risk factors or consider whether an externally sourced growth rate was relevant for the company.</li> <li><i>Inventory valuations</i> – the auditor did not adequately test the completeness of the provision for slow moving stock; nor inventory values.</li> </ul>  |
| Entity H | 1 of the 3 key areas reviewed | <ul style="list-style-type: none"> <li><i>Financial instruments</i> – the controls and substantive testing did not adequately address the valuation of material financial instruments.</li> </ul>   |
| Entity I | 3 of the 4 key areas reviewed | <ul style="list-style-type: none"> <li><i>Revenue</i> - substantive and controls testing over material revenue streams did not provide sufficient evidence to support the auditor's conclusion.</li> <li><i>Business combinations</i> – the auditor did not obtain sufficient evidence that plant and equipment acquired was recognised at fair value at acquisition date, and that provisions for inventory and doubtful debts were adequate.</li> <li><i>Inventory</i> – the auditor did not obtain sufficient evidence that inventory quantities in the final inventory records agreed to stocktake count sheets.</li> </ul> |
| Entity J | 1 of the 4 key areas reviewed | <ul style="list-style-type: none"> <li><i>Revenue recognition</i> – in testing various revenue streams through substantive analytical procedures, the auditor did not consider key drivers of revenue such as changes in the asset portfolio or changes in fees and charges. Nor did the auditor disaggregate by product type or customers.</li> </ul>  |

6 Our audit file review findings which did not involve risk of material misstatements are summarised in Table 2. These findings include matters that could be relevant to obtaining reasonable assurance for the audited entity in future or another audited entity.

Table 2: Audit file review findings – other

| Entity   | Findings   |
|----------|--|
| Entity C | <ul style="list-style-type: none"> <li><i>Impairment of offshore project</i> – the auditor did not consider whether further procedures should have been performed by the auditor or the auditor of a group component on the appropriateness of management's forecast commodity prices used in its impairment trigger test.</li> </ul>  |
| Entity D | <ul style="list-style-type: none"> <li><i>Business combination</i> – the auditor did not fully consider the implications of certain conditions in the business combination contract which may have resulted in recognising additional assets and liabilities.</li> </ul>   |
| Entity F | <ul style="list-style-type: none"> <li><i>Non-audit services</i> - the firm provided internal audit work which by its nature could have created an actual or perceived self-review threat that could not be reduced to an acceptable level by the application of safeguards.</li> </ul>  |
| Entity G | <ul style="list-style-type: none"> <li><i>Warranties and sales returns</i> – the auditor did not perform controls testing or adequate tests of detail on the provision for sales returns and warranties.</li> </ul>  |
| Entity J | <ul style="list-style-type: none"> <li><i>Business combination</i> – the auditor did not adequately evidence the testing of the fair value of certain intangible assets.</li> </ul>  |
| Entity K | <ul style="list-style-type: none"> <li><i>Impairment of mine assets</i> – the auditor did not adequately evaluate the appropriateness of including unmodeled resources using a resource multiple technique that significantly increased the headroom, although the carrying value was supported by a life of mine discounted cash flow model. Nor did the auditor consider the relevance and reliability of comparable data used by management.</li> </ul> |
| Entity M | <ul style="list-style-type: none"> <li><i>Supervision and review</i> - the engagement file did not contain sufficient evidence of supervision and review performed in areas of critical judgements and significant risks.</li> <li><i>Journal entries</i> – the review and authorisation of journals was not adequately reviewed.</li> </ul>   |

## Root cause analysis and project management

7 We reviewed the firm's approach to root cause analysis of internal review and external inspection findings, and its approach to project management of audit engagements and monitoring progress against milestones. Table 3 summarises our good practice recommendations.

Table 3: Root cause analysis and project management – Good practice recommendations

| Area                | Good practice recommendations   |
|---------------------|---|
| Root cause analysis | <ul style="list-style-type: none"> <li>Engagement team members could be interviewed to identify the underlying root causes of findings as internal and external file reviews are completed.</li> <li>The root cause analysis could be better linked to remedial actions on individual audits and the firm's audit quality action plan to address audit quality.</li> <li>A post implementation review could be conducted on the effectiveness of the root cause analysis work.</li> </ul> |

| Area               | Good practice recommendations  |
|--------------------|--|
| Project management | <ul style="list-style-type: none"> <li>Standard milestones could be set to monitor progress at each stage of the audit.</li> <li>Consideration could be given to additional common milestones for public interest entity audit engagements and/or agreeing key specific milestones for each such engagement.</li> <li>The robustness and integrity of milestone data could be tested through internal monitoring processes.</li> <li>Progress against standard milestones could be monitored by the firm's head of assurance or independent quality team with authority to act where milestones are not achieved.</li> </ul> |

### Financial report findings

- 8 We completed risk-based reviews of aspects of 49 financial reports of listed and other public interest entities audited by the firm in the 18 months to 30 June 2018. Following our inquiries, four entities made material changes to net assets or profits as summarised in Table 4. More information can be found in media releases available from the ASIC website ([www.asic.gov.au](http://www.asic.gov.au)).
- 9 The review of the audit of one of these company's financial reports and the relevant key audit area were substantially completed in the 18 month period to 30 June 2018.

**Table 4: Financial report findings – media releases issued**

| Entity  | Year end          | Findings  |
|---|-------------------|---|
| Orica Limited                                 | 30 September 2016 | The company increased its environmental provision by \$115 million in the financial report for the half-year ended to 31 March 2018.                    |
| Genworth Mortgage Insurance Australia Limited | 31 December 2016  | The company reduced net earned premium revenue by \$40 million in the financial report for the year ended 31 December 2017.                             |
| Cabcharge Australia Limited                   | 30 June 2016      | The company impaired taxi licence plates by \$7.9 million and investments in associates by \$20.7 million in the subsequent half-year financial report. |
| Seven West Media Limited                      | 25 June 2016      | The company impaired investments in associates by \$75.5 million in the subsequent half-year financial report.  |



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Our Transparency Report describes our systems of quality control in place during the year ended 30 June 2019 to manage the quality of our financial statement audits.

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