



Transparency Report 2019

KPMG Fakhro, Bahrain

December 2019

Contents

1.	Message from the local Senior Partner	1
2.	Who we are	2
2.1	Our business	2
2.2	Our strategy	2
3.	Our structure and governance	3
3.1	Legal structure	3
3.2	Name, ownership and legal relationships	3
3.3	Responsibilities and obligations of member firms	3
3.4	Governance structure	4
4	System of quality control	6
4.1	Tone at the top	7
4.2	Leadership responsibilities for quality and risk management	8
4.3	Association with the right clients	10
4.3.1	Acceptance and continuance of clients and engagements	10
4.3.2	Client and engagement acceptance process	11
4.3.3	Continuance process	11
4.3.4	Withdrawal process	12
4.3.5	Client portfolio management	12
4.4	Clear standards and robust audit tools	12
4.4.1	Our approach to audit	12
4.4.2	Independence, integrity, ethics and objectivity	13
4.5	Recruitment, development and assignment of appropriately qualified people	20
4.5.1	Recruitment	20
4.5.2	Personal development	20
4.5.3	Inclusion and Diversity programs	21
4.5.4	Reward and Promotion	21
4.5.5	Assignment of professionals	22
4.5.6	Insights from our people – Global People Survey (GPS)	22
4.6	Commitment to technical excellence and quality service delivery	23
4.6.1	Lifetime learning strategy	23
4.6.2	Licensing and mandatory requirements for IFRS and U.S. GAAP engagements	23
4.6.3	Access to specialist networks	23
4.6.4	Culture of Consultation	24
4.6.5	Developing business understanding and industry knowledge	25
4.7	Performance of effective and efficient audits	25
4.7.1	Ongoing mentoring, supervision and review	25
4.7.2	Client confidentiality, information security, and data privacy	26



4.8	Commitment to continuous improvement	27
4.8.1	Internal monitoring and compliance programs	27
4.8.2	Recommendations for improvements	30
4.8.3	External feedback and dialogue	30
5	Financial information	32
6	Partner remuneration	33
7	Network arrangements	34
7.1	Legal Structure	34
7.2	Responsibilities and obligations of member firms	35
7.3	Professional Indemnity Insurance	35
7.4	Governance structure	35
7.5	Area Quality & Risk Management Leaders	37
8	Statement by the Board of KPMG Fakhro on the effectiveness of quality controls and independence	38
A	Appendices	39
A.1	Key legal entities and areas of operation	39
A.2	Details of those charged with governance at KPMG Fakhro	40
A.3	Public Interest Entities	41
A.4	The KPMG values	42

1. Message from the local Senior Partner

Overview

Welcome to the KPMG Fakhro Transparency Report, covering the financial year to 30 September 2019. This report is prepared in accordance with the standards set by article 40 of the European Union Statutory Audit Directive and is all about quality: how we drive quality, the initiatives we are pursuing to continuously improve it and our systems of quality control as well as our structure and governance.

We have an unshakeable commitment to quality and know that our standards must be of the very highest level in order to build public trust. Responsibility for quality starts at the top and means reinforcing accountability through the complete chain of command in all our teams so that every action helps us meet our rigorous quality objectives.

Our commitment to quality is underpinned by our values, which form the foundation of our culture and set the tone at the top. They also form the foundation of our approach to audit and shape how we work together, developing and supporting our people to be the best they can be. We have a strong vision for the future at KPMG and an exciting journey ahead of us. Our commitment to quality is fundamental to our journey, and is the overriding priority both for me personally and for KPMG.

Throughout this document, “KPMG” refers to the network of independent member firms operating under the KPMG name and affiliated with KPMG International Cooperative (“KPMG International”) or to one or more of these firms or to KPMG International. KPMG International, a Swiss entity, provides no client services. Throughout the document, “we,” “our,” and “us” refer to KPMG Fakhro. KPMG Fakhro is a member firm of the KPMG network of independent firms affiliated with KPMG International. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

2. Who we are

2.1 Our business

KPMG Fakhro is a professional services firm that delivers Audit, Tax and Advisory services. We operate out of an office in the Kingdom of Bahrain and had an average of 340 partners and employees in the year to 30 September 2019 (2018: 314).

Our audit services in the Kingdom of Bahrain are delivered through KPMG Fakhro. Full details of the services offered by KPMG Fakhro can be found on our website:
<https://home.kpmg/bh/en/home.html>.

2.2 Our strategy

Our strategy is set by the KPMG Fakhro Board and demonstrates a commitment to quality and trust. Our focus is to invest significantly in priorities that form part of a multi-year collective strategy implementation that is taking place across our entire global network.

3. Our structure and governance

3.1 Legal structure

Legal structure and ownership

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

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

KPMG Fakhro is a partnership registered in Kingdom of Bahrain under the Ministry of Industry, Commerce and Tourism with commercial registration number 6220-02. The partners of KPMG Fakhro holding shares in the firm are Hussain Qassim, Jamal Fakhro, C N Ramachandran, Jaafar AlQubaiti, and Jalil Al Aali.

During the year to 30 September 2019, there was an average of 9 partners in KPMG Fakhro (2018: 9 partners).

A list of the entities which form KPMG Fakhro, together with details of their legal structure, regulatory status, the nature of their business and area of operation is set out in Appendix A1.

3.2 Name, ownership and legal relationships

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

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

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

3.3 Responsibilities and obligations of member firms

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

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

Member firms commit to a common set of KPMG values (see section 4.1).

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

3.4 Governance structure

KPMG Fakhro applies high standards of corporate governance.

Our Senior Partner

The Managing Partner, Jamal Fakhro, is responsible for leading the Board and ensuring that the Board members receive accurate, timely and clear information and ensuring effective communication and relationships with the members at large. The current Senior Partner was appointed on 1 October 2007.

The Board

The principal governance and oversight body of KPMG Fakhro is the Bahrain Board which provides leadership to the organization and is responsible for our long-term growth and sustainability, setting our strategy and overseeing its implementation, monitoring performance against our business plan and protecting and enhancing the KPMG brand.

The Bahrain Board consists of Jamal Fakhro (Managing Partner), Jaffar AlQubaiti (Head of Audit), C N Ramachandran (Head of Advisory), Jalil Al Aali (Head of Risk), Jeyapriya Partiban (Head of Risk Consulting). The Board met sixteen times in the year to 30 September 2019.

Governance Structure

The Bahrain Board meets at least four times in a year and is chaired by the Managing Partner. The constitution of the Board is as determined by the Firm's SOP. The Board meets from time to time to undertake certain statutory duties for KPMG Fakhro (including approving the annual accounts and the transparency report).

In addition to the meetings of the Bahrain Board, the partners meet in a formal meeting twice every year. The partners discuss among other things the firms' quarterly performance, risk management issues and HR related matters.

The Firm's major functions (Audit, Tax and Advisory) and sub-functions / Service Lines are led by Partners. The management team consisting of Directors, Senior Managers and Managers, meet on a monthly basis. The Infrastructure teams consist of Admin, Finance, IT, HR, Markets and RM supports the functional business group to carry out their business effectively.

Full details of those charged with governance for KPMG Fakhro, including their biographies are set out in Appendix A2.

In addition, the Management Teams deals with key aspects of governance within the group that report into the Bahrain Board.

Details about the role and responsibilities and composition are set out below.

The Management Teams

The three business units (Audit, Tax & Advisory) have separate management teams and these are responsible for developing the business plan within the overall strategy set by the Bahrain Board for their Business Units, together with its subsequent implementation. These deal with operational matters affecting the business unit (including the operating and financial performance, budgets, new business proposals, marketing, technology development, recruitment, and retention and general remuneration). These teams also provide oversight of quality and risk management matters across each business unit in compliance with KPMG Global Quality & Risk Management policies and guidelines. As part of this role, it oversees that a culture of quality and integrity is maintained within the unit. The Teams also consider the impact of the key findings from our compliance quality monitoring programs and the adequacy of proposed remedial actions.

The management teams include partners of respective units and Heads of Function.

The management teams meet at least once in a month.

4 System of quality control

Overview

Tone at the top, leadership, and a clear set of values and conduct are essential to set the framework for quality. However, these must be backed up by a system of quality control that ensures our performance meets the highest professional standards.

To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver a quality audit, KPMG has developed the Audit Quality Framework, based on International Standards on Quality Control (ISQC 1), issued by the International Auditing and Assurance Standards Board (IAASB) and on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which apply to professional services firms that perform audits of financial statements.

KPMG International has quality control policies that apply to all member firms. These are included in KPMG's Global Quality & Risk Management Manual (Global Q&RM Manual) which applies to all KPMG partners and employees. KPMG Fakhro is required to establish and maintain a system of quality control and design, implement, and test the operating effectiveness of quality controls.

KPMG Fakhro is required to implement KPMG International policies and procedures and also adopts additional policies and procedures that are designed to address rules and standards issued by other relevant regulators as well as applicable legal and regulatory requirements.

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

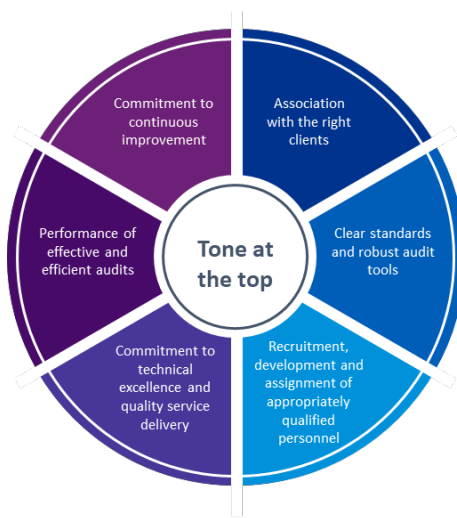
While this Transparency Report summarizes KPMG's approach to audit quality, it may also be useful for stakeholders interested in member firms' Tax and Advisory services, as many KPMG quality control procedures and processes are cross-functional and apply equally to all services offered.

Audit quality framework

At KPMG Fakhro audit quality is not just about reaching the right opinion, but how that opinion is reached. It is about the processes, thought and integrity behind the auditors' report. The outcome of a quality audit is the delivery of an appropriate and independent opinion in compliance with relevant professional standards and applicable legal and regulatory requirements. To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver a quality audit, KPMG International has developed the Audit Quality Framework.

KPMG's audit quality framework introduces a common language that is used by all KPMG firms to describe what drives audit quality and to help highlight to their audit professionals how they contribute to its delivery.

Tone at the top sits at the core of the Audit Quality Framework's seven drivers of audit quality and helps ensure that the right behaviors permeate all KPMG firms. All of the other drivers create a virtuous circle because each driver is intended to reinforce the others. Each of the seven drivers is described in more detail in the following sections of this report.



4.1 Tone at the top

KPMG global leadership, working with regional and member firm leadership, plays a critical role in establishing our commitment to quality and the highest standards of professional excellence. A culture based on quality, integrity and ethics is essential in an organization that carries out audits and other services on which stakeholders and investors rely.

At KPMG Fakhro we promote a culture in which consultation is encouraged and recognized as a strength.

Tone at the top means that KPMG Fakhro leadership demonstrates commitment to quality, ethics and integrity and communicates its commitment to clients, stakeholders, and society at large to earn public trust.

The KPMG values are set out in Appendix A4.

KPMG Global Code of Conduct

KPMG's commitment to integrity and quality is enshrined in the KPMG values that lie at the heart of the way we do things. They define KPMG's diverse and inclusive culture and our commitment to the right personal and professional conduct emphasizing that, above all, KPMG people act with integrity. The KPMG values are communicated clearly to all people and are embedded into member firms' people processes — induction, performance development and reward.

Building on the KPMG values is the [KPMG Global Code of Conduct](#). Member firms, including KPMG Fakhro are required to adopt, as a minimum standard, the Global Code of Conduct.

In addition, the KPMG Code of Conduct lays out the expectations of ethical behavior for all partners and employees at KPMG Fakhro and is built on the foundation of the KPMG values. The KPMG Code of Conduct emphasizes that each partner and employee is personally responsible for following the legal, professional, and ethical standards that apply to his or her job function and level of responsibility. The KPMG Code of Conduct sets out our commitments and includes provisions that require KPMG Fakhro partners and employees, in summary to:

- comply with all applicable laws, regulations, professional standards and KPMG Fakhro policies
- work with the right clients and third parties
- focus on quality
- maintain our objectivity and independence
- not tolerate any illegal or unethical acts, committed within KPMG Fakhro, by clients or suppliers, or public officials with whom we deal
- protect information
- compete fairly
- help our people to be extraordinary
- be responsible corporate citizens
- build public trust.

All KPMG Fakhro partners and employees are required to:

- comply with the Global Code of Conduct and confirm their compliance with the Code of Conduct, and
- complete regular training covering the Code.

Individuals are encouraged to speak up when they see something that makes them uncomfortable or that is inconsistent with the KPMG values. Moreover, everyone at KPMG is responsible for reporting, and is required to report, any activity that could potentially be illegal or in violation of the KPMG values, KPMG policies, applicable laws, regulations or professional standards.

We have procedures and established channels of communication so that our people can report ethical and quality issues. Retaliation is prohibited against individuals who ‘raise their hand’ and speak up in good faith.

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

At KPMG Fakhro, we regularly monitor the extent to which our people feel that the firm lives the KPMG values through the Global People Survey (refer to section 4.5.6).

4.2 Leadership responsibilities for quality and risk management

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

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

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

Senior Partner

In accordance with the principles in ISQC 1, our Senior Partner Jamal Fakhro has assumed ultimate responsibility for KPMG Fakhro system of quality control.

Risk Management Partner

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

The fact that the role is a Board position, and seniority of the reporting lines, underlines the importance that the firm places on risk and quality issues. The RMP is supported by a team of professionals.

Ethics and Independence Partner (EIP)

The Ethics and Independence Partner has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG Fakhro and reports on ethics and independence issues to the Senior Partner.

The Audit, Tax and Advisory functions – Function Heads

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

KPMG Fakhro Head of Audit is responsible for leading a sustainable high-quality Audit practice that is attractive to KPMG partners and employees. This includes:

- setting the right ‘tone at the top’ by demonstrating an unwavering commitment to the highest standards of professional excellence, including scepticism, objectivity, and independence
- developing and implementing strategies to monitor and maintain knowledge and skills required of partners and employees to fulfil their professional responsibilities
- working with the Risk Management Partner to monitor and address audit quality and risk matters as they relate to the Audit practice, including an annual evaluation of activities considered to be key to audit quality.

Audit Leadership Team

The Audit Leadership Team (consisting of all audit partners) of KPMG Fakhro meets every month and these meetings included regular discussions about current and emerging audit quality issues

arising from external and internal quality review processes, queries being raised by engagement teams, root cause analysis procedures and other quality matters identified from a variety of sources. These were debated, other observations collected from client-facing teams were considered, and actions agreed. Typically, most of these actions are short term, in which case they are developed and communicated through the regular technical briefings issued to the whole Audit function of KPMG Fakhro and also, if considered of sufficient magnitude, included in the next mandatory training.

For more complex issues (which might require amendments to KPMG's global audit methodology or audit tools) these will be raised with the KPMG International Global Audit groups for consideration and potential development of solutions by the KPMG Global Solutions Group (KGSG) and the International Standards Group (ISG). For more information about the KGSG and the ISG refer to section 4.6.4.

Audit Quality

In addition to these regular meetings, a partner has been tasked with Audit Quality including working on the new requirements under ISQM 1. Audit Quality is a topic of discussion on a monthly basis as part of the Audit Leadership's monthly meetings. This includes considering detailed findings (and related actions) from external regulatory reviews, the internal Quality Performance Review program and other quality control programs, as well as papers on a range of issues designed to allow us to challenge ourselves in various aspects of audit quality and improvement.

Investing in continuous improvement

KPMG globally continues to invest significantly in audit quality across the Global Organization. We are building on our sound audit quality foundations, both in terms of how we manage our firms and our audit engagements.

This means significant ongoing investment in our system of quality management, global monitoring of audit quality, our professionals and enhanced support, technology and tools for engagement teams.

Our global audit quality program ensures consistent deployment of investments to enhance and support a common approach.

4.3 Association with the right clients

4.3.1 Acceptance and continuance of clients and engagements

Rigorous global client acceptance and continuance policies are vital to being able to provide high-quality professional services.

KPMG's client and engagement acceptance and continuance systems, and processes are designed to identify and evaluate any potential risks prior to accepting or continuing a client relationship, or performing a specific engagement.

KPMG firms must evaluate whether to accept or continue a client relationship, or perform a specific engagement. Where client/engagement acceptance (or continuance) decisions pose significant risks, additional approvals are required.

4.3.2 Client and engagement acceptance process

Client evaluation

KPMG Fakhro undertakes an evaluation of every prospective client.

This involves obtaining sufficient information about the prospective client, its key management and significant beneficial owners and then properly analyzing the information to be able to make an informed acceptance decision. This evaluation includes completion of a questionnaire to assess the client's risk profile and obtaining background information on the client, its key management, directors and owners. In addition, we obtain additional information required to satisfy our local legal and/or regulatory requirements.

Engagement evaluation

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors are considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel™, KPMG's conflicts and independence checking system), intended purpose and use of engagement deliverables, public perception, as well as factors specific to the type of engagement. For audit services, these include the competence of the client's financial management team and the skills and experience of partners and employees assigned to staff the engagement. The evaluation is made in consultation with other senior KPMG Fakhro partners and includes review by quality and risk management leadership as required.

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

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

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

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

4.3.3 Continuance process

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

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

In addition, clients and engagements are required to be re-evaluated if there is an indication that there may be a change in their risk profile, and as part of the continuous independence evaluation process, engagement teams are required to identify if there have been any changes to previously identified threats or if there are new threats to independence. The threats are then evaluated and, if not at an acceptable level, are eliminated or appropriate safeguards are applied to reduce the threats to an acceptable level.

4.3.4 Withdrawal process

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

4.3.5 Client portfolio management

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

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.

4.4 Clear standards and robust audit tools

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

4.4.1 Our approach to audit

KPMG has been investing significantly in evolving the Global Organization's audit capabilities and will continue to do so in the coming years including a new global electronic audit workflow delivered through KPMG Clara platform – KPMG's smart, modular audit platform – capable of continually integrating new and emerging technologies, with advanced capabilities embedded that leverage data, automation, and visualization. Data & Analytics (D&A) is integral to the way how KPMG member firms obtain audit evidence and interact with clients in the digital era.

KPMG's high-quality audit process will continue to include:

- **timely partner and manager involvement** throughout the engagement
- **access to the right knowledge** including involvement of specialists, training and experience requirements and relevant industry expertise
- **critical assessment of all audit evidence obtained during the audit**, exercising appropriate professional judgment

- **ongoing mentoring, supervision and review** of the engagement team
- managing and documenting the audit.

4.4.1.1 *Consistent audit methodology and tools*

The KPMG audit methodology, developed by the KPMG Global Solutions Group (KGSG) (formally referred to as the Global Service Centre (GSC)), is based on the requirements of the International Standards on Auditing (ISAs) as well as the auditing standards of PCAOB and AICPA. The KPMG audit methodology is set out in KPMG Audit Manual (KAM) and includes additional requirements that go beyond the ISAs, which KPMG International believes enhance the quality of the audit. The methodology emphasizes applying appropriate professional scepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence. Enhancements to the audit methodology, guidance and tools are made regularly to be in compliance with standards, emerging auditing areas of focus and audit quality results (internal and external). Key topics include risk identification, assessment and response accounting estimates, group audits and audit sampling.

KPMG member firms may add local requirements and/or guidance in KAM to comply with additional professional, legal, or regulatory requirements.

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

The KPMG audit workflow is enabled through eAudit's, an activity-based workflow and electronic audit file used by KPMG member firms. eAudit is KPMG's audit documentation workflow that allows professionals to complete high quality and consistent audits. eAudit integrates KPMG's audit methodology, guidance and industry knowledge, and the tools needed to execute and document the audit work performed.

eAudit can be "scaled" to present the relevant requirements and guidance, depending on the nature of the entity to be audited and in accordance with professional standards and applicable legal and regulatory requirements. It provides direct access to KPMG's audit guidance, professional standards and documentation templates.

Significant investments are underway to revise and enhance the KPMG audit methodology (KAM) and workflow tool (eAudit), with the deployment of KPMG Clara workflow which was piloted in 2018, planned for initial deployment globally in 2019, and full deployment beginning in 2020.

4.4.2 **Independence, integrity, ethics and objectivity**

4.4.2.1 *Overview*

Auditor independence is a cornerstone of international professional standards and regulatory requirements.

KPMG International has detailed independence policies and procedures, incorporating the requirements of the IESBA Code of Ethics. These are set out in KPMG's Global Quality & Risk Management Manual, which applies to all KPMG member firms. Automated tools, which must be

used for every prospective engagement to identify potential independence and conflict of interest issues, facilitate compliance with these requirements.

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

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

KPMG Fakhro has a designated Ethics and Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG Fakhro. The EIP is responsible for communicating and implementing KPMG global policies and procedures and ensuring that local policies and procedures are established and effectively implemented when they are more stringent than the global requirements. The EIP fulfills this responsibility through:

- implementing/monitoring the ethics and independence quality control process and structure within the firm;
- approving/appointing partners responsible for ethics and independence within the firm;
- overseeing the processes related to the evaluation of specific independence threats in connection with clients and prospective clients;
- participating in the development and delivery of training materials,
- monitoring compliance with policies;
- implementing procedures to address non-compliance; and
- overseeing the disciplinary process for ethics and independence matters.

Amendments to KPMG International's ethics and independence policies in the course of the year are included in regular quality and risk communications with member firms. Member firms are required to implement changes as specified in the communications, and this is checked through the internal monitoring programs described in 4.8.1.

KPMG Fakhro partners and employees are required to consult with the EIP on certain matters as defined in the Global Q&RM Manual. The EIP may also be required to consult with the Global Independence Group, depending upon the facts and circumstances.

4.4.2.2 *Personal financial independence*

KPMG International policies require that KPMG member firms and KPMG professionals are free from prohibited financial interests in, and prohibited financial relationships with, KPMG member firm assurance and audit clients (by definition, 'audit client' includes its related entities or affiliates), their management, directors, and, where required, significant owners. All KPMG partners — irrespective of their member firm and function — are generally prohibited from owning securities of any audit client of any member firm.

KPMG member firms use a web-based independence compliance system (KICS) to assist our professionals in complying with personal independence investment policies. This system contains an inventory of publicly available investments and provides a tracking mechanism for required

users to report acquisitions and disposals of their financial interests. The system facilitates monitoring by identifying and reporting impermissible investments and other non-compliant activity (i.e., late reporting of an investment acquisition).

All Partners and all manager grade and above client-facing employees are required to use the KICS system prior to entering into an investment to identify whether they are permitted to do so. They are also required to maintain a record of all of their investments in publicly traded entities in KICS, which automatically notifies them if any investment subsequently becomes restricted. Newly restricted investments must be disposed of within five business days of the notification. KPMG monitors partner and manager compliance with this requirement as part of our program of independence compliance audits of a sample of professionals. The Global Independence Group provides guidance and suggested procedures relating to the audit and inspection by KPMG member firms of personal compliance with KPMG's independence policies. This includes sample criteria including the minimum number of professionals to be audited annually.

4.4.2.3 *Employment relationships*

Any KPMG Fakhro professional providing services to an audit client irrespective of function is required to notify our EIP if they intend to enter into employment negotiations with that audit client. For partners, this requirement extends to any audit client of any KPMG member firm that is a public interest entity.

Former members of the audit team or former partners of KPMG Fakhro are prohibited from joining an audit client in certain roles unless they have disengaged from all significant connections to KPMG Fakhro, including payments which are not fixed and predetermined and/or would be material to KPMG Fakhro and ceased participating in KPMG Fakhro business and professional activities.

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

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

4.4.2.4 Firm financial independence

KPMG member firms must also be free from prohibited interests in, and prohibited relationships with, audit clients, their management, directors and, where required, significant owners.

In common with other KPMG member firms, KPMG Fakhro uses KICS to record its own direct and material indirect investments in listed entities and funds (or similar investment vehicles) as well as in non-listed entities or funds. This includes investments held in pension, and employee benefit plans.

Additionally, KPMG Fakhro is required to record in KICS all borrowing and capital financing relationships, as well as custodial, trust and brokerage accounts that hold member firm assets.

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

4.4.2.5 Business relationships/suppliers

KPMG Fakhro has policies and procedures in place that are designed to ensure its business relationships with audit clients are maintained in accordance with the IESBA Code of Ethics and other applicable independence requirements, such as those promulgated by the SEC.

4.4.2.6 Independence clearance process

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

4.4.2.7 Independence training and confirmations

All KPMG Fakhro partners and client service/facing professionals, as well as certain other individuals, must complete independence training that is appropriate to their grade and function upon joining KPMG Fakhro and on an annual basis thereafter.

New partners and client facing employees who are required to complete this training must do so by the earlier of (a) thirty days after joining KPMG Fakhro or (b) before providing any services to, or becoming a member of the chain of command for, any audit client (by definition, "audit client" includes its related entities or affiliates).

We also provide all partners and employees with biennial training on:

- the Global Code of Conduct and ethical behavior, including KPMG's anti-bribery policies, compliance with laws, regulations, and professional standards; and
- reporting suspected or actual non-compliance with laws, regulations, professional standards, KPMG and KPMG's policies.

New partners and employees are required to complete this training within three months of joining KPMG Fakhro.

All KPMG partners and employees are required to sign, upon joining KPMG Fakhro and thereafter, an annual confirmation stating that they have remained in compliance with applicable ethics and independence policies throughout the year.

4.4.2.8 Non-audit services

All KPMG firms are required, at a minimum, to comply with the IESBA Code of Ethics and applicable laws and regulations related to the scope of services that can be provided to audit clients.

KPMG Fakhro are required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG Fakhro. KPMG Fakhro's EIP is involved in the review of potential independence issues.

In addition to identifying potential conflicts of interest, Sentinel™, facilitates compliance with these policies. Certain information on all prospective engagements, including service descriptions and fees must be entered into Sentinel™ as part of the engagement acceptance process. When the engagement is for an audit client, an evaluation of potential threats and safeguards is also required to be included in the Sentinel™ submission. Lead audit engagement partners are required to: maintain group structures for their publicly traded and certain other audit clients as well as their related entities or affiliates in Sentinel™, and they are also responsible for identifying and evaluating any independence threats that may arise from the provision of a proposed non-audit service and the safeguards available to address those threats.

4.4.2.9 Fee dependency

KPMG International's policies recognize that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the member firm expressing the audit opinion. These policies require KPMG member firms to consult with their Area Q&RM Leader where it is expected that total fees from an audit client will exceed 10 percent of the annual fee income of the member firm for two consecutive years. In the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10 percent of the total fees received by a particular member firm for two consecutive years, these policies further require that:

- This would be disclosed to those charged with governance at the audit client; and
- A senior partner from another KPMG member firm would be appointed as the engagement quality control (EQC) reviewer.

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

4.4.2.10 Resolving conflicts of interest

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

KPMG International policies are also in place to prohibit KPMG partners and staff from accepting gifts and hospitality from audit clients, unless the value is trivial and inconsequential, is not prohibited by relevant law or regulation and is not deemed to be have been offered with the intent to improperly influence the behavior of the audit team member or the member firm. KPMG partners and staff are also precluded from offering inducements, including gifts and entertainment, which are made or perceived to be made with the intent to improperly influence the behavior of the recipient or which would cast doubt on the individual's or the member firm's integrity, independence, objectivity or judgment.

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

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

KPMG Fakhro has risk management resources who are responsible for reviewing any identified potential conflict and working with the affected member firms to resolve the conflict, the outcome of which must be documented.

Escalation and dispute resolution procedures are in place for situations in which agreement cannot be reached on how to manage a conflict. If a potential conflict issue cannot be appropriately mitigated, the engagement is declined or terminated.

4.4.2.11 Independence breaches

All KPMG Fakhro personnel are required to report an independence breach as soon as they become aware of it to the EIP. In the event of failure to comply with our independence policies, whether identified in the compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy. All breaches of independence rules must be reported to those charged with governance as soon as possible except where alternative timing for less significant breaches has been agreed to with those charged with governance.

KPMG Fakhro has a documented and communicated disciplinary policy in relation to breaches of independence policies, incorporating incremental sanctions reflecting the seriousness of any violations.

4.4.2.12 Compliance with laws, regulations, and anti-bribery and corruption

Compliance with laws, regulation and standards is a key aspect for everyone at KPMG Fakhro. In particular, we have zero tolerance of bribery and corruption.

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

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

4.4.2.13 Partner and firm rotation

Partner rotation

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

KPMG Fakhro partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG International policy. These requirements place limits on the number of consecutive years that partners in certain roles may provide audit services to a client, followed by a ‘time-out’ period during which time these partners may not:

- participate in the audit;
- provide quality control for the audit;
- consult with the engagement team or the client regarding technical or industry-specific issues;
- in any way influence the outcome of the audit;
- lead or coordinate professional services at the client;
- oversee the relationship of the firm with the audit client; or
- have any other significant or frequent interaction with senior management or those charged with governance at the client

KPMG Fakhro monitors the rotation of audit engagement leaders (and any other key roles, such as the Key Audit Partner and Engagement Quality Control Reviewer, where there is a rotation requirement) and develops transition plans to enable allocation of partners with the necessary competence and capability to deliver a consistent quality of service to clients.

Firm rotation

The Corporate Governance Code, Kingdom of Bahrain, requires, on a “comply or explain” basis that Listed Companies, other than those regulated by Central Bank of Bahrain (CBB), rotate its auditors (audit firm) once every five years with a two-year cooling-off period and rotate audit engagement partners once every three years. This requirement will take effect from 2019 with prospective application.

The CBB only requires a mandatory audit partner rotation every five years for audits of its licensees, with no requirements for firm rotation.

4.5 Recruitment, development and assignment of appropriately qualified people

One of the key drivers of quality is ensuring that all KPMG professionals have the appropriate skills and experience, passion and purpose, to deliver the highest quality in audit. This requires the right recruitment, development, reward, promotion, retention and assignment of professionals.

4.5.1 Recruitment

KPMG Fakhro is committed to building an extraordinary people experience for all KPMG partners and employees and prospective partners and employees.

KPMG Fakhro also recruits significant numbers at an experienced hire and partner level.

All candidates submit an application and are employed following a variety of selection processes, which may include application screening, competency-based interviews, psychometric and ability testing, and qualification/reference checks. These leverage fair and job-related criteria to ensure that candidates possess the appropriate characteristics to perform competently, are suitable and best placed for their roles.

KPMG Fakhro recruited over 41 new graduates in the year ended 30 September 2019 (2018: approximately 40).

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

4.5.2 Personal development

Development

KPMG Fakhro will shortly be launching a new approach to performance development built around the *Everyone a Leader* performance principles, *Open Performance Development*, which includes:

- Global role profiles;
- a goal library; and
- Standardized review forms.

Open Performance Development is linked to the KPMG values and designed to articulate what is required for success — both individually and collectively. We know that by being clear and consistent about the behavior we're looking for and rewarding those who role model these behaviors, will enhance our ability to achieve quality and we have articulated this through our performance principles of seeking growth, inspiring trust and delivering impact.

At the same time, we are driving a shift in our performance-driven culture, supported by and enacted through leading technology that allow us to embed audit quality to the assessment of performance and the decisions around reward as well as drive consistency across the Global Organization.

KPMG Fakhro monitors quality and compliance incidents and maintains quality and compliance metrics in assessing the overall evaluation, promotion and remuneration of partners. These evaluations are conducted by performance managers and partners who are in a position to assess performance.

4.5.3 Inclusion and Diversity programs

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

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

We believe that the established KPMG Global Inclusion and Diversity strategy provides the framework to drive the actions that are necessary to promote inclusive leadership at KPMG Fakhro and across all KPMG member firms.

For more about Inclusion & Diversity at KPMG read [here](#).

4.5.4 Reward and Promotion

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

Reward

KPMG has compensation and promotion policies that are informed by market data, clear, simple, and linked to the performance review process. This helps our partners and employees know what is expected of them, and what they can expect to receive in return. The connection between performance and reward is achieved through calibration/moderation meetings where relative performance across a peer group is discussed and used to inform reward decisions.

Reward decisions are based on consideration of both individual and organizational (member firm) performance.

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

The extent to which our people feel their performance has been reflected in their reward is measured through the Global People Survey, with action plans developed accordingly.

Promotion

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

Partner admissions

The KPMG Fakhro process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. Our criteria for admission to the KPMG Fakhro partnership are consistent with our commitment to professionalism and integrity, quality, and being an employer of choice.

4.5.5 Assignment of professionals

KPMG Fakhro has procedures in place to assign both engagement partners and other professionals to a specific engagement on the basis of their skill sets, relevant professional and industry experience, and the nature of the assignment or engagement. Function heads are responsible for the partner assignment process. Key considerations include partner experience and capacity - based on an annual partner portfolio review - to perform the engagement taking into account the size, complexity and risk profile of the engagement and the type of support to be provided (i.e. the engagement team composition and specialist involvement).

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

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

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

4.5.6 Insights from our people – Global People Survey (GPS)

Biennially KPMG Fakhro invites all its people to participate in an independent Global People Survey to share their perception about their experience working for KPMG. The GPS provides an overall measure of our people's engagement through an Engagement Index (EI) as well as insights into areas driving engagement which may be strengths or opportunities. Results can be analyzed by functional or geographic area, grade, role, gender to provide additional focus for action. Additional insight is provided on how we are faring on categories known to impact engagement.

The survey also specifically provides KPMG Fakhro leadership and KPMG global leadership with results related to quality and risk behaviors, audit quality, upholding the KPMG values, employee and partner attitudes to quality, leadership and tone at the top.

KPMG Fakhro participates in the GPS, monitors results and takes appropriate actions to communicate and respond to the findings of the survey. The results of the GPS are also aggregated for the entire Global Organization and are presented to the Global Board each year and appropriate follow-up actions agreed.

4.6 Commitment to technical excellence and quality service delivery

All KPMG Fakhro professionals are provided with the technical training and support they need to perform their roles. This includes access to internal specialists and the professional practice department, either to provide resources to the engagement team or for consultation. Where the right resource is not available within KPMG Fakhro, access is provided to a network of highly skilled KPMG professionals in other KPMG member firms.

At the same time, audit policies require all KPMG audit professionals to have the appropriate knowledge and experience for their assigned engagements.

4.6.1 Lifetime learning strategy

Formal training

Annual training priorities for development and delivery are identified by the Audit Learning and Development steering groups at global, regional and, where applicable, at a local level. Training is delivered using a blend of classroom, digital learning and performance support to assist auditors on the job.

Mentoring and on the job training

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

4.6.2 Licensing and mandatory requirements for IFRS and U.S. GAAP engagements

Licensing

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

4.6.3 Access to specialist networks

KPMG Fakhro engagement teams have access to a network of local KPMG specialists as well as specialists in other KPMG member firms. Specialists who are members of an audit team and have overall responsibility for specialist involvement on an audit engagement have the competencies, capabilities and objectivity to appropriately fulfill their role. Training on audit concepts is provided to these specialists.

The need for specialists (e.g. Information Technology, Tax, Treasury, Actuarial, Forensic, Valuation) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process.

4.6.4 Culture of Consultation

KPMG encourages a strong culture of consultation that supports member firm teams throughout their decision-making processes and is a fundamental contributor to audit quality. KPMG Fakhro promotes a culture in which consultation is recognized as a strength and that encourages all KPMG professionals to consult on difficult or contentious matters.

To assist audit engagement professionals in addressing difficult or contentious matters, protocols have been established for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. In addition, the KPMG Global Q&RM Manual includes mandatory consultation requirements where certain matters are identified such as concerns over client integrity.

Technical consultation and global resources

Technical auditing and accounting support is available to all member firms and their professionals through the KPMG Global Solutions Group (KGSG) (formally referred to as the Global Service Centre (GSC) and the ISG as well as the US Capital Markets Group for SEC foreign registrants.

KPMG Global Solutions Group (KGSG)

The KGSG's mission is to drive success for KPMG's global network of Audit practices through collaboration, innovation and technology. The KGSG develops, maintains and deploys KPMG's audit methodology and technology-based tools used by KPMG audit professionals to facilitate effective and efficient audits. With three global locations, one in each region, the KGSG Audit team is made up of professionals with backgrounds in audit, IT, data science, mathematics, statistics, and more from around the world who bring diverse experiences and innovative ways of thinking to further evolve KPMG's audit capabilities.

International Standards Group (ISG)

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

Member firm professional practice resource

Appropriate consultation support on auditing and technical accounting matters is provided to audit engagement professionals through our professional practice resources (referred to as Department of Professional Practice or DPP). DPP also assists engagement teams where there are differences of opinion either within teams or with the EQC reviewer. Unresolved differences are required to be escalated to senior partners for final resolution. The ISG is also available for consultation when required.

4.6.5 Developing business understanding and industry knowledge

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

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

4.7 Performance of effective and efficient audits

How an audit is conducted is as important as the final result. KPMG Fakhro partners and employees are expected to demonstrate certain key behaviors and follow certain policies and procedures in the performance of effective and efficient audits.

4.7.1 Ongoing mentoring, supervision and review

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

Ongoing mentoring, coaching and supervision during an audit involves:

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

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

4.7.1.1 Timely engagement quality control (EQC) reviewers

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

The EQC is an important part of KPMG's framework for quality. An EQC reviewer is required to be appointed for audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with a high public profile, engagements that require an EQC review

under applicable laws or regulations, and other engagements as designated by the Risk Management Partner or country Head of Audit.

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

KPMG Fakhro is continually seeking to strengthen and improve the role that the EQC reviewer plays in audits, as this is a fundamental part of the system of audit quality control.

4.7.1.2 *Reporting*

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

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

4.7.1.3 *Insightful, open, and honest two-way communication*

Two-way communication with those charged with governance, often identified as the Audit Committee, is key to audit quality and is a key aspect of reporting and service delivery.

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

4.7.2 Client confidentiality, information security, and data privacy

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

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

We have clear policies on information security that cover a wide range of areas. Data Privacy policies are in place governing the handling of personal information, and associated training is required for all KPMG Fakhro personnel.

4.8 Commitment to continuous improvement

KPMG commits to continually improve the quality, consistency and efficiency of KPMG audits. Integrated quality monitoring and compliance programs enable member firms to identify quality deficiencies, to perform root cause analysis and develop, implement and report remedial action plans, both in respect of individual audit engagements and the overall system of quality control.

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

4.8.1 Internal monitoring and compliance programs

KPMG Fakhro monitoring programs evaluate both:

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

Our internal monitoring program also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively. These include:

- Quality Performance Reviews (QPR) and Risk Compliance Programs (RCP), which are conducted annually across the Audit, Tax and Advisory functions; and
- A cross functional Global Compliance review (GCR) program which is conducted at least every three years.

The results and lessons from the integrated monitoring programs are communicated internally and appropriate action is taken at local, regional and global levels.

Audit Quality Performance Reviews (QPRs)

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

Risk-based approach

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

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

Reviewer selection, preparation and process

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

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

Evaluations from Audit QPR

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

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

Reporting

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

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

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

Risk Compliance Program (RCP)

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

The objectives of the RCP are to:

- document, assess and monitor the extent of compliance of KPMG Fakhro system of quality control with Global Quality & Risk Management policies and key legal and regulatory requirements relating to the delivery of professional services; and
- provide the basis for KPMG Fakhro to evaluate that the firm and its personnel comply with relevant professional standards and applicable legal and regulatory requirements.

Where deficiencies are identified, we are required to develop appropriate action plans and monitor the status of each action item.

Global Compliance Review (GCR) program

Each member firm is subject to a GCR conducted by KPMG International's GCR team, independent of the member firm, at least once in a 3 year cycle.

The GCR team performing the reviews is independent of the KPMG member firm and is objective and knowledgeable of Global Quality and Risk Management policies. GCRs assess compliance with selected KPMG International policies and procedures and share best practices among member firms. The GCR provides an independent assessment of:

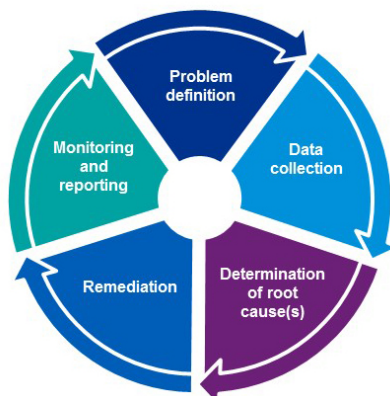
- a member firm's commitment to quality and risk management (tone at the top) and the extent to which its overall structure, governance and financing support and reinforce this commitment;
- a member firm's compliance with KPMGI policies and procedures; and
- the robustness with which the member firm performs its own compliance program (RCP).

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

Root Cause Analysis (RCA)

KPMG Fakhro performs root cause analysis to identify and address audit quality issues in order to prevent them from recurring and help identify good practices as part of continuous improvement. In 2019, RCA training based on our Global RCA 5 Step Principles was attended by those individuals at KPMG Fakhro who will be performing RCA or directing those performing RCA. The training provides a common platform for advancing the practices and skills associated with resourcing, planning and conducting RCA.

The Global RCA 5 Step Principles are as follows:



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

KPMG Fakhro's Head of Audit is responsible for the development and implementation of action plans as a result of RCA, including identification of solution owners. Our Risk Management Partner monitors their implementation.

4.8.2 Recommendations for improvements

At a global level, through the GAQSC and the Global Quality & Risk Management Steering Group, KPMG International reviews the results of the quality monitoring programs, analyzes member firm root causes and action plans and develops additional global actions as required.

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

4.8.3 External feedback and dialogue

4.8.3.1 Regulators

KPMG Fakhro is licensed to provide audit services in the Kingdom of Bahrain by Ministry of Industry, Commerce and Tourism (MOICT). The MOICT exercises oversight over auditors in accordance with Article 22 of the Legislative Decree of No. 26 of 1996 ("Bahrain Auditor's Law"). The MOICT licenses the practice of auditors in the Kingdom of Bahrain and maintains a Register of Auditors. Auditors are required to audit financial statements in accordance with International Standards on Auditing ("ISAs") and conduct audits and other engagements in accordance with the principles of independence, integrity, objectivity, professional competence and due care, confidentiality, professional behavior and technical standards as defined in the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and the Bahrain Auditors Law No. 26 of the year 1996. The MOICT has constituted an "Auditor's Disciplinary Board" to oversee Auditors in relation to violations of the Bahrain Auditor's Law, breach of professional ethics and other matters. Upon finding an auditor guilty of misconduct, the Disciplinary Board may Reprimand, Warn or Suspend the practice for a period of three years or Striking off the name from the Auditors Register. The Bahrain Audit Law also provides for a more severe penalty of fine and imprisonment under the Penal Code and the Commercial Companies Law.

The MOICT also shares some of its oversight responsibilities with the Central Bank of Bahrain (CBB) for CBB licensees and listed companies. Under Articles 63 and 64 of Decree No. (64) of 2006 with Respect to Promulgating the Central Bank of Bahrain and Financial Institutions Law, the CBB has the authority to require auditors to perform additional tasks in relation to licensees or listed companies and report their results to the CBB.

The MOICT or the CBB (regulatory authorities), have sufficient and wide-ranging powers under the decrees to exercise oversight over the Firm although the firm has not been subjected to an external quality assurance review by the regulatory authorities at the time of this application.

KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss audit quality findings and actions taken to address such issues across the entire organization.

4.8.3.2 Client feedback

We proactively seek feedback from clients through in-person conversations and third-party surveys to monitor their satisfaction with services delivered. We endeavour to take this feedback and make dynamic changes at both the engagement level and firm level to meet clients' needs.

4.8.3.3 Monitoring of complaints

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

5 Financial information

Although there is no local legislation that requires disclosure of financial information that shows the importance of statutory audit work to the overall results, we have prepared such data to give a “transparent” view to comply with the European Union (EU) 8th Company Law Directive.

The financial information set forth represents Gross revenues as of 30 September 2019 as under:

	<i>USD Million</i>	
	2019	2018
Revenues from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity	2.84	2.79
Revenues from the statutory audit of annual and consolidated financial statements of other entities	9.24	9.43
Revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm	4.51	3.64
Revenues from non-audit services to other entities.	16.97	15.73

Revenues are reported gross, inclusive of expenses incurred in the performance of audits.

Gross revenues include amounts paid to other KPMG member firms who have assisted in the performance of statutory audits, also including any KPMG Firms located outside of the EU/EEA grouping. (Whereas amounts paid to other KPMG member firms are eliminated in the total revenues reported as generated by KPMG statutory auditors and audit firms, from EU or EEA Member States resulting from the statutory audit of annual and consolidated financial statements).

6 Partner remuneration

Both Capital Profit Sharing Partners and Salaried Partners are compensated by fixed monthly salary determined by the Managing Partner which is based on Seniority and performance. Partners' salary and profit allocations are reviewed every year based on performance of the individual partner, performance of the function and overall firm performance. Profit / Incentive allocation is carried out based on amount determined from the profit pool which is arrived at after charging the salaries of partners and Bonus to employees.

7 Network arrangements

7.1 Legal Structure

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

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

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

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

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

Total turnover achieved by EU/EEA audit firms resulting from the statutory audit of annual and consolidated financial statements¹

Aggregated revenues generated by KPMG audit firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.9 billion during the year ending 30th September 2019. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent currently calculable and translated at the average exchange rate prevailing in the 12 months ended 30th September 2019.

¹ *The financial information set forth represents combined information of the separate KPMG member firms from EU and EEA Member States that perform professional services for clients. The information is combined here solely for presentation purposes. KPMG International performs no services for clients nor, concomitantly, generates any client revenue.*

7.2 Responsibilities and obligations of member firms

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

Each member firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG values (as set out in the Appendices to this document).

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

7.3 Professional Indemnity Insurance

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

7.4 Governance structure

The key governance and management bodies of KPMG International are the Global Council, the Global Board, and the Global Management Team.

Global Council

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. It performs functions equivalent to a shareholders' meeting (albeit KPMG International has no share capital and, only has members, not shareholders).

Among other things, the Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 59 member firms that are "members" of KPMG International as a matter of Swiss law. Sublicensees² are generally indirectly represented by a member.

² Unless otherwise stated, the words 'member firm' or 'KPMG member firm' when used in this Transparency Report include the following:

- Those entities that are members of KPMG International as a matter of Swiss law because KPMG International is a Swiss cooperative (i.e. similar to shareholders, albeit KPMG International has no share capital and, therefore, only has members not shareholders).
- Those entities ('sublicensees') that are not members of KPMG International as a matter of Swiss law but have still entered into legal agreements with KPMG International and also an entity that is a 'member'.

Global Board

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International, and approving policies and regulations. It also admits member firms.

The Global Board includes the Global Chairman, the Chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)) and a number of senior partners of member firms.

It is led by the Global Chairman, who is supported by the Executive Committee, consisting of the Global Chairman, the Chairman of each of the regions and currently three other senior partners of member firms. The list of Global Board members, as at October 2019 is available in the [KPMG Global Review](#).

One of the other Global Board members is elected as the lead director by those Global Board members who are not also members of the Executive Committee of the Global Board (“non-executive” members). A key role of the lead director is to act as liaison between the Global Chairman and the “non-executive” Global Board members.

Global Management Team

The Global Board has delegated certain responsibilities to the Global Management Team. These responsibilities include developing global strategy by working together with the Executive Committee. The Global Management Team also supports the member firms in their execution of the global strategy and is responsible for holding them accountable for commitments.

It is led by the Global Chairman and includes the Global Chief Operating Officer, Global Chief Administrative Officer, global function and infrastructure heads, and the General Counsel.

The list of Global Management Team members as at October 2019 is available in the [KPMG Global Review](#).

Global Steering Groups

The Global Steering Groups represent the function and infrastructure groups of KPMG International and are the main driving groups of the organization. They act under delegated authority from the Global Board and oversight by the Global Management Team, in particular the Global Audit Steering Group, Global Audit Quality Steering Committee and Global Quality Risk Management Steering Group work closely with regional and member firm leadership to:

- establish and communicate appropriate audit and quality/risk management policies;
- enable effective and efficient risk processes to promote audit quality;
- proactively identify and mitigate critical risks to the network.

The roles of the Global Audit Steering Group and the Global Quality & Risk Management Steering Group are detailed in section ‘Governance and leadership’ of the [KPMG International Transparency Report](#).

Each member firm is part of one of three regions (the Americas, ASPAC, and EMA). Each region has a Regional Board comprising a regional chairman, regional chief operating officer, representation from any sub-regions, and other members as appropriate. Each Regional Board

focuses specifically on the needs of member firms within their region and assists in the implementation of KPMG International's policies and processes within the region.

Further details about KPMG International including the governance arrangements, can be found in section 'Governance and leadership' of the [KPMG International Transparency Report](#).

7.5 Area Quality & Risk Management Leaders

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders (ARL) who serve a regular and ongoing monitoring and consultation function to assess the effectiveness of a member firm's efforts and processes to identify, manage and report significant risks that have the potential to damage the KPMG brand. Significant activities of the ARL, including member firm issues identified and related member firm response/remediation, are reported to Global Quality & Risk Management (GQ&RM) leadership. The objectives of the ARL role are to:

- assist GQ&RM leadership in the monitoring of member firms' quality and risk activities;
- work with GQ&RM leadership and the International Office of General Counsel (IOGC) when significant brand and legal risk issues occur to assist in ensuring that matters are properly handled; and
- assist in monitoring the effectiveness of member firm remediation of significant issues, including identification of the root cause(s) of serious quality incidents.

8 Statement by the Board of KPMG Fakhro on the effectiveness of quality controls and independence

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

The Board of KPMG Fakhro has considered:

- the design and operation of the quality control systems as described in this report;
- the findings from the various compliance programs operated by our firm (including the KPMG International Review Programs as described in section 4.8.1 and our local compliance monitoring programs); and
- findings from regulatory inspections and subsequent follow up and/or remedial actions.

Taking all of this evidence together, the Board of KPMG Fakhro confirms with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 30 September 2019.

Further, the Board of KPMG Fakhro confirms that an internal review of independence compliance within our firm has been conducted in the year to 30 September 2019.

Bahrain, 26 October 2019






Board of KPMG Fakhro

A Appendices

A.1 Key legal entities and areas of operation

Name of Entity	Legal Structure	Regulatory Status	Nature of Business	Area of Operation
KPMG Fakhro	Partnership Firm	Regulated by the Ministry of Industry and Commerce, Kingdom of Bahrain	Audit	Kingdom of Bahrain
KPMG Advisory WLL	Limited Liability Company (WLL)	Regulated by the Ministry of Industry and Commerce, Kingdom of Bahrain	Management and Business Administration Consultants.	Kingdom of Bahrain
KPMG IT Advisory WLL	Branch of KPMG Advisory WLL	Regulated by the Ministry of Industry and Commerce, Kingdom of Bahrain	Advisory	Kingdom of Bahrain
KPMG Recruitment WLL	Limited Liability Company (WLL)	Regulated by the Ministry of Industry and Commerce, Kingdom of Bahrain	Consultants on Employment and providing Consultancy in Development of Human Resources	Kingdom of Bahrain
KPMG Major Projects Advisory WLL	Branch of KPMG Advisory WLL	Regulated by the Ministry of Industry and Commerce, Kingdom of Bahrain	Consultative services on Implementation of Projects	Kingdom of Bahrain
KPMG For Economic Studies WLL	Branch of KPMG Advisory WLL	Regulated by the Ministry of Industry and Commerce, Kingdom of Bahrain	Conducting economic, marketing & strategy studies	Kingdom of Bahrain
KPMG Accounts Advisory WLL	Limited Liability Company (WLL)	Regulated by the Ministry of Industry and Commerce, Kingdom of Bahrain	Accounts Advisory Services	Kingdom of Bahrain
KPMG Outsourcing Services WLL	Limited Liability Company (WLL)	Regulated by the Ministry of Industry and Commerce, Kingdom of Bahrain	Providing Advise & Information to Business	Kingdom of Bahrain

A.2 Details of those charged with governance at KPMG Fakhro

<p>Jamal Fakhro Senior partner & Managing Partner</p>  <p>Jamal Fakhro is the Senior Partner & Managing Partner of the firm. He has been a partner with KPMG for 32 years and a board member for the same period.</p>	<p>C N Ramachandran Sr. Partner & Head of Advisory</p>  <p>C N Ramachandran is a Senior Partner & Head of Advisory function. He has been a partner with KPMG for 20 years and a board member for the same period.</p>	<p>Jaffar AlQubaiti Sr. Partner & Head of Audit</p>  <p>Jaffar Al Qubaiti is a Senior Partner & Head of Audit Function. He has been a partner with KPMG for 14 years and a board member for the same period.</p>	<p>Jalil Al Aali Sr. Partner & Risk Management Partner</p>  <p>Jalil Al Aali is a Senior Partner. He has been a partner with KPMG for 13 years and a board member for the same period.</p>	<p>Jeyapriya Partiban Sr. Partner & Head of Risk Consulting</p>  <p>Jeyapriya Partiban is a Senior Partner. She has been a partner with KPMG for 12 years and a board member for three years.</p>
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A.3 Public Interest Entities

The list of public interest entity audit clients for which KPMG, Bahrain has signed an audit opinion in the year ended 30 September 2019 is given below. The definition of public interest for this purpose is that where a public interest entity is an issuer whose transferable securities are admitted to trading on a regulated market and the audit of which is a statutory audit within the meaning of name of applicable regulation.

Entity Name	Country	Also In	US Sec	Exchange(s)	Ticker(s)
Al Salam Bank Bahrain BSC	Bahrain	United Arab Emirates	No	BHB / DFM	SALAM / SALAMBAHUH
Al-Matahin (Bahrain Flour Mills Co)	Bahrain		No	BHB	BFM
Aluminum Bahrain BSC (ALBA)	Bahrain	United Kingdom	No	BHB / LSE	ALBH / ALBH
APM Terminals Bahrain BSC	Bahrain		No	BHB	APMTB
Arab Insurance Group BSC	Bahrain	United Arab Emirates	No	BHB / DFM	ARIG / ARIG
Bahrain Commercial Facilities Company BSC	Bahrain		No	BHB	BCFC
Bahrain Duty Free Shop Complex BSC	Bahrain		No	BHB	DUTYF
Bahrain Islamic Bank	Bahrain		No	BHB	BISB
Bahrain National Holding Company	Bahrain		No	BHB	BNH
Bahrain Ship Repairing & Engineering Co BSC	Bahrain		No	BHB	BASREC
Bahrain Telecommunications Company BSC	Bahrain	Ireland	No	BHB / ISE	BATELCO / BATELCO
ESTERAD INVESTMENT COMPANY BSC (fka: National Import and Export Co BSC)	Bahrain		No	BHB	ESTERAD
GFH Financial Group BSC (fka: Gulf Finance House BSC)	Bahrain	Kuwait / United Arab Emirates	No	BHB / DFM / Kuwait	GFH / GFH / GFH
Gulf Hotels Group BSC	Bahrain		No	BHB	BHOTEL
Khaleej Equity Fund	Bahrain		No	BHB	KLJ.EQ.FUND
Khaleeji Commercial Bank BSC	Bahrain		No	BHB	KHCB
Nass Corporation BSC	Bahrain		No	BHB	NASS
National Bank of Bahrain BSC	Bahrain		No	BHB	NBB
SICO BSC (c) (fka: Securities and Investment Company BSC)	Bahrain		No	BHB	SICO C
SICO Fixed Income Fund	Bahrain		No	BHB	SICO.FIF
SICO Gulf Equity Fund	Bahrain		No	BHB	SICO.GEF
SICO Kingdom Equity Fund	Bahrain		No	BHB	SICO.KEF
United Paper Industries BSC (c)	Bahrain		No	BHB	UPI
Arab Petroleum Investments Corporation	Saudi Arabia	Ireland / Taiwan	No	ISE / TPEx	APICOR

A.4 The KPMG values

KPMG people work together to deliver value to clients. We believe strongly in a common set of shared values which guide our behavior when dealing with both clients and each other:	
We lead by example:	At all levels we act in a way that exemplifies what we expect of each other and our clients.
We 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 candor.
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.



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