



# Transparency Report 2017

**KPMG Accountants B.V.**

**December 2017**



## 1. Message from the local Senior Partner

The European Eighth Company Law Directive (Directive 2006/43/EC of the European Parliament and of the Council – and the implementation hereof (hereafter also the “Directive”) requires that statutory auditors and audit firms that carry out statutory audits of public interest entities in the European Union publish annual transparency reports on their websites, within three months of the end of each financial year.

This is the transparency report for KPMG Accountants B.V., established in Curaçao (hereafter also “KPMG” or the “firm”) as meant in Article 40 of the Directive. The objective of this transparency report concerning the KPMG 2016-2017 financial year, which ended on 30 September 2017, is to provide the reader with general insight into the design of KPMG Accountants B.V.’s system of quality management and the way in which this has operated during the past financial year. Appendix 2 contains a summary of public interest entities in the European Union of which KPMG Accountants B.V. conducted a statutory audit during the past financial year.

A handwritten signature in blue ink, appearing to read "R.A. Begina". The signature is fluid and cursive, with a large, stylized "A" and "R".

Curacao, December 2017  
KPMG Accountants B.V.  
Mr. R.A. Begina

Throughout this document, “KPMG” (“we,” “our,” and “us”) refers to KPMG.

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## 1 Who we are

### 1.1 Our business

KPMG Dutch Caribbean & Suriname ("KPMG DC") is a group of professional services firms that delivers Audit and Advisory services. We operate out of 4 offices across Aruba, Bonaire, Sint Maarten and Suriname and had an average of 97 personnel in the year to 30 September 2017 (2016: 100).

Our audit services in the Dutch Caribbean & Suriname are delivered through KPMG Accountants B.V. in Curaçao and KPMG Accountants N.V. in Aruba. Full details of the services offered by KPMG DC can be found on our website <https://home.kpmg.com/bq/en/home/misc/office-locations-dutch-caribbean-suriname.html>

### 1.2 Our strategy

Our strategy is set by the KPMG DC Board and has remained consistent for some time. It has determined that our overall ambition remains to be the number one multi-disciplinary professional services firm in Dutch Caribbean & Suriname.

## 2 Our structure and governance

### 2.1 Legal structure

#### Legal structure and ownership

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

KPMG DC 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. KPMG International's structure is designed to support consistency of service quality and adherence to agreed values wherever its member firms operate.

KPMG Accountants B.V. is a limited liability company (besloten vennootschap) established on Curaçao. It is governed by Curaçao law. It is wholly owned by KPMG Holding C.V., a limited partnership under Curaçao law.

The managing partner (beherend vennoot) of KPMG Holding C.V. is KPMG Beheer N.V., a limited liability company (naamloze vennootschap) under Curaçao law. KPMG Beheer N.V. provides in-house services to KPMG Accountants B.V. and its fellow subsidiaries, including services in the area of IT and Human Resources, among other things. The members of the daily management of KPMG Holding C.V. and its subsidiaries are: Mr. Lindomar Scoop (Audit) Mr Sanjay Agarwal (Audit), Mr. Patrick Newton (Advisory), Mr. Raymond Begina (Advisory and Chairman) and Mr. Henk de Zeeuw (Corporate Finance). During the financial year 2016-2017 the management was supported by Mrs. Carlanne Emerenciana (Chief Financial Officer).

KPMG Accountants B.V. has branch offices on Bonaire and Sint Maarten, from which audits are also conducted. The Sint Maarten and Bonaire office do not have any responsibility for issuing audit reports in relation to relevant audit clients according to Article 45(1) of the Directive.

KPMG Accountants B.V. provides services in the accountancy field. Specialized services in the Advisory field are provided by a number of Advisory entities that are its fellow subsidiaries.

The authorization held by the partners and duly authorized directors of KPMG DC implies, among other things, that they are competent to issue auditor's reports and other statements concerning the results of auditing work.

KPMG DC is a sublicensee of KPMG in The Netherlands since May 2012. The sublicense agreement arranges the responsibilities between both parties.

A list of key entities, together with details of their legal structure, the nature of their business and area of operation is set out in Appendix A.

### 2.2 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.

## 2.3 Responsibilities and obligations of member firms

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

## 2.4 Governance structure

KPMG DC applies high standards of corporate governance.

### The Board

The Senior Partner chairs the Board 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, Raymond A. Begina, was appointed in July 2015 following a competitive election campaign and confidential vote of the members.

The principal governance and oversight body of KPMG is the Dutch Caribbean & Suriname Daily 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 Dutch Caribbean & Suriname Supervisory Board consists of 5 members, including the Senior Partner, being the Chief Executive Officer, RMP, and 3 additional members. The constitution of the Board is as determined by the Partners. The Board meets from time to time to undertake certain statutory duties for KPMG DC (including approving the annual accounts and the transparency report). The Board met 7 times in the year to September 30, 2017.

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

In addition, there are 3 main bodies that deal with key aspects of governance within the group that report into the Board. These are:

- The Daily Board
- The Quality & Risk Management Committee
- The Ethics Committee

Details about the role and responsibilities and composition of each of these key bodies are set out below.

### **The Daily Board**

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

The Daily Board consist the Senior Partner, the Head of Audit, Head of Advisory and CFO. The Daily Board aims to meet at least weekly and during the year to 30 September 2017 it met, since its installment since March 31, 2017 on a regular basis in accordance with their meeting schedule either face-to face or via video link/conference call supplemented by frequent additional telephone calls and ad hoc meetings.

### **The Quality & Risk Management Committee**

The principal role of the Quality & Risk Management Committee is to provide oversight of quality and risk management matters across the firm. As part of its role it oversees that a culture of quality and integrity is maintained within the firm and, where required, it will act as a sounding board to the Risk Management Partner on the policies and procedures relating to professional risk management, ethics and independence, quality control and compliance. The Committee also considers the impact of the key findings from our compliance quality monitoring programs and the adequacy of proposed remedial actions.

During the year ended 30 September 2017, The Quality & Risk Management Committee consisted of 4 members being Risk Management Partner, Senior Risk Manager and Ethics & Independence Partner. The Quality & Risk Management Committee met 5 times in the year to 30 September 2017.

### **The Ethics Committee**

Our Ethics Committee provide oversight of policies and procedures in relation to ethical standards and of breaches of their requirements in relation to personal financial independence, general trends in disciplinary, grievance, human resource appeals and whistle-blowing processes to consider what these might imply for members'/employees' underlying ethical behavior; and other ethical issues facing KPMG DC.

During the year ended 30 September 2017, the Ethics Committee met 4 times. As at 30 September 2017, the Committee consisted of members, being the Ethics & Independence Partner and the Senior Risk Manager.

This structure has been established in order to ensure that decisions are taken by those who have the appropriate training and expertise.

### 3 System of quality control

#### Overview

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

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

KPMG DC implements KPMG International policies and procedures and adopts additional policies and procedures that are designed to address rules and standards issued by applicable regulators as well as applicable legal and regulatory requirements.<sup>1</sup>

Amendments to risk and quality policies, including ethics and independence policies, are included in quality and risk management alerts and are communicated by email. KPMG DC is required to implement changes specified in the email alerts and this is checked through internal monitoring.

Quality control and risk management are the responsibility of all KPMG DC personnel. 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 KPMG personnel wherever they are based.

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

#### Audit quality framework

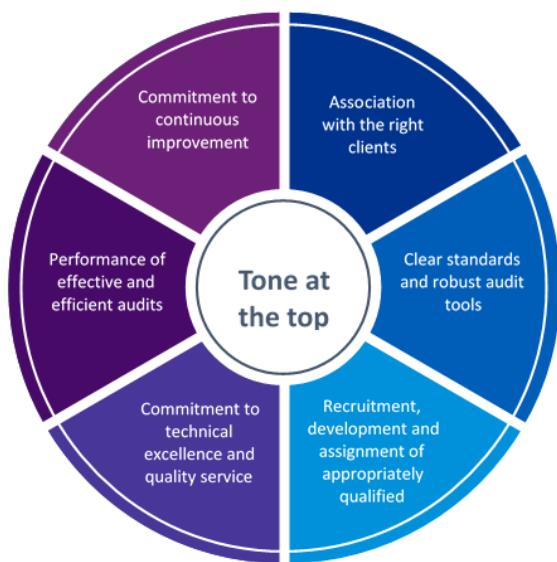
At KPMG DC audit quality is not just about reaching the right opinion, but how that opinion is reached. It is about the processes, thought and integrity behind the auditors' report. The outcome of a quality audit is the delivery of an appropriate and independent opinion in compliance with relevant professional 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 developed the Audit Quality Framework. This framework uses a common language that is adopted by all KPMG member firms, including KPMG DC to describe what the KPMG network believes drives audit quality, and to highlight how every audit professional at each KPMG member firm contributes to the delivery of audit quality. 'Tone at the top' sits at the core of the Audit Quality Framework's seven drivers of audit quality and helps ensure that the right

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<sup>1</sup> All the references to 'KPMG policies' or 'our policies' refer to the KPMG International policies and to the additional KPMG DC&S policies together.

behaviors permeate across the entire KPMG network. All of the other drivers are presented within a virtuous circle because each driver is intended to reinforce the others. Each of the seven drivers is described in more detail in the following sections of this report.



### 3.1 Tone at the top

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

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

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

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

We communicate our Values clearly to our people and embed them into our people processes — induction, performance development and reward.

Our Values are set out in Appendix D.

### Code of Conduct

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

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

- comply with all applicable laws, regulations and KPMG DC policies
- report any illegal acts, whether committed by KPMG DC personnel, clients or other third parties
- report breaches of KPMG DC policies
- uphold the highest levels of client confidentiality

- not offer, promise, make, solicit or accept bribes (whether directly or through an intermediary).

All KPMG DC personnel are required to:

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

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

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

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

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

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

KPMG DC 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 DC.

## **Senior Partner**

In accordance with the principles in ISQC 1, our Senior Partner Raymond Begina has assumed ultimate responsibility for KPMG DC system of quality control. Details of some of the measures that he and the rest of the Board have taken to ensure that a culture of quality prevails within KPMG DC are set out in this Report.

## **Risk Management Partner**

Operational responsibility for the system of quality control, risk management and compliance in KPMG DC 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 the firm. The RMP has a seat on the Risk Committee and has a direct reporting line to the Senior Partner. The RMP consults with the appointed Area Quality and Risk Management Leaders.

The fact that the role is a Risk Committee 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 partners and professionals in each of the functions.

## **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 DC and reports on ethics and independence issues to the RMP - if he is not also the RMP or to the Senior Partner or member firm leadership as defined by the KPMG member firm.

## **The Audit and Advisory functions – Function Heads**

The two heads of the client service functions (Audit 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.

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

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

## **Audit Leadership Team**

The Audit Leadership Team of KPMG DC met several times during the year 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 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 KPMG International's Global Audit groups for consideration and potential development of solutions by the Global Services Centre (GSC) and the International Standards Group (ISG).

## **3.2 Association with the right clients**

### **3.2.1 Acceptance and continuance of clients and engagements**

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

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

### **3.2.2 Client and engagement acceptance process**

#### ***Client evaluation***

KPMG DC undertakes an evaluation of every prospective client.

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

A second partner, as well as the evaluating partner, approves each prospective client evaluation. Where the client is considered to be 'high risk' the Risk Management Partner or experienced delegate is involved in approving the evaluation.

#### ***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) as well as factors specific to the type of engagement. For audit services, these include the competence of the client's financial management team and the skills and experience of personnel assigned to staff the engagement. The evaluation is made in consultation with other senior KPMG personnel and includes review by quality and risk management leadership as required.

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

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

We follow specific procedures (detailed further in section 4.3.2.7) to identify and evaluate threats to independence for prospective audit clients that are public interest entities.

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

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

KPMG DC client/engagement acceptances and continuations are also being assessed and approved by the Risk Management of KPMG in the Netherlands. This applies for both the Audit as Advisory practice.

### **3.2.3 Continuance process**

KPMG DC 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). For the engagements that require according to the KPMG rules and guidelines an Engagement Quality Reviewing Partner these are assigned by the RMP.

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

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

### **3.2.4 Withdrawal**

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

### **3.2.5 Client portfolio management**

Our leadership appoints engagement partners who have the appropriate competence, capabilities, time and authority to perform the role for each engagement. Each partner's client portfolio is regularly reviewed to ensure that they have sufficient time to manage the portfolio and to ensure that the risks are being appropriately managed.

## **3.3 Clear standards and robust audit tools**

All KPMG DC professionals are expected to adhere to KPMG International and KPMG DC policies and procedures, including independence policies, and are provided with a range of tools and guidance to support them in meeting these expectations. The policies and procedures set for audit engagements incorporate the relevant requirements of

accounting, auditing, ethical and quality control standards, and other relevant laws and regulations within our jurisdiction.

### 3.3.1 Audit methodology and tools

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

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

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

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

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

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

The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the Global Q&RM Manual that is applicable to all KPMG member firms, functions and personnel **Independence, integrity, ethics and objectivity**

#### 3.3.2.1 Overview

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

These policies are supplemented by other processes to ensure compliance with the standards issued by the IFAC Code of Ethics and those required by other applicable regulatory bodies (which may include those of a foreign jurisdiction where those requirements apply extra-territorially). These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services.

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

KPMG DC has a designated Ethics and Independence Partner who has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG DC. The Ethics and Independence Partner is assisted by the Senior Manager Risk & Compliance (EIP Delegate). The EIP and delegate are both members of the Risk Committee. Policies and procedures related to EI matters rolled out are being discussed during the EI meetings and impact of a failure or non-compliance to policies are subject to sanctions as per the Disciplinary Policy of the member firm.

Amendments to KPMG International's ethics and independence policies in the course of the year are included in regular quality and risk communications. Member firms are required to implement changes as specified in the email alerts, and this is checked through the internal monitoring programs described on our Internal Risk Intranet page

KPMG personnel are required to consult with the EIP on certain matters as defined in the Global Q&RM Manual.

### **3.3.2.2 *Personal financial independence***

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

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

In common with other KPMG member firms, we 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.

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

In 2017 over 10 of KPMG personnel were subject to these audits (this included approximately 40% of our partners).

### **3.3.2.3 *Employment relationships***

Any 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 DC are prohibited from joining an audit client in certain roles unless they have disassociated from KPMG DC financially and have ceased participating in KPMG business and professional activities.

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

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

#### ***3.3.2.4 Firm financial independence***

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

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

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

#### ***3.3.2.5 Business relationships/suppliers***

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

A relationship involving a third-party service provider- that a member firm will use to assist with client engagements or other purposes – is also required to be evaluated to determine whether the third party has the competence to provide the relevant services. The individuals providing the services are required to confirm they understand and will comply with applicable ethics and independence requirements, and they are also required to complete ethics and independence training in certain cases.

#### ***3.3.2.6 Independence clearance process***

KPMG DC 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.

#### ***3.3.2.7 Independence training and confirmations***

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

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

In addition, all staff of KPMG DC are required to undertake anti-bribery training.

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

### **3.3.2.8 *Non-audit services***

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

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

In addition 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. Using Sentinel™, lead audit engagement partners are required to: maintain group structures for their publicly traded and certain other audit clients as well as their affiliates, and identify and evaluate any independence threats that may arise from the provision of a proposed non-audit service and the safeguards available to address those threats. Sentinel™ enables lead audit engagement partners, for those entities for which group structures are maintained, to review and approve, or deny, any proposed service for those entities worldwide.

### **3.3.2.9 *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. In particular, KPMG International's policies require that in the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10 percent of the total fees received by a particular member firm for two consecutive years:

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

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

### **3.3.2.10 *Conflicts of interest***

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

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

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

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

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

### **3.3.2.11 *Breaches of independence policy***

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

KPMG DC has a documented disciplinary policy in relation to breaches of independence policies. The disciplinary policy is communicated to all professionals and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations. Our Risk Committee oversees policies and procedures in relation to ethical matters and breaches of requirements. Any breaches of auditor independence regulations are reported to those charged with governance at the audit client, on the basis agreed with them.

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

### **3.3.2.12 *Compliance with laws, regulations, and anti-bribery and corruption***

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

We prohibit involvement in any type of bribery — even if such conduct is legal or permitted under applicable 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 can be found on the [anti-bribery and corruption site](#).

### **3.3.2.13 *Partner and firm rotation***

#### **Partner rotation**

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

KPMG DC partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG International policy. These requirements place limits on the number of consecutive years that partners in certain roles may provide statutory audit services to a client, followed by a '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 or in any way influence the outcome of the audit.

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

## **3.4 *Recruitment, development and assignment of appropriately qualified personnel***

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

### **3.4.1 *Recruitment***

KPMG DC strives to be an employer of choice by creating an environment where our people can fulfill their potential and feel proud and motivated to give their best.

KPMG DC 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 an ACT Assessment.

KPMG DC recruited over 6 new graduates in the year ended 30 September 2017 (2016: approximately 10).

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

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

### **3.4.2 Personal development**

It is important that all our professionals have the necessary business and leadership skills in addition to technical skills to be able to perform quality work (see section 4.5.1).

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

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

### **3.4.3 Inclusion and Diversity programs**

KPMG DC 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.

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

For more about Inclusion & Diversity at KPMG International and its member firms read [here](#).

### **3.4.4 Performance & Reward**

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

KPMG DC professionals, including partners, have annual goal-setting and performance reviews. Each professional is evaluated on their agreed-upon goals, demonstration of our global behaviors, technical capabilities and market knowledge. A culture of continuous improvement is encouraged to drive feedback, both positive and developmental, from both junior and senior colleagues, as well as peers. Feedback gathered forms an integral part of performance reviews.

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

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

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

### **Reward**

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

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

### **Promotion**

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

### **Partner admissions**

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

### **3.4.5 Assignment of professionals**

KPMG DC has procedures in place to assign both the 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 or other KPMG member firms.

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

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

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

Annually KPMG DC invites all its people to participate in an independent Global People Survey which measures their overall level of engagement with the firm. The GPS provides an overall Employee Engagement Index (EEI) and Performance Excellence Index (PEI) as well as insights into areas driving engagement which may be strengths or opportunities. The survey also identifies opportunities to strengthen those levels of engagement. Results can be analyzed by functional or geographic area, grade, role, gender to provide additional insight. Additional insight is provided on how we are faring on categories known to impact employee engagement.

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

KPMG DC participates in the GPS, monitors results and takes appropriate actions to communicate and respond to the findings of the survey. This includes monitoring GPS results including those related to audit quality and tone at the top, referred to in the GPS as 'leadership behavior', and employee engagement through the EEI, and employee performance through PEI.

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

### **3.5 Commitment to technical excellence and quality service delivery**

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

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

### **3.5.1 Lifetime learning strategy**

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

#### **Formal training**

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

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

#### **Licensing**

All KPMG DC professionals are required to comply with applicable professional license rules and satisfy the Continuing Professional Development (CPD) requirements in the jurisdiction where they practice. Policies and procedures are designed to facilitate compliance with license 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 and Dutch GAAP.

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

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

### **3.5.3 Access to specialist networks**

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

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

### 3.5.4 Consultation

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

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

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

#### Global Services Centre (GSC)

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

#### International Standards Group (ISG)

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

Further details about the GSC and ISG and its activities are available in the KPMG International Transparency Report [\(link to be provided\)](#).

### 3.5.5 Developing business understanding and industry knowledge

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

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

## 3.6 Performance of effective and efficient audits

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

### 3.6.1 KPMG Audit Process

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

- timely partner and manager involvement
- timely access to the right knowledge – specialists, accredited individuals and relevant industry expertise
- critical assessment of audit evidence— exercise of professional judgment and professional skepticism
- ongoing mentoring, supervision, and review
- appropriately supported and documented conclusions
- robust challenge and review, including EQC review.

#### 3.6.1.1 *Timely partner and manager involvement*

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

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

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

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

#### 3.6.1.2 *Critical assessment of audit evidence with emphasis on professional skepticism*

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

Professional skepticism involves a questioning mind and alertness to contradictions or inconsistencies in audit evidence. Professional skepticism features prominently throughout auditing standards and receives significant focus from regulators.

The KPMG Audit Quality Framework emphasizes the importance of maintaining an attitude of professional skepticism throughout the audit.

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

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

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

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



### 3.6.1.3 Ongoing mentoring, supervision and review

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

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

Ongoing mentoring, coaching and supervision during an audit involves:

- engagement partner participation in planning discussions
- tracking the progress of the audit engagement
- considering the competence and capabilities of the individual members of the engagement team, including whether they have sufficient time to carry out their

work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement

- helping engagement team members address any significant matters that arise during the audit and modifying the planned approach appropriately
- identifying matters for consultation with more experienced team members during the engagement.

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

#### ***3.6.1.4 Appropriately supported and documented conclusions***

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

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

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

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

- the nature, timing, and extent of audit procedures performed to comply with the ISAs, KAM and other requirements applicable legal and regulatory requirements
- the results of the procedures performed, and the audit evidence obtained
- significant findings and issues arising during the audit, and actions taken to address them (including additional audit evidence obtained)
- the basis for the conclusions reached, and significant professional judgments made in reaching those conclusions.

#### ***3.6.1.5 Appropriate involvement of the EQC Reviewer***

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

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

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

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

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

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

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

#### **3.6.1.6 *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).

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

#### **3.6.1.7 *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 DC 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.

Communications with audit committees include:

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

We ensure such communications meet the requirements of professional standards.

#### **3.6.1.8 Focus on effectiveness of group audits**

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

Consistent methodology and tools are used across the KPMG network. Lead audit engagement partners are provided with information on component auditors within the KPMG network to help them evaluate their competence and capabilities. In addition, for PCAOB engagements, the results of relevant inspections related to the KPMG component member firms are made available to the lead audit engagement partner.

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

#### **3.6.2 Client confidentiality, information security, and data privacy**

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

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

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

### **3.7 Commitment to continuous improvement**

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

programs include the Quality Performance Review (QPR) program, the Risk Compliance Program (RCP) and the Global Compliance Review (GCR) program.

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

### **3.7.1 Internal monitoring and compliance programs**

Our monitoring programs evaluate both:

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

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

Two KPMG International developed and administered inspection programs are conducted annually across the Audit, Tax, and Advisory functions: QPR and RCP.

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

#### ***Audit Quality Performance Reviews (QPRs)***

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

##### *Risk-based approach*

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

KPMG DC conducts the annual QPR program in accordance with KPMG International QPR instructions. The reviews are performed at KPMG DC 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 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:

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

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

#### ***Global Compliance Review (GCR) program***

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

The GCR provides independent oversight of our assessment of our system of quality control, including:

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

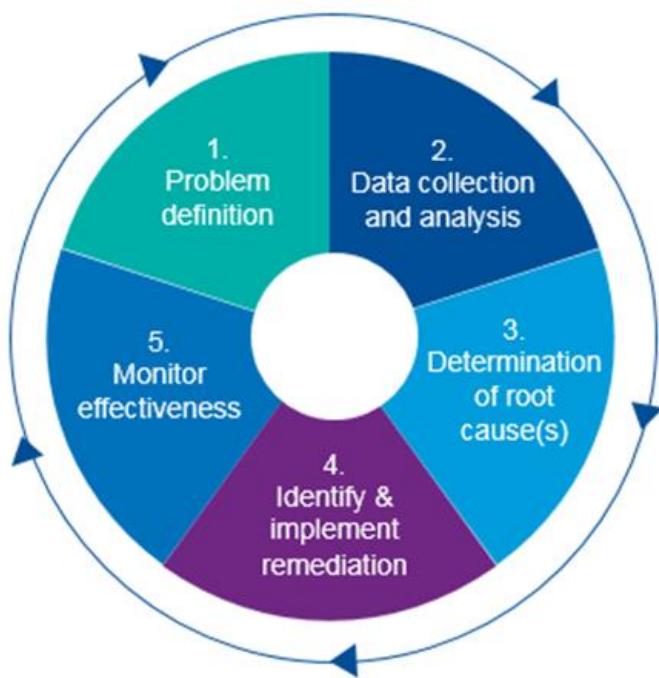
The GCR team performing the reviews is independent of KPMG DC, objective and knowledgeable of Global Quality and Risk Management policies.

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

### 3.7.1.1 *Root Cause Analysis (RCA)*

KPMG DC 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.

The Global RCA 5 Step Principles are as follows:



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

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

### 3.7.2 **Recommendations for improvements**

At a global level, through the GAQIC and the GQRMSG, KPMG International reviews the results of the quality monitoring programs, analyzes member firm root causes and action plans and develops additional global actions as required. The GAQIC considers network-wide issues arising from internal quality control reviews and external inspections, monitors progress being made in addressing audit quality issues and

makes recommendations to the Global Audit Steering Group (GASG) on audit quality issues.

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

### **3.7.3 External feedback and dialogue**

#### **3.7.3.1 *Regulators***

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 at a network level.

The AFM (the Dutch Authority for Financial Markets) did approve registration in Fiscal Year 2010 of KPMG Accountants B.V. as a third country auditor, based on interalais summary information on the quality control system. The NIVRA (now NBA) performed a quality review in the period of November 30, 2007 to December 3, 2007. The scope of this review is comprised of the organizational set-up of the office, including the quality control system and audit file reviews. The results were good. Their inspection has not identified any issues that have a material impact on the conduct of our statutory audit business.

#### **3.7.3.2 *Client feedback***

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

#### **3.7.3.3 *Monitoring of complaints***

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

## 4 Financial information

This report contains the total fee income generated from clients with securities traded in the European Union. All such fee income of the audit firm relates to fees for statutory audits. The financial year of KPMG Accountants B.V. runs from 1 October to 30 September. The total fee income of those components of the network of KPMG Accountants B.V. that can be understood to relate to services rendered to clients with securities traded in the European Union for the 2016/2017 financial year amounted to USD120.350,19 the breakdown of which is as follows, in USD:

Fee income from clients with securities traded in the European Union of

KPMG Accountants B.V.	120.350,19
Statutory audits	120.350,19
Other services	nil

Fee income from clients with securities traded in the European Union

Advisory	nil
Accounting Advisory Services	nil
Total	120.350,19

## 5 Partner remuneration

### Partners' profit share

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

There are two elements to partner remuneration:

- base component,
- profit related performance component – rewards performance in the year by each partner against individual objectives previously agreed and the overall profits of their part of the KPMG DC and the KPMG DC as a whole. Our policies for this variable element of partner remuneration take into account a number of factors including quality of work, excellence in client service, growth in revenue and profitability, leadership and living the Values of the KPMG DC. Audit partners are not permitted to have objectives related to, or receive any remuneration from, selling non-audit services to their audit clients. In addition, a part of their performance-related component is based on an assessment of their ability to deliver audit quality.

## 6 **Network arrangements**

### 6.1 **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.

### 6.2 **Responsibilities and obligations of member firms**

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

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

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

### 6.3 **Professional Indemnity Insurance**

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

### 6.4 **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 58 member firms that are "members" of KPMG International as a matter of Swiss law. Sublicensees are generally indirectly represented by 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 four other senior partners of member firms. The list of Global Board members, as at 1 October 2017 is available in the International Annual 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 1 October 2017 is available in the International Annual Review (*link to be provided*).

## Global Steering Groups

The Global Steering Groups 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 Global Steering Groups act under the oversight of the Global Management Team. The roles of the Global Audit Steering Group and the Global Quality & Risk Management Steering Group are detailed in Appendix 2 to the KPMG International Transparency Report (*link to be provided*).

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 or executive 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 Appendix 2 to the KPMG International Transparency Report (*link to be provided*).

## 6.5 Area Quality & Risk Management Leaders

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

- assess the effectiveness of a member firm's quality and risk management efforts to identify and mitigate significant risks to the member firm and network, and actively monitor alignment with global quality and risk management strategies and priorities
- share leading best practices in quality and risk management
- report to Global Head of Quality, Risk and Regulatory.

**7**

## **Statement by the Board of KPMG 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 DC 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 has considered:

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

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

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

A handwritten signature in blue ink, appearing to read 'Raymond A. Begina'. The signature is enclosed in a blue oval.

Curacao, December 2017

Raymond A. Begina

Chairman

## A Appendices

Name of Entity	Legal Structure	Regulatory Status	Nature of Business	Area of Operation
KPMG Accountants B.V.	Limited liability company	Third country auditor	Audit	Curaçao, Sint Maarten and Bonaire
KPMG Accountants NV	Limited liability company		Audit	Aruba
KPMG Assurance Services N.V.	Limited liability company		Audit	Suriname

### Key legal entities and areas of operation

### Details of those charged with governance at KPMG Accountants BV



**Lindomar Scoop**  
**Partner**  
He has been a partner within KPMG twelve years and has served on our board for five years.



**Sanjay Agarwal**  
**Partner**  
Sanjay Agarwal is Audit Partner since 1997.



**Henk de Zeeuw**  
**Partner**  
Henk de Zeeuw is a Registered accountant since 1992.



**Patrick Newton**  
**Partner**  
Patrick Newton has been a director of an affiliate of KPMG Accountants B.V. since 1988



**Raymond Begina**  
**Partner**  
Raymond Begina is a managing director of an affiliate of KPMG Accountants B.V. and Senior Partner since July 15, 2015.

## Public Interest Entities

The list of public interest entity audit clients for which KPMG has signed an audit opinion in the year ended 30 September 2017 is given below. The definition of public interest for this purpose is 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.

List of PIEs audited by the member firm

- Hapoalim
- The Forden Fund

## KPMG's Values

<p>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:</p>	
<b>We lead by example:</b>	At all levels we act in a way that exemplifies what we expect of each other and our clients.
<b>We work together:</b>	We bring out the best in each other and create strong and successful working relationships.
<b>We respect the individual:</b>	We respect people for who they are and for their knowledge, skills, and experience as individuals and team members.
<b>We seek the facts and provide insight:</b>	By challenging assumptions and pursuing facts, we strengthen our reputation as trusted and objective business advisers.
<b>We are open and honest in our communication:</b>	We share information, insight, and advice frequently and constructively and manage tough situations with courage and candor.
<b>We are committed to our communities:</b>	We act as responsible corporate citizens by broadening our skills, experience, and perspectives through work in our communities and protecting the environment.
<b>Above all, we act with INTEGRITY:</b>	We are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.



[kpmg.com/socialmedia](http://kpmg.com/socialmedia)

[kpmg.com/app](http://kpmg.com/app)

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