



Audit Quality Report 2022

Our relentless focus on quality



March 2023
Hong Kong (SAR)



Audit quality

is fundamental to maintaining public trust and is the key measure on which our professional reputation stands.

We define “audit quality” as the outcome when audits are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality management.

All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion



Contents

Messages to stakeholders	-----	3
2022 audit quality actions	-----	6
Governance and leadership	-----	7
Living our culture and Values	-----	8
Associating with the right clients and engagements	-----	9
Being independent, objective and ethical	-----	10
Embracing digital technology	-----	12
Applying expertise and knowledge	-----	17
Performing quality engagements	-----	18
Communicating effectively	-----	22
Nurturing diverse skilled teams	-----	23
Monitoring and remediation	-----	27
Environmental, social and governance	-----	29
In conclusion	-----	31

Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion

Together. For Better.

Driving quality across everything we do



Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion

The success of KPMG will always be linked to the quality of the services we provide to those that rely on us. Since our establishment in Hong Kong in 1945, quality has helped us become a trusted advisor to so many businesses and stakeholders across the world and the measure of our success will always be determined by the level of quality we provide — no matter how the world turns.

Over the past few years, Hong Kong has witnessed regulatory and professional reforms across the financial reporting ecosystem, and in 2022 the Financial Reporting Council (FRC) transformed to become the independent regulatory body for the accounting profession and renamed the Accounting and Financial Reporting Council (AFRC). These reforms will enhance investors' confidence in financial reporting, maintain and reinforce Hong Kong's status as an international financial centre and business hub, and also facilitate the long-term development of the accounting profession. As a key player in the industry, KPMG is committed to constructively working with AFRC and other stakeholders to achieve these objectives.

Accountability for audit quality starts at the top. I chair the Firm's Audit Management Board, which oversees the operation of our audit practice and is ultimately responsible for the audit quality of the Firm. Providing high-quality services takes hard work, dedication and focus, as well as a continued investment in the people and technology that make it happen.

We are making sure our people — who respect the KPMG Code of Conduct, live our Values and care about doing the right thing — are with us every step of the way. These past few years have been challenging and our people's resilience and deep commitment to providing services of the highest quality to clients and stakeholders have been inspiring. And we are helping them expand their careers, supporting their well-being, and building a safe and inclusive workplace. Their individual success is key to our collective growth.

That is why we are transforming the audit experience for both our clients and our teams by investing in KPMG Clara — our cloud-based audit methodology and workflows platform. KPMG Clara delivers smarter, data-driven outcomes and deeper insights by blending some of the best technology with the best of our people. This leading technology helps our audit professionals deliver high-quality audits in a consistent way.

We have also strengthened the consistency and robustness of our system of quality management across our global organisation to comply with the new International Standard on Quality Management (ISQM 1). We believe consistent execution and adherence to these requirements and the intent of the professional standards behind them will help drive higher quality across our organisation for clients, large and small, no matter where they do business.

And as stakeholders demand more accountability on environmental, social and governance (ESG) issues, and regulators begin to require disclosures across new metrics, we are making investments to make ESG the watermark running through KPMG.

Auditing has been a fundamental part of our business for generations and, as the world changes dramatically, our commitment to ensuring the successful working of the capital markets through the robust quality of our audits has stayed constant. It is why we have been successful for nearly eighty years, and the measure of our quality is the reason we expect to be here for the future.

We will continue to work hard to provide you with quality and earn your trust. Thank you for trusting KPMG.

Andrew Weir
Senior Partner



We stride forward in audit digitalisation



KPMG has a simple but bold ambition – to be the most trusted and trustworthy professional services organisation. Nowadays, technology continues to evolve, shape and transform how businesses function and people interact, and we are working to shape this change, by integrating new technology into how we perform audits, identifying insights with every innovation – that is what we call the digitalisation of audit.

Our vision for the digitalisation of audit is to be recognised as the most tech-enhanced Audit Practice. We are making a significant step forward in the way we automate our work and use internal and external data to focus on risks and create insights from our audits. To achieve this goal, we continue to make significant investments in our digital transformation to deliver quality audits efficiently and provide support to our clients on their digital journeys.

A key objective of audit digitalisation is automation. We are replacing human effort in non-judgemental areas through standardisation and centralisation of procedures. For example, we can use robotic process automation and machine learning in our KPMG Delivery Centre (KDC) to save time from repetitive work so that audit professionals can focus on more judgemental work such as risk assessment and audit procedures to address significant risks. Automation also enables us to avoid human errors and get things right every time – it achieves audit efficiency and quality at the same time.

Our second key objective of audit digitalisation is to make more use of data. The key purpose of using data is to provide more insights - insights to our clients to add value and insights to audit teams as they perform risk assessments and evaluation of audit evidence to draw conclusions. Using data analytical techniques and tools, we analyse client data earlier, more quickly and accurately. This allows us to tailor the audit approach and deliver a higher-quality audit with more relevant audit evidence. These more advanced methods also support a forward looking, dynamic process of identification of anomalies, trends,

correlations and fluctuations, pointing us to items where risks can be present and identifying areas where we can draw attention to our clients.

At KPMG, by driving innovation and technology across everything we do, we continuously enhance the experience for colleagues and clients.

We work with our clients to determine how their industry sector, business functions, global markets and digital capabilities need to change. We see that every sector has a real opportunity to engineer a different future through accelerating their digital journey, unlocking new opportunities for growth, agility, innovation and resilience, and ultimately enhancing value for clients.

For our people, we are building a workplace for the future by creating a consumer-grade digital experience for all audit professionals. KPMG Clara, our smart and intuitive technology platform, is simple but powerful, agile and intelligent. It enhances audit quality and brings deeper actionable insights in real time, with advanced security features and industry-leading compliance capability and knowledge.

Innovation is in our DNA. We are expanding access and training for leading-edge technology and tools for our audit teams in order to help drive consistency, collaboration and efficiency, and, ultimately, audit quality. You will find more in the “Embracing digital technology” section on KPMG Clara and our tech enablers and smart tools.

Together, we are making incredible strides in audit digitalisation for the better of our clients and people.

Ivy Cheung
Head of Audit



Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion

Our approach to delivering audit quality



We continue to invest significantly in audit quality across the Firm. We are building on our sound audit quality foundations, in terms of how our firm is managed and how we execute and monitor audit engagements.

We have strengthened the consistency and robustness of our system of quality management to ensure compliance with the International Standard on Quality Management (ISQM 1) and Hong Kong Standard on Quality Management 1 (HKSQM 1), issued by the International Auditing and Assurance Standards Board (IAASB) and the Hong Kong Institute of Certified Public Accountants (HKICPA) respectively, which both came into effect on 15 December 2022. We consider this a transformational and fundamental change, as the new standards require a robust, risk-based and proactive approach to managing audit quality. We have continued to invest in automation and standardisation, and have put in place an iterative process to ensure we continually challenge the status quo and strengthen our control environment.

Our global-led approach to the quality management standards drives the robustness of our responses to audit quality risks to help ensure we achieve the quality objectives set out in the standards. Our annual iterative risk assessment process focuses on identifying and updating required quality objectives, quality risks and responses for each component in the standards.

Testing and evaluation of the system of quality management is conducted through the KPMG Quality & Compliance Evaluation (KQCE) programme, the details of which are in the “monitoring and remediation” section of this report. We have not taken preparation for ISQM 1/HKSQM 1 as a mere compliance exercise, but also an opportunity to modernise and automate our internal policies and processes. KPMG adopted a Global Quality Framework to outline how we deliver quality at KPMG, and how all KPMG professionals are accountable for its delivery. The principle of “Perform quality engagements” sits at the core along with our commitment to monitor and remediate our processes as necessary. Our Quality Drivers give clear direction to encourage the right behaviours in delivering audit quality.

KPMG Global Quality Framework



The Global Quality Framework also meets the International Code of Ethics for Professional Accountants (including International Independence Standards), issued by the International Ethics Standards Board for Accountants (the IESBA Code of Ethics), and the Code of Ethics for Professional Accountants issued by the HKICPA, which apply to professional services firms that perform audits of financial statements. While this Audit Quality Report summarises KPMG’s approach to audit quality, it also extends across our organisation, as many KPMG quality management procedures and processes are cross-functional and apply equally to the tax and advisory services offered by KPMG. In this report we use our Global Quality Framework to describe our approach to quality.

Felix Lee
Audit Risk
Management Partner



Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion



Messages to
stakeholders

2022 audit quality actions

Governance and
leadership

Living our culture
and Values

Associating with
the right clients
and engagements

Being independent,
objective and
ethical

Embracing digital
technology

Applying
expertise and
knowledge

Performing
quality
engagements

Communicating
effectively

Nurturing diverse
skilled teams

Monitoring and
remediation

Environmental,
social and
governance

In conclusion

2022 audit quality actions

The following key actions that we took during 2022 have a direct bearing on audit quality, which remains our highest priority.



Culture Actions

- Fostering an audit quality culture
- Audit Quality Week to emphasise quality and drive behaviour changes before the peak audit season
- Awards to recognise excellent audit quality
- Continuous deployment of global role profiles for quality
- File assembly acceleration programme
- Fraud Awareness Week to raise staff awareness of using professional scepticism to identify fraud risks and fraud



Digital Actions

- Extended automation and centralisation services in our delivery centres
- New and updated data and analytics tools to identify outliers and focus our risk assessments
- Increased usage of tech enablers and smart tools by audit teams
- Enhanced platforms for team and client collaboration
- 100% deployment of our new smart audit workflow, KPMG Clara for 31 December 2022 audits



Technical Skills

- Enhanced methodologies for auditing estimates and working with specialists
- Standardisation and example work papers for KPMG Clara and customisation to local Generally Accepted Auditing Standards (GAASs)
- Regular auditing and financial reporting guidance responding to emerging issues and new standards



Monitoring Actions

- Implemented a system of quality management in compliance with ISQM 1/HKSQM 1 and KPMG International's related requirements by 15 December 2022
- Engagement level monitoring including Second Line of Defence Reviews, Thematic Reviews and Audit File Checkpoint Programme
- Root Cause Analysis on key findings from external and internal quality inspections



Governance and leadership

Responsibility for audit quality

At KPMG, everyone is accountable for audit quality: from audit teams on the ground and individual engagement partners through to the senior leadership of the Firm. Responsibility for consistently delivering quality starts at the top of our organisation and our leadership plays a critical role in setting the right tone, leading by example, and developing a culture based on integrity, quality, and ethics.

The Audit Management Board oversees the operation of the Audit Practice in Hong Kong and ensures we respond promptly to challenges in the audit profession, specifically in relation to audit quality, ethics and independence, risk management and market dynamics. The Audit Management Board meets quarterly, or more regularly if required, and is chaired by the Senior Partner. It comprises the Head of Audit, Quality Control System Responsible Person, Audit Risk Management Partner, Head of Audit Quality and

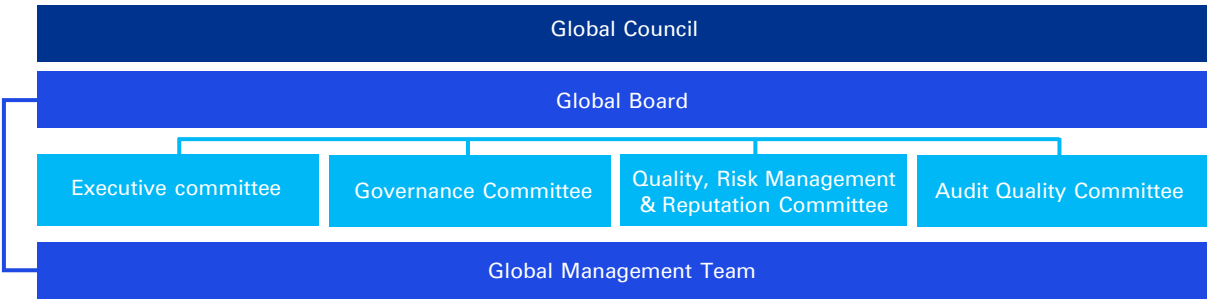
Professional Practice, Ethics & Independence Partner, amongst others.

Our legal structure

KPMG in Hong Kong (referred to as the “Firm” or “KPMG” in this report) is a partnership organised under the laws of Hong Kong (SAR), China and is part of the KPMG global organisation of independent member firms providing Audit, Tax and Advisory services to a wide variety of public and private sector organisations.



KPMG International structure and governance



KPMG International acts as the coordinating entity for the overall benefit of the KPMG organisation. It facilitates audit quality across the organisation by establishing common policies, processes and standards to be applied across member firms. KPMG International’s governance bodies are comprised of the Global Council, the Global Board (including its committees), the Global Management Team and the Global Steering Groups.

The Firm has representation at the Global Council, Global Board, Global Audit Steering Group and Global Audit Quality Council to ensure that its audit quality issues are given priority in the resource allocation of global audit quality initiatives.

KPMG International and the KPMG firms are not a global partnership, single firm, multinational corporation, joint venture, or in a principal or agent relationship or partnership with each other. No KPMG firm has any authority to obligate or bind KPMG International, any of its related entities or any other member firm vis-à-vis third parties, nor does KPMG International or any of its related entities have any such authority to obligate or bind any KPMG firm.

Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion



Living our culture and Values

Fostering the right culture, starting with tone at the top

At KPMG, we recognise that strong and clear leadership is critical to set the tone at the top and provides the blueprint for accountability to everyone.

A culture based on integrity, accountability, quality, objectivity, independence and ethics is essential in an organisation that carries out audits and other services on which stakeholders rely.

We have taken steps to strengthen our governance, with a focus on accountability for quality. We are committed to a common set of Values, standards, and service-quality expectations.

Clear Values and a strong Code of Conduct

Our Values lie at the heart of the way we do things. We do the right thing, in the right way, at the right time, always. They form the foundation of a resilient culture ready to meet challenges with integrity, so we never lose sight of our principal responsibility to protect the public interest.

Outlined in our Code of Conduct (“the Code”) are the responsibilities all our personnel have to each other, the public and our clients. It shows how our Values inspire our greatest aspirations and guide all of our behaviours and actions. Everyone at KPMG is held accountable for behaviour consistent with the Code and are required to confirm their compliance with it. All staff are required to take annual training that covers the Code.



Scan the QR code to learn more about Audit Quality Week from a short video



Audit Quality Week

Towards the end of 2022, we held an “Audit Quality Week”, and more than 500 audit professionals attended in-person and virtual activities during the week, supported by over 20 topic leaders from across the Firm. The purpose of the event was to promote people’s awareness of quality initiatives, reflect on debriefing pain points from previous audits and summarise what can be done better or differently for the following peak season to maintain and improve audit quality. Speakers and participants have actively shared best practices for quality work, lessons learned and useful resources. This event has successfully cultivated a beneficial atmosphere for staff learning and reinforced the importance of quality and integrity.



Our Values are our core beliefs, guiding and unifying our actions and behaviours. They are the foundation of our unique culture.

Ivy Cheung | Head of Audit

Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion

Associating with the right clients and engagements

Following the client and engagement acceptance and continuance policies

Our client and engagement acceptance and continuance policies and processes are designed to identify and evaluate potential risks prior to accepting or continuing a client relationship or performing a specific engagement.

Accepting appropriate clients and engagements

01 | Client evaluation process

We are required to undertake an evaluation of every prospective client. This involves obtaining sufficient information about the prospective client, its key management and significant beneficial owners, and then properly analysing the information to be able to make an informed acceptance decision. This evaluation includes an assessment of the client's risk profile and obtaining background information on the client, its key management, directors and owners. If necessary, we obtain additional information required to satisfy applicable legal and/or regulatory requirements.

04 | Withdrawal process

If an engagement team comes to a preliminary conclusion that indicates it should withdraw from an engagement or client relationship, they are required to consult internally and identify any required legal, professional and regulatory responsibilities. The team is also required to communicate as necessary with those charged with governance and any other appropriate authority.



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

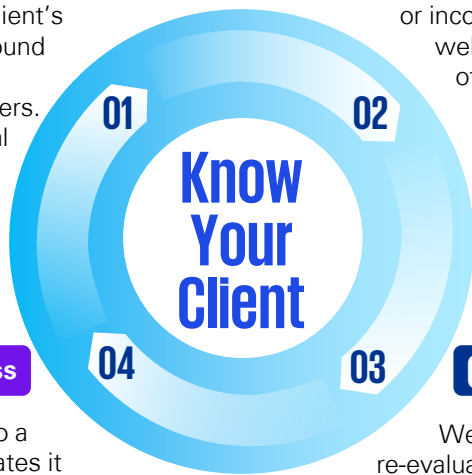
Felix Lee | Audit Risk Management Partner and Quality Control System Responsible Person

02 | Engagement evaluation process

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors are considered, including potential independence and conflict of interest issues, intended purpose and use of engagement deliverables, public perception, and whether the services would be unethical or inconsistent with our Values, as well as factors specific to the type of engagement, including the competence of the client's financial management team and the skills and experience of KPMG professionals assigned to staff the engagement.

03 | Continuance process

We undertake an annual re-evaluation of all audit clients. In addition, clients are required to be re-evaluated if there is an indication that there may be a change to their risk profile. The Head of Audit and Risk Management Partner undertake an annual review of clients with higher risk characteristics. The review is aimed at identifying any issues in relation to continuing association, the experience and expertise of the senior engagement team members, and any mitigating procedures that need to be put in place to address the identified risks.



Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion



Being independent, objective and ethical



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

Piera Ho | Ethics and Independence Partner

Acting with integrity and living our Values

KPMG’s detailed independence policies and procedures, which incorporate requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, are set out in the Firm’s Quality & Risk Management Manual (Q&RM Manual).

The Firm has a designated Ethics and Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence (E&I) policies and procedures locally.

Compliance with independence policies and processes is monitored through annual independence confirmations and compliance audits, as well as through the Firm’s wider monitoring programmes described in the “monitoring and remediation” section of this report.

Maintaining an objective, independent and ethical mindset, in line with the Code and policies

Personal financial independence

KPMG partners and employees are required to be free from prohibited financial interests in, and prohibited financial relationships with, audit and assurance clients, their management, directors and, where required, significant owners. We use a web-based independence compliance system (KICS) to assist our partners and professionals in complying with personal independence investment policies.

The Firm operates an independence compliance audits programme to monitor partner and employee compliance with independence requirements.

Employment relationships

Any KPMG professional providing services to an audit or assurance client is required to notify the Firm’s EIP if they intend to enter into employment negotiations with that client. For partners, this requirement extends to any audit client of any KPMG firm that is a public interest entity.

Former members of the audit or assurance team or former partners of the Firm are prohibited from joining an audit or assurance client in certain roles unless they have disengaged from all significant connections with the Firm.

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 has passed.

Firm financial independence

KPMG is required to be free from prohibited interests in, and prohibited relationships with, audit clients and their management, directors and, where required, significant owners. KICS is also used to manage KPMG firms’ direct and material indirect investments, borrowing and capital financial relationships, and custodial, trust and brokerage accounts that hold firm assets.

Ethics and Independence - training and confirmations

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

Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion

All KPMG partners and employees are required to sign, an annual confirmation stating that they have remained in compliance with applicable E&I and other key policies.

Non-audit services

KPMG is required to comply with the Code of Ethics for Professional Accountants and applicable laws and regulations related to the scope of services that can be provided to audit clients. Our independence policies prohibit the KPMG audit partners from being evaluated on, or compensated based on, their success in selling non-audit services to audit clients.

Avoiding conflicts of interest

The Firm and its personnel are responsible for identifying and managing conflicts of interest, which are circumstances or situations that may reasonably be expected to have an impact on the Firm’s ability to be objective or act without bias.

Personal conflicts

Policies are also in place to prohibit KPMG personnel from offering or accepting inducements, including gifts and hospitality, to or from audit clients, unless the value is trivial and inconsequential, is not prohibited by relevant law or regulation, and is not deemed to have been offered with the intent to improperly influence the behaviour of the recipient or which would cast doubt on the individual’s or the Firm’s integrity, independence, objectivity or judgement.

Resolving conflicts of interest

The Firm has allocated risk management individuals who are responsible for reviewing an identified potential conflict and working with the affected KPMG member firms to resolve the conflict, the outcome of which is required to be documented. Escalation and dispute resolution procedures are in place for situations in which agreement cannot be reached on how to manage a conflict. If a potential conflict issue cannot be appropriately mitigated, the engagement is declined or terminated.

Independence breaches

All KPMG personnel are required to report an independence breach to the Firm’s EIP as soon as they become aware of it. All breaches of independence requirements of the Code of Ethics for Professional Accountants or other external independence requirements are required to be reported to those charged with governance in accordance with the professional standards. The Firm has documented and communicated disciplinary policy in relation to breaches of independence policies, incorporating incremental sanctions reflecting the seriousness of any violations.

Partner rotation

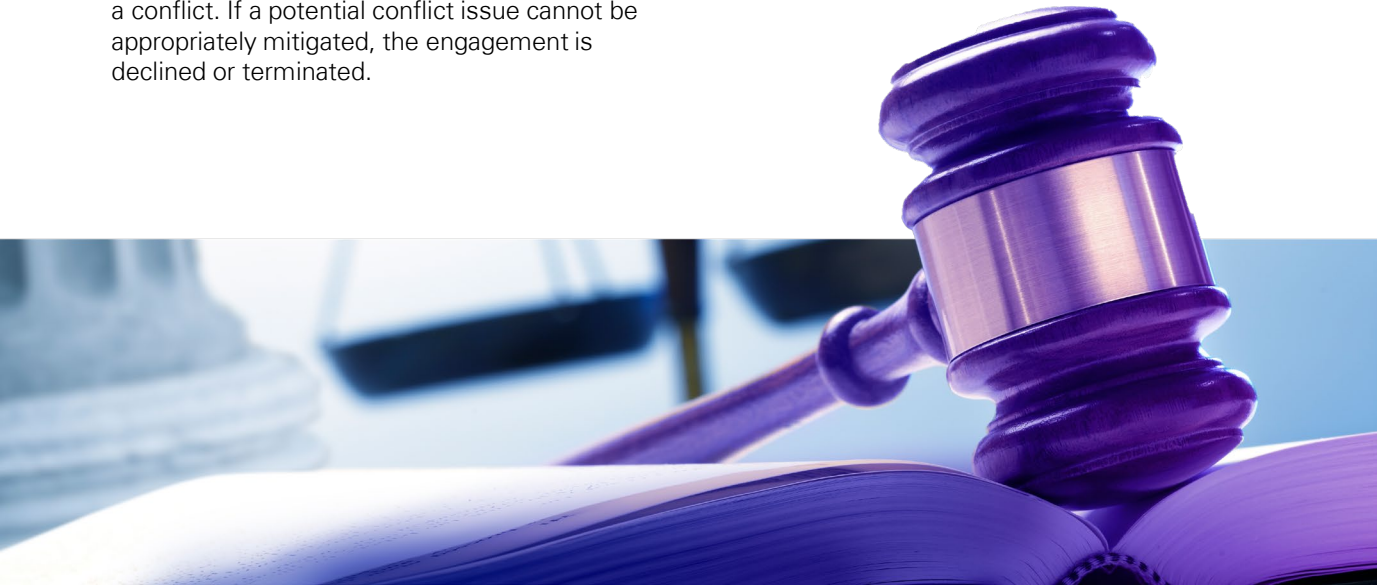
KPMG partner rotation policies are consistent with the requirements of the Code of Ethics for Professional Accountants and other applicable rules. These requirements place limits on the number of consecutive years that partners in certain roles may provide audit services to a client, followed by a “time-out” period.

KPMG is required to monitor the rotation of audit engagement leaders (and any other key roles where there is a rotation requirement) and develop related transition plans to enable the allocation of partners with the necessary competence and capability to deliver a consistent quality of service to clients.

Zero-tolerance approach to bribery and corruption

Compliance with laws, regulations and standards is a key aspect for everyone at KPMG. We have zero tolerance of bribery and corruption.

All KPMG partners and employees are required to take training covering compliance with laws, regulations and professional standards relating to anti-bribery and corruption, including the reporting of suspected or actual non-compliance.



Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion



Embracing digital technology

Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion

Audit Digitalisation Vision

“To be recognised as the most tech-enhanced Audit Practice in China”

 **Use of Data**

 **Automation**



Audit Quality

- **Efficiency**
- **Brand and Growth**
- **Talent Retention**



Digitalisation enables quality audits

We have two main objectives for digitalisation of our Audit Practice:

- 1. Automation**, to replace human effort. We are modernising, centralising and standardising our processes and using robots to perform repetitive work. Automation allows us to improve quality by removing human error and adding monitoring controls
- 2. Use of data**, to enable us to focus our effort on more risky and judgemental areas of the audit and provide more insights to our people and clients

Our goal is to perform consistent high quality audits and standardisation means we can get things right every time.



At KPMG, we are transforming the audit experience for our professionals and clients by analysing data to identify actionable insights.

Alan Yau | Audit Innovation Leader

To achieve our audit digitalisation vision we are investing in solutions in the following interlinked workstreams:



Our KPMG Clara smart audit workflow



Data and analytics



Client collaboration and data handling tools



Other enablers that centralise, standardise and simplify



Upskilling on data literacy to give our people tech confidence

KPMG Clara - intelligent, standard-driven audit workflows

KPMG Clara is our smart and intuitive technology platform that is driving globally consistent audit execution across all KPMG firms. The platform integrates new and emerging technologies, with advanced capabilities that leverage data science, audit automation and data visualisation.

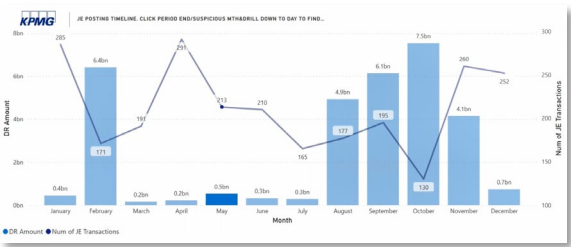
KPMG Clara is the base technology providing new capabilities in a globally consistent way, enabling the audit workflows and providing a fully digital experience for KPMG audit professionals. The KPMG Clara platform evolves as technologies such as artificial intelligence, blockchain and cognitive capabilities transform how audits are delivered.

KPMG Clara workflows significantly enhance the execution of an audit by KPMG professionals and drive audit quality and consistency. Using data mining and tracking of relevant engagement-level data indicators, the KPMG Clara workflows can also facilitate monitoring of audit execution at the engagement level.

Data and analytics

Our suite of data and analytics (D&A) tools and delivery centre services help our auditors to extract, process and analyse data to improve risk assessment:

- **Electronic Journal Entry Tool (eJET)** analyses large datasets of journal entries and identifies outliers and anomalies. Results of hidden patterns, trends and higher-risk journal entries are visualised in dashboards which provide critical operational and internal control insights.



Pictured: An analysis of trends of journal entries

- **Audit Data Extraction Toolbox** automates the extraction of data from clients’ ERP systems. The toolbox can extract, compress, encrypt and transfer data securely. The tool eliminates data handoffs, thereby reducing room for errors.



Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion

► **KPMG Clara Analytics** – AI Transaction Scoring is a cloud-based application that leverages transactional general ledger data for automated detailed analyses. In the 2022 deployment, it is designed to concurrently support risk assessment and obtain substantive audit evidence on revenue and operating expenses.



Pictured: Visualised scoring results

Client collaboration

KPMG is committed to using the latest technology to provide our clients and engagement teams with secure and efficient online collaboration platforms.

KPMG Collaboration Centre (KCC) is an innovative web-based solution, which provides a convenient interface between clients and KPMG teams to collect engagement information, share statutory accounts and confirmation statuses, monitor audit matters, and also provides our clients direct online access to KPMG insights. It also enables clients to share files with KPMG teams during the audit to achieve joint collaboration.



Pictured: Statutory audit report status on KCC

Other enablers and services that centralise, standardise and simplify

- **Optical Character Recognition (OCRs):** We are developing increasing numbers of use cases for tools like **Datasnipper, KPMG Document Reader and Bank Data Conversion** to do automatic parsing of various files and documents, and key information extraction and annotation. These assist auditors to more accurately and efficiently vouch and record key information.
- **Fund audits automation** improves fund audit efficiency and reduces manual errors by extracting financial data and generating master tables of work papers in batches.
- **KPMG eLease Tool:** Our proprietary tool to assist audit teams with the recalculation of lease-related balances where teams adopt a recalculation method for auditing the lease transactions under IFRS/HKFRS 16.

2022 achievements in our audit digitalisation journey

30k+
documents exchanged via KCC

400k+
activities by the Optical Character Recognition (OCR) tools

150+
usage of eLease

3,000+
usage of eJET



Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion

Upskilling on data literacy and tech confidence

KPMG is strategically investing in our talent pipeline by partnering with world-class institutions to cultivate the technology skills and capabilities that will be needed for the audits of the future. We are recruiting and training professionals who specialise in software, cloud capabilities and artificial intelligence and who can bring the latest technology capabilities to our smart audit platform.

Over the coming three years, we want all of our audit professionals, from new hires to partners, to be “data literate” and unlock the power of automation and big data. Since 2021 over 30 audit partners and managers have attended the Digital Academy Programme at Simon Fraser University together with participants from KPMG Canada. These digitalisation leaders research new ideas and incubate new tech solutions for the next tech-enhanced generation of the audit profession.

Our tech leaders are driving a firm-wide “Digitalisation of Audit” programme. In terms of upskilling on data and analytics and automation, this comes to life in our Audit Tech Pioneers programme and our Tech Confidence programme for Partners and Managers.

KPMG contributes to cultivating the tech skills and capabilities of the next generation. We have continued our collaboration with Hong Kong University of Science and Technology Master of Accounting Programme on its data analytics course. We also crowdsource innovative ideas from students and staff through Audit Innovation Competitions. These ideas are evaluated for wider deployment within the Firm.

The Audit Tech Pioneers Programme was launched in 2022. Pioneers receive enhanced education and continuous coaching on the latest tools and techniques, and work hand-in-hand with mentors throughout a digitalised audit deployment journey.

13

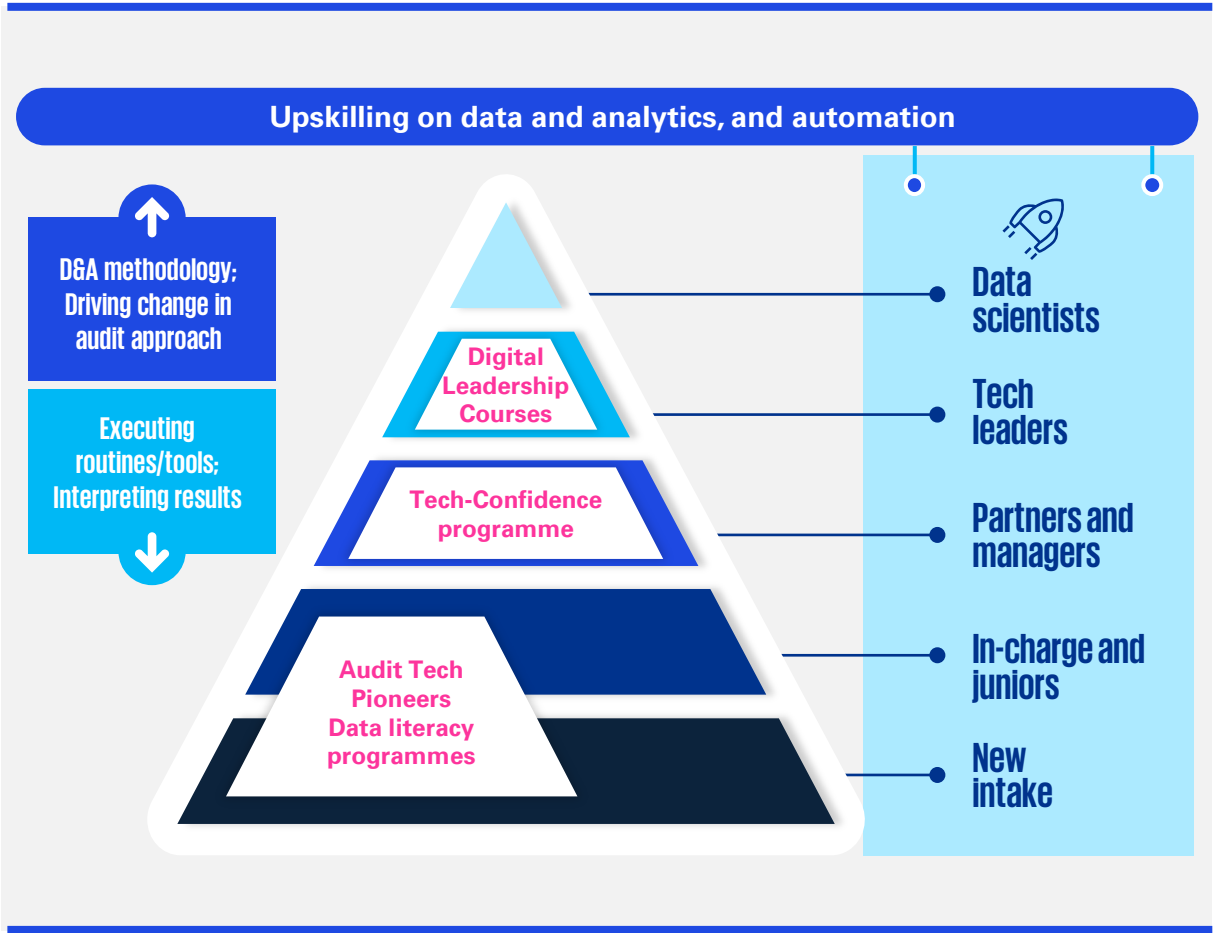
Participants in Simon Fraser University (SFU) Digital Academy

20+

Audit Tech Confidence workshops

60+

Audit Tech Pioneers



Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion



Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion

Our information security management measures

Pictured: The ISO/IEC 27001 certificate

Client confidentiality, information protection and data privacy

The importance of maintaining client confidentiality is emphasised through a variety of mechanisms including our Code of Conduct.

We have policies on information security, confidentiality, personal information and data privacy. Our policies and control measures include privacy impact assessment, information protection and privacy training, supply chain management and solution security assessment. Our policies and control measures are also compiled in accordance with professional standards, and applicable local laws and regulations on wide areas like data retention for audit services and personal information handling. While conforming to the international standards on information security, the Firm assumes full control and responsibility on technology architecture and data security to ensure compliance with relevant rules and regulations.

From a process control perspective, we hold a valid Information Security Management System certification under the ISO/IEC 27001 standard

which also covers the ISO/IEC27017 extension specific to cloud environments. Annually our operations are audited by a trusted issuer to ensure they do not deviate from our policies and standards. In addition, we perform internal inspections to provide further assurance not only on coverage under the ISO scope, but also on matters relating to data privacy etc. Apart from these annual exercises, there is also regular monitoring through a set of performance indices, on security posture such as organisation governance, and ability and timeliness on managing incidents so that we adhere to industry standards.

Security controls are in place at multiple levels from endpoints, network infrastructure, servers or cloud infrastructure, down to the application layer with an option for hosting engagements on separated on-premises servers. These controls, other than being policy enforcement points, also enable logs of activity to be collected to facilitate potential incident detection and response through data analytics locally.

On data residency, collected data are retained securely following the requirements of the local rules and regulations.



Applying expertise and knowledge

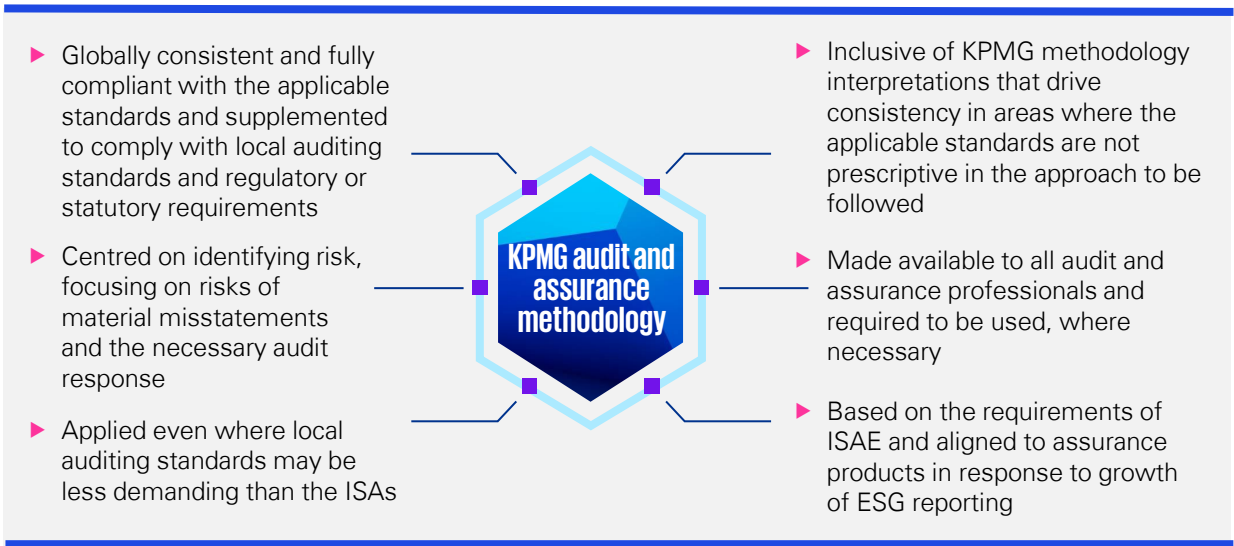
Consistent audit and assurance methodology and tools

The KPMG audit and assurance methodology, tools and guidance enable a consistent approach to planning, performing and documenting audit procedures over key accounting processes.

The KPMG audit methodology is set out in the KPMG Audit Execution Guide and includes KPMG interpretation of how to apply International Standards on Auditing (ISAs), which we believe enhance audit quality.

The KPMG Assurance Manuals provide the requirements and guidance for a consistent approach to performing assurance engagements in accordance with the International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

Enhancements to the audit and assurance methodologies, guidance and tools are made regularly to maintain compliance with the applicable standards and address emerging auditing and assurance areas of focus and audit quality results (internal and external).



Access to specialist networks

Our engagement teams have access to a network of IT Audit professionals and KPMG specialists in areas such as tax, treasury, actuarial, forensic and valuations. These professionals and specialists receive the training they need to ensure they have the competencies, capabilities and objectivity to appropriately fulfil their role on KPMG audits. We have also appointed quality leaders in IT Audit, Tax and Valuations who are responsible for maintaining a high level of quality audit support and work closely with our audit leadership.

We have established policies setting out the criteria and requirements for involving IT Audit professionals and KPMG specialists.

There are situations that specialist involvement is mandated, and otherwise the audit partner determines whether to use a specialist by considering the audit risks and the nature and complexity of the information, data or calculations to be audited.



With the increasing digital transformation at clients, we are continuously strengthening our dedicated IT audit team with more resources and enhanced capabilities.

Fred Barros | IT Audit Quality Partner

Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion



Performing quality engagements

Taking responsibility for audit quality at the firm level

Our Firm’s leadership is responsible for the delivery of audit quality and the Firm is responsible for establishing and maintaining a system of quality management. The Head of Audit has primary responsibility for audit quality and is supported by the Risk Management Partner in maintaining a system of quality management.

Critically assessing audit evidence, using professional judgement and scepticism

On all KPMG audits, we design and perform audit procedures whose nature, timing and extent are based on and responsive to the assessed risks to gather audit evidence. We consider all audit evidence obtained during the course of the audit including contradictory or inconsistent audit evidence. Each KPMG team member is required to exercise professional judgement and maintain professional scepticism throughout the audit engagement.

Fraud has a significant effect on investors’ and society’s confidence in financial statements. As auditors, we recognise our role in addressing the risk of fraud as part of the financial statement audit. In July 2022, we held a Fraud Awareness Week, a week-long programme to raise staff awareness of fraud and using professional scepticism to identify fraud risks in our work.



During this week, different levels of staff shared their insights in identifying and addressing fraud risks and the work they performed to defend the public interest and fulfil their responsibilities as auditors. Our audit leadership also delivered key messages on the role we play in identifying fraud risks by using professional scepticism in order to enhance audit quality. Additionally, staff had a chance to win prizes by participating in a fraud awareness competition.



How an audit is conducted is as important as the result. KPMG partners and employees are expected to demonstrate behaviours consistent with our Values and follow policies and procedures in the performance of effective and efficient audits.

Paul Lau | Head of Audit Quality and Professional Practice

Embedding ongoing mentoring, supervision and review

We promote a continuous learning environment and support a coaching culture.

Ongoing direction, coaching and supervision during an audit involves engagement partner participation in planning discussions, tracking the progress of the audit engagement, helping engagement team members address any significant matters that arise during the audit and modifying the planned approach where applicable, and identifying matters to review and discuss with more experienced team members during the engagement.

The timely review of the work performed so that significant matters are promptly identified, discussed and addressed is also used as a coaching opportunity.

Encouraging a culture of consultation

We encourage a culture of consultation that supports engagement teams throughout their decision-making processes and is a fundamental contributor to audit quality. KPMG promotes a culture in which consultation is recognised as a strength, and that encourages all KPMG professionals to consult on difficult or contentious matters. To help with this, the Firm has established protocols for consultation and documentation of significant matters, including procedures to facilitate the resolution of differences of opinion on engagement issues.

Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion

We have dedicated teams to support the development and competency of our audit professionals through training, coaching and providing other guidance, tools and resources with technology and technical excellence. In 2022, to further enhance our operating structure to

leverage our edges and utilisation of our resources to support audit teams, we have enhanced our practice serving structure to form the new unit - Audit Quality and Professional Practice (AQPP), which comprises the following five departments:



Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion

Accounting and Reporting (A&R)

Our dedicated team with in-depth technical knowledge in accounting and financial reporting standards to support audit teams and transform its leading-edge expertise into values to our clients and other stakeholders.

Capital Markets Group (CMG)

Supporting our audit professionals on engagements listing on stock exchanges including those in the Chinese Mainland, Hong Kong (SAR) and the US, with expertise on technical and regulatory compliance related matters.

Technology Solutions, Learning and Development (TSLD)

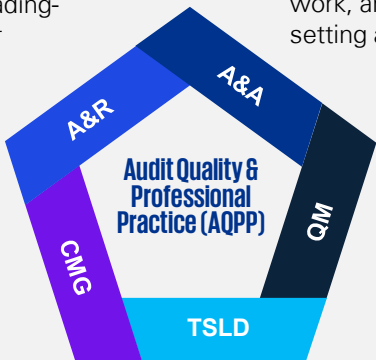
Leading our internal programmes for audit digitalisation transformation through upskilling our people. Creation and deployment of insightful data and analytics and efficient tech enablers that standardise, simplify, centralise and automate our audits.

Audit and Assurance (A&A)

Our centre of excellence on auditing standards and regulatory matters to assist our audit professionals in all audit work, and also contribute to standard setting and professional development.

Quality Management (QM)

Leading our firm-wide quality management programmes and initiatives to drive audit quality, including quality reviews and coaching projects to identify quality issues and risks, perform root cause analysis and take remedial actions.



1:14

Ratio of AQPP staff to audit professionals

69%

of AQPP headcount are partners, directors and senior managers

Our AQPP professionals are mainly staffed by fully dedicated experienced professionals. AQPP partners and directors have influential roles in Asia Pacific and global specialist groups within the KPMG network, which enables them to leverage global KPMG technical topic specialists when required. Several partners hold key positions with external organisations, such as:

- ▶ The International Auditing and Assurance Standards Board;
- ▶ The Financial Reporting Review Panel of the Hong Kong Accounting and Financial Reporting Council;
- ▶ The various committees of the HKICPA; and
- ▶ The Listing Committee of The Stock Exchange of Hong Kong Limited.

Reporting

Engagement leaders form all audit opinions based on the audit performed and evidence obtained. In preparing auditors' reports, engagement partners have access to reporting guidance and technical support through consultations with AQPP.

Engagement documentation

Audit documentation is completed and assembled according to the timeline determined by the Firm policy and applicable auditing standards. We have implemented administrative, technical and physical safeguards to protect the confidentiality and integrity of client and KPMG information. We have adopted policies to reduce the time period allowed to accelerate the file assembly of audit documentation, which is significantly less than the time period required by the local auditing standards.

Inflight monitoring and coaching programmes

We carry out the following inflight monitoring and coaching programmes to provide support to engagement teams against relevant professional standards and firm policies before audit opinions are signed.

These reviews are performed by qualified partners and senior managers in audit or technical specialists in AQPP departments. Engagement teams receive comments and need to make prompt remediations before they issue the auditors’ reports.



Engagement Quality Control (EQC) Review

An EQC review is an objective evaluation of significant judgements made by the engagement team and its related conclusions, performed by a qualified EQC reviewer, and completed on or before the date of the report. An EQC reviewer is required for selected high public profile and those required under applicable laws or regulations, and those designated by the Risk Management Partner or Head of Audit.



Second-line of defence (2LoD)

The 2LoD team conducts independent reviews (other than the EQC review) of areas of focus on audit engagements and provides direct real-time support and coaching to selected engagement teams with the goal of assessing the audit work in progress against the relevant professional auditing standards.



Audit File Checkpoint Programme (AFCP)

AFCP is an independent review of some basic but essential documentation included on audit files at the planning and completion stages of the audit. The check points include areas which arise in both our external and internal inspection results. The programme covers selected engagements of all audit managers.



Thematic Review (TR) Programme

TRs are more targeted on certain themes than 2LoD. The reviewers review the prior year’s work papers on the themed topics at the planning stage and provide suggestions for improvements to be taken up during the current year audit risk assessment. In 2022, we focused on revenue, impairment of non-financial assets and consolidation of structured entities in the TR programme.



Pre-issuance Review (PIR)

PIR is an independent review on financial statements and/or the related auditor’s report to comply with professional standards and regulations. There are various situations where a PIR must be performed, including the first-time audit of a listed entity, restatement of previously issued financial statements, issuance of a modified auditor’s report and when key audit matters are included in the auditor’s report for the first time.



Capital Markets Group (CMG) Review

CMG Reviews are independent review procedures performed by CMG specialists for high-risk capital market engagements on IPOs in the Chinese Mainland, Hong Kong (SAR) and the US, and other capital markets transactions. There are various situations where a CMG review is required, e.g., for Hong Kong IPOs, review of external reports/letters and consent letters, the prospectus, responses to whistle blower letters, and responses to HKEX.



Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion



KPMG Delivery Centre

Our audit quality is also enhanced through the use of our KPMG Delivery Centre (KDC). Located in Foshan and Nanjing, KDC provides services to KPMG offices using information technology and data analytics tools to support audit engagements with the targets to modernise, streamline, standardise and centralise, thereby generating quality, efficiency and consistency in the audit process. KDC currently focuses on data extraction, data processing, data analysis and external confirmations, applying innovative and automated solutions to audit engagements in response to requests from teams.

Innovative solutions at KDC:

- ▶ **OAK:** a sophisticated operating system to bridge KDC and frontline engagement teams. Empowered by visualised dashboards and robotic process automation, the OAK system supports seamless communications and effective management of work requests
- ▶ **A suite of confirmation solutions:** a combination of IT systems and machineries which aims to build an end-to-end audit confirmations process and reduce manual errors, including auto-generating confirmations in bulk, tracking confirmations’ delivery status, assembling and mailing the hard copy confirmations.

900+

KDC employees

Scan the QR code to watch an introduction video to the confirmation handling machine

Process optimisation

- With tech-enabled tools and digitised solutions
- Efficiency improvement

Big data

- Empowered by advanced data analytic solutions
- Analysis of 100% data

KDC's design principles

Specialisation

- Dedicated teams with differing expertise

Procedure standardisation

- Compliance with the Firm's policies
- Quality improvement

The dashboard displays the following data and visualizations:

- Summary Metrics:**
 - Generated (Progress): 904 (87%)
 - Sent to addressee: 817
 - Returned: 753
 - Return rate: 92%
- Progress of confirmations generated:** A gauge chart showing 904 generated out of a target of 1,037.
- Return rate:** A donut chart showing 92% return rate.
- Confirmation status analysis:** A pie chart showing the distribution of confirmation statuses.
- Destination distribution of confirmation samples:** A map of China with colored dots indicating the geographic distribution of confirmations.
- Progress trend on key confirmation status (by week):** A stacked area chart showing the trend of different confirmation statuses over time.
- Confirmation exception report and the progress of resolving:** A horizontal bar chart showing the number of exceptions and their resolution progress.

Pictured: KDC confirmation control dashboard

Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion

© 2023 KPMG, a Hong Kong (SAR) partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. Printed in Hong Kong (SAR).

21



Communicating effectively

Provide insights, and maintain open and honest two-way communication

Honest and candid communication with clients, including management and those charged with governance, is a key aspect of our reporting and quality service delivery.

KPMG stresses the importance of keeping those charged with governance informed of issues arising throughout the audit through guidance and supporting resources. KPMG and our professionals achieve this through a combination of reports and presentations, attendance at audit committee or board meetings, and, when appropriate, ongoing discussions with management and members of the audit committee.

The KPMG Board Leadership Centre champions outstanding corporate governance to drive long-term value and enhance stakeholder confidence. Through an array of insights, perspectives, and programs, the BLC — which includes the KPMG Audit Committee Institute and close collaboration with other leading director organisations — promotes continuous education and improvement of public and private company governance. BLC engages with directors and business leaders on the critical issues driving board agendas — from strategy, risk, talent, and ESG, to data governance, audit quality, and more.



Recent Board Leadership publications

We also proactively engage with boards of listed companies and other stakeholders through KPMG events, such as our signature KPMG INED Forum and Board Leadership Forum, where we provide the latest updates on a wide range of subjects ranging from accounting, tax, governance, listing rules to current and emerging business topics relevant to the needs of our clients.



KPMG Independent Non-executive Directors Forum

Our KPMG Collaboration Centre (KCC) is an internally developed online secure web-based platform and it facilitates effective collaboration between engagement teams and our clients. It enables two-way file sharing with clients to achieve efficient and transparent communication of audit status, issue resolution and avoid surprises. It also provides clients with direct access to latest KPMG industry insights.



We recognise that another important contributor to upholding audit quality is to obtain and promptly act upon feedback from key stakeholders.

Andrew Weir | Senior Partner

Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion

Nurturing diverse skilled teams



Our people make the real difference and are instrumental in shaping the future of audit at KPMG. We put quality and integrity at the core of our audit practice. Our auditors have diverse skills and capabilities to address complex problems.

Derek Yuen | People Partner

Recruiting appropriately qualified and skilled people, including specialists, with diversity of perspective and experience

One of the key drivers of quality is ensuring that KPMG professionals have the appropriate skills and experience, motivation and purpose, to deliver high quality audits. This requires the right recruitment, development, rewards, promotion and assignment of professionals.

We strive 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. In 2022, we were honoured to have been recognised among the Best Companies to Work For in Asia.

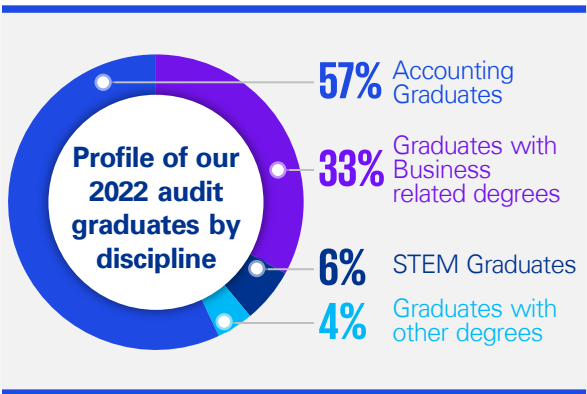


Pictured: Best Companies to Work For in Asia 2022

Recruitment

KPMG has invested in understanding how we can attract the talent we need now and in the future. We have guidance and training on sourcing high-quality talent with the necessary skills, expertise and qualifications to deliver the Firm's objectives and with the ability to make a positive contribution to the Values, capabilities and goals of the Firm.

We primarily recruit entry-level talent from leading universities in and outside of Hong Kong, but we also recruit experienced hires externally or via secondment from practices within the KPMG network. In addition to the traditional areas of accounting and business-related degrees, we also recruit students with a background in STEM (Science, Technology, Engineering and Mathematics).



Internship programme

Our internship programme is an integral part of our recruitment strategy and provides successful applicants with work experience during their university vacation periods. The programme helps us attract graduate candidates for full-time employment positions who have some prior experience and have demonstrated an interest in becoming an audit professional. The programme also provides us with feedback on the candidates prior to making employment offers.

We have also established an Elite Internship programme which is targeted at top students to receive professional audit training structured around their university schedules and to work full-time with KPMG during our busy season. Elite interns with an outstanding performance during their internship period may have the opportunity to join us as a second-year accountant after their graduation.

Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion

Reward and promotion

We are required to have compensation and promotion policies that are informed by market data and are clear, simple, fair and linked to the performance and talent review process. Such policies help our people understand what is expected of them, and what they can expect to receive in return. We assign a performance manager to each member of staff and they have periodic conversations through the year regarding goal-setting, performance feedback and the annual performance assessment. The connection between performance and reward is achieved by assessing relative performance across a peer group. The performance of audit partners are measured based on audit quality indicators including significant deficiencies from internal and external quality inspections, and results of compliance tests. The results of performance evaluations directly affect the promotion and remuneration of partners and staff and, in some cases, their continued association with KPMG.

We also recognise the importance of professional qualification to both the standard of performance delivered by our people and their personal development needs. In addition to the extensive examinations support provided, our qualification pay serves as an incentive to encourage our professionals to obtain the relevant qualification as early as possible in their careers.

Assigning an appropriately qualified team

Partner assignments

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

Engagement teams

Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies, training and capabilities, including time to perform engagements in accordance with KPMG audit methodology, professional standards, and applicable legal and regulatory requirements.

Audit Resources Management System (ARMS)

We have developed the ARMS tool to facilitate an effective human resources assignment to audit engagements and enhance the consistency and robustness of workload allocation and resources management. ARMS is able to match staff and engagement information so as to ensure people with the required accreditation, qualifications and available time are assigned to engagements. The end-to-end resourcing process, including partners and managers assignment, staff budgeting and staff booking, can be carried out and tracked in ARMS. In addition, ARMS provides visualised dashboards for partners and managers to monitor their engagement portfolio from a more holistic view.



Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion

Our audit teams

1:2.8

Partners to senior managers and managers

1:5.3

Partners to assistant managers

1:5.6

Partners to accountants

Leverage ratio of team members as at 31 December 2022



71%

2022 total utilisation rate



10%

out of total audit hours committed by IT Audit teams and specialists for Public Interest Entities engagements



77%

Audit partners with more than 10 years of experience working with KPMG



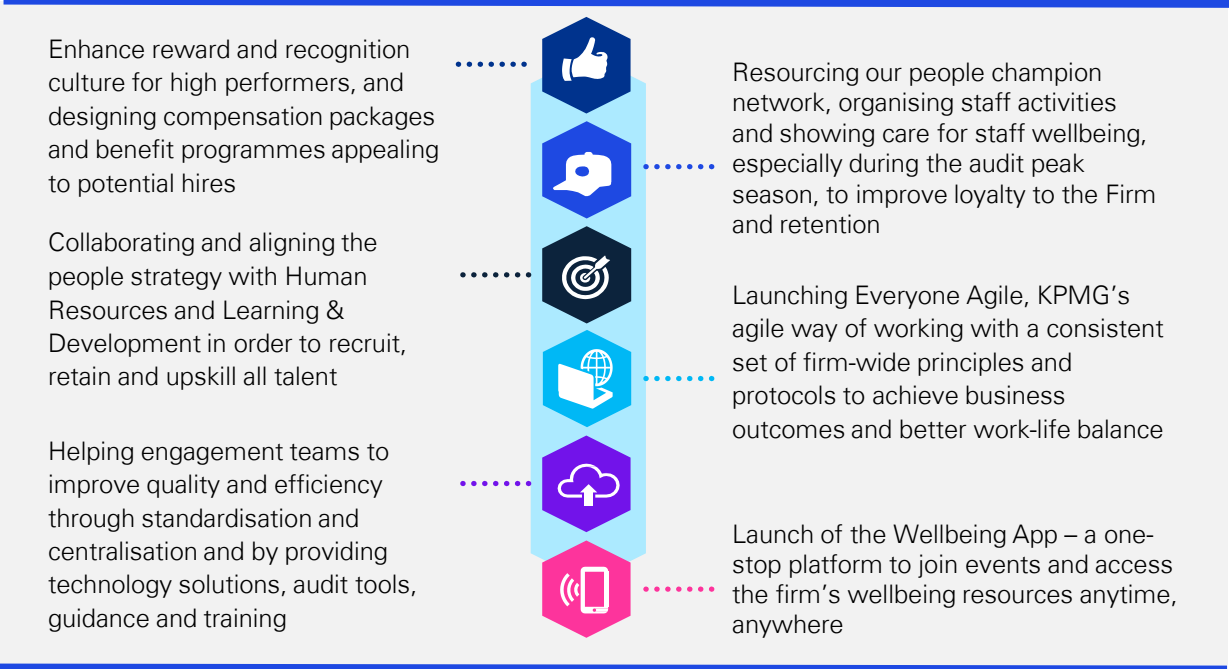
116

Total training hours per audit professional during 2022

Retention

At KPMG, we are embedding a culture of supporting our people at challenging times and working hard to create an environment where our people feel comfortable speaking up or getting help whenever they need.

We continuously develop and maintain people initiatives to balance work and life and make KPMG a great place for self-accomplishment and career development. Our major initiatives for talent retention include:



Focused learning and development on technical expertise, professional acumen and leadership skills

Commitment to technical excellence and quality service delivery

All KPMG professionals are provided with the technical training and support they need to perform their roles. This includes access to internal specialists and the professional practice department for consultation.

Lifetime learning strategy

Annual training priorities for development and delivery are identified by the audit learning and development groups at the global, regional and Firm level. Mandatory learning requirements for audit professionals across the Firm are established annually.

Ongoing mentoring and on-the-job coaching

Mentoring and on-the-job experience play key roles in developing the personal qualities important for a successful career in auditing, including professional judgement, technical excellence and instinct. We support a coaching culture throughout KPMG as part of enabling our professionals to achieve their full potential and instil that every team member is responsible for building the capacity of the team, coaching other team members and sharing experiences.

Local and overseas secondments

The best way to ensure the development of new ideas is through a diverse and inclusive workforce. Global mobility of personnel supports the flow of talent. We have structured mobility programmes and policies for deploying our people to where they are needed, whether it be on long-term or short-term secondments, in different KPMG offices locally or overseas. We also provide additional development opportunities such as internal secondment programmes to AQPP and international assignments for audit professionals.

Licensing and mandatory requirements for IFRS® Standards and US GAAP engagements

Specific requirements apply to partners, managers and EQC reviewers working on IFRS Standards engagements in jurisdictions where IFRS Standards are not the predominant financial reporting framework.

Similar policies apply to engagements performed outside the US to report on financial statements or financial information prepared in accordance with US GAAP and/or audited in accordance with US auditing standards, including reporting on the effectiveness of the entity's internal control over financial reporting (ICOFR).



Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion



Recognising quality

KPMG’s approach to performance development, known as “Open Performance Development”, is built around the “Everyone a Leader” performance principles, and includes:

- Global role profiles (including role profiles specific to audit quality accountabilities and responsibilities);
- A goal library (including audit quality content); and
- Standardised review forms that are taken into audit quality ratings.

We know that by being clear and consistent about the behaviours we expect and rewarding those who demonstrate them, we will continue to drive a relentless focus on audit quality. We carried out various programmes to recognise individuals and audit teams who championed audit quality over the past year. This involved inviting all audit professionals to nominate individuals for various categories such as Best Coach, Best In-Charge and Best Specialist.

Global People Survey (GPS)

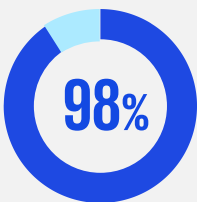
Annually all KPMG personnel are invited to participate in KPMG’s GPS to share their experience of working at KPMG. Through the GPS, we gain additional insights on how we are faring on categories known to impact employee engagement.

We also cover areas of focus that are directly relevant to audit quality; the survey includes specific audit quality-related questions that all individuals who participated in an audit in the previous 12 months are asked to respond to, giving us a specific data set for related matters.

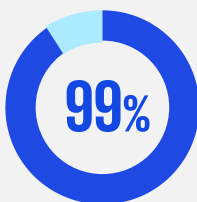
Results and key themes are presented to the Audit Management Board on an annual basis for consideration of appropriate remedial action. To address the 2022 GPS results, we have taken specific actions covering key areas including recognition, people experience, innovation and many more.

Proportion of staff who responded positively and/or didn’t disagree that:

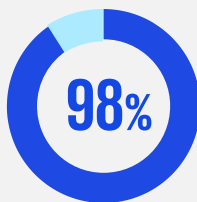
“The culture and tone set by leadership promote the importance of audit quality.”



“In the engagement teams I work with, a commitment to audit quality is evident in our day-to-day behaviours.”



“KPMG’s commitment to quality is apparent in what we do on a day-to-day basis.”



Responses % to statements in KPMG’s Global People Survey 2022



Written feedback from 2022 GPS

During non-peak season, the Firm provides CPA training and online courses, and also offers us study leaves. I think the Firm is great in terms of training and CPA support.

There are no strict lines between seniors and juniors. Teams are issue-driven and efficient. Even new joiners can develop themselves very fast!

The people I worked with are all high-integrity and quality people, and this helps us grow together.

The Firm is continuously developing and innovating.

The Firm has strict working requirements and I feel that I am growing every year through my day-to-day work.

KPMG cares about audit quality.

Strong technical support.

Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion



Monitoring and remediation



Integrated quality monitoring and compliance programmes enable us to identify quality deficiencies, to perform root cause analysis and develop, implement and report remedial action plans, both in respect of individual audit engagements and the overall system of quality management.

Jessie Wong | Partner in Charge of the System of Quality Management

Rigorously monitor and measure quality

Commitment to continuous improvement

We are committed to continually improve the quality, consistency and efficiency of all our audits. Our quality monitoring and compliance programmes are globally consistent in their approach across all KPMG firms, including the nature and extent of testing and reporting.

Internal monitoring and compliance programmes

Our quality monitoring and compliance programmes are created by KPMG International and applied across all KPMG firms. The programmes evaluate both:

- Engagement performance in compliance with the applicable professional standards, applicable laws and regulations, and KPMG key policies and procedures; and

- The KPMG firm’s compliance with KPMG International key policies and procedures and the relevance, adequacy and effective operation of key quality management policies and procedures.

Our internal monitoring programmes also contribute to the assessment of whether our system of quality management has been appropriately designed, effectively implemented, and operates effectively. Participation in these internal monitoring programmes is mandatory for all KPMG firms. The Firm communicates the results of the programmes internally and takes actions to make improvements where needed. The results are also considered at a wider regional level and by KPMG International.

Our internal monitoring programmes include:



Quality Performance Review (QPR) Programme

The Audit QPR programme assesses engagement level performance and identifies opportunities to improve engagement quality. At least one third of audit partners are inspected each year and no client-facing partner goes longer than four years without being inspected. A risk-based approach is used by the Firm to select engagements and the reviews are overseen by an independent experienced lead reviewer. Consistent criteria are used to determine engagement ratings and audit practice evaluations, which can then be used to measure improvements in the future.



KPMG Quality & Compliance Evaluation (KQCE) programme

The objectives of the KQCE programme are (1) to document, assess and provide evidence of the Firm’s implementation of ISQM 1, extent of compliance of its system of quality management with the Firm’s Quality & Risk Management (Q&RM) policies and key legal and regulatory requirements; and (2) provide the basis for the Firm to evaluate compliance with relevant professional standards and applicable legal and regulatory requirements. Where exceptions are identified, the Firm is required to develop appropriate action plans and then monitor the status of each action item.



Global Quality & Compliance Review (GQ&CR) programme

The Firm is subject to a GQ&CR conducted by KPMG International’s GQ&CR team, independent of the Firm, at various intervals based on identified risk criteria. GQ&CRs assess compliance with selected KPMG International policies and procedures and share best practices among KPMG firms. The Firm is required to develop action plans to respond to all GQ&CR findings that indicate improvement is required and agree to these with the GQ&CR team.

Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion

Obtain, evaluate and act on stakeholder feedback

We recognise that another important contributor to upholding audit quality is to obtain and act upon feedback from key stakeholders.

Regulators

KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR), principally through IFIAR’s Global Audit Quality Working Group (GAQWG), to discuss thematic audit quality issues along with targeted strategies for improvement. We value the open, honest and transparent dialogue that IFIAR facilitates on global audit quality issues.

The Firm maintains professional and respectful relationships with its local regulators, including proactively engaging, responding to questions in a timely manner and taking appropriate remedial actions.

We recognise and fully support the critical role of the AFRC, our local regulators, in the regular operation of capital markets and we are committed to continuing to work constructively with them to improve audit quality and build confidence in the audit profession.

Inspections by the AFRC provides an important opportunity for us to benchmark our audit quality against regulatory and market expectations. The AFRC is the independent regulator and they have been performing annual independent inspections of the Firm since 2020. As part of this, it reviews the Firm’s system of quality management and selected audit engagements.

In the AFRC’s most recently released 2021 Annual Inspection Report dated 23 June 2022, KPMG had 80% of its inspected engagements requiring no more than “limited improvements” – the best result amongst Category A auditors.

Our audit quality initiatives are also aided by our partners’ and senior staff’s external roles and



Inspections by the AFRC provides an important opportunity for us to benchmark our audit quality against regulatory and market expectations. It forms part of our continuous improvement on the performance and strengths of our system of quality management.

Jacqueline Wong | Head of Regulatory

appointments by regulators, professional bodies, standard setters, government advisory committees and NGOs. Through our involvement in these roles, we become aware of the issues that impact our clients and are important to regulators and our stakeholders.

 Organisations	# of appointments in 2022
Audit regulators (AFRC, HKICPA, MoF ¹)	32
Other accounting and tax professional bodies	13
SFC ² , SEHK ³ and HKMA ⁴	6
Government bodies	26
NGOs	28
Chambers of commerce	14
Educational institutions	15
Trade federations and associations and other professional bodies	20
TOTAL	154

1. MoF — Ministry of Finance of the People’s Republic of China
2. SFC — Securities and Futures Commission
3. SEHK —The Stock Exchange of Hong Kong Limited
4. HKMA—Hong Kong Monetary Authority

Client feedback

Client feedback is also important. The Firm proactively seeks feedback from clients through direct conversations and third-party surveys.

Root Cause Analysis (RCA)

Root Cause Analysis is important in order to identify and address audit quality issues and prevent them from recurring in the future.

A dedicated RCA team with relevant knowledge and experience performs analysis on findings from internal and external inspections to fully understand the root causes of issues and designs innovative and appropriate solutions using the KPMG five-step methodology.

Remediation plans from RCA cover both individual audit engagements and our overall system of quality management and are implemented through the development of training, tools and guidance to drive consistency, ensure the fundamentals are right and that best practice is shared and learned.



Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion



Environmental, social and governance



Environmental, social and governance (ESG) will be the watermark running through KPMG, from providing better approaches and services to our clients, to empowering our people to become agents of positive change.

Patrick Chu | Head of ESG Reporting and Assurance

Our role and commitment in climate disclosures and ESG assurance

The ESG agenda is rapidly changing how businesses assess their own purpose and performance. KPMG continues to support the reporting of consistent, high-quality, decision-useful information for stakeholders, and we are committed to performing our work in full compliance with existing standards.

Significant external events, such as the COVID-19 pandemic and the emerging impacts of climate change, have contributed to rising inflation and interest rates, supply chain disruption and increased global economic uncertainty.

Matters such as going concern, asset impairments and valuations will likely require careful judgement as organisations deal with elevated uncertainty and market volatility. The Firm's role as auditor is to evaluate these judgements. We assist financial statement preparers and other stakeholders in understanding the potential accounting and disclosure implications of significant external events.

As part of our commitments to meeting both the public interest and market demands, we have appointed a designated Head of ESG Reporting and Assurance, launched [online sustainability](#)

[reporting resources](#) and continued to provide guidance on the financial reporting impacts of climate change to both external and internal clients. Our recent market studies reveal that 61% of China's N100 companies adopted the ESG reporting guidelines issued by the Hong Kong, Shenzhen and Shanghai stock exchanges. In addition, the rate of China's N100 companies seeking independent ESG assurance has doubled over the past two years.

We envisage that the demand for ESG professionals will be huge, particularly in the Chinese Mainland and Hong Kong in the coming years to respond to market demand. At KPMG, we believe ESG professionals are the key to the sustainable transformation of enterprises and society, and there is currently a huge shortfall in the supply of competent ESG professionals. We are developing a new training initiative (comprising Cross-functional Foundations, ESG assurance literacy series and Partner Ignite literacy series) for upskilling our people in ESG knowledge and skills.

We will continue to invest in the ESG knowledge and capabilities of our people to enable them to master and apply their ESG expertise. In addition to upskilling our people, we also continue to invest in ESG tools and tech-enabled solutions to respond swiftly in a digitally-driven world.



Pictured: Cooperation between Universities and KPMG ESG and Tech teams on Innovation in ESG reporting

Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion

Our Impact Plan: KPMG’s ESG commitments and strategy

At KPMG, we are committed to making ESG a watermark running through our organisation. Our Impact Plan (OIP) brings together KPMG’s ESG commitments and progress under one umbrella. OIP focuses on four key pillars: Governance, People, Planet and Prosperity.

Our ESG highlights	
● 42%	of the leadership level (partners & directors) being female
● 77	hours of training per individual, including ESG 101 mandatory training for all our people in FY22
● 100%	renewable electricity sourced through Renewable Energy Certificates since 2021
● 25m+	RMB equivalent community investment value in FY22 with
● 37k+	direct beneficiaries
● 6.8k+	volunteer hours
● 10k+	pro bono audit hours provided

Governance

Guided by our Values, KPMG is committed to becoming the most trusted and trustworthy professional services firm in the market. KPMG has zero tolerance to illegal or unethical behaviour. All partners and staff are required to complete anti-corruption training every year. Following the global ESG strategy, we support our clients on their ESG transformation journey with our leading-edge expertise and solutions to key ESG issues faced by them. In addition, we forged strategic collaboration with key players in the ESG field, such as Shanghai Environment and Energy Exchange’s China Carbon Neutral Action Alliance to drive green development in the market.

People

We are committed to creating an inclusive, diverse and equitable workplace. With a focus on inclusion, diversity and equity (IDE), we launched the Next Generation Council to encourage our younger staff members to share their thoughts with the senior management. In the new normal after the global pandemic, KPMG embraces agility and continues to take care of the health and well-being of our people. To better help our people realise their full potential, we offer a variety of learning opportunities and resources, particularly ESG foundational & specialist training, to enable them to become agents of positive change.

Planet

To support KPMG’s global climate goal to become a net-zero carbon organisation, KPMG China has taken a series of decarbonisation initiatives in various aspects, ranging from sourcing renewable energy, incorporating the concept of circular economy into the business operation, supporting nature conservation programmes, to building our people’s environmental awareness. As a key enabler to our global climate goal, which aims to halve our direct and indirect carbon emissions by 2030, we implemented the Internal Carbon Price (ICP) in October 2022, which applies the “polluters pay” principle to encourage our people to reduce travel and opt for low-carbon transportation options.

Prosperity

In 2022, we expanded our presence to 31 cities with more than 15,000 partners and staff, fostering high-quality regional economic development and prosperity. At KPMG, we continue to empower change through investment in technology and innovation, such as setting up our third KPMG Digital Ignition Centre in Dalian to drive innovation in the region.

As for community investment, we support education for youth through future-ready skills training and school to work transition; we also support rural revitalisation by building capacity for non-profitable organisations (NPOs) that deliver rural development services in China, upgrading infrastructure to improve rural education quality, as well as supporting waste water management project to improve rural living environment.

To demonstrate our commitment, transparency and accountability on ESG, we released our second ESG report, namely Our Impact Plan in April 2022. Our third report is expected to be launched in April 2023.



Pictured: KPMG Planet Environment Activity



Messages to stakeholders
2022 audit quality actions
Governance and leadership
Living our culture and Values
Associating with the right clients and engagements
Being independent, objective and ethical
Embracing digital technology
Applying expertise and knowledge
Performing quality engagements
Communicating effectively
Nurturing diverse skilled teams
Monitoring and remediation
Environmental, social and governance

In conclusion

In conclusion

This Audit Quality Report has summarised how we are investing in the quality of our audit processes, audit methodologies and our system of quality management to help ensure the work that we do meets or exceeds the standards expected from both KPMG and our profession. In summary, audit quality means to us:



A relentless focus on audit quality allows us to continuously build trust and achieve our growth and quality objectives.

We do the right thing, always.

Messages to stakeholders

2022 audit quality actions

Governance and leadership

Living our culture and Values

Associating with the right clients and engagements

Being independent, objective and ethical

Embracing digital technology

Applying expertise and knowledge

Performing quality engagements

Communicating effectively

Nurturing diverse skilled teams

Monitoring and remediation

Environmental, social and governance

In conclusion



Messages to
stakeholders

2022 audit quality
actions

Governance and
leadership

Living our culture
and Values

Associating with
the right clients
and engagements

Being independent,
objective and
ethical

Embracing digital
technology

Applying
expertise and
knowledge

Performing
quality
engagements

Communicating
effectively

Nurturing diverse
skilled teams

Monitoring and
remediation

Environmental,
social and
governance

In conclusion

kpmg.com/cn/socialmedia



For a list of KPMG China offices, please scan the QR code or visit our website:
<https://home.kpmg.com/cn/zh/home/about/offices.html>

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2023 KPMG, a Hong Kong (SAR) partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. Printed in Hong Kong (SAR).

The KPMG name and logo are trademarks used under licence by the independent member firms of the KPMG global organisation.