



Audit Quality Report 2023

Quality is how we make a difference.



March 2024
KPMG, Hong Kong (SAR)

Audit Quality



Committed to
delivering quality

2023 audit quality
actions

01 - A system of
quality management
is foundational for
audit quality

02 - Governance and
leadership

03 - Living our
culture and Values

04 - Associating with
the right clients
and engagements

05 - Being independent,
objective and ethical

06 - Embracing
digital technology

07 - Applying expertise
and knowledge

08 - Performing
quality engagements

09 - Assessing risks
to quality

10 - Communicating
effectively

11 - Nurturing diverse
skilled teams

12 - Monitoring and
remediation

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.

This Audit Quality Report summarises 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.

KPMG Values



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KPMG is committed to quality and service excellence in all that we do, helping to bring our best to clients and earning the public's trust through our actions and behaviours both professionally and personally.

Our Values guide our behaviours day-to-day, informing how we act, the decisions we make, and how we work with each other, our clients, companies that we audit, and all of our stakeholders.



Our Values are:



Integrity

We do what is right.



Excellence

We never stop learning and improving.



Courage

We think and act boldly.



Together

We respect each other and draw strength from our differences.



For Better

We do what matters.



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Committed to delivering quality

Quality is as much an outcome as it is the standard for which we hold ourselves to account. It is the gateway to building trusted relationships with clients, stakeholders, and between KPMG personnel across the organisation. Providing high-quality services is what allows people at KPMG to continuously earn and re-earn the trust that has underpinned the organisation for more than 75 years.

Building trust is the key to our success and it starts with quality — even more so as the world evolves at a pace unrivalled in recent memory. Businesses are integrating technology in ways once unimaginable, shifting geopolitical winds and economic uncertainty have displaced norms, and businesses need to mobilise action against societal threats like the climate crisis.

The pace and scale of dramatic change happening around us only strengthens our resolve to ensure the quality, consistency and adaptability of our services are fit for this new future. Audit and assurance quality remains the highest priority at KPMG.

We have taken a consistent risk-based approach to our System of Quality Management to drive audit quality and meet the requirements of the International Standard on Quality Management (ISQM) 1. We are investing significant resources across our organisation to stay ahead of the curve. This has occurred in tandem with greater investments in tools, technology and talented people across the organisation — all to create a more seamless, integrated approach across borders.

Within KPMG:

- We have transformed the audit experience by delivering a fully digital audit approach that is more efficient, more consistent and more adaptable.

- We are utilising powerful technologies, including artificial intelligence, and leaning on our alliances with technology leaders to further enhance quality and provide even more value through deeper analysis of businesses, big and small, across the world.
- We are upskilling KPMG people and building teams that are fluent in ESG assurance reporting to help our clients meet the goals necessary to build a more sustainable future.

No process, technology or investment is fool-proof, but our commitment and focus on ensuring that we uphold our standards and those of our profession is unyielding. We learn from shortcomings and constantly look for opportunities to improve our performance and quality.

KPMG has a responsibility to so many people, businesses and institutions across the market. By utilising the breadth of our organisation and the expertise of our people, we are here to serve our clients and stakeholders to safeguard the public interest. At KPMG we will never waive from our commitment to deliver high-quality audit and assurance services.

Read this report to learn more about how we are working to ensure you can trust KPMG to deliver professional excellence and quality.



Ivy Cheung
Senior Partner



Wilson Lee
Head of Audit

Committed to delivering quality

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2023 audit quality actions



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The following key actions that we took during 2023 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 audit peak season
- Awards to recognise excellent audit quality
- Continuous deployment of global role profiles for quality
- File assembly acceleration programme



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 2023 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
- Engagement level monitoring including Second Line of Defence Reviews, Thematic Reviews, Audit File Checkpoint Programme and Quality Coaching Programme
- Root Cause Analysis on key findings from external and internal quality inspections



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01 A system of quality management is foundational for audit quality

Audit and assurance quality is foundational to instilling confidence and public trust in the capital markets and it remains our highest priority.

Across the organisation, KPMG has strengthened the consistency and robustness of its system of quality management (SoQM) to meet the requirements of the International Standard on Quality Management (ISQM) 1 and Hong Kong Standard on Quality Management (HKSQM) 1, issued by the International Auditing and Assurance Standards Board (IAASB) and the Hong Kong Institute of Certified Public Accountants (HKICPA) respectively.

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 the required quality objectives, quality risks and responses for each component in the standards.

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.

The drivers outlined in the framework are the ten components of the KPMG SoQM. In line with ISQM 1, the SoQM also aligns with the International Code of Ethics for Professional Accountants (including International Independence Standards), issued by the

KPMG Global Quality Framework



International Ethics Standards Board for Accountants (the IESBA Code of Ethics) and the Code of Ethics for Professional Accountants issued by the HKICPA (the HK Code of Ethics), which apply to professional services firms that perform audits of financial statements.

Sections 2-12 of the Audit Quality Report describe how we effectively operate each SoQM component. Combined with our firm's SoQM Statement of Effectiveness, this Audit Quality Report summarises how our SoQM effectively supports the consistent performance of quality engagements. The report may also be useful for stakeholders interested in the tax and advisory services offered by KPMG as certain aspects of our firm's SoQM are cross-functional and apply equally as the foundation of quality for all our services.



02 Governance and leadership

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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

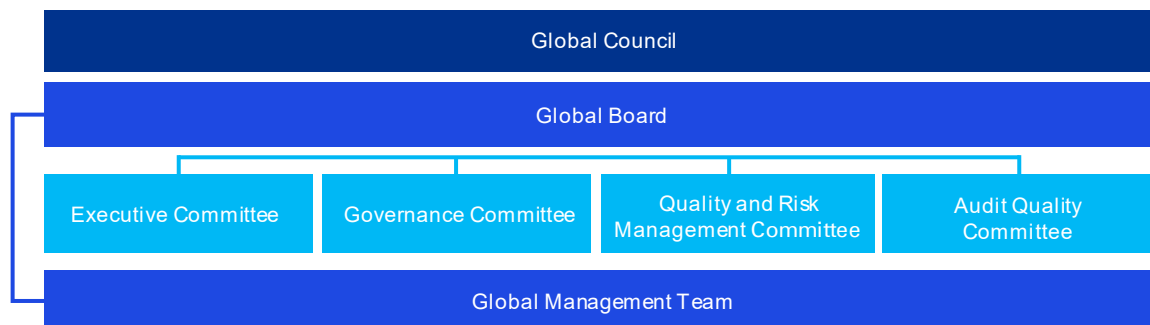
Professional Practice, Ethics & Independence Partner, amongst others.

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) 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 is the brand under which the member firms of KPMG International Limited (KPMG International) operate and provide professional services. Each firm is a separate legal entity and together they form the KPMG global organisation.

KPMG International acts as the coordinating entity for the overall benefit of the KPMG member firms. 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 Committee 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.



03 Living our culture and Values

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

”

Wilson Lee | Head of Audit

Fostering the right culture, starting with tone at the top

Our leadership plays a critical role in establishing our commitment to quality and the highest standards of professional excellence and ethics. 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 follow a common set of Values, standards, and service-quality expectations.

Clear Values and a strong Code of Conduct

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

We are committed to the highest standards of personal and professional behaviour in everything we do. Ethics and integrity are core to who we are at KPMG and within our Code of Conduct (the Code), we outline the responsibilities all KPMG people have to each other, to clients and to the public. It shows how our Values and Purpose inspire our greatest aspirations and guide all of our behaviours and actions. It defines what it means to work at and be part of the KPMG organisation, as well as our individual and collective responsibilities. Everyone at KPMG can expect to be held accountable for their behaviour, consistent with the Code, and are required to confirm their compliance with it.

Everyone at KPMG is required to report any activity that could potentially be illegal or in violation of our Values, our policies, applicable

laws, regulations or professional standards. The KPMG China's Ethics Hotline is a mechanism for KPMG personnel, clients and other third parties to confidentially report concerns they have relating to KPMG, activities of KPMG or KPMG personnel.

In addition to the processes outlined above, the Global People Survey provides our leadership with results related to upholding our Values.

Audit Quality Week

Towards the end of 2023, we held an “Audit Quality Week”, and more than 700 audit professionals attended in-person and virtual activities during the week, supported by over 20 topic leaders across the Firm. The event aimed to increase awareness of key topics in external and internal inspections, highlight quality initiatives and actions, and encourage reflection on lessons learned from past audits, with the goal of identifying improvements to enhance audit quality for the upcoming peak season.



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



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04 Associating with the right clients and engagements

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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

Client and engagement acceptance and continuance policies

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

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

Manage portfolio of clients

We have policies and procedures to enable us to monitor the workload and availability of engagement partners, managers and staff, and personnel to provide sufficient time to complete their responsibilities.

Engagement partners are responsible for determining that members of the engagement team collectively have the appropriate competence and capabilities, including sufficient time, to successfully perform the engagement in accordance with professional standards and regulatory and legal requirements (for more on this, see the Assigning an appropriately qualified team section).

Accept appropriate clients and engagements

01 Client evaluation process

Our evaluation of a prospective client includes an assessment of the client's risk profile and background information on the client, its key management, directors and owners. If necessary, the evaluation includes additional information required to satisfy applicable legal/regulatory requirements.

Engagement evaluation process 02

We consider a range of factors when evaluating each prospective engagement 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 the competence of the client's financial management team and the skills and experience of KPMG professionals.

04 Withdrawal process

If we come to a preliminary conclusion that indicates we should withdraw from an engagement or client relationship, we must consult internally and identify any required legal, professional and regulatory responsibilities with respect to that relationship. We will also have to consider further communications with those charged with governance and any other appropriate authority as required under its professional obligations.

Continuance process 03

We undertake an annual re-evaluation of all audit clients to identify risks in relation to continuing association and mitigating procedures that need to be put in place. In addition, clients are required to be re-evaluated if there is an indication that there may be a change to their risk profile.

**Know
Your
Client**

01

02

04

03



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05 Being independent, objective and ethical

Maintain an objective, independent and ethical mindset

KPMG's detailed independence policies and procedures incorporate the HK Code of Ethics, covering areas such as firm and personal independence, firm financial relationships, employment relationships, partner rotation and approval of audit and non-audit services.

The Firm's Ethics and Independence Partner (EIP) is responsible for communicating and implementing KPMG policies and procedures and ensuring that any additional local independence policies and procedures are established and effectively implemented. KPMG firm compliance with independence standards are part of the global KPMG Quality & Compliance Evaluation (KQCE) programme.



Personal financial independence

KPMG and its personnel are required to be free from prohibited financial interests in, and prohibited financial relationships with, KPMG audit and assurance clients, their management, directors and, where required, significant owners. We use a web-based independence compliance system to assist KPMG professionals in complying with personal independence investment policies. We monitor partner and professionals compliance with this requirement as part of our programme of independence compliance audit.



Partner rotation

KPMG partners are subject to periodic rotation of their responsibilities for audit clients which place limits on the number of consecutive years that partners in certain roles may provide audit services to a client.



Avoid conflicts of interest

KPMG and its personnel are responsible for identifying and managing conflicts of interest using a mandatory system to avoid circumstances or situations that may, or may be perceived to have an impact on the Firm's ability to be objective or act without bias. KPMG personnel are prohibited from offering or accepting inducements, including gifts and hospitality to or from audit clients, unless the value is trivial and inconsequential.



Non-audit services

We comply with the HK Code of Ethics and applicable laws and regulations related to the scope of services that can be provided to audit clients. KPMG's mandatory conflicts and independence checking system supports the Firm compliance with independence standards. We are prohibited from evaluating or compensating audit partners on selling non-audit services to their audit clients.



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.



Independence training and confirmations

All KPMG partners and professionals, as well as certain other individuals, are required to complete independence training and training on the Code of Conduct upon joining KPMG and on an annual basis thereafter, and must sign an annual confirmation of compliance.



Firm financial independence

KPMG is required to also be free from prohibited interests in, and prohibited relationships with, audit and assurance clients and their management, directors and, where required, significant owners.



Independence breaches

All KPMG personnel are required to report an independence breach to the EIP as soon as they become aware of it. All breaches of independence standards are required to be reported to those charged with governance as soon as possible, except where alternative timing for less significant breaches has been agreed to with those charged with governance. We have a disciplinary policy in relation to breaches of independence policies, incorporating incremental sanctions reflecting the seriousness of any violations.



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06 Embracing digital technology

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KPMG is transforming the audit experience for our professionals and clients using intelligent automation tools to collaborate, automate, centralise and standardise.

”

Alan Yau | Audit Innovation Leader

Use of Data Automation

● **Audit Quality**

● **Efficiency**

● **Brand and Growth**

● **Talent Retention**



**2023 Digitalisation
Achievements**



78,000+ documents exchanged via
KPMG Collaboration Centre (KCC)



70+ groups with transaction scoring
and other D&A routines



3,500+ usage of eJET



200+ usage of eLease



190,000+ activities by OCR tools

Audit Quality is a key driver for our digital transformation

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

1. **Automation**, to replace and enhance our 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 in repetitive tasks and to add more monitoring controls and exception reports. Our goal is to perform consistently high quality audits and standardisation means we can perform tests right every time.
2. **Use of data**, and 100% transaction population testing enable us to focus our effort on unusual transactions that are inherently more risky. Data and analytics can quickly open an auditor's eyes to a client's transaction flows and deviations from standard processes and controls.



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

01

Data and analytics routines and artificial intelligence

02

Audit applications that automate, standardise and aid collaboration

03

Integrated platforms to guide our audits and improve project management

04

Training on data literacy to upskill our people and give them tech confidence

Data and analytics and artificial intelligence

- **Electronic Journal Entry Tool (eJET)** analyses datasets of journal entries and identifies unusual transactions that may have higher risk for further testing.

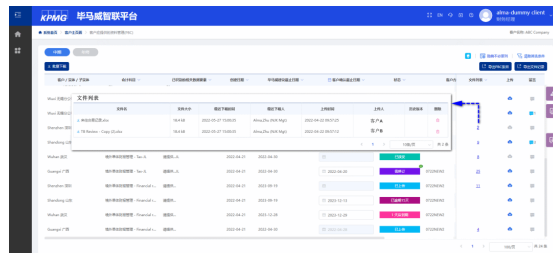


Pictured: Visualised journal entries indicating abnormal patterns and suspicious accounts

- **Alteryx D&A routines** standardise 100% population testing for revenue and purchases transaction flows and facilitate matching to cash.
- **Audit Data Extraction Toolbox** automates the extraction of data from clients' ERP systems. The toolbox can extract, compress, encrypt and transfer data securely.
- **KPMG Clara analytics – AI Transaction Scoring** leverages transactional general ledger data to concurrently support risk assessment and obtain substantive audit evidence on revenue and operating expenses.

Audit applications that automate, standardise and aid collaboration

- **KPMG Collaboration Centre (KCC)** is a secure and efficient web-based solution, which provides a convenient interface between clients and KPMG teams to collect engagement information, share statutory accounts and confirmations progress, monitor audit and administration matters, and also provides our clients direct online access to KPMG insights and technical training.



Pictured: Managing documents from various business units at one glance

- **Optical Character Recognition (OCRs):** embedded tools like **DataSnippet** and **KPMG Document Reader** assist auditors to accurately and efficiently extract, annotate, 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** assists audit teams with the recalculation of lease-related balances where teams adopt a recalculation method for auditing the lease transactions under IFRS/HKFRS 16.



Pictured: Automatic re-calculation of lease accounting information

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Integrated platforms to guide our audits and improve project management

- **KPMG Clara workflow (KCw)** is driving globally consistent audit execution across all KPMG firms. KCw is a scalable, cloud-based platform that enables delivery of our audit and assurance methodologies through data-enabled workflows that are aligned with the applicable audit standards.
- **Audit Application Platform** provides an integrated one-stop shop for our portfolio of audit solutions, facilitating services from the KPMG Delivery Centre, usage-monitoring and better user support.
- **Audit Resource Management System** facilitates the assignment of partners, managers and other team members with appropriate training, experience and availability for respective engagements and helps to comply with regulations like mandatory rotation requirements.

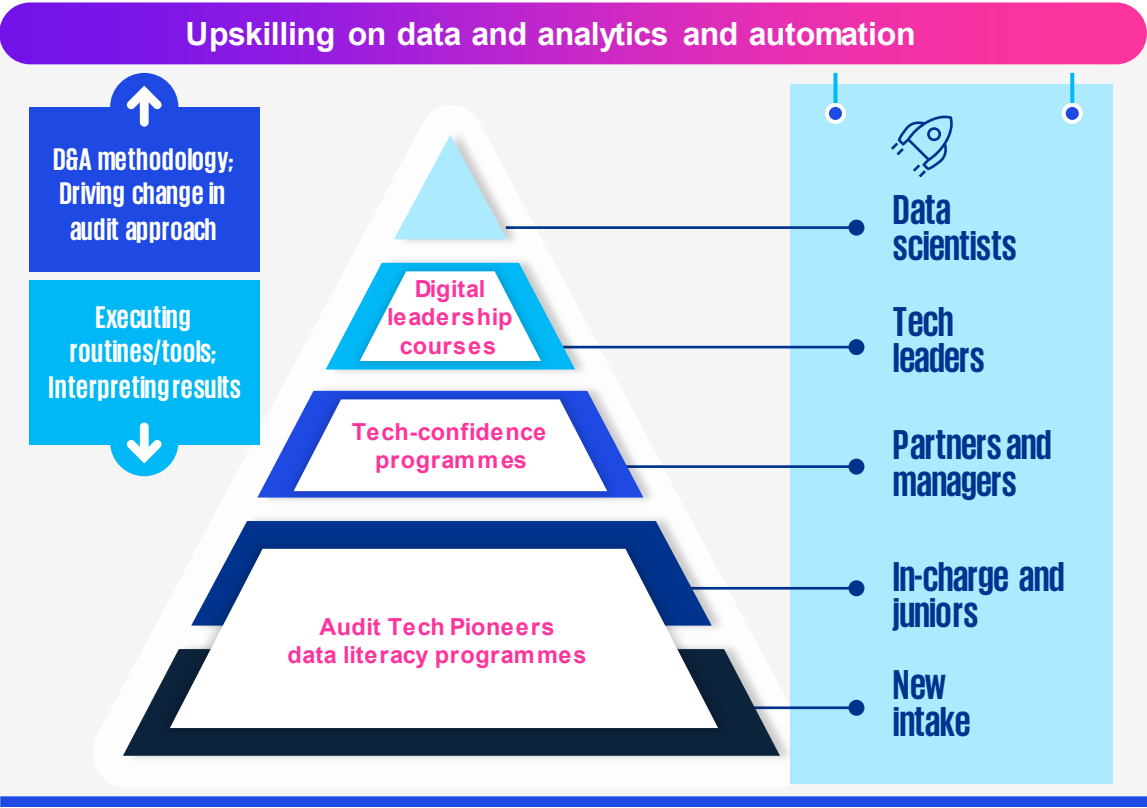
Training on data literacy to upskill our people and give them tech confidence

Our tech leaders are driving a firm-wide “Digitalisation of Audit” programme. Over the coming years, we want all of our audit professionals to be more “data literate” and unlock the power of automation and big data.

KPMG is investing in our talent pipeline to cultivate the technology skills that will be needed for the audits of the future. We are

recruiting data scientists and training our auditors to use the latest data and analytics routines on larger audits. And we crowdsource innovative ideas from students and staff through our Audit Innovation Competitions.

Upskilling on data and analytics and automation comes to life in our Audit Tech Pioneers programme. Pioneers receive enhanced education and coaching on the latest tools and techniques, and work hand-in-hand with mentors throughout a digitalised audit deployment journey. And for partners, our Tech Confidence programme gives practice on presenting on technology topics. We have also continued our collaboration with Hong Kong University of Science and Technology Master of Accounting Programme on its data analytics course to develop the next generation.



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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 standpoint, we maintain a robust Information Security Management System, certified under the latest ISO/IEC 27001 standard, inclusive of the ISO/IEC 27017 extension tailored for cloud environments. We undergo annual audits conducted by a trusted issuer to ensure strict adherence to our policies and standards.

In 2023, we achieved ISO/IEC 27701 certification for privacy information management and were honoured with the "Friends of Privacy Award 2023" Outstanding Gold Award, presented by the Personal Data Privacy Office of the Hong Kong Special Administrative Region of China. We also conduct internal reviews to reinforce our compliance, extending beyond the ISO certifications to encompass data privacy and related areas. Continuous monitoring is integral to our operations, employing a suite of performance indices that assess our security posture, organisational governance, and our prompt and effective incident management capabilities, thereby ensuring alignment with 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.



Committed to delivering quality

2023 audit quality actions

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05 - Being independent, objective and ethical

06 - Embracing digital technology

07 - Applying expertise and knowledge

08 - Performing quality engagements

09 - Assessing risks to quality

10 - Communicating effectively

11 - Nurturing diverse skilled teams

12 - Monitoring and remediation

Our information security management measures

Policies and processes

Supply chain management

Personal information protection

Hardcopy audit file management

Electronic audit file storage and access

Security and confidentiality controls

Annual confirmation on confidentiality policy

Staff training

The Firm's information security policies, resources and controls

Pictured: The ISO/IEC 27001 certificate



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11 - Nurturing diverse
skilled teams

12 - Monitoring and
remediation

07 Applying expertise and knowledge

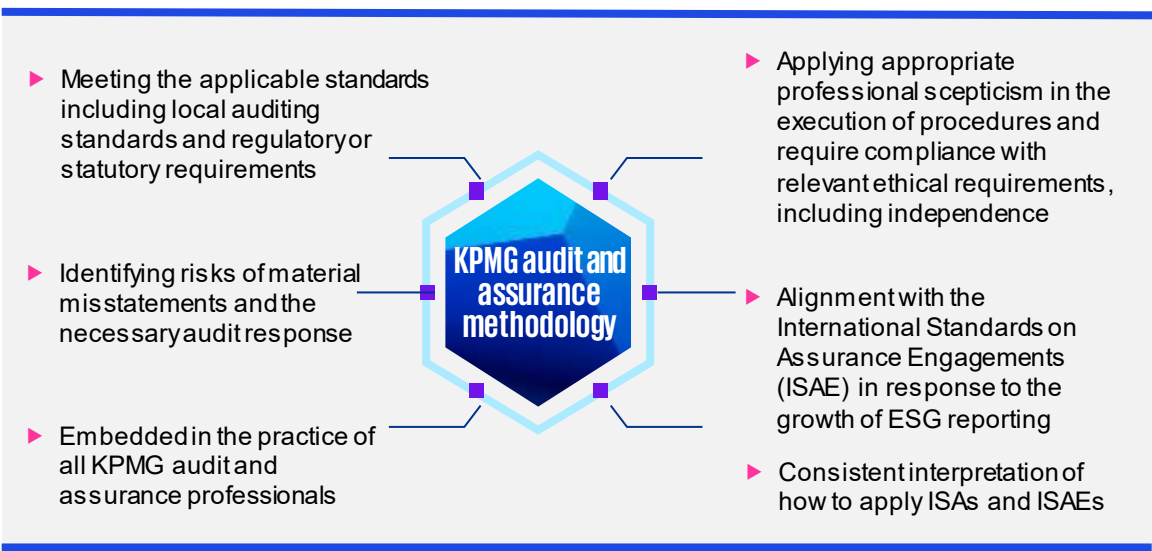
“
As our clients undergo more digital transformation, we are continuously strengthening our dedicated IT audit team with more resources and enhanced capabilities.
”
Fred Barros | IT Audit Quality Partner

Methodology aligned with professional standards, laws and regulations

The KPMG audit and assurance methodology, tools and guidance drive a consistent approach to planning, performing and documenting procedures over key processes. Our standardised methodology and guidance are embedded within the KPMG Clara workflow platform, and assist KPMG engagement teams in meeting the ever-changing landscape of corporate reporting.

Quality and risk management policies

KPMG has quality and risk management policies that are applicable to the Firm and its personnel and are consistent with ISQM 1 where applicable.





Access to specialist networks

Specialist expertise is an increasingly important part of the modern audit and is a key feature of our multidisciplinary model. KPMG engagement teams have access to a network of KPMG specialists to consult — either within the Firm or in other KPMG firms. These specialists receive the training they need to ensure they have the competencies, capabilities and objectivity to appropriately fulfil their role on KPMG audits.

The need for specialists to be assigned to an audit engagement in areas such as information technology, tax, treasury, actuarial, forensic and valuations is considered during the planning and conduct of the engagement.

IT Audit

It has been two years since we transitioned IT Audit professionals to our audit practice in Hong Kong. That was a crucial step towards improving our IT audit services in support of our audit quality objectives.

We have made improvements across various areas including enhanced interactions with Audit Committees and IT management, increased standardisation of IT audit procedures, improved discussion on audit scope, and greater involvement of IT Audit in business process walkthroughs and audit planning meetings. IT Audit and audit teams work as One Team to implement necessary changes to further improve audit quality.

ESG Assurance quality

KPMG is committed to fulfilling our public interest role in providing robust assurance that can benefit investors and other stakeholders. We believe the same level of professionalism, quality, consistency and trust should apply to ESG reporting as to financial data. We are making significant investments in putting ESG at the heart of the organisation.

During 2023, as part of our commitments to serving the public interest, we have:

- Released a revised methodology for ESG assurance designed to be flexible and scalable, while enabling high-quality, consistent assurance engagement delivery that complies with assurance standards and aligns with our financial statement audit methodology. The scope of the execution guide is broader than ESG assurance and is applicable for all ISAE 3000 assurance engagements.
- Delivered guidance to be used in conjunction with the methodology that is supported by standardised risks and procedures for Greenhouse gas assurance engagements.
- Released an ESG assurance workflow compliant with the revised assurance methodology, built on our smart technology platform — KPMG Clara — that provides our teams, and KPMG's clients, with a consistent user experience.
- Released a learning curriculum to increase the foundational ESG literacy of KPMG professionals and enable upskilling on the new methodology and KPMG Clara workflow — Assurance.



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remediation

08 Performing quality engagements

“

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

Consult when appropriate

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. Across the organisation, we promote a culture in which consultation is recognised as a strength and encourage 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. In addition, KPMG audit, assurance and risk reporting manuals also include required consultations on certain matters.

Critically assess audit evidence using professional judgement and scepticism

On all audits, we design and perform audit procedures whose nature, timing and extent are based on and responsive to the assessed risks. All audit evidence obtained during the course of the audit is considered, including contradictory or inconsistent audit evidence.

Each KPMG team member needs to exercise professional judgement and maintain professional scepticism throughout the audit engagement. Professional scepticism involves a questioning mindset and remaining alert to contradictory or inconsistencies in audit evidence. Professional judgement encompasses the need to be aware of and alert to biases that may pose threats to sound judgements.

Direct, coach, supervise and review

Embedding ongoing coaching, supervision and review

At KPMG, we promote a coaching culture as part of enabling KPMG professionals across the organisation to achieve their full potential. We support a continuous learning environment where every team member in the Firm is responsible for building the capacity of the team, coaching other team members and sharing experiences while directing, supervising and reviewing their work.

Engagement quality control (EQC)

The EQC review is an important part of KPMG's approach to quality. We have agreed to appoint an EQC reviewer for each audit engagement, including any related review(s) of interim financial information, of all listed entities, certain non-listed entities identified on a risk-based approach, engagements that require an EQC review under applicable laws or regulations, and other engagements, including certain assurance engagements, as designated by the RMP or Head of Audit.

An EQC review is an objective evaluation of the significant judgements made by the engagement team and its related conclusions, performed by the EQC reviewer, and completed on or before the date of the report. The EQC reviewer's evaluation of significant judgements includes an evaluation of the engagement team's assessment of significant risks, including fraud risks, the related responses and whether the related conclusions are appropriate. The EQC review is completed only after the EQC reviewer is satisfied that all significant matters raised during the review have been resolved, though the engagement partner is ultimately responsible for the resolution of accounting and auditing matters.

EQC reviewers in the Firm must meet training, knowledge and experience qualifications to perform the EQC review for a particular engagement.

Reviewers must be objective, cannot be members of the engagement team and must be independent of the audit client.

Audit Quality and Professional Practice (AQPP)

We have dedicated AQPP 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.

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Accounting and Reporting (A&R)

Our dedicated team with in-depth technical knowledge in accounting and financial and sustainability 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 Deployment (TSLD)

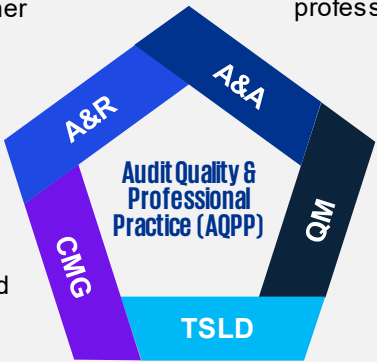
Leading our internal programmes for audit digitalisation transformation through upskilling our people. Creation and deployment of insightful data and analytics and efficient tech enablers that standardise, simplify, centralise and automate our audits.

Audit and Assurance (A&A)

Our centre of excellence on audit and assurance 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.



1:15

Ratio of AQPP headcount to audit professionals

61%

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 Financial Reporting Review Panel of the Hong Kong Accounting and Financial Reporting Council;
- HKICPA and its various committees; and
- The Listing Committee of The Stock Exchange of Hong Kong Limited.

Inflight monitoring and coaching programmes

We carry out a number of inflight monitoring and coaching programmes to provide support to engagement teams against relevant professional standards and firm policies before audit opinions are signed. Engagement teams receive comments and need to make prompt remediations before they issue the auditors' reports.

- **Project Onboarding** is a new coaching programme in 2023, conducted by partners and managers from AQPP to provide one-to-one coaching to new engagements of listed companies on key audit methodology and focus areas including file setup, group audit, materiality, fraud assessment, opening balance and IT audit.



- **Capital Markets Group (CMG) Reviews** are independent review procedures performed by CMG team for capital market engagements on IPOs in the Chinese Mainland, Hong Kong (SAR) and the US, and other capital markets transactions. A CMG review is required when KPMG is engaged to provide services to its auditor or assurance clients that involve issuing reports, letters, or other deliverables related to proposed capital market transactions. The scope, focus and timing of the review are tailored for different listing destinations and types of transactions, taking into account relevant regulatory, professional and KPMG requirements.
- **Quality Coaching Programme** is also a new programme initiated in 2023, designed to enhance audit teams' understanding of audit standards, provide guidance on best practices for executing audit procedures, and help them apply knowledge to improve the quality of work. The coaching sessions are tailored to address issues or deficiencies commonly seen in recent regulatory inspections.
- **Second-line of defence (2LoD)** reviews are independent reviews (other than the EQC review) conducted in areas of focus on audit engagements and provide direct real-time support and coaching to selected engagement teams with the goal of assessing the audit work in progress against the relevant professional standards.
- **Pre-issuance Review (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, audit of financial information included in listing documents, 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.
- **Audit File Checkpoint Programme (AFCP)** is an independent review of selected 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.

Appropriately support and document conclusions

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

We complete and assemble audit documentation in accordance with KPMG policy and applicable auditing standards. KPMG policy includes safeguards, to protect the confidentiality and integrity of client and the Firm information, and a reduction in the time period allowed to assemble audit documentation.

KPMG Delivery Centre

The quality of our audits is further improved by the KPMG Delivery Centre (KDC), which operates out of Foshan, Nanjing, and Chengdu. With a workforce around 1,000 staff, the KDC aids KPMG offices by employing information technology and data analytics tools. These tools are aimed at modernising, streamlining, standardising, and centralising the audit process, leading to enhanced quality, efficiency, and consistency.

KDC currently focuses on data extraction, data processing, data analysis and certain substantive audit procedures including external confirmations, applying innovative and automated solutions to audit engagements in response to requests from teams.

Innovative solutions at KDC include:

- **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.

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800+

Engagements monitored in various programmes in 2023

Scan the QR code to watch a video to the confirmation handling machine



09 Assessing risks to quality

“

The quality of a KPMG audit rests on our SoQM. KPMG’s approach to ISQM 1/HKSQM 1 emphasises robustness of controls within the Firm’s processes.

”

Paul Lau | Partner in Charge of the System of Quality Management

Identifying risks to quality and implementing effective responses

The Firm performs an iterative risk assessment process (I-RAP) to establish the quality objectives, identify and assess quality risks in achieving those objectives (including process risk points), and design and implement controls as responses to those risks. More specifically, the process involves:

- Establishing quality objectives necessary to achieve the objectives of the SoQM;
- Identifying and assessing quality risks as a basis for the design and implementation of responses to those risks;
- Designing and implementing responses to address the quality risks; and
- Establishing policies or procedures to identify information that indicates additional quality objectives, or additional or modified quality risks or responses are needed due to changes in the nature or circumstances of the firm or its engagements





10

Communicating effectively

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“

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

”

Ivy Cheung | Senior Partner

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

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.

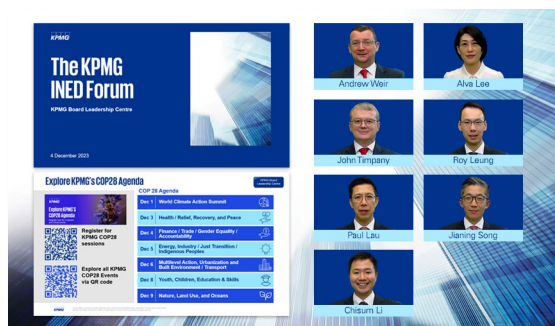
The KPMG Board Leadership Centre (BLC) champions outstanding corporate governance to drive long-term value and enhance stakeholder confidence. Through a range of insights, perspectives, and programmes, the BLC — which includes the KPMG Audit Committee

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.

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



Recent Board Leadership publications



Pictured: 2023 KPMG INED Forum

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

11

Nurturing diverse skilled teams

“

Our people make the real difference and are instrumental in shaping the future of audits 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 with diversity of specialist skills, 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 fulfil their potential and feel proud and motivated to give their best. In 2023, we were honoured to have been recognised among the Best Companies to Work For in Asia.



Pictured: Best Companies to Work For in Asia 2023

Reward and promotion

We 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 audit teams understand what is expected of them, including the audit quality accountabilities

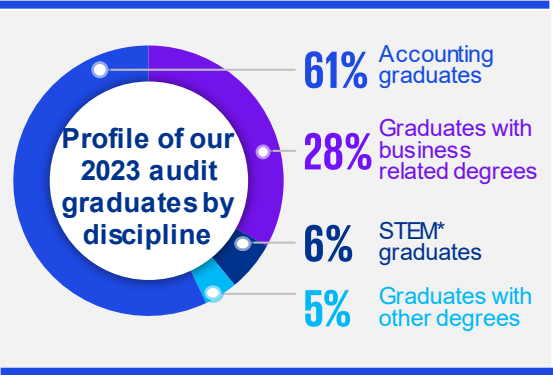
outlined in globally consistent audit role profiles and a mandatory audit quality goal. The connection between performance and reward is achieved by assessing performance across a peer group to inform reward decisions. Reward decisions are based on the consideration of both personal and individual firm performance.

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.

Recruitment

KPMG has invested in understanding how we can attract the talent we need now and in the future across the organisation.

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.



**STEM refers to "Science, Technology, Engineering and Mathematics".*

Assigning an appropriately qualified team

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 or engagement. The Head of Audit is responsible for the partner assignment process. Key considerations include partner experience and capacity — based on an annual partner portfolio review — to perform the engagement taking into account the size, complexity and risk profile of the engagement and the type of support to be provided.

Audit engagement partners are responsible for determining that their engagement teams have appropriate competencies, training and capabilities.

Our self-developed ARMS tool can facilitate an effective human resources assignment to audit engagements and enhance the consistency and robustness of workload allocation and resources management.

We continuously develop and maintain people initiatives to balance work and life and make KPMG a great place for self-accomplishment and career development.

Focus 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.

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 the Firm that every team member is responsible for building the capacity of the team , coaching other team members and sharing experiences.



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Our major initiatives for talent retention

- Enhancing reward and recognition culture for high performers, and designing compensation packages appealing to potential hires
- Aligning the people strategy with Human Resources and Learning & Development to recruit, retain and upskill all talent
- Helping engagement teams to improve quality and efficiency through standardisation and centralisation
- Launching Everyone Agile, KPMG's agile way of working to achieve business outcomes and better work-life balance

- Launch of the Wellbeing App – a one-stop platform to join events and access the firm's wellbeing resources anytime, anywhere
- Resourcing our people champion network, organising staff activities and showing care for staff wellbeing, especially during the audit peak season



Our audit teams

- 1:2.9 Partners to senior managers and managers
- 1:6.2 Partners to assistant managers
- 1:6.3 Partners to accountants
- Leverage ratio of team members as at 31 December 2023

- 65% 2023 total utilisation rate out of total audit hours committed by IT Audit teams and specialists for Public Interest Entities engagements
- 13% audit partners with more than 10 years of experience working with KPMG
- 90% total training hours per audit professional during 2023
- 129



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Local and overseas secondments

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® and US GAAP engagements

Specific requirements apply to partners, managers and engagement quality control (EQC) reviewers working on IFRS engagements. 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).

Recognise quality

KPMG's approach to performance development, known as 'Open Performance Development', is built around the 'Everyone a Leader' performance principles which are supplemented by the global audit technical core competencies to provide a holistic view of expectations. The performance development approach includes:

- Globally consistent audit role profiles (including role profiles specific to audit quality accountabilities and responsibilities).
- A goal library (including a mandatory audit quality goal and additional optional audit quality content).

- Standardised review forms (with provision for audit quality ratings).

Open Performance Development is linked to KPMG's Values and designed to articulate what is required for success — both individually and collectively.

Quality and compliance metrics are considered in assessing the overall evaluation, promotion and remuneration of partners. These evaluations are conducted by performance managers and partners who are able to assess performance.

We also 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.

Conduct and follow up on the Global People Survey (GPS)

Annually, all KPMG personnel are invited to participate in KPMG's GPS to share their perception on their experience of working at KPMG.

Results can be analysed by several factors, including functional or geographic area, grade and gender to provide additional focus for action. Through the GPS, KPMG measures our people's engagement and gains additional insight on what drives engagement.

We also cover areas of focus that are directly relevant to audit quality to give us a particular data set for audit quality-related matters.

The survey also provides our leadership with insights related to quality and risk behaviours, upholding the KPMG Values, employee and partner attitudes to quality, leadership and tone at the top. We take appropriate actions to communicate and respond to its findings.

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

98%

"The people I work for demonstrate honest and ethical behaviour."

98%

"KPMG's commitment to quality is apparent in what we do on a day-to-day basis."

98%

"The culture and tone set by Audit practice leadership promote the importance of audit quality."

Responses % to statements in KPMG's Global People Survey 2023 of KPMG Hong Kong



Written feedback from 2023 GPS

I am proud of the time and efforts that we devoted to enhance the quality of work.

Audit quality and risk management are always at the forefront of what we do.

KPMG's high standards for audit quality have laid a solid foundation for my career.

My professional knowledge has been largely improved during working at KPMG.



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remediation**

12 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.

”

Paul Lau | Partner in Charge of the System of Quality Management

Rigorously monitor and measure quality

Commitment to continuous improvement

KPMG commits to continually improve the quality, consistency and efficiency of all our audits.

The quality monitoring and compliance programmes are globally consistent in their approach across all KPMG firms, including the nature of testing and reporting.

Internal monitoring and compliance programmes

We use quality monitoring and compliance programmes developed by KPMG International to identify quality issues, perform root cause analysis and develop remedial action plans, both for

individual audits and for our overall SoQM. The programmes evaluate:

- Engagement performance in compliance with the applicable professional standards, applicable laws and regulations, and key KPMG International policies and procedures.
- The Firm's compliance with key KPMG International policies and procedures, and the relevance, adequacy and effective operation of key quality management policies and procedures.

Our internal monitoring and compliance programmes also contribute to the evaluation of the Firm's SoQM operating effectiveness. We participate in these programmes and communicate the results and establish action plans to make improvements where needed.



Audit 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 from another KPMG firm. Consistent criteria are used to determine engagement ratings and audit practice evaluations, which can then be used to measure improvements in the future.



The global KPMG Quality & Compliance Evaluation (KQCE) programme

The global KQCE programme encompasses the testing and evaluation requirements of the Firm's SoQM which are necessary to support the compliance with ISQM 1 / HKSQM 1, and compliance with key quality and risk management policies. The 2023 KQCE programme covered the period from 1 October 2022 to 30 September 2023 and helps support the Firm's conclusions on the operating effectiveness of its SoQM as of 30 September 2023 and compliance with key quality and risk management policies in that period.



Global Quality & Compliance Review (GQCR) programme

A GQCR is carried out by a KPMG International team and firms are selected for review using a risk-based approach. The Firm is subject to a GQCR at least once in a four-year cycle. The GQCR team comprises partners and managers who are independent of the Firm subject to review. The overall objective of the GQCR programme is to assess the Firm's compliance with selected KPMG International policies, including those related to governance and SoQM.



Internal monitoring and compliance programme reporting

Findings from the monitoring and compliance programmes are disseminated to the Firm through written communications, internal training tools and periodic meetings with leadership. Findings are also emphasised in subsequent monitoring and compliance programmes to gauge the extent of continuous improvement. Lead audit engagement partners are notified of Audit QPR not compliant ratings if relevant to their respective cross-border engagements.

Remediation and monitoring

The Firm develops remedial action plans to respond to findings identified through the monitoring and compliance programmes. Progress on action plans is monitored and results are reported to the Firm's leadership and, as appropriate, to regional and global leadership.

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 (GAQ WG), 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.

We maintain professional and respectful relationships with applicable regulators, including proactively engaging, responding to questions in a timely manner and taking appropriate remedial actions.

We fully support the critical role of the Accounting and Financial Reporting Council (AFRC) 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 provide an important opportunity for us to benchmark our audit quality against regulatory and market expectations. The AFRC is one of our key independent regulators 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.

The AFRC released its 2022 Annual Inspection Report dated 11 July 2023 concluding their first three-year inspection cycle from 2020 to 2022. Over that period, KPMG has been consistent in delivering quality audits.

Our audit quality initiatives are also aided by our partners' and senior staff's external roles and 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 2023
Audit regulators (AFRC, MoF ¹)	5
Other accounting and tax professional bodies	42
SFC ² , SEHK ³ and HKMA ⁴	5
Government bodies	28
NGOs	24
Chambers of commerce	9
Educational institutions	11
Trade federations and associations and other professional bodies	25
TOTAL	149

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. We proactively seek feedback from clients through in-person conversations and third-party surveys.

Perform root cause analysis

The Firm's Root Cause Analysis (RCA) programme is an integral element of the monitoring and remediation component in the SoQM, driving enhancements to audit quality. Leveraging inputs from internal monitoring programmes, external inspections and other activities, we identify audit quality issues and undertake root cause analysis corresponding to the nature and severity of the issues. We design the RCA programme in accordance with KPMG International's RCA guide.

Upon completion of root cause analysis, we design and implement remedial actions that respond to the underlying cause of the audit quality issues and subsequently monitor the effectiveness of those actions. The RCA remedial action plans and monitoring results are reported to regional and global leadership.

Committed to delivering quality

2023 audit quality actions

01 - A system of quality management is foundational for audit quality

02 - Governance and leadership

03 - Living our culture and Values

04 - Associating with the right clients and engagements

05 - Being independent, objective and ethical

06 - Embracing digital technology

07 - Applying expertise and knowledge

08 - Performing quality engagements

09 - Assessing risks to quality

10 - Communicating effectively

11 - Nurturing diverse skilled teams

12 - Monitoring and remediation

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