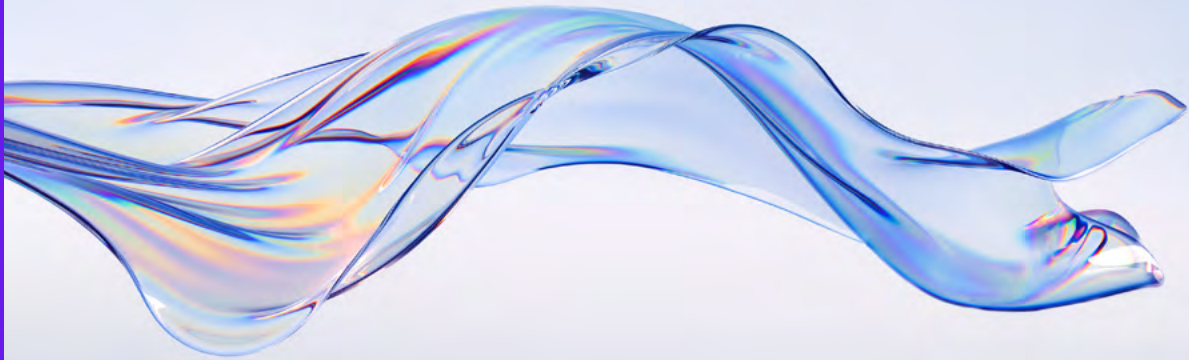




# Transparency Report 2022

**Our relentless focus on quality**



KPMG in the Crown Dependencies



[kpmg.com/cds](https://kpmg.com/cds)

# Message from our Chairman

Welcome to the 2022 KPMG in the Crown Dependencies transparency report providing information about our firm as at 30 September 2022 or for the year to that date unless otherwise stated.

This report is issued annually and aims to provide an insight into how we uphold our professional obligations and responsibilities, and our commitment to quality, integrity and service excellence. That commitment is based on the extraordinary people we recruit, the values we uphold, and the culture we create.

We strive to be employers of choice by creating an environment where people can fulfil their potential and feel motivated and proud to give their best. We work hard to foster an inclusive culture of diverse talent. We are committed to continuous development and coaching. We measure our people's engagement by inviting them to take part in an annual Global People Survey which also provides valuable insights into many other areas of our business. These insights enable us to focus on maintaining strengths or taking advantage of development opportunities.

Our culture is underpinned by a strong set of values and supporting policies and procedures. Our values are what we believe in and they guide our actions and behaviours we recognise that trust in our profession cannot be taken for granted; it is not just what we do that matters, but also how we do it. The [KPMG Global Code of Conduct](#) was refreshed in 2020 (and is reviewed annually) and builds on our Values and defines who we are and how we act – all our people are expected to follow it. Leadership plays a critical role in setting the right tone and our leaders demonstrate complete commitment to the highest standards of professional excellence and leading by example.

We take our commitment to audit quality very seriously and are continually investing in people, our control environment and digital solutions. Our new Global Quality Framework outlines how every director and employee contributes to delivering high-quality audits.

We will not be complacent as expectations of auditors increase and will continue to regularly monitor our audit quality through internal self-assessment programmes, but we are also subject to regular inspection by the external audit regulators who oversee our registrations to audit Guernsey, Jersey and Isle of Man companies traded on regulated markets in the EU. Our advisory and tax functions are also subject to internal self-assessment programmes and several people in our firm play key roles in wider KPMG quality initiatives.

Our KPMG Story sets out our path to achieving our vision of becoming the "Clear Choice". It provides clarity on who we are and what we stand for, where we are going, how we will get there and what we want to be known for, unifying all our people, not only in the Crown Dependencies, but around the world. Our local strategy recognises the need to be "future ready" which means growing expertise to support our clients through this period of unprecedented change and disruption.

We are living through dynamic times. Since the pandemic in 2020, the world is experiencing a number of geopolitical and economic events that challenge us all. We find ourselves moving out of a period where we focussed primarily on the safety of our people, enabled hybrid working and focussed on delivering to match the growth in our clients industries. We are now faced with supporting the safety and economic wellbeing of people outside our organisation, seeking to ensure our people are well prepared for the challenges that may come and focussing on resilience in this dynamic environment. Our clients will be equally challenged and we have continued to expand our resources to allow us to cover the inevitably difficult elements of our work over the coming years. This will enable us to ensure we retain a focus on quality through challenging times.

The combined KPMG in the Crown Dependencies audit practice, trades through KPMG Channel Islands Limited and KPMG Audit LLC and continues to be overseen by a combined holding company with an Audit Board that

includes several firm non-executives, drawn from our tax and advisory practices. Whilst audit operational separation is not required in our jurisdictions, we are closely following its development in the UK and will make further proportionate changes to our operations as markets dictate in the coming years.

I hope you will find this report a useful insight into our business. If you would like to discuss any aspect of this report or have any questions or feedback, I would be delighted to hear from you.



A stylized, handwritten signature in black ink that reads "Neale".

**Neale Jehan**

**Chairman**

KPMG in the Crown Dependencies

22 December 2022

Message from  
our Chairman

<sup>1</sup> Throughout this document, "KPMG," "we," "our" and "us" refers to the global organisation or to one or more of the member firms of KPMG International Limited, each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients.

No member firm has any authority to obligate or bind KPMG International Limited or any other member firm vis-à-vis third parties, nor does KPMG International Limited have any such authority to obligate or bind any member firm.

Throughout this document, references to "Firm," "KPMG firm," "member firm" and "KPMG member firm" refer to firms which are either: members of KPMG International Limited; sublicensee firms of KPMG International Limited; or entities that are wholly or dominantly owned and controlled by an entity that is a member or a sublicensee. The overall governance structure of KPMG International Limited is provided in the 'Governance and leadership' section of the 2022 KPMG International Transparency Report

# Living our culture and Values

It's not just what we do at KPMG that matters, we also pay attention to how we do it. Our Values are our core beliefs, guiding and unifying our actions and behaviours. Shared across every level and in every country, jurisdiction and territory in which we operate, they are the foundation of our unique culture.

## 2.1 Fostering the right culture, starting with tone at the top

### 2.1.1 Tone at the Top

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

At KPMG in the Crown Dependencies ("KPMG CDs") we promote a culture in which consultation is encouraged and recognised as a strength.

We communicate our commitment to clients, stakeholders and society at large to earn the public's trust.

Our Values lie at the heart of the way we do things. To do the right thing, the right way, at the right time. Always. They form the foundation of a resilient culture ready to meet challenge with integrity, so we never lose sight of our principal responsibility to protect the public interest. And they propel us forward — through our work and the example we set — as we inspire confidence and empower change throughout the world.

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.

**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.

Outlined in [KPMG's Global Code of Conduct](#) ("the Code") are the responsibilities all KPMG 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. It defines what it means to work at and be part of KPMG, as well as our individual and collective responsibilities.

Everyone at KPMG is held accountable for behaviour consistent with the Code and is required to confirm their compliance with it. All KPMG personnel are required to take annual training covering the Code. We are committed to holding ourselves accountable for behaving in a way that is consistent with the Code. Individuals are encouraged to speak up if they see something that makes them uncomfortable or is not in compliance with the Code or our Values.

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

To safeguard this principle of holding each other accountable, each KPMG firm is required to establish, communicate and maintain clearly defined channels to allow KPMG personnel and third parties to make inquiries about, raise concerns in relation to, provide feedback on, and notify, reportable matters, without fear of reprisal, in accordance with applicable law or regulation.

The [KPMG International hotline](#) is a further mechanism for KPMG personnel, clients and other third parties to confidentially report concerns they have relating to certain areas of activity by KPMG International, activities of KPMG firms, or KPMG personnel. We take reports received by the International hotline seriously, and for each of them we respond, and take appropriate action.

All KPMG firms and personnel are prohibited from retaliating against individuals who have the courage to speak up in good faith. Retaliation is a serious violation of the Code, and any person who takes retaliatory action will be subject to their firm's disciplinary policy.

The Global People Survey provides KPMG CDs leadership and KPMG International leadership with results related to upholding the KPMG Values. KPMG CDs and KPMG International monitor the results and take appropriate actions to communicate and respond to any findings (refer to section 10.2).

### 2.1.2 System of quality management

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

Tone at the top, leadership, and a clear set of Values and conduct are essential to set the framework for quality. The quality of each audit rests on a foundational system of quality management.

Across our global organisation we have strengthened the consistency and robustness of our system of quality management that enables compliance with the International Standard on Quality Management (ISQM 1), issued by the International Auditing and Assurance Standards Board (IAASB), which will take effect on 15 December 2022. We consider this a transformational and fundamental change for KPMG firms.

Our globally consistent approach to ISQM 1 drives the robustness of our responses to the risks of achieving the quality objectives set out in the standard. For each component in the standard, we have established minimum required quality objectives, quality risks and responses for all KPMG firms.

KPMG international has established a risk assessment process required to be used by KPMG firms in identifying additional firm specific quality objectives, quality risks, and responses and requirements for testing and evaluation of their systems of quality management together with guidance, tools and templates to support consistent implementation of ISQM 1 across KPMG firms.

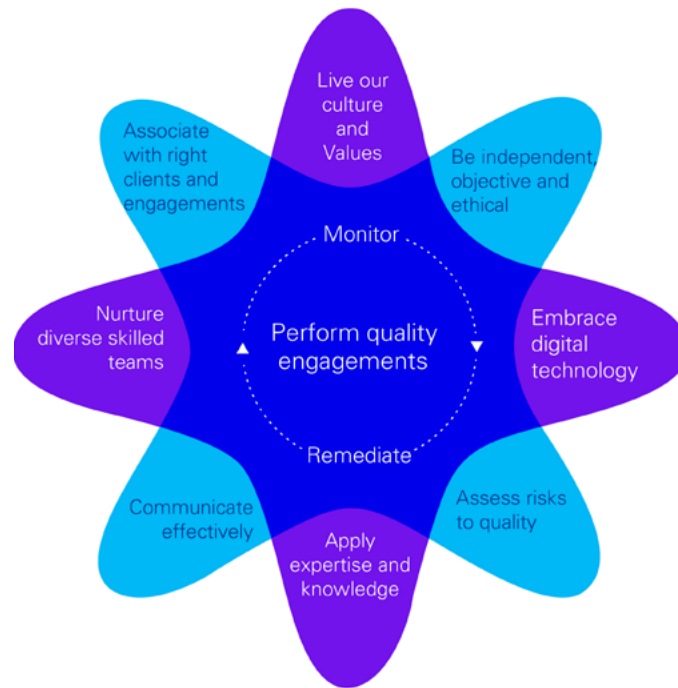
The new requirements apply to all KPMG firms within our global organisation. The objective of this centralised approach is to drive the consistency, robustness, and accountability of responses within KPMG firms' processes.

In preparation for ISQM 1, we adopted a new Global Quality Framework to better outline how we deliver quality at KPMG, and how everyone at KPMG is accountable for its delivery. The principle of 'Perform quality engagements' sits at the core along with our commitment to continually monitor and remediate our processes as necessary.

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.



The Global Quality Framework also meets the requirements of the current International Standards on Quality Control (ISQC 1), issued by the International Auditing and Assurance Standards Board (IAASB) and on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which apply to professional services firms that perform audits of financial statements.

This Transparency Report summarises KPMG's approach to audit quality, it may also be useful for stakeholders interested in a member firm's tax and advisory services, as many KPMG quality control procedures and processes are cross-functional and apply equally to all services offered.

### 2.1.3 Leadership responsibilities for quality and risk management

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

Our leadership team is committed to building a culture based on integrity, quality, objectivity, independence, and ethics, demonstrated through their actions.

KPMG CDs is required to seek input from the chair of the relevant Global Steering Group or his/her delegee on the performance of certain leaders within KPMG CDs whose role most closely aligns with the activities of the Global Steering Group. Input is sought as part of the annual performance process and is based on an assessment of the leader's performance, which includes matters of public

interest, audit quality and risk management activities.

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

### Chairman

In accordance with the principles in ISQC 1, our current Chairman, Neale Jehan, has assumed ultimate responsibility for KPMG CDs system of quality management.

Details of some of the measures that he and the rest of the Board have taken to ensure that a culture of quality prevails within KPMG CDs are set out in section 2.1.1 'Tone at the top'.

### Risk Management Partner

The Risk Management Partner (RMP) is responsible for the direction and execution of risk, compliance and quality control in KPMG in the Crown Dependencies. The RMP is a member of KPMG in the Crown Dependencies Management Committee and has a direct reporting line to the Chairman. The RMP consults, as appropriate, with the Senior Partner, the Regional Risk Management Partner, Global Quality & Risk Management resources, and the general counsel or external counsel.

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

### Ethics and Independence Partner

The Ethics and Independence Partner (EIP) has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG CDs and like the RMP has a direct reporting line to the Chairman.

### The Audit, Tax, and Advisory functions – Function Heads

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

KPMG CDs Head of Audit is responsible for the effective management and control of the Audit function. This includes:

- Setting a strong tone and culture supporting audit quality through communication, engagements support and commitment to the highest standards of professional excellence, including professional scepticism, objectivity, and ethics and integrity;
- Developing and implementing an audit strategy which is aligned with KPMG CDs audit quality requirements; and
- Working with the Risk Management Partner to

monitor and address audit quality and risk matters as they relate to the Audit practice.

### Audit Leadership Team

The Audit Leadership Team has regular discussions to agree actions about current and emerging audit quality issues arising from external and internal quality review processes, queries being raised by engagement teams, root cause analysis procedures and other quality matters identified from a variety of sources.

For more complex issues (which might require amendments to KPMG's global audit methodology or audit tools) these will be raised with the KPMG International Global Audit groups for consideration and potential development of solutions by the KPMG Global Solutions Group (KGSG) and the International Standards Group (ISG). For more information about the KGSG and the ISG refer to section 8.1.2.

In addition, within the Audit function our Audit Quality Council Panel considered matters relating to maintaining and improving audit quality. During the year, the Audit Quality Council Panel comprised 7 people. The Audit Quality Council met 4 times during the year (2021: 4) and considered the detailed findings (and related actions) from external regulatory reviews, the internal Quality Performance Review program and other quality control programs, as well as papers on a range of issues designed to allow us to challenge ourselves in various aspects of audit quality and improvement.

## 2.2 Clearly articulated strategy focused on quality, consistency, trust and growth

### 2.2.1 Our business

KPMG CDs is a professional service that delivers audit, tax, and advisory services. Operating out of three offices across the Crown Dependencies, Guernsey, Jersey and the Isle of Man, we had an average of 461 directors and employees in the year to 30 September 2022 (an average of 429 in the year to 30 September 2021).

Our audit services are delivered through KPMG Channels Islands Limited and KPMG Audit LLC. Full details of the services offered by KPMG CDs can be found on our website [here](#).

### 2.2.2 Our strategy

Our strategy is set by the Board of KPMG CDs and demonstrates a commitment to quality and trust. Our focus is to invest significantly in priorities that form part of a global strategy execution.

## 2.3 Defined accountabilities, roles and responsibilities, including for leadership

### 2.3.1 Legal structure

KPMG CDs and all other KPMG firms are party to membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organisation are members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee. KPMG International Limited acts as the coordinating entity for the overall benefit of the KPMG member firms. It does not provide

professional services to clients. Professional services to clients are exclusively provided by member firms.

Further detail on the revised legal and governance arrangements for the KPMG global organisation can be found in section 'Governance and leadership' of the [2022 KPMG International Transparency Report](#).

KPMG International Limited and the KPMG member 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 member firm has any authority to obligate or bind KPMG International Limited, any of its related entities or any other member firm vis-à-vis third parties, nor does KPMG International Limited or any of its related entities have any such authority to obligate or bind any member firm. KPMG CDs is part of the KPMG global organisation of professional services firms providing Audit, Tax, and Advisory services to a wide variety of public and private sector organisations. The KPMG organisation structure is designed to support consistency of service quality and adherence to agreed Values wherever its member firms operate.

KPMG CDs audit trading entities are KPMG Channel Islands Limited, a Jersey registered company, and KPMG Audit LLC, an Isle of Man registered company.

A list of key entities, together with details of their legal structure, regulatory status, the nature of their business and area of operation is set out in Appendix 1.

### **2.3.2 Name, ownership and legal relationships**

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

Member firms are generally locally owned and managed. Each member firm is responsible for its own obligations and liabilities. KPMG International and other member firms are not responsible for a member firm's obligations or liabilities. Member firms may consist of more than one separate legal entity. If this is the case, each separate legal entity will be responsible only for its own obligations and liabilities, unless it has expressly agreed otherwise.

The entities forming KPMG in the Crown Dependencies are owned by KPMG LLP, a Jersey Limited Liability Partnership. The partners of KPMG LLP are referred to as directors throughout this report together with the directors of other legal entities in the group.

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

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

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

Member firms commit to a common set of KPMG Values (see section *Fostering the right culture, starting with tone at the top*).

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

## **2.4 Overseen using robust governance structures**

### **2.4.1 Governance structure**

#### **The Board and The Management Committee**

The key governance and management bodies of KPMG's audit business in the CDs are the Boards of KPMG Channel Islands Limited, KPMG Audit LLC and KPMG Audit Holdings Limited (the immediate holding company of KPMG Channel Islands Limited and KPMG Audit LLC) and the KPMG CDs Management Committee.

#### **Chairman Appointment Process**

On 1 January 2021, Neale Jehan was appointed as Chairman of KPMG CDs. Prior to the merger of the Channel Islands and Isle of Man member firms Neale Jehan was the Chairman of KPMG Channel Islands Limited. The process to identify and appoint a Chairman of the Board involved both the local Board of Directors and KPMG at a regional level. Neale's background as a previous Head of Audit who understands the challenges the profession faces to restore trust in audit was an important factor in his appointment as Chairman.

#### **The Boards**

KPMG Channel Islands Limited board consists of 20 members, being the Chairman, Managing Director and 18 other directors. The Board meets at least quarterly, and during the year ended 30 September 2022 the Board met ten times. It is the Board's responsibility to steward the business, manage the statutory affairs and direct strategy. The Board delegates certain activities to the Management Committee to action between full meetings of the Board.

KPMG Audit LLC board consists of 4 members, being the Isle of Man Managing Partner and the 3 other Partners. Further, 2 Audit Directors also attend the meetings of the Board. The Board meets at least quarterly, and during the year ended 30 September 2022 the Board met four times.

#### **The Management Committee**

Details of who comprises the Management Committee of KPMG CDs is set out in Appendix 2. The Management Committee aims to meet at least monthly and is responsible for taking action on key matters delegated to it by the Board to ensure that the business can respond proactively in between meetings of the full Board.

## The Operations Committee

The Operations Committee consists of the Managing Director and employees from all functions of the firm who meet monthly and is responsible for taking action on routine operational matters and driving various operational projects of the business.

## The Audit Quality Panel

The Audit Quality Panel, chaired by the Head of Audit, reports to the senior partner and ensures risk and quality matters are a priority for audit leadership.

Specifically, its responsibilities include:

- driving effective and timely implementation of Audit Quality initiatives and policies;
- meeting at least once each quarter or on an ad-hoc basis as required with members of the Audit Quality Panel to receive reports on Audit Quality monitoring activities and confirm priority for the audit quality actions;
- providing input and commentary on draft policies and workpapers;
- monitor emerging issues and consult with KIG AQPP in determining the local action in response to the emerging issues; and
- act as the ultimate reviewer of the inputs and outputs of the Root Cause Analysis process and to serve as a challenge panel in determining the root cause of quality issues.



# Applying expertise and knowledge

We are committed to continuing to build on our technical expertise and knowledge recognising its fundamental role in delivering quality audits.

## 3.1 Methodology aligned with professional standards, laws and regulations

### 3.1.1 Consistent audit and assurance methodology and tools

Bringing consistency through our methodology

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

- Globally consistent and fully compliant with the applicable standards, including International Standards on Auditing (ISA), Public Company Accounting Oversight Board (PCAOB) and the American Institute of CPAs (AICPA) and are supplemented to comply with local auditing standards and regulatory or statutory requirements by KPMG firms;
- Inclusive of KPMG methodology interpretations that drive consistency in areas where the applicable standards are not prescriptive in the approach to be followed;
- Centred on identifying risk, focusing on risks of material misstatements and the necessary audit response;
- Made available to all KPMG audit and assurance professionals and required to be used, where necessary;
- Applied even where local auditing standards may be less demanding than the ISAs; and
- Based on the requirements of the International Standard on Assurance Engagements (ISAE) and aligned to assurance products in response to the growth of ESG reporting.

The KPMG audit methodology is set out in the KPMG Audit Manual (for use with eAudit) and the KPMG Audit

Execution Guide (for use with the KPMG Clara workflows) and includes KPMG interpretation of how to apply 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*. The audit and assurance methodologies emphasise applying appropriate professional scepticism in the execution of procedures and requires compliance with relevant ethical requirements, including independence.

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). For example, the current focus on ESG assurance is driving updates to our assurance methodologies, tools and guidance.

KPMG firms may add local requirements and/or guidance to the globally prescribed minimum requirements in the KPMG Audit Manual, the KPMG Audit Execution Guide and the KPMG Assurance Manuals to comply with additional professional, legal or regulatory requirements.

## 3.2 Deep technical expertise and knowledge

### 3.2.1 Access to specialist networks

Specialist expertise is an increasingly important part of the modern audit. KPMG CDs engagement teams have access to a network of KPMG specialists either within their 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 our audits. They also receive a global annual update on global quality performance issues.

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 as part of the audit engagement acceptance and continuance process, as well as during the planning and conduct of the engagement.

### **3.2.2 Our commitment to audit quality during significant external events**

Significant external events such as the conflict in Ukraine, 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. KPMG firms' role as auditors is to evaluate these judgements.

We maintain an online financial reporting resource centre to assist financial statement preparers and other stakeholders in understanding the potential accounting and disclosure implications of significant external events.

KPMG International issues extensive guidance to assist engagement teams in addressing the financial reporting, auditing and reporting related matters arising from the impacts of these external events, addressing the potential implications for going concern, asset impairments, valuations and related disclosures, materiality, risk assessment, group audits, subsequent events, audit evidence and communications with those charged with governance.

KPMG's guidance is continually updated as new significant accounting, auditing, and reporting issues emerge.

KPMG is a technology-enabled organisation, with technical accounting and auditing resources, guidance and audit platforms and tools available electronically, which enable our engagement teams to effectively operate in office and remote working environments.

### **3.3 Quality and risk management manual**

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

# Embracing digital technology

At KPMG, we are committed to serving the public interest and create value through continuous innovation. We are transforming the audit experience for our professionals and clients by leveraging the data and insights of leading technologies and enhancing audit quality by increasing our ability to focus on the issues that matter.

## 4.1 Intelligent, standards-driven audit workflows

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

### 4.1.1 Evolving our audit workflows

We recognise that to deliver quality audits, we need to continually evolve and develop our technology solutions to keep pace with today's digital world.

That is why we reimagined our audit platform, workflows and methodology to provide enhanced consistency and support to our audit engagement teams, deliver detailed insights, and future-proof our systems for the expected continued development of new technologies, such as robotic process automation, machine learning and cognitive technologies.

The release of the KPMG Clara workflows and revised audit methodology is an important milestone in KPMG's journey to innovate, digitalise and transform the audit experience. It is a significant investment that underlines our commitment to audit quality, consistency, and innovation.

## 4.2 KPMG Clara

KPMG Clara is our smart and intuitive technology platform that is driving globally consistent audit execution. As a fully integrated, scalable, cloud-based platform, it enables

the enhanced audit methodology through data-enabled workflows.

The platform integrates new and emerging technologies, with advanced capabilities that leverage data science, audit automation, and data visualisation.

The digital audit is increasingly integral to how KPMG member firms perform quality audits and interact with their clients. Policies and guidance are in place to establish and maintain appropriate processes and controls regarding the development, evaluation and testing, deployment, and support of technology in our audits.

KPMG Clara is helping auditors see meaningful patterns across a business, whether conducting risk assessment, tracing transactions through a complex revenue process, or simply adding up the accounts. Examples of current capabilities include:

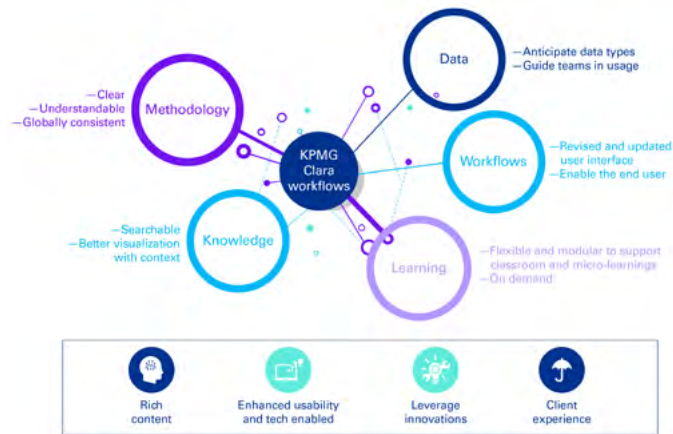
- Analysis of account balances and journal entry data;
- Automation of 'period on period' balances comparison and 'time series' evolution information;
- Analysis of sub-ledger, transactional data over certain business processes and accounts; and
- Integration (where applicable) with industry specific digital procedures and solutions.

### Our vision of the future

KPMG Clara was developed to be a foundational technology platform for KPMG to deliver audit quality. It delivers this by being the base technology providing new capabilities in a globally consistent way, enabling the audit workflows and providing a fully digital experience for our 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

Our previous platform, eAudit is being replaced with new workflows embedded with our revised audit methodology and enabled by the KPMG Clara smart audit platform. Phased full deployment of the KPMG Clara workflows (with the exception of very small and less complex national audits) commenced globally in 2020 with planned completion of full global transition for the 2022 fiscal period-end audits. Global transition for less complex national audits, leveraging enhanced scaling capability has commenced in 2022 and will be completed by 2023.

The web-enabled KPMG Clara workflows guide audit teams through a series of steps in a logical sequence aligned to the applicable professional auditing standards with a clear display of information, visuals, and guidance available, and with embedded advanced digital audit and project management capabilities. The workflow and revised audit methodologies are scalable – adjusting the requirements to the size and complexity of the audit engagement. KPMG Clara workflows significantly enhance the execution of an audit by KPMG professionals and drive audit quality and global 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.

We continue to enhance the KPMG Clara smart audit platform to accommodate evolving security demands, further integrate existing audit applications, and develop new capabilities to digitalise additional audit processes.

### 4.2.1 Client confidentiality, information security and data privacy

The importance of maintaining client confidentiality is emphasised through a variety of mechanisms, including the KPMG Global Code of Conduct.

We have policies on information security, confidentiality, personal information and data privacy. We have a document retention policy concerning the retention period for audit documentation and other records relevant to an engagement in accordance with applicable laws, regulations, and professional standards.

KPMG provides training on confidentiality, information protection and data privacy requirements to all KPMG in the CDs personnel annually.

Embracing digital technology

# 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.

## 5.1 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, reward, promotion, retention, and assignment of professionals.

### 5.1.1 Recruitment

KPMG CDs has invested in understanding how we can attract the talent we need now and in the future across the organisation. This requires the right recruitment, development, reward, promotion and assignment of professionals. This includes building an extraordinary people experience for all current and prospective directors and employees.

Our recruitment strategy is focused on drawing entry-level talent from a broad talent base, including working with established universities, colleges and business schools, but also working with secondary schools, helping build relationships with a younger, diverse talent pool at an early age. KPMG CDs also recruits experienced hires.

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

KPMG CDs recruited over 45 new graduates or school leavers in the year ended 30 September 2022 (2021: approximately 49).

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

### 5.1.2 Inclusion, diversity & equity programmes

KPMG CDs is committed to building a diverse and equitable firm that is inclusive to all.

Inclusion, diversity, and equity (IDE) is core to our very existence – helping us build great teams with diverse views that represent the world we live in. It leads to better decision making, drives greater creativity and innovation, and encourages us to stand up, live our Values, and do what is right. We recognise our firms' global position working with clients around the world affords us a privileged place. With that comes an opportunity and responsibility to achieve more and push for a fairer, more equitable society.

Our KPMG Global Inclusion, Diversity & Equity Collective Action Plan outlines the actions that are necessary to advance inclusion, diversity and equity at KPMG CDs and across all KPMG firms. More information about Inclusion & Diversity at KPMG can be found [here](#).

### 5.1.3 Reward and Promotion

#### Reward

KPMG CDs has compensation and promotion policies that are informed by market data, clear, simple, fair and linked to the performance review process. This helps our directors and employees understand what is expected of them, and what they can expect to receive in return. The connection between performance and reward is achieved by assessing relative performance across a peer group to inform reward decisions.

Nurturing diverse skilled teams

Reward decisions are based on consideration of both individual and firm performance.

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

### **Promotion**

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

## **5.2 Assigning an appropriately qualified team**

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

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

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

- Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation;
- Understanding of professional standards and legal and regulatory standards requirements;
- Appropriate technical skills, including those related to relevant information technology and specialised areas of accounting or auditing;
- Knowledge of relevant industries in which the client operates;
- Ability to apply professional judgement;

- Understanding of KPMG CDs quality control policies and procedures; and
- Quality Performance Review (QPR) inspection results and the results of regulatory inspections.

## **5.3 Investing in data centric skills – including data mining, analysis and visualisation**

KPMG is strategically investing in our talent pipeline by partnering with world-class institutions to sustain our strong leadership, while also looking forward to cultivating the skills and capabilities that will be needed in the future. We are recruiting and training professionals who specialise in software, cloud capabilities, and artificial intelligence and who can bring leading technology capabilities to our smart audit platform. We provide training on a wide range of technologies to ensure that our field professionals not only meet the highest professional standards but are also upskilled in new technology. With this approach we are bringing together the right people with the right skills and the right technology to perform exceptional audits.

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

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

All KPMG CDs professionals are provided with the technical training and support they need to perform their roles. This includes access to internal specialists and professional practice departments, for consultation. Where the right resource is not available within KPMG CDs, the firm accesses a network of highly skilled KPMG professionals in other KPMG firms.

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

### **5.4.2 Lifetime learning strategy**

#### **Formal training**

Annual training priorities for development and delivery are identified by the Audit Learning and Development groups at global, regional and, where applicable, KPMG firm level.

Mandatory learning requirements for audit professionals across the KPMG organisation are established annually. Training is delivered using a blend of learning approaches and performance support.

#### **Mentoring and on the job training**

Learning is not confined to a single approach — rich learning experiences are available when needed through

Nurturing diverse skilled teams

coaching and just-in-time learning, and aligned with job-specific role profiles and learning paths.

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 KPMG 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.

### **5.4.3 Licensing and mandatory requirements for IFRS® Standards and US GAAP engagements**

#### **Licensing**

All KPMG CDs professionals are required to comply with applicable professional licence rules and satisfy the Continuing Professional Development requirements in the jurisdiction where they practice. KPMG International/CDs policies and procedures are designed to facilitate compliance with license requirements.

We are responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge and experience in the local predominant financial reporting framework being IFRS and UK accounting standards.

#### **Mandatory requirements – US GAAP engagements**

Specific policies are in place for 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). These require that at a minimum the director, manager, and, if appointed the EQCR (and for engagements conducted in accordance with US GAAP and/or US auditing standards engagements, the engagement partner, engagement manager, engagement in-charge and, if appointed the EQCR reviewers) assigned to the engagement have completed relevant training and that the engagement team, collectively, has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

## **5.5 Recognising quality**

### **5.5.1 Personal development**

KPMG CDs approach to performance development '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 (with provision for audit quality ratings).

Open Performance Development is linked to the KPMG Values and designed to articulate what is required for success — both individually and collectively. We know that by being clear and consistent about the behaviours we expect and rewarding those who demonstrate them, we will continue to drive a relentless focus on audit quality.

At the same time, KPMG is driving a shift in our performance-driven culture, supported by and enacted through leading technology that allows us to embed audit quality into the assessment of performance and the decisions around reward, as well as drive consistency across the global organisation.

KPMG CDs considers quality and compliance metrics in assessing the overall evaluation, promotion and remuneration of directors and managers. These evaluations are conducted by performance managers and directors who are able to assess performance.

Nurturing diverse skilled teams

# Associating with the right clients and engagements

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

## 6.1 Following the client and engagement acceptance and continuance policies

The KPMG 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.

KPMG firms are required to 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.

## 6.2 Accepting appropriate clients and engagements

### 6.2.1 Client evaluation

KPMG CDs undertakes an evaluation of every prospective client.

This involves obtaining sufficient information about the prospective client, its key management and significant beneficial owners and then properly 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.

Guernsey, Jersey and the Isle of Man have adopted strict anti-money laundering legislation, and we obtain all information necessary to satisfy applicable legal and/or regulatory requirements.

### 6.2.2 Engagement evaluation

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors are considered as part of this evaluation including potential independence and conflict of interest issues (using SentinelI™, KPMG's conflicts and independence checking system), intended purpose and use of the engagement deliverables, public perception, whether

the services would be unethical or inconsistent with our Values as well as factors specific to the type of engagement. For audit services, these include the competence of the client's financial management team and the skills and experience of KPMG professionals assigned to staff the engagement. The evaluation is made in consultation with other senior KPMG CDs personnel and includes additional reviews as required.

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

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

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

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

### 6.2.3 Continuance process

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

Associating with the right clients and engagements



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

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

#### **6.2.4 Withdrawal process**

Where KPMG CDs comes to a preliminary conclusion that indicates that we should withdraw from an engagement or client relationship, we consult internally and identify any required legal, professional and regulatory responsibilities. We also communicate as required with those charged with governance and any appropriate authority.

#### **6.3 Managed portfolio of clients**

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

They review each audit director's client portfolio in individual discussions with the audit director. The reviews consider the industry, nature and risk of the client portfolio as a whole along with the competence, capabilities and capacity of the director and wider team to deliver a quality audit for every client.

Associating with  
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# Being independent and ethical

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

## 7.1 Acting with integrity and living our Values

KPMG International's detailed independence policies and procedures, incorporate the IESBA Code of Ethics. These are set out in the KPMG GQ&RMM, which applies to all KPMG firms. Automated tools, which are required to be used for every prospective engagement to identify potential independence and conflict of interest issues, facilitate compliance with these requirements.

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

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

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

- Implementing/monitoring the ethics and independence quality control process and structure within the firm;

- Approving/appointing partners responsible for ethics and independence within the firm;
- Overseeing the processes related to the evaluation of specific independence threats in connection with clients and prospective clients;
- Participating in the development and delivery of training materials;
- Implementing procedures to address non-compliance; and
- Overseeing the disciplinary process for ethics and independence matters.

Amendments to KPMG International's ethics and independence policies are included in regular quality and risk communications with all KPMG firms. KPMG firms are required to implement changes as specified in the communications, and this is checked through the internal monitoring programmes described in section 11.1.2.

KPMG CDs, directors and employees are required to consult with the EIP on certain matters as defined in the GQ&RMM. The EIP may also be required to consult with the Global Independence Group, depending upon the facts and circumstances.

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

### 7.2.1 Personal financial independence

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

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KPMG firms use a web-based independence compliance system (KICS) to assist KPMG professionals in their compliance with personal independence investment policies. This system contains an inventory of publicly available investments and provides a tracking mechanism for required users to report acquisitions and disposals of their financial interests. The system facilitates monitoring by identifying and reporting impermissible investments and other non-compliant activity (i.e. late reporting of an investment acquisition).

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

In 2022 44 of our directors and employees were subject to these audits (this included approximately 47% of our directors).

### **7.2.2 Employment relationships**

Any KPMG CDs professional providing services to an audit or assurance client irrespective of function is required to notify the firm EIP if they intend to enter into employment negotiations with that audit client. For directors, 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 directors of KPMG CDs are prohibited from joining an audit or assurance client in certain roles unless they have disengaged from all significant connections to KPMG CDs, including payments which are not fixed and predetermined and/or would be material to KPMG CDs and have ceased participating in KPMG CDs business and professional activities.

Key audit directors 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.

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

### **7.2.3 Firm financial Independence**

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

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

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

On an annual basis, KPMG CDs confirms compliance with independence requirements as part of the KPMG Quality & Compliance Evaluation programme.

### **7.2.4 Business relationships/suppliers**

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

### **7.2.5 Business acquisitions, admissions and investments**

If KPMG CDs are in the process of considering the acquisition of, or investment in, a business, we are required to perform sufficient due diligence procedures on the prospective target to identify and address any potential independence and risk management issues prior to closing the transaction. Specific consultations with the Global Independence Group and Global Quality & Risk Management are required to enable independence and other issues to be addressed when integrating the business into KPMG CDs and the wider global organisation.

### **7.2.6 Independence clearance process**

In addition to the standard acceptance evaluation performed for every engagement, which includes an evaluation of independence, KPMG CDs follow specific procedures to identify and evaluate threats to independence related to prospective audit clients that are public interest entities; these procedures, also referred to

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as 'the independence clearance process,' are required to be completed prior to accepting an audit engagement for these entities.

The 'KPMG Independence Checkpoint' tool is used to automate and standardise the procedures that comprise the independence clearance process.

### 7.2.7 Independence training and confirmations

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

New directors and relevant employees who are required to complete this training are required to do so by the earlier of (a) thirty days after joining KPMG CDs or (b) before providing any services or becoming a member of the chain of command for, any audit client.

We also provide all directors and employees with annual training on

- The Global Code of Conduct; and
- Bribery and compliance with laws, regulations, and professional standards.

New directors and employees are required to complete this training within 3 months of joining KPMG CDs.

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

### 7.2.8 Non-audit services

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

In addition to identifying potential conflicts of interest, Sentinel™ facilitates compliance with independence requirements. Certain information on all prospective engagements, including detailed service descriptions, deliverables and estimated fees are required to be entered into Sentinel™ as part of the engagement acceptance process. When the engagement is for an audit client, an evaluation of potential independence threats and safeguards is also required to be included in the Sentinel™ submission.

Lead audit engagement partners (LAEPs) are required to: maintain group structures for their public interest entity and certain other audit clients including their related entities or affiliates in Sentinel™. They are also responsible

for identifying and evaluating any independence threats that may arise from the provision of a proposed non-audit service and the safeguards available to address those threats. For entities for which group structures are maintained, Sentinel enables LAEPs to review and request revision to, approve, or deny any proposed service for those entities worldwide. For approved proposed services, Sentinel designates a timeframe during which the approval remains valid. Upon expiration of the established timeframe, the services are required to be complete or be re-evaluated for permissibility; otherwise, the services are required to be exited.

KPMG CDs is required to establish and maintain a process to review and approve all new and significantly modified services that are developed by KPMG CDs or adopted from another member firm. KPMG CDs EIP is involved in the review of potential independence issues related to these new or significantly modified services.

KPMG global independence policies prohibit KPMG firm audit directors from being evaluated on, or compensated based on, their success in selling non-audit services to their audit clients.

### 7.2.9 Fee dependency

KPMG International's policies recognise that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the KPMG firm expressing the audit opinion.

These policies require firms to consult with their Regional Risk Management Partner where it is expected that total fees from an audit client will exceed 10% of the annual fee income of the member firm for two consecutive years. In addition, if the total fees from a public interest entity audit client and its related entities were to represent more than 10% of the total fees received by a particular member firm for two consecutive years these policies further require that:

- This be disclosed to those charged with governance at the audit client and;
- A partner from another KPMG member firm be appointed as the Engagement Quality Control (EQC) reviewer.

In addition to monitoring the 10% fee dependency level noted above, KPMG CDs also monitor fee dependency at a level of 5% in compliance with the Ethical and Independence requirements of the Financial Reporting Council in the UK.

No audit client accounted for more than 5% or 10% of the total fees received by KPMG CDs over the last two years.

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## 7.2.10 Resolving conflicts of Interest

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

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

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

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

KPMG International 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 member firm's integrity, independence, objectivity or judgement.

## 7.2.11 Independence breaches

All KPMG CDs personnel are required to report an independence breach as soon as they become aware of it to the EIP. In the event of failure to comply with the firm's independence policies, whether identified in the compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy. All breaches of independence requirements of the IESBA code of Ethics or other external independence requirements 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 with those charged with governance.

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

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

## 7.2.12 Director and firm rotation

KPMG International rotation policies are consistent with the requirements of the IESBA Code of Ethics and require our firm to comply with any stricter local applicable rotation requirements.

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

- Participate in the audit;
- Provide quality control for the audit;
- Consult with the engagement team or the client regarding technical or industry-specific issues;
- In any way influence the outcome of the audit;
- Lead or coordinate professional services at the client;
- Oversee the relationship of the firm with the audit client; or
- Have any other significant or frequent interaction with senior management or those charged with governance at the client

KPMG CDs monitors the rotation of audit engagement leaders (such as the engagement partner, the engagement quality control reviewer and any other key audit director role, where there is a rotation requirement) and develop transition plans to enable allocation of directors with the necessary competence and capability to deliver a consistent quality of service to clients.

## Firm rotation

UK and EU Public Interest Entities are required to rotate their firm of auditors. This is known as Mandatory Firm Rotation (MFR). Under the UK and EU MFR rules, all UK and EU PIEs must tender their audit contract at least every 10 years and change or rotate their auditor at least every 20 years. There are transitional provisions in place on implementation of the MFR rules. KPMG CDs has processes in place to track and manage audit firm rotation.

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### 7.3 Zero tolerance of bribery and corruption

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

We prohibit involvement in any type of bribery — even if such conduct is legal or permitted under applicable law or local practice. We also do not tolerate bribery by third parties, including by our clients, suppliers or public officials. KPMG International requires KPMG firms to have appropriate internal controls in place to mitigate the risk of involvement in bribery by the firm and its directors and employees.

All KPMG firm directors 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.

On joining KPMG CDs, and annually thereafter, we provide anti-bribery and corruption training and training on compliance with laws, regulations, professional standards and the KPMG Code of Conduct to all personnel.

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

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# Performing quality engagements

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

## 8.1 Consulting when appropriate

### 8.1.1 Encouraging a culture of consultation

KPMG encourages a culture of consultation that supports engagement teams at KPMG firms throughout their decision-making processes and is a fundamental contributor to audit quality. We promote a culture in which consultation is recognised as a strength that encourages all KPMG professionals to consult on difficult or contentious matters.

To help with this, are required to have established protocols for consultation and documentation of significant matters, including procedures to facilitate resolution of differences of opinion on engagement issues. KPMG audit, assurance and reporting manuals also include required consultations. GO&RMM includes mandatory consultation requirements on certain matters.

### 8.1.2 Technical consultation and global resources

Technical accounting, auditing and assurance support are available to member firms through the Global Audit Methodology Group (GAMG), KPMG Global Solutions Group (KGSG), the International Standards Group (ISG) and the PCAOB Standards Group (PSG), all of which report directly to the Global Head of Audit.

#### Global Audit Methodology Group (GAMG)

KPMG's audit and assurance methodology is developed and maintained by the Global Audit Methodology Group (GAMG). The GAMG develops our audit and assurance methodology based on the requirements of the applicable audit and assurance standards – of the IAASB, PCAOB and AICPA.

#### KPMG Global Solutions Group (KGSG)

The KGSG is responsible for the envisioning, development

and deployment of global audit solutions, including new technology and automation innovations.

The KGSG and GAMG work collaboratively to support member firms through collaboration, innovation and technology. We have made significant investment in our audit and assurance methodology and tools with the core focus of improving audit quality, global consistency and standardisation.

With locations in each of the three KPMG regions (Americas, EMA and ASPAC), the KGSG and GAMG teams comprise of professionals with backgrounds in audit, assurance, IT, data science, mathematics, statistics, and more from around the world who bring diverse experiences and innovative ways of thinking to further evolve KPMG's audit capabilities.

#### International Standards Group (ISG)

The KPMG ISG works with Global IFRS Standards topic team's, with geographic representation from around the world, and the IFRS Standards Panel and Methodology Advisory Group (MAG) to promote consistency of interpretation of IFRS Standards between member firms, identify emerging issues, and develop global guidance on a timely basis.

The ISG recently has expanded its remit to encompass the activities of the International Sustainability Standards Board (ISSB), including providing global thought leadership and guidance as the ISSB issues standards.

#### PCAOB Standards Group (PSG)

The KPMG PCAOB Standards Group (PSG) comprises a dedicated group of professionals with backgrounds in PCAOB auditing standards who promote consistency in the interpretation of PCAOB auditing standards in KPMG firms' audits of non-US components of US companies

and of foreign private issuers and non-US components of SEC issuers, as defined by SEC regulations. The PSG also provides input into the development of training for auditors who work on PCAOB audit engagements and, where practicable, facilitates delivery of such training.

### **Member firm professional practice resources**

Member firms provide consultation support on auditing and technical accounting matters to their audit professionals through professional practice resources (referred to as Department of Professional Practice or DPP). This resource also assists engagement teams where there are differences of opinion either within teams or with the EQC reviewer. Unresolved differences are required to follow a prescribed escalation protocol for final resolution. KPMG's ISG and PSG are also available for consultation support when required.

Across KPMG CDs the role of DPP is crucial in terms of the support that it provides to the Audit function. It provides technical guidance and training to client service professionals on specific engagement related matters, develops and disseminates specific topic related guidance on emerging local technical and professional issues and disseminates international guidance on IFRS, UK GAAP and ISAs (UK).

## **8.2 Critically assessing audit evidence using professional judgement and scepticism**

On all KPMG audits, the nature and extent of the audit evidence we gather is responsive to the assessed risks. We consider all audit evidence obtained during the course of the audit including contradictory or inconsistent audit evidence. Each team member is required to exercise professional judgement and maintain professional scepticism throughout the audit engagements. Professional scepticism involves a questioning mind and alertness to contradictory or inconsistencies in the audit evidence. Professional judgement encompasses the need to be aware of and alert to biases that may pose threats to good judgements.

### **8.3 Direct, coach, supervise and review**

#### **8.3.1 Embedding ongoing coaching, supervision and review**

To invest in the building of the skills and capabilities of KPMG professionals, KPMG CDs promotes a continuous learning environment and supports a coaching culture.

Ongoing direction, coaching and supervision during an audit involve:

- Engagement director participation in planning discussions;
- Tracking the progress of the audit engagement;

- Considering the competence and capabilities of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions;
- Whether the team understands its instructions and the work is being carried out in accordance with the planned approach to the engagement;
- Helping engagement team members address any significant matters that arise during the audit and modifying the planned approach appropriately; 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

### **8.3.2 Engagement quality control (EQC) reviewers**

The EQC review is an important part of KPMG's approach to quality. An EQC reviewer is required to be appointed for audit engagements, including any related review(s) of interim financial information, of all listed entities, non-listed entities with a high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements, including certain assurance engagements, as designated by the Risk Management Partner or country Head of Audit.

An EQC review is an objective evaluation of 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 they raised have been resolved, though the engagement director is ultimately responsible for the resolution of accounting and auditing matters.

EQC reviewers are required to meet training, knowledge and experience criteria 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.

## **8.4 Appropriately support and document conclusions**

### **8.4.1 Reporting**

Auditing standards and the company law requirements in the Crown Dependencies or similar legislative requirements largely dictate the format and content of the



auditors' report which includes an opinion on whether the reporting entity's financial statements give a true and fair view. Engagement leaders form all audit opinions based on the audit performed and evidence obtained.

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

#### **8.4.2 Engagement Documentation**

KPMG CDs audit documentation is completed and assembled according to the timeline established 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 firm information. KPMG International adopted policies to apply to all KPMG firms to reduce the time period allowed to assemble audit documentation, which is significantly less than the time period required by the applicable auditing standards.

Performing quality engagements

# Assessing risks to quality

KPMG International reviews the results of the quality monitoring programmes, and develops additional global remediation actions as needed.

## 9.1 Assessing risks to quality

Global remediation actions developed by KPMG international are aimed at changing behaviour and driving quality and consistency across the global organisation. Remediation actions may be implemented through the development of global policies, procedures, trainings, tools and guidance.

# Communicating effectively

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

## 10.1 Provide insights and maintain open and honest two-way communication

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

The role of audit committees is key in supporting quality auditing by overseeing the relationship between company and auditor and challenging what auditors do and how they do it.

### Audit Committee Institute

In recognition of the demanding and important role that audit committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, the [Audit Committee Institute](#) (ACI) aims to help audit committee members enhance their commitment and ability to implement effective audit committee processes.

The ACI operates in more than 39 countries across the globe, including KPMG CDs, and provides audit committee members with guidance on matters of interest to Audit Committees (such as cyber security and corporate culture); and the opportunity to network with their peers during an extensive programme of technical updates and awareness seminars.

The ACI's offerings cover the array of challenges facing audit committees and businesses today — from risk management and emerging technologies to strategy and global compliance.

Further details and insights on the ACI are available [here](#).

## IFRS Standards Institute

KPMG's Global IFRS Standards Institute provides information and resources to help the Board of KPMG CDs, executives, management, stakeholders and government representatives gain insight and access thought leadership about the evolving global financial and sustainability reporting frameworks.

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

Only with engaged, talented people can KPMG deliver audits in line with our audit quality expectations. Annually KPMG CDs personnel are invited to participate in KPMG's Global People Survey (GPS) to share their perception about their experience of working at KPMG. The GPS provides a measure of our people's engagement and insights into areas driving engagement. Results can be analysed by several factors, for example functional or geographic area, grade, and gender to provide additional focus for action.

Through the GPS, KPMG CDs gains additional insight 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 particular data set for audit quality related matters.

The survey also provides KPMG CDs leadership and KPMG international leadership with insights related to quality and risk behaviours, audit quality, upholding the KPMG Values, employee and director attitudes to quality, leadership and tone at the top.

KPMG CDs participates in the GPS; monitors the results and takes appropriate actions to communicate and respond to the findings of the survey. The results of the

Communicating effectively

GPS are also aggregated for the entire global organisation and Global Board each year and appropriate follow-up actions agreed.

Audit specific analysis of GPS results is also undertaken, with a particular focus on audit quality. Results and key themes are presented to the Global Audit Steering Group on an annual basis for consideration of appropriate remedial action, if needed.

Communicating  
effectively

# Monitoring and remediation

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

## 11.1 Rigorously monitor and measure quality

### 11.1.1 Commitment to continuous improvement

KPMG commits to continually improve the quality, consistency and efficiency of KPMG firm audits. The quality monitoring and compliance programmes are globally consistent in their approach across all member firms, including the nature and extent of testing and reporting. KPMG CDs compare the results of internal monitoring programmes with the results of those of any external inspection programmes and take appropriate action.

### 11.1.2 Internal monitoring and compliance programmes

KPMG CDs monitoring programmes are created by KPMG International and applied across KPMG firms. The programmes evaluate both:

- Engagement performance in compliance with the applicable professional standards, applicable laws and regulations and KPMG International key policies and procedures; and
- KPMG CDs compliance with KPMG International key policies and procedures and the relevance, adequacy and effective operation of key quality control 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.

These include Quality Performance Reviews (QPR), the KPMG Quality & Compliance Evaluation programme (KQCE) and the Global Quality & Compliance Review (GQ&CR) programme.

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

### Audit Quality Performance Reviews (QPRs) programme

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

#### *Risk-based approach*

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

KPMG CDs conduct the annual QPR programme in accordance with KPMG International QPR instructions. The reviews are performed at a KPMG CDs level and their completion and results are monitored regionally and globally.

#### *Reviewer selection, preparation and process*

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

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

#### *Evaluations from Audit QPR*

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

Audit engagements selected for review are rated as 'Compliant', 'Compliant Improvement Needed' or 'Not Compliant'.

## Reporting

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

These areas are also emphasised in subsequent inspection programmes to gauge the extent of continuous improvement.

Lead audit engagement partners (LAEPs), are notified of not compliant engagement ratings on their respective cross-border engagements. Additionally, LAEPs of parent companies/head offices are notified where a subsidiary/affiliate of their client group is audited by a member firm where significant quality issues have been identified during the QPR programme.

### **KPMG Quality & Compliance Evaluation (KQCE) programme (formerly known as Risk Compliance Programme (RCP))**

KPMG International develops and maintains quality management policies and processes that apply to all KPMG firms. These policies and processes and their related procedures include the requirements of the GQ&RM Manual, ISQC 1 and the implementation requirements of ISQM 1 for this transition period.

The objectives of the KQCE programme are to:

- Document, assess and evidence KPMG CDs implementation of ISQM 1, extent of compliance of their system of quality management with the Global Quality & Risk Management (GQ&RM) policies and key legal and regulatory requirements; and
- Provide the basis for KPMG CDS to evaluate that the firm and its personnel comply with relevant professional standards and applicable legal and regulatory requirements.

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

### **Global Quality & Compliance Review (GQ&CR) programme**

Each KPMG firm is subject to a GQ&CR conducted by KPMG International's GQ&CR team, independent of the member firm, at various intervals based on identified risk criteria.

The GQ&CR team performing the review is independent of the firm and is objective and knowledgeable of GQ&RM policies. GQ&CRs assess compliance with selected KPMG International policies and procedures and share best practices among member firms. The GQ&CR

provides an independent assessment of:

- A firm's commitment to quality and risk management (tone at the top) and the extent to which its overall structure, governance and financing support and reinforce this commitment;
- A firm's compliance with key KPMG CD policies and procedures; and
- The robustness with which the member firm performs its own quality and compliance programme (former RCP and, current, KQCE programme).

KPMG CDs develop action plans to respond to all GQ&CR findings that indicate improvement is required and agree these with the GQ&CR team. Our progress on action plans is monitored by the GQ&CR Central Team. Results are reported to the GQ&RM Steering Group and where necessary to appropriate KPMG International and regional leadership.

## **11.2 Obtain, evaluate and act on stakeholder feedback**

### **11.2.1 Regulators**

Firms that audit companies incorporated in one of the Crown Dependencies (Jersey, Guernsey and the Isle of Man) which have 'transferable securities' admitted to trading on a 'regulated market' in the EU are subject to inspection by the Audit Quality Review Team of the Financial Reporting Council ("AQR).

In 2021, the AQR began an inspection including engagements performed by both KPMG Channel Islands Limited and KPMG Audit LLC, as well as firm-wide controls. The inspection was completed in October 2022, following which a recommendation was made to the ICAEW's Crown Dependencies' Audit Registration Committee that KPMG CDs registration to audit Market Traded Companies be continued.

KPMG CDs is also subject to inspections by the Quality Assurance Department of the ICAEW, covering audits of UK entities and Whole Firm procedures. The latest UK entities inspection was in January 2018 for the Channel Islands and June 2019 for the Isle of Man. KPMG CDs licence to perform UK Statutory audits remains in place.

KPMG Channel Islands Limited and KPMG Audit LLC are registered with the Financial Reporting Council to audit UK incorporated Public Interest Entities, these audits were previously regulated by the ICAEW.

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

Monitoring and  
remediation

improvement. We value the open, honest and transparent dialogue that IFIAR facilitates on global audit quality issues.

Every KPMG firm is expected to maintain professional and respectful relationships with regulators, including proactively engaging, responding to questions in a timely manner and taking appropriate remedial actions.

### 11.2.2 Client feedback

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

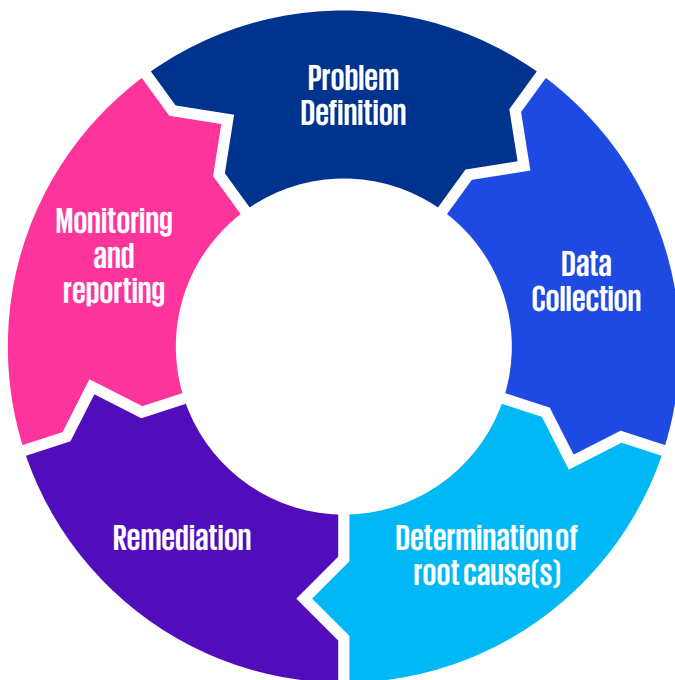
### 11.2.3 Monitoring of complaints

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

### 11.3 Perform root cause analysis

KPMG CDs conducts Root Cause Analysis (RCA) in respect of audit quality issues. In 2022, RCA training based on our Global RCA 5 Step Principles was attended by those individuals at KPMG CDs who will be performing RCA or directing those performing RCA. The training provides a common platform for advancing the practices and skills associated with resourcing, planning and conducting RCA.

The Global RCA 5 Step Principles are as follows:



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

KPMG CDs Head of Audit is responsible for audit quality including the remediation of audit quality issues. The firm's Risk Management Partner monitors the remediation plan(s) implementation.

Monitoring and remediation

# Financial information

The results set out below for the year to 30 September 2022 have been extracted from the draft KPMG CDs accounts which have yet to be finalised and approved by the Board.

£ million	FY22 (£ Million)	FY21 (£ Million)
Audit revenue earned from Market Traded Companies and UK Public Interest Entities	4.8	2.7
Audit revenue earned from all other clients	29.2	28.6
Non-audit services revenue earned from Market Traded Companies and UK Public Interest Entities	0.2	0.4
Non-audit services revenue earned from all other clients	14.6	13.1
Total	<b>48.8</b>	<b>44.8</b>

Financial information



# Director remuneration

Directors who own an equity interest in the firm (“Equity Partner in KPMG LLP”) are remunerated out of the consolidated distributable profits of KPMG LLP as set out in the KPMG LLP consolidated annual accounts and as approved by the Management Committee and Equity Partners. The determination of the profits available for distribution is based on the consolidated results of the firm and is not dependent directly on the performance of any particular line of business or function. The final allocation of profits to the Equity Partners is made after assessing each individual’s contribution for the year. This assessment is considered on an individual basis by the Chairman, Managing Director and the Management Committee.

The Chairman and Managing Director consider each Equity Partner’s own view of their performance against objectives over the previous financial year and receive a report from functional leadership on his/her individual performance for the year.

Our policies for all elements of remuneration take into account a number of factors including quality of work, results of the quality and compliance matrix, excellence in client service, growth in revenue and profitability, leadership and supporting the firm’s values.

Equity Partners remuneration comprises an element which reflects the seniority and experience plus an element which reflects individual performance.

Directors of the firm who do not hold an equity interest are remunerated based on a fixed salary plus a discretionary bonus dependent on their individual performance against set objectives (which include objectives covering the above factors) and the performance of the firm as a whole.

Audit engagement leaders are not permitted to have any objectives related to, or receive any remuneration based on, selling non-audit services to their audit clients. In addition, a part of their performance-related assessment is based on their ability to meet the audit quality objectives of the firm.

# Network arrangements

## 14.1 Legal structure

### Legal structure

KPMG CDs and all other KPMG firms are party to membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organisation are members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee.

KPMG International Limited has been the coordinating entity for the overall benefit of the KPMG member firms. It does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

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

Pursuant to their membership agreements with KPMG International, member firms are required to comply with KPMG International's policies, including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes being professionally and financially stable, having an ownership, governance and management structure that ensures continuity and stability and long-term success and being able to comply with policies issued by KPMG International, adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools.

KPMG International Limited and the KPMG member 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 member firm has any authority to obligate or bind KPMG International Limited, any of its related entities or any other member firm vis-à-vis third parties, nor does KPMG International Limited or any of its related entities have any such authority to obligate or bind any member firm.

Further detail on the revised legal and governance arrangements for the KPMG global organisation can be found in section 'Governance and leadership' of the

[2022 KPMG International Transparency Report](#).

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

### Total turnover achieved by EU/EEA audit firms resulting from the statutory audit of annual and consolidated financial statements\*

Aggregated revenues generated by KPMG firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.2 billion during the year ending 30th September 2022. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent currently calculable and translated at the average exchange rate prevailing in the 12 months ended 30th September 2022.<sup>2</sup>

## 14.2 Responsibilities and Obligations of Member Firms

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

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

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

<sup>2</sup> \*The financial information set forth represents combined information of the separate KPMG firms from EU and EEA Member States that perform professional services for clients. The information is combined here solely for presentation purposes. KPMG International performs no services for clients nor, concomitantly, generates any client revenue.

### 14.3 Professional Indemnity Insurance

Insurance cover is maintained in respect of professional negligence claims. The cover provides a territorial coverage on a worldwide basis.

### 14.4 Governance structure

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

#### Global Council

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms.

Among other things, the Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 56 KPMG firms that are “members” of KPMG International Limited as a matter of English law.

#### Global Board

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include approving global strategy, protecting and enhancing the KPMG brand and reputation, overseeing the Global Management Team and approving policies with which KPMG firms are required to comply. It also approves the admittance or termination of KPMG firms to/from the global organisation.

It is led by the Global Chairman, Bill Thomas and also includes the Chairman of each of the regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)) and a number of members who are also member firm Senior Partners.

The list of current Global Board members is set out on the Leadership page of kpmg.com [here](#).

Global Board committees:

The Global Board is supported in its oversight and governance responsibilities by several committees including:

- Executive Committee;
- Governance Committee;
- Global Quality, Risk Management and Reputation Committee; and
- Global Audit Quality Committee

The overarching responsibility of the Global Audit Quality Committee is to strive for globally consistent audit quality across all firms and to oversee those KPMG International activities which relate to improving and maintaining the consistency and quality of audits, assurance engagements and the system of quality management provided by KPMG firms.

### Global Management Team

The Global Board has delegated certain responsibilities to the Global Management Team. These responsibilities include developing the global strategy by working together with the Executive Committee and jointly recommending the global strategy to the Global Board for its approval. The Global Management Team also supports KPMG firms in their execution of the global strategy and KPMG International decisions and policies by member firms, including holding them accountable against their commitments. It is led by the Global Chairman, Bill Thomas.

The list of current Global Management Team members is available in the [Leadership section](#) on KPMG.com.

#### Global Steering Groups

There is a Global Steering Group for each key function and infrastructure area, chaired by the relevant member of the Global Management Team, and, together they assist the Global management Team in discharging its responsibilities. They act under delegated authority from the Global Board and oversight by the Global Management Team (GMT). Under the oversight of the GMT, they promote the execution of the global strategy and compliance with KPMG International decisions and policies by member firms. In particular the Global Audit Steering Group and Global Quality & Risk Management Steering Group work closely with regional and member firm leadership to:

- Establish and ensure communication of appropriate audit and quality/risk management policies;
- Establish and support effective and efficient risk processes to promote audit quality;
- Promote and support the implementation of strategy implementation in member firms’ audit functions, including standards of audit quality; and
- Assess and monitor audit engagement quality, including issues arising from quality performance and regulatory reviews, and focus on best practices to increase audit quality;
- The roles of the Global Audit Steering Group and the Global Quality & Risk Management Steering Group are detailed in the ‘Governance and leadership’ section of the [2022 KPMG International Transparency Report](#).

Each firm is part of one of three regions (the Americas, ASPAC, and EMA). Each region has a Regional Board comprising a regional chairman, regional chief operating officer, representation from any sub-regions, and other members as appropriate. Each Regional Board focuses specifically on the needs of member firms within their region and assists in the implementation of KPMG International’s policies and processes within the region.

Further details about KPMG International including the governance arrangements for the year ending 30 September 2022, can be found in section ‘Governance and leadership’ of the [2022 KPMG International Transparency Report](#).

# Statement by the board of KPMG in the Crown Dependencies on the effectiveness of quality controls and independence

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

The Boards of KPMG CDs has considered:

- The design and operation of the quality control systems as described in this report;
- The findings from the various compliance programmes operated by our firm (including the KPMG International review programmes as described in section 11.1.2 and our local compliance monitoring programmes); and
- Findings from regulatory inspections and subsequent follow up and/or remedial actions.

Taking all of this evidence together, the Board of KPMG CDs confirms with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 30 September 2022.

Further, the Boards of KPMG CDs confirms that an internal review of independence compliance within our firm has been conducted in the year to 30 September 2022.



On behalf of the Board

**Neale Jehan**

**Senior Partner**

KPMG in the Crown Dependencies  
22 December 2022.

Statement by  
the board

# Appendix

# Appendix 1

## Key legal audit entities and areas of operation

Name of Entity	Legal Structure	Regulatory Structure	Nature of Business	Area of Operation
KPMG Channel Islands Limited	Jersey limited liability company	Subject to audit regulation under Crown Dependencies' Audit Rules.	Audit and audit related services	Channel Islands
KPMG Audit LLC	Isle of Man LLC	Subject to audit regulation under Crown Dependencies' Audit Rules.	Audit and audit related services	Isle of Man
KPMG Audit Holdings Limited (ultimately 100% owned by KPMG LLP)	Jersey limited liability company	None.	Holding entity for KPMG Channel Islands Limited and KPMG Audit LLC.	Channel Islands

# Appendix 2

## Management Committee



**Neale Jehan**  
Chairman



**Andrew Quinn**  
Managing Director



**Dermot Dempsey**  
Head of Audit



**Tony Mancini**  
Head of Tax



**Russell Kelly**  
Head of Advisory



**Debbie Smith**  
Risk Management  
Partner



**Simon Nicholas**  
Head of Markets

# Appendix 3

## Market traded companies<sup>3</sup>

Abrdn China Investment Company Limited  
Apax Global Alpha Limited  
BH Macro Limited  
Bluefield Solar Income Fund Limited  
Chrysalis Investments Limited  
CQS New City High Yield Fund Limited  
db ETC Plc  
Fair Oaks Income Limited  
Fidelity Emerging Markets Limited  
GCP Infrastructure Investments Limited  
Gulf Investment Fund Plc  
Hansard Global Plc  
Henderson Far East Income Limited  
Invesco Digital Markets plc  
Marble Point Loan Financing Limited  
NB Distressed Debt Investment Fund Limited  
NB Global Monthly Income Fund Limited  
NB Private Equity Partners Ltd  
NextEnergy Solar Fund Limited  
Picton Property Income Limited  
Round Hill Music Royalty Fund Limited  
RTW Venture Fund Limited  
Tetragon Financial Group Limited  
The Schiehallion Fund Limited  
VietNam Holding Limited  
Volta Finance Limited

## UK Public Interest Entities<sup>4</sup>

HydrogenOne Capital Growth PLC.  
One Heritage Group Plc

<sup>3</sup> Market Traded Companies are defined as companies incorporated in one of the Crown Dependencies (Jersey, Guernsey and the Isle of Man) which have transferable securities admitted to trading on a 'regulated market' in the EU – this list is at 30 September 2022

<sup>4</sup> UK Public Interest Entities are as defined in the FRC Ethical Standard



# Appendix 4

## Quality in Our Tax Practice

KPMG International is committed to being a responsible tax practice. This is manifested in its Quality Framework and the Global Principles for the Responsible Tax Practice.

The KPMG Global Responsible Tax Project is built on three core pillars;

- Engaging in productive debate: We believe there is a need for the world to have a sustained, inclusive and coherent discussion about the key issues that are affecting and shaping taxation in the modern world. We recognise this is not easy terrain, and believe diverse voices are needed
- Convening diverse voices: Through the project, we bring together a truly diverse community of stakeholders – from academics to activists to businesses to non-governmental organisations – to have the open discussions necessary to help inform the tax debate.
- Sharing insights and ideas: The project consists of both an online community and discussion forum, where anyone with a view is welcome to have their say, and a series of in-person and virtual roundtable discussions held all around the world.

### 4.1 The Quality Framework

Our Quality Framework describes how our commitment to integrity and quality lie at the heart of the way we do things at KPMG, servicing the public interest. KPMG's refreshed Quality Framework provides a common language across our global network to describe what we believe drives quality.



Our Quality Framework describes how our commitment to integrity and quality lie at the heart of the way we do things at KPMG.

Quality essentially means doing the right thing, and it remains our highest priority.

Performing quality engagements sits at the core with our quality drivers giving clear direction to encourage the right behaviours.

Our approach to quality relies on exceptional people having access to the right knowledge at the right time and harnessing leading technology, wherever possible. Our global commitment to monitor and remediate to fulfil these drivers is central to our approach on quality.

### 4.2 Global Principles for a Responsible Tax Practice

Bringing to life KPMG's values and our Global Code of Conduct in a way that is meaningful for the everyday situations we face as tax professionals.

Our tax advice will:

- Be supported by a valid basis in law;
- Be based on the assumption that all material facts will be known to tax authorities and all relevant disclosure requirements are properly made;
- Be tailored to the particular circumstances of our clients, address any requirements of substance and purpose, and consider the intention of the legislators;
- Clearly explain the technical merits and sustainability of relevant options available to our clients; and
- Consider any reputational risk and the impact on stakeholders and communities where these are practical to assess.

We require all KPMG people to act lawfully and with integrity in dealing with tax authorities and our clients and we aim to be fully compliant with all relevant requirements.

## 4.3 Policies and Procedures to Prevent the Facilitation of Tax Evasion

### Introduction

The Criminal Finances Act 2017 (“the Act”) is UK legislation which came into force on 30 September 2017. A key aspect of the Act is the introduction of corporate criminal offences of the failure to prevent the facilitation of tax evasion (“the corporate criminal offences”). From 30 September, it is an offence for the organisation if someone within it or an associate helps to facilitate tax evasion and the organisation does not have in place ‘reasonable procedures’ to prevent it.

As a firm engaged in the provision of a wide array of services, which include tax advice and auditing entities that may have been established for tax purposes, the offences are highly relevant to KPMG CDs’ business activity and create a heightened risk environment in respect of all our services. This is because, whilst KPMG CDs (or member firms) would not intentionally facilitate tax evasion, the corporate criminal offences could arise not simply through the provision of tax related services but, for example, through other projects (e.g. restructuring engagements or assurance and related services to entities used in a tax structure) and /or through KPMG’s own contracting and billing processes.

### The Corporate Criminal Offences

There are three stages to the corporate criminal offences:

1. Criminal tax evasion by a taxpayer under the existing law;
2. Criminal facilitation of this offence by an associated person (including employees and agents); and
3. The entity failing to prevent its representative from committing the criminal act at Stage 2.

There does not need to be a conviction for either Stage 1 or Stage 2 for the third stage to be present.

The only defence an organisation has is that it had reasonable procedures in place to prevent the criminal facilitation, or, that it was reasonable for that organisation not to have procedures. Organisations that are found guilty under this offence are subject to an unlimited fine and a criminal conviction, which could lead to action by the Financial Conduct Authority (FCA) against approved persons, potential exclusion from governmental contracts, loss of licenses and reputational damage. It is likely to have a similar impact in the Crown Dependencies.

### Reasonable procedures

KPMG CDs has long been alert to the potential risk of facilitating tax evasion within its business. As such

we have processes and procedures to enable the risk assessment and to prevent any potential involvement in facilitation. In particular, vigilance against tax evasion has been a feature of the Islands’ regulatory regime for many years. HMRC guidance sets out six principles that underlie what they consider to be reasonable procedures for an organisation to ensure there is no Failure to Prevent (“FTP”) the facilitation of criminal tax evasion.

### Principle 1 - Risk assessment

The relevant body assesses the nature and extent of its exposure to the risk of those who act for or on its behalf engaging in activity during the course of business to criminally facilitate tax evasion.

The mature financial services sectors in the Crown Dependencies, allied with low or zero taxes for non-residents, means that there is a heightened risk of tax evasion activities within KPMG CDs’ marketplace. As a consequence of this and related regulatory requirements, we have nominated experienced directors within the practice with specific risk management responsibilities; this includes a director within the tax department, who has over 25 years’ professional experience. In addition, there is a dedicated Risk and Compliance team, including at senior manager level.

Under global rules, KPMG CDs is required to undertake an Enterprise Risk Assessment annually. The ERA is prepared by the firm’s Senior Partner, in conjunction with functional RMPs and considers the changing nature of our marketplace and any impact on that risk assessment. For the reasons stated above, this will always include the risks posed from tax evasion and its facilitation.

All staff are trained in anti-money laundering principles which includes the detection of tax evasion. New clients and new engagements are subject to due diligence and risk assessment, by the relevant client manager which is approved by the engagement partner. Any risk assessed more than low is subject to a second partner approval. That assessment is documented and retained. The assessment is reviewed and renewed annually in most cases.

The wider risk team meet monthly to discuss current and emerging issues. The tax risk management partner participates in the wider KPMG global tax risk team and attends annual tax risk management training.

### Principle 2 - Proportionality of risk-based prevention procedures

Reasonable procedures will be proportionate to the risk a relevant body faces of persons associated with it committing tax evasion facilitation offences. This will depend on the nature, scale and complexity of

the relevant body's activities. We recognise that the reasonableness of prevention procedures should take account of the level of control and supervision the organisation is able to exercise over a particular person acting on its behalf, and the proximity of the person to the relevant body. The new offences do not require relevant bodies to undertake excessively burdensome procedures in order to eradicate all risk, but they do demand more than mere lip-service to preventing the criminal facilitation of tax evasion.

The firm is primarily an audit practice and the large majority of the audit client base are businesses that are either regulated by the JFSC, GFSC, or IOMFSA, or are administered by regulated businesses. Whilst this does not eliminate the risk of the facilitation of tax evasion within our client base, it does reduce the risk.

That said, all clients and engagements are evaluated and regularly reviewed to assess the risk profile and to ensure that does not change.

All new client engagements come from a direct relationship between KPMG CDs and the client or a referral from another KPMG member firm. In all cases, the same risk assessment of engagements is performed. Whilst the firm may be introduced to prospective clients by intermediaries such as law firms and administrators, in all cases, we will have a direct relationship with the client and all normal evaluation and risk assessment procedures are applied.

It is also important to note the requirements placed on individual staff members. Prior to joining the Firm, all prospective employees are subject to screening, including police checks, and references are requested. All directors and staff are committed to abiding by the KPMG Global Code of Conduct. Further, annual training in ethics and anti-money laundering is mandatory for all personnel at all levels. These include clear procedures on how personnel should report suspicions of tax evasion and money laundering, as well as unethical behaviour by colleagues. Finally, directors and staff are not remunerated or otherwise rewarded by reference to tax savings for clients or similar metrics.

### **Principle 3 - Top level commitment**

The top-level management of a relevant body should be committed to preventing persons associated with it from engaging in criminal facilitation of tax evasion. They should foster a culture within the relevant body in which activity intended to facilitate tax evasion is never acceptable.

The senior leadership of KPMG CDs are committed to preventing the facilitation of tax evasion. The Firm RMP is a member of the management committee. As stated above, each function has a partner charged with

risk management responsibility. The risk committee, comprised of the firm and functional RMPs, the Ethics & Independence Partner and senior members of the Compliance Team, meet monthly and formulate risk policy (including tax evasion detection and prevention) all policies and procedures are approved by the Board and communicated to all personnel.

In 2012, KPMG CDs adopted the Principles of a Responsible Tax Practice. This commitment was communicated to all staff through training and notification on the portal. In 2017, the firm adopted the revised Global Principles and again communicated this to all personnel.

Regular communications from senior leadership (in particular from successive Senior Partners) unequivocally articulate the Firm's zero tolerance for facilitation of tax evasion.

### **Principle 4 - Due diligence**

The organisation applies due diligence procedures, taking an appropriate and risk based approach, in respect of persons who perform or will perform services on behalf of the organisation, in order to mitigate identified risks.

As stated above, KPMG CDs has rigorous due diligence procedures for taking on new clients and new engagements. When delivering those engagements, all work is undertaken by directly employed personnel (apart from the occasional contractor) supervised by directors. It is a strict requirement of the firm that all work is subject to review by a senior staff member and all final deliverables are required to be approved by the engagement partner (with the exception of routine compliance work that nonetheless requires review by an experienced senior staff member). This manner of engagement performance reduces the scope for individual personnel to deviate from firm policy in regard to the prevention of tax evasion.

To ensure compliance with these procedures, a range of independent reviews are undertaken.

- The Compliance team undertake regular reviews or checks of engagement evaluations and report the results to heads of function and functional RMPs.
- All engagement leaders are reviewed at least once every three years by a review team, made up of senior personnel from other KPMG offices. These reviews included detailed examination of engagement files.
- All functions include some form of review of engagements by other personnel independent of the engagement teams.

The outcome of these reviews feed into individuals' annual performance appraisal.

## Principle 5 - Communication (including training)

The organisation seeks to ensure that its prevention policies and procedures are communicated, embedded and understood throughout the organisation, through internal and external communication, including training. This is proportionate to the risk to which the organisation assesses that it is exposed.

The Firm has a strict policy of annual AML training that also includes wider risk issues, such as facilitation of tax evasion. It is mandatory for all directors and staff to attend this training.

Furthermore, through the internal portal regular updates on risk management matters are communicated. Within the tax function, specific risk management updates are delivered by the Tax RMP to all staff. This always includes awareness of the particular risks faced in providing tax services. The zero tolerance to facilitation of tax evasion is communicated as well as detailed guidance on the Global Principles for the Responsible Tax Practice.

KPMG CDs makes clear its commitment to ethical behaviour and to the principles of responsible tax on its website. A summary of this document has been placed on our website for public consumption. The full document will be made available to clients and associates on request to assist them in discharging their own responsibilities under the Act.

## Principle 6 - Monitoring and review

The organisation monitors and reviews its prevention procedures and makes improvements where necessary.

There are a number of existing arrangements that enable the review and improvement of procedures to detect and prevent the facilitation of tax evasion:

- The annual Enterprise Risk Assessment process;
- The monthly meeting of the risk committee;
- The attendance by functional RMPs at KPMG risk management training events;
- Updates and communications from the JFSC, GFSC and IOMFSA.

## Associated persons

An entity may have committed an offence where an "associated person" has criminally facilitated the evasion of tax. An associated person is an agent (either a person or entity) who provides services for or on behalf of the entity. The Firm needs to consider what FTP risk there is in relation to the work of associated persons and whether additional policies or safeguards are required.

Possible associated persons for KPMG CDs include: -

- Employees;
- Contractors;
- Alliance partners;
- KPMG member firms (e.g. via Multi-Firm Engagements (MFEs) or otherwise);
- Third party service providers.

Employees are covered in the assessment above. Contractors, to the limited extent that they are used, are subject to the same policies, procedures and screening as employees.

We interact with other KPMG member firms in two ways: as Originating Firm and as Participating Firm. In the case of the former, we have the direct relationship with the client and the other member firm will be acting only under our instruction. Therefore, our FTP procedures should be sufficient in managing any risk in these situations.

In the case of the latter, as mentioned, even when we are instructed by another member firm, we will nonetheless complete our normal engagement evaluation procedures. So no additional FTP procedures should be required.

We do not use third party service providers in the direct delivery of services to clients without the control and supervision by KPMG CDs personnel. When clients are introduced to us by third parties, as already stated, our normal client and engagement evaluation provisions are applied.



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