



# The value of Quality

**Audit Quality**

**KPMG. Make the Difference.**

May 2024

---

# Índice

<b>Our audit practice</b>	<b>4</b>	<b>Intellectual Resources</b>	<b>24</b>
<b>Audit quality</b>	<b>5</b>	Department of Professional Practice (DPP)	24
<b>Our System of Quality Management</b>	<b>6</b>	Risk Management - Audit (RMA)	24
<b>Risk assessment process</b>	<b>8</b>	<b>Information and communication</b>	<b>25</b>
<b>Governance and leadership</b>	<b>10</b>	Transparency report	25
Our Values	10	Global People Survey - GPS	25
Roles and responsibilities	11	Ongoing communication related to monitoring and remediation	25
Governance Bodies for the System of Quality Management	11	Communications with third parties on the operating effectiveness of the System of Quality Management	25
<b>Relevant ethical requirements</b>	<b>12</b>	<b>Monitoring and remediation</b>	<b>26</b>
<b>Client and engagement acceptance and continuance</b>	<b>13</b>	Root Cause Analysis	26
<b>Engagement Performance</b>	<b>14</b>	Audit Quality Performance Reviews (QPR) Program	27
<b>Human, Intellectual and Technological resources</b>	<b>16</b>	Global Quality & Compliance Review (GQCR)	27
Human Resources	16	Monitoring of SoQM control testing	27
<b>Technological Resources</b>	<b>21</b>	Deficiency Evaluation Committee	27
KPMG Clara workflow (KCw)	21	Key audit quality indicators of our Firm	27
IT and Data & Analytics (D&A) Specialists	23		
Workpapers Retention and Protection Policy	23		

# Letter from the Head of Audit

For the fifth consecutive year we are publishing the Annual Activity Report of our Audit Quality department, which this year is entitled *The value of Quality*. At KPMG we are committed to providing the highest quality services and in this document, structured around the components of our system of quality management, we outline some of what we do on a day-to-day basis to achieve this goal of audit quality and to secure and enhance the trust placed in us by the markets, our clients, regulators and other stakeholders.

We have implemented a System of Quality Management (SoQM) that complies with the International Standard on Quality Management 1 (ISQM 1) and its adaptation in Spain and, as described in our statement on its effectiveness, contained in the Transparency Report for the year ended 30 September 2023, the conclusion of our assessment is that the SoQM provides the Firm with reasonable assurance that the objectives of the System of Quality Management are achieved.

The Firm's management leads our commitment to quality, fostering a culture focused on quality, integrity, responsibility, objectivity, independence and ethics, and creating a working environment in which all KPMG professionals can grow and develop their diverse skills.

Our policies and robust procedures on independence and client and engagement acceptance and continuance are vital to providing high-quality services. Prior to associating with a client or continuing a client relationship, we evaluate the potential risks. Before accepting an engagement, we analyse possible conflicts of interest, potential threats to independence and possible associated risks. This is all the more necessary in the increasingly complex and shifting global economic context in which we find ourselves.

On the technology front, we continue to invest in our KPMG Clara intelligent audit and assurance platform. This platform, with built-in artificial intelligence and data analytics (D&A), allows us to apply a fully digital audit approach. The audit and assurance workflows together with our methodology, which are all integrated into the KPMG Clara platform, help us to comply with applicable professional standards and regulations and increase the quality of our work.

Quality is present in everything we do and this extends, of course, to our people management. We provide lifetime learning to our professionals so that they have the necessary knowledge to perform engagements of the highest quality and an important component of their performance evaluations is based on Audit Quality Ratings.

We commit to continually improving the quality, consistency and efficiency of KPMG audits. To this end, in addition to the numerous controls in place throughout the Firm's processes as part of our System of Quality Management, we have robust programs to Monitoring and remediation the issues identified.

I trust that this Activity Report will be useful in setting out how we endeavour to improve the quality of our work and that it will contain information of interest to you.



**David Hernanz**  
Head of Audit

# Our audit practice

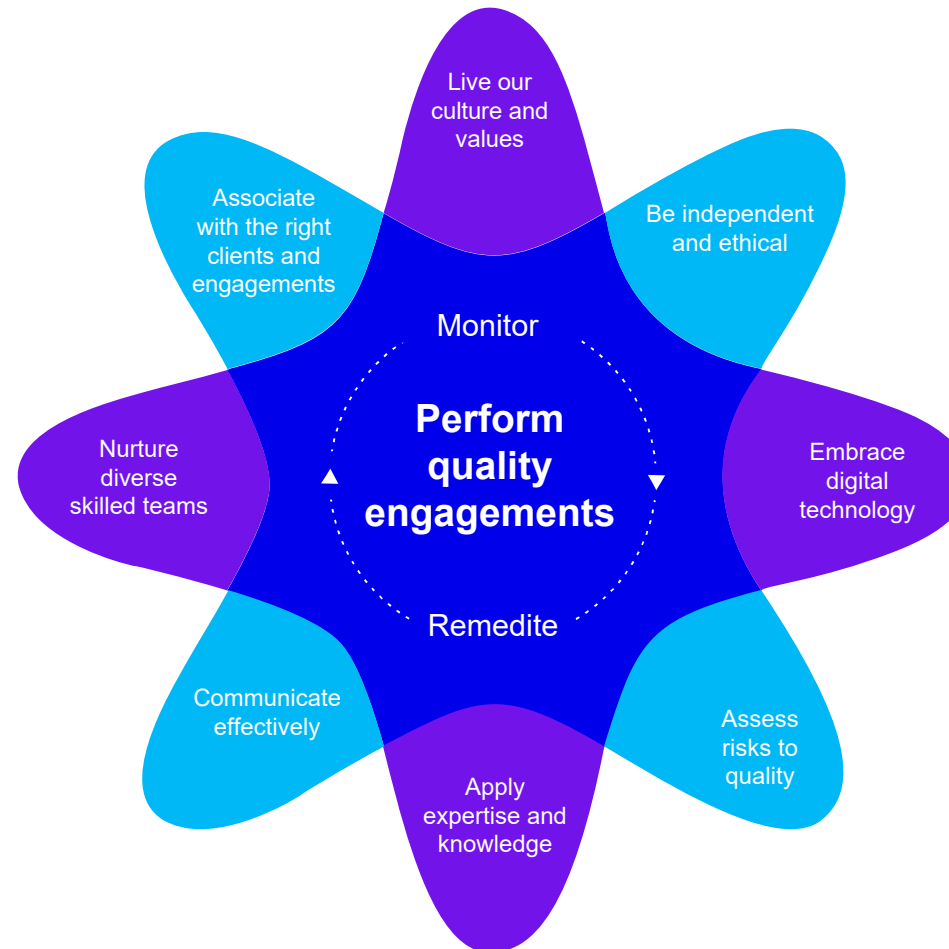
KPMG Auditores, S.L. (KPMG) is a professional services firm that delivers audit and assurance services on financial information, as well as other related services.

**Audit quality lies at the heart of our Firm’s strategy. At KPMG, we consistently put the focus on delivering the very highest standards of quality, underpinned by innovation, to remain one step ahead of change and to provide even greater value to our clients and stakeholders. Quality essentially means doing the right thing and it remains our top priority.**

This focus on quality enables us to foster greater trust in the markets, strengthen the economy and contribute towards progress, while ensuring that the services we provide to our clients are performed in accordance with a defined process that is known to all professionals and subject to continuous review.

**Our approach to audit quality relies on exceptional people having access to the right knowledge at the right time, and harnessing industry leading technology on every engagement.**

As we will set out later in this document, the professionals at KPMG share our values and have the passion needed to collaborate with clients to deliver tangible results, with the ultimate goal in mind of contributing to our clients’ success, as well as generating an impact that extends beyond the communities where we operate.



# Audit quality

Audit quality is fundamental to achieving our goal of maintaining public trust and is the key measure on which our professional reputation stands. Quality is foundational to instilling confidence and public trust in the capital markets and it remains our highest priority.

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

Our commitment to drive these investments and improvements in audit quality and global consistency are brought together in our **Global Audit Quality Transformation (GAQT)** program. The goal of this program is to ensure that our audit professionals have the support, tools and the environment they need to consistently deliver high-quality audits. Transforming audit quality is also geared towards every professional involved in the engagement having a clear understanding of their roles and responsibilities when it comes to delivering quality so as to strengthen professional commitment, as we will expound upon later.

The chart on the right shows the **four cornerstones** of this program, which in turn are made up of the different programs, actions and activities detailed in this document. All these initiatives help us to comply with international quality management standards - ISQM 1, ISQM 2 and ISA 220 - and with local regulations - NIGC 1-ES, NIGC 2-ES and NIA-ES 220 (Revised) - which translate the provisions of these international standards into national regulations.

## Audit Quality department

KPMG has an **Audit Quality department** made up of **9 professionals** from different categories (partner, directors, managers and seniors), which works relentlessly and exclusively on driving improvements in the quality of our audit engagements and achieving our strategic objectives.

The mission of the Audit Quality department of KPMG in Spain is to be a positive force for change and to proactively promote improvements in audit quality so as to meet our strategic objective of becoming the **most trusted professional services firm with the best professional reputation**.

During the year ended 30 September 2023 (FY23) the Audit Quality department actively worked on the following projects and activities, which will be explained in further detail throughout this document.



# Our System of Quality Management

Since 30 September 2022, at KPMG in Spain we have implemented our **System of Quality Management (SoQM)**, which is the global firm’s response to the requirements established in the international standards ISQM 1 and ISQM 2 and which, therefore, helps us to comply locally with the requirements of NIGC 1-ES and NIGC 2-ES. This document is equally applicable in all its aspects to the Firm in Andorra (unless specifically mentioned, when this document states “KPMG in Spain”, it shall be understood to apply to Spain and Andorra).

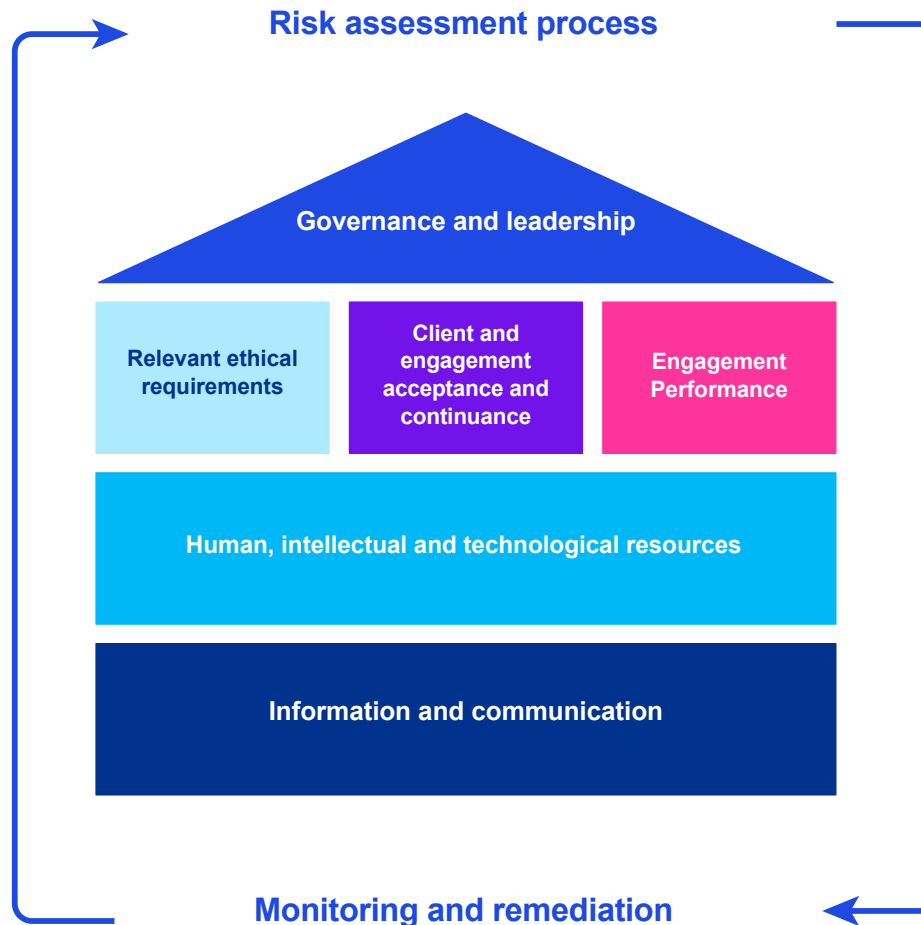
On this front, we have set quality objectives, identified risks, and designed and implemented responses (controls) so as to have a fully operational internal system of quality management that can meet said quality management standards.

In addition, we have policies and procedures in place and have adopted the additional quality control systems necessary to comply with the standards that apply to us.

This system of quality management operates on a continuous and iterative basis and responds to changes in the nature and circumstances of the Firm and our engagements. It has also enabled us to **improve the quality** of our audit and assurance work, fostering consistency and rigour in all our processes and thus instilling **greater confidence** among the different users of the financial information and our reports.

The design, implementation and operation of our SoQM allows us to perform high-quality engagements in a consistent manner by providing reasonable assurance that **the objectives of the system of quality management are achieved**.

The chart on the right shows the different **components** that make up our SoQM, which are consistent with those set out in the applicable regulations:



Shown below are some key numbers in relation to our system of quality management (SoQM) at 30 September 2023:

Concept	Number
System components	10
System processes	63
Quality objectives	59
Process risk points (PRPs)	>370
Responses (controls)	>460

Moreover, our SoQM is reinforced by more than **380 KPMG Global responses** (NET controls), which are operated at the Global Firm level and which, in turn, are linked to more than 280 process risk points (PRPs).

At KPMG in Spain we have assigned the main **responsibilities** for our system of quality management and, on an annual basis, the individuals who have been assigned ultimate responsibility for the SoQM and accountability for it assess the system and conclude on whether it provides **reasonable assurance** that the objectives of the system are being achieved.

In the following sections of this document we explain the different initiatives and activities that we carry out in KPMG in Spain, within the framework of these components, in order to comply with the requirements established in the applicable regulations mentioned previously.

KPMG Auditores, S.L.'s *Transparency Report 2023*, published in January 2024, includes the **statement of effectiveness** of KPMG Auditores, S.L.'s quality controls as of 30 September 2023.



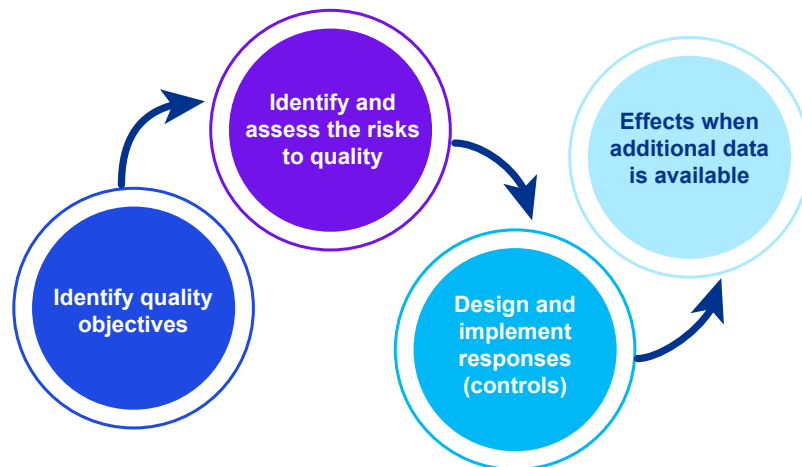
# Risk assessment process

**NIGC 1-ES requires audit firms to adopt, in an interconnected and coordinated fashion, a risk-based approach to the design, implementation and operation of the components of its system of quality management, such that the audit firm assumes proactive control over the quality of its engagements.**

For its System of Quality Management, KPMG has followed this risk-based approach, in line with the requirements of the standard and the methodology of our global network:

The System of Quality Management's risk assessment process impacts every component. It is not linear in nature, but rather **continual and iterative** throughout the year. It is first performed by KPMG Global and is then cascaded out to all member firms; each country then conducts its own analysis with the changes in the nature and circumstances of the Firm and its engagements.

This process follows the general pattern set out below:



The pertinent standard describes a risk to quality as one that has a **reasonable possibility of (i) occurring; and (ii) individually, or in combination with other risks**, adversely affecting the achievement of one or more quality objectives.

Our iterative risk assessment process (I-RAP) also identifies the **process risk points** to squarely focus on “what can go wrong”, in order to achieve the established quality objectives. This helps us to design and implement effective controls to mitigate these risk points and, consequently, risks to quality.

On identifying risks to quality, KPMG takes into consideration

## (i) Probability of occurrence

**Determining the probability of occurrence helps us to assess the likelihood of the risk arising before considering any response/control implemented.**

## (ii) Impact

**At KPMG we assess whether a risk (either individually or in combination with others) could have an adverse effect on the achievement of one or more quality objectives.**



In short, the risk assessment process of our System of Quality Management is pivotal to ensure that the proposed quality objectives for each individual component are met.

We are keenly aware at KPMG in Spain of the importance of our Firm’s System of Quality Management, which is why numerous professionals from across the Firm’s various departments channel their efforts and resources into this endeavour. These professionals all contribute to the various internal processes in place that ensure continuous improvements in quality.

Hours incurred FY23	Number of people directly involved in SoQM FY23	Hours incurred FY22	Number of people directly involved in SoQM FY22
22,000	90	16,000	80



# Governance and leadership

The governance and leadership component of our SoQM shapes the environment that ultimately underpins the design, implementation and operation of the system of quality management. At KPMG in Spain we have an appropriate organisational structure in place and we suitably allocate the duties, responsibilities and authority in order to ensure that the SoQM functions properly.

**We also live up to our commitment to quality thanks to the Firm's culture, which rewards and reinforces.**

**Ethics, values and professional attitudes are of vital importance**, as is the responsibility assumed by all our personnel for quality when performing engagements or the activities that form part of the system of quality management and the conduct expected of us.

Quality is central to our strategic decisions and actions, including financial and operational priorities. At KPMG in Spain we plan resource needs, including those of a financial nature which are obtained, distributed or allocated in line with our commitment to audit quality.

## Our Values

Our values represent what we believe in, and what's important to us. They define our conduct, guiding how we act each day, the decisions we make, and how we work with other professionals, our clients and our stakeholders. They form the basis of our ethical practices and principles.

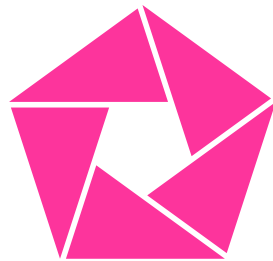
Our Values lie at the heart of the way we do things, **to do the right thing, the right way** and without compromising the **quality** of our engagements. They define our conduct every day.

All professionals play a vital role in KPMG's success. **By adhering to these values, we inspire trust and are able to shape how we are perceived by outside parties.**



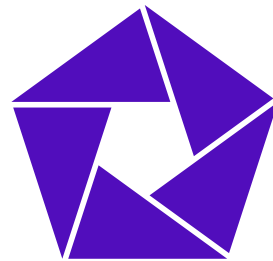
**Integrity**

We do what is right



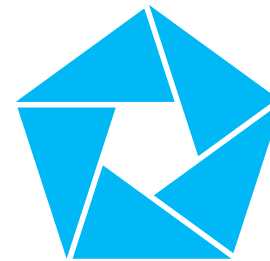
**Excellence**

We never stop learning and improving



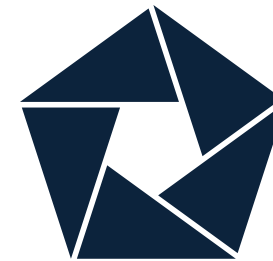
**Courage**

We think and act boldly



**Together**

We respect each other and draw strength from our differences



**For better**

We do what matters

## Roles and responsibilities

At KPMG we have globally defined a series of roles and responsibilities that are aimed at ensuring that all professionals involved in an audit engagement have a clear understanding of their own particular role and responsibility with regard to the engagement in order to enhance audit quality.

The main objectives of this project are as follows:

- Strengthening the **trust** of clients, regulators and other stakeholders, thanks to roles that support a robust system of quality management.
- Providing **clarity and consistency** by ensuring that all our professionals understand, accept and prioritise their role in audit quality management.
- Ensuring that audit quality is integrated by defining roles, **objectives, indicators** (KPIs) and **performance reviews**, which is then reflected in professionals' **rewards and promotions**.

Over 30 new role profiles have been created in the following categories:



To support the above-mentioned role profiles, a single mandatory **quality goal** has been drawn up (to ensure audit engagement quality), as well as a series of indicators (KPIs) and a library of quality objectives. Furthermore, for professionals with a direct role in the operation of our System of Quality Management, certain **additional objectives** have been defined that are evaluated annually.

This project ensures that all audit quality requirements established in the International Quality Management Standard, ISQM 1 and its local adaptation through NIGC 1-ES are assigned to the pertinent professionals.

## Governance Bodies for the System of Quality Management

### Board of Directors:

In accordance with its articles of association, the Board of Directors passes all resolutions pertaining to KPMG Auditors, S.L. The Board defines the strategy, one that is aligned with that of the Global Board, and demonstrates our commitment to quality and inspiring trust. All of this is strengthened thanks to the implementation of NIGC 1-ES “Quality Management for Firms that Perform Audits or Reviews of Financial Statements”, which transposes into Spanish law the provisions of the International Standard on Quality Management (ISQM 1), and to the oversight of the Firm’s System of Quality Management (SoQM).

In accordance with applicable legislation, the Board is responsible for approving the “Internal Organisation within KPMG Auditores, S.L.” document, which identifies the main elements making up internal organisation, assigns responsibilities within the SoQM and appoints those in charge of each system component.

### Steering Committee (SteerCom):

Committee created upon initial implementation of our System of Quality Management (SoQM). The main functions of this Committee include overseeing and driving forward the relevant aspects of this project, ensuring the established milestones and timetables are met, and providing the necessary resources to carry out the project. The Committee is provided with information on the monthly monitoring of our SoQM implementation, the controls performed and the outcome of the tests carried out by the Internal Audit team. The Committee is made up of those in charge of the SoQM, among others.

## Relevant ethical requirements

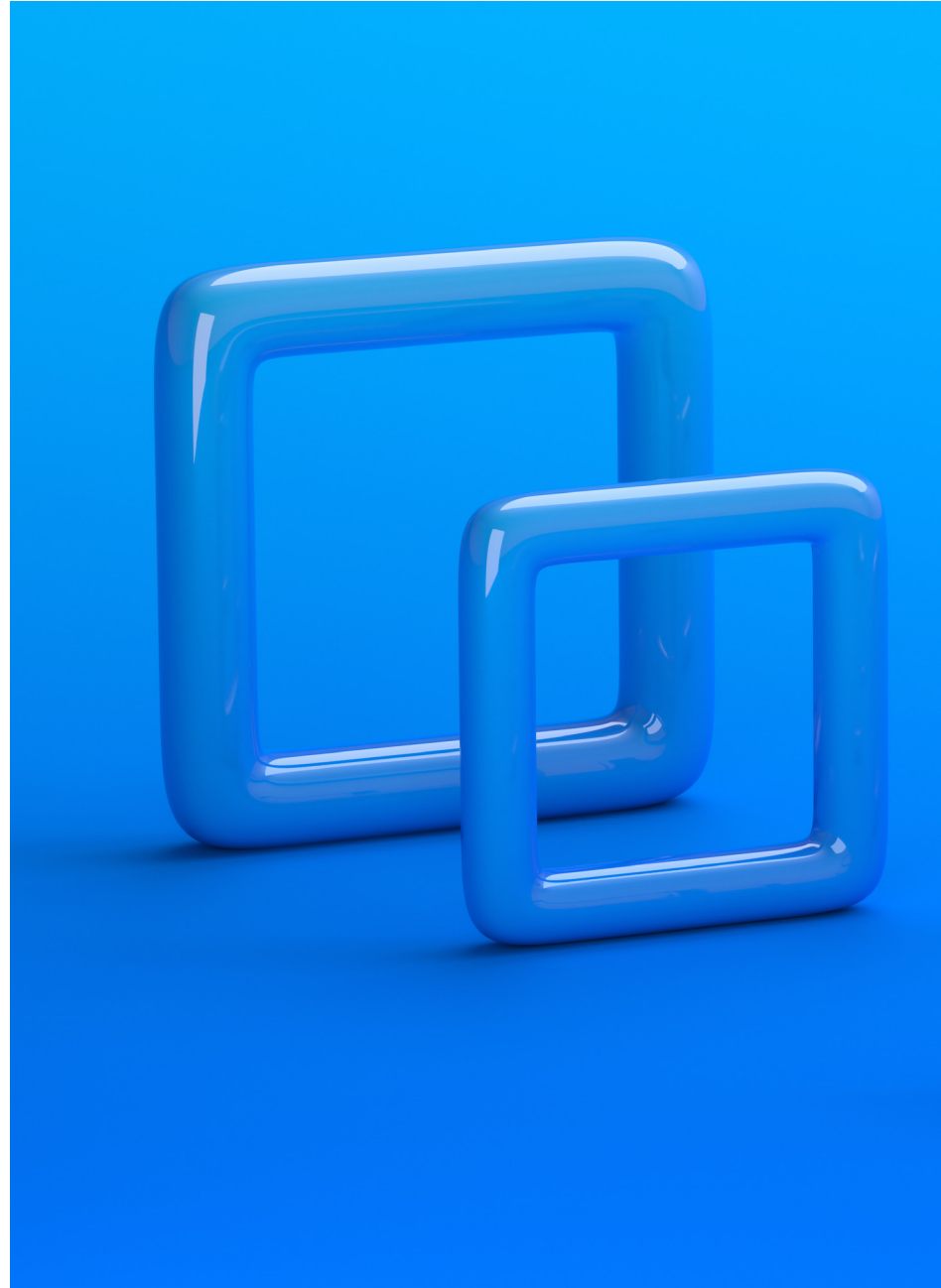
KPMG in Spain has an Ethics and Independence area made up of 20 professionals. It ensures that the Firm and its professionals are aware of the relevant ethical requirements applicable to the Firm and our engagements, and that they comply with their duties in respect of these same relevant ethical requirements.

The Ethics and Independence area supports engagement teams with their activity in accordance with the Firm's policies, procedures and values.

KPMG in Spain also has two groups to support the analysis of independence, namely: the **Audit Independence Group (AIG)** which is formed of 13 professionals and was created in 2017, and the **Non-Audit Services Solutions Group (NSG)** made up of 5 professionals and created 2022. Both groups assist engagement teams with their analysis of the independence of the Firm, its personnel and services. They also assist with improving the documentation of such analysis in the workpapers.

Moreover, in order to provide a quality audit service, KPMG in Spain has put protocols in place so that engagement teams can consult with the Ethics and Independence department via a hotline, enabling queries to be resolved in due time and form by specialised professionals.

The Ethics and Independence area also ensures compliance with the code of ethics and conduct and the Firm's values. It distributes policies, bulletins, communications and models, as well as other useful information, to all professionals.



# Client and engagement acceptance and continuance

We firmly believe that a basic requirement for the provision of high-quality services is to have rigorous policies and procedures in place in terms of client and engagement acceptance and continuance. This explains why KPMG has a robust client and engagement acceptance and continuance process designed to help identify and evaluate any potential risks prior to accepting or continuing a client relationship, or performing a specific engagement.

To that end we gather information on potential clients and analyse their risk profile, including aspects such as the **integrity and ethical values** of its management, board members and owners.

In terms of engagements, **we assess our independence and any potential conflicts of interest** that could stem from the engagement and many other aspects, such as the **purpose and use** of our report and other deliverables, the **perception of the public**, while ensuring that the service to be offered is **ethical** and does not go against **our values**. We also assess the Firm's ability to perform the engagement with the appropriate quality, while complying with the various applicable standards, requirements and regulations.

If during the assessment, or while rendering the service, problems are detected in terms of independence or conflicts of interest that cannot be satisfactorily resolved or if other

quality or risk-related issues arise that cannot be appropriately mitigated, we will refuse to accept or continue the relationship with the client or the specific engagement. Our client and engagement acceptance procedures are underpinned by the use of IT tools that enable us to standardise the process, appropriately assess the client and engagement risks and ensure an adequate review and approval workflow.

Furthermore, in the context of our System of Quality Management, we have put numerous controls in place at every stage of the client and engagement acceptance and continuance process that help to ensure appropriate risk assessment and management.



# Engagement Performance

We make sure at KPMG in Spain that engagement teams understand and comply with their duties, which notably include engagement management and quality. This is achieved by monitoring engagement teams at all levels, whilst consistently prioritising professional judgement and scepticism. Professionals also have a consultation hotline to query complex or controversial issues that may come to light during the course of their work.

In this regard, KPMG’s lines of defence as regards engagement quality include the following:

## Reinforcing engagement quality

**Atenea Project**

Since 2020, we have assisted teams working on major audit accounts with administrative management, the achievement of milestones and the monitoring of the resources assigned.

---

**Direct consultation hotline**

Protocols have been put in place so that teams can consult with the Department of Professional Practice (DPP), as well as the Risk Management - Audit (RMA) and Ethics and Independence (E&I) areas, through an IT platform that guarantees an **efficient handling of queries, enabling their resolution in a brief period of time by specially trained professionals.**

---

**Fraud Risk in Audit (FRA)**

The team of Forensic professionals, integrated into the Audit function, was created to address the auditor’s responsibilities in terms of identifying, assessing and responding to fraud risks as a source of misstatement in the financial statements. In FY23 this professional team was involved in a **significant number of audit engagements, equivalent to approximately 2,600 hours of work.**

**Partner Review and Engagement Quality Control Reviewer (EQCR)**

Timely reviews by professionals with extensive experience are key to properly plan the work, identify the risks and determine the scope of the audit tests. The early involvement and review by the engagement partner and, where necessary, by the EQCR, **enhance the quality of the work performed.** This involves coaching that is monitored at KPMG on a daily basis using various indicators.

	FY23	FY22
Engagements reviewed by EQCR (engagements)	613	848
Engagements reviewed by EQCR (hours)	489,961	563,881
EQCR involvement	50	53
Hours incurred by EQCR	5,973	7,017

**Second Line of Defence programme (2LoD)**

This real-time coaching program is designed to improve the quality of the audit documentation over the various engagement phases. KPMG in Spain has over 45 reviewers or “coaches” in different categories (managers and partners). Every year engagements are selected for this program, mainly on the basis of their risk and complexity.

Below is data from the last two years:

	FY23	FY22
Engagements included in the program	44	44
Hours incurred	2.774	2.442
Signatories that received coaching	45	41

45%

On average, 45% of signatories receive the coaching

# Reinforcing engagement quality

## Reinforcement by the DPP and Audit Quality areas

Given the vast array of standards and regulations with an impact on audit engagements and ongoing regulatory developments, professionals must be kept informed and up-to-date in order to uphold the **commitment to quality** at KPMG in Spain. The **Department of Professional Practice and Audit Quality** area support the Firm and the teams to achieve this compliance. These areas have been strengthened in recent years thanks to the hiring and promotion of professionals.

## Specialists in the Audit area

The audit of certain specific fields requires the involvement of specialists. High-level specialists have formed part of KPMG's Audit area for a number of years, a factor that fosters coordination and communication between teams.

Some examples of these specialists include IT, pensions, financial instruments and tax. Engagement teams also receive support from the Firm's other specialist areas, such as Corporate Finance, Legal and Transfer Pricing.

Below is data from the last two years:

	FY23	FY22
Hours incurred by specialists in audit engagements	72,774	74,777
% of total engagement hours	4%	4%

## KCw Champions

Network of professionals from different areas with extensive experience in KPMG Clara Workflow (KCw), which provides ongoing support to the other less experienced teams, offering responses to possible doubts about this audit documentation tool.

## Quality and Efficiency Centre (QEC)

Team of professionals whose primary goal is to contribute to **quality and efficiency** by performing administrative tasks and services that can be time-consuming, are of a standardised nature, and can be massively scaled up for a large number of engagements.

## Engagement Monitoring Milestone project

Since 2022, **certain audit engagements have been monitored in real time**. This monitoring of audit performance supports our System of Quality Management, as envisaged in both NIGC 1 and in ISQM 1. The application of this policy is therefore a mandatory element of our System of Quality Management at KPMG.

The goal of this program is to undertake real-time monitoring of audit engagements by identifying a series of metrics that enable us to **monitor the stage of engagement completion** and **pinpoint challenges audit quality**; this enables us to adopt measures to support engagement teams when necessary.



# Human, Intellectual and Technological resources

## Human Resources

To ensure that audit engagements are performed with a high level of quality, KPMG in Spain recruits, trains and retains professionals with the necessary competence and skills.

KPMG in Spain's professionals demonstrate their commitment to quality through their actions and behaviours, developing and maintaining the necessary skill sets to perform their duties. The performance evaluations, remuneration and promotion of our professionals take into account their contribution to quality.

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.

## Recruitment

At KPMG we invest in attracting the best talent, both now and in the future. This includes building an extraordinary people experience for all current and prospective KPMG professionals.

All new audit employees must complete a confirmation of independence before being hired. The Ethics and Independence team also performs a compliance audit of partners' personal independence.

An external background check is procured for more senior profiles to verify their experience and qualifications, respecting prevailing data protection regulations at all times.

## Retention

The Firm's initiatives to maintain and increase the retention rate, which has been on the up in recent years, include:

Reward and Recognition

Wellbeing policy

Commitment

Communication

**79%**

The retention rate in FY23 was 79%, an increase of 13% compared to the previous year.

## Inclusion, diversity and equity programs

KPMG is committed to building a Firm that is inclusive to all. Inclusion, Diversity and Equity (IDE) underpins our Values and is vital to our Purpose. 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 that our 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.



## Audit Quality Rating (AQR)

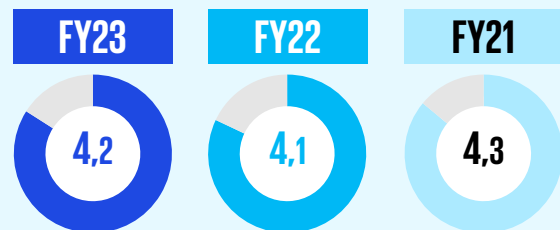
More than 6 years ago, KPMG in Spain launched a program to evaluate certain aspects that are considered critical or relevant in relation to the quality of audit work through **quality ratings**. The objective of these ratings is to tangibly measure the quality of the work performed by professionals and thus demonstrate the Firm's commitment to achieving the highest quality in all our work.

The ratings are structured in such a way as to **cover the various stages of an audit**, including the planning stage, the execution of the work or auditor independence analysis, as well as the engagement closing process and the performance evaluation of the engagement quality control reviewer (EQCR). They also take into account the completion of the annual training program, as well as the results obtained from internal quality reviews and the findings of external inspections carried out by regulators.

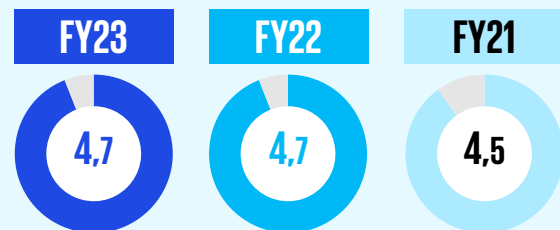
These quality ratings are assessed using mass data processing technology, which allows for **precise and objective measurements**, as well as comparisons of the results obtained. The ratings are reviewed and measured annually for all audit professionals as well as specialists involved in audit engagements.

The application of these quality ratings has enabled us to enhance the quality of our work, as they serve as an incentive for our professionals by forming part of the quality objectives established each year, while also being an effective means of generally analysing specific aspects of the quality of our work.

AQRs of Audit Partners and Managers in the last 3 years



AQRs of specialists (Partners and Managers) in the last 3 years



Maximum AQR: 5

## Reward and promotion

### Reward

KPMG in Spain has compensation and promotion policies that are informed by market data, and are clear, simple, fair and linked to the performance review process. **Our professionals understand what is expected of them, including the audit quality accountabilities.**

The connection between performance and reward is achieved by assessing performance across a peer group to inform reward decisions.

We manage promotions and remuneration reviews using OneHR, an all-in-one technological platform for the documentation of performance evaluation results and the proposal of salary changes.

The extent to which our people feel their performance has been reflected in their reward is measured annually through the Global People Survey (GPS).

### Promotion

The results of performance evaluations are taken into consideration as a fundamental input in decisions on the promotion and remuneration of partners and the rest of the employees and, in certain cases, to decide their continuity in the firm.

## Assignment of resources

**KPMG in Spain has policies, procedures and controls in place to assign both partners and other professionals to a specific engagement on the basis of their skillsets, relevant professional and industry experience, and the nature of the engagement.**

The Head of Audit is responsible for the partner assignment process.

Annual partner portfolio reviews are performed for all audit partners and directors assigned as audit engagement leads.

The objective of this review is to assess the size, complexity and risk profile of the engagement and, subsequently, weigh up whether the assigned audit partners and directors

have the appropriate experience and capabilities, including the time and resources required (engagement team and any specialists involved), to perform high-quality work.

In addition, the audit engagement partner or director is responsible for determining whether the engagement team has the necessary skills, training and time to perform the audit engagement in accordance with our methodology, professional standards and applicable legal and regulatory requirements.



## Training of our professionals

At KPMG in Spain we provide our teams with the training they need to deliver high-quality audits.

Type of training (in hours)	FY23	FY23%	FY22	FY22%	FY21	FY21%
Virtual Classroom	26,975	15%	49,525	33%	62,513	48%
Online	96,387	53%	89,090	59%	53,650	42%
In-person	39,338	22%	4,637	3%	11,549	9%
External (virtual or in-person)	18,359	10%	6,639	5%	1,483	1%
	<b>181,059</b>		<b>149,891</b>		<b>129,194</b>	

At KPMG in Spain we provide our professionals with lifetime learning so that they are equipped with the knowledge and expertise required to perform high-quality work.

To that end we design an Annual Training Plan which encompasses the technical training gaps identified, which we then cover with courses, the origin of which could be the following:

1. KPMG Global training, through the **Mandatory Audit Training Curriculum (MATC)**, which, as its name suggests, is obligatory for all KPMG member firms. This ensures global consistency in terms of training on methodologies and on US and international accounting standards.
2. Our **Department of Professional Practice** at KPMG in Spain provides additional training on accounting developments, local standards and areas of special consideration.

3. Action plans stemming from the Firms' internal review processes and the identification of areas for improvement, which come to fruition in specific training and programs to reinforce teams.

In addition to conventional training, our professionals are given **on-the-job training**, which is the learning absorbed by engagement teams directly from their more experienced colleagues.

Below are some key training-related figures for the last few years:

Learning and development	FY23	FY22	FY21
Number of professionals trained	2,237	2,299	1,579
% of in-house trainers	14%	11%	15%
Hours of training per professional	81	65	82

Training breakdown	FY23	FY22	FY21
Training hours	181,059	149,891	129,194
Number of courses	2,724	1,730	1,766
% of training hours related to technical training	69%	82%	86%
Number of hours of technical training	124,250	122,754	107,770

## Accreditation and specialists

At KPMG in Spain we provide our teams with the resources they need to perform audits. We also give them access to accredited internal specialists, who are trained specifically in auditing standards, which substantially increases engagement quality.

At KPMG in Spain we have a robust accreditation system to ensure that specialists involved in audits have adequate training to take part in engagements and to correctly document their conclusions.

Distribution of specialists by category	FY23	%	FY22	%	FY21	%
Partners/Directors	55	29%	60	33%	72	33%
Managers	137	71%	122	67%	144	67%
<b>Total</b>	<b>192</b>	<b>100%</b>	<b>182</b>	<b>100%</b>	<b>216</b>	<b>100%</b>

We ensure that professionals involved in engagements under US standards have the knowledge required to participate in such projects. This knowledge is acquired via specific mandatory training.

At KPMG in Spain, we monitor the training and experience of professionals taking part in engagements subject to US standards through a robust accreditation system.

US standards accreditation by category	FY23	%	FY22	%	FY21	%
Partners/Directors	70	27%	77	21%	68	25%
Managers	95	36%	129	36%	98	35%
Seniors	96	37%	157	43%	111	40%
<b>Total</b>	<b>261</b>	<b>100%</b>	<b>363</b>	<b>100%</b>	<b>277</b>	<b>100%</b>

Below are some key specialist-related figures for the last few years:

Distribution of specialists by area / speciality	FY23	%	FY22	%	FY21	%
<b>Belonging to the Audit function</b>						
Financial sector Pensions	3	2%	3	2%	3	1%
IT and D&A	22	12%	22	12%	23	11%
Financial Instruments	18	9%	16	9%	17	8%
Accounting advisory	16	8%	14	8%	14	6%
Tax for Audit	12	6%	13	7%	10	5%
Fraud for Risk	2	1%	2	1%		
Corporate for Audit	2	1%				
<b>Specialists from KPMG Abogados and KPMG Asesores</b>						
Abogados (Financial Law, Commercial Law, Employment Law, Regulatory, Administrative and Competition, Procedural and Tax, among others)	42	22%	43	23%	74	34%
Asesores (IAS, Sustainability, Forensic, Financial Risk Management, Restructuring, Corporate Finance, Real Estate, Governance and Risk Compliance, among others)		39%	69	38%	75	35%
<b>Total</b>	<b>192</b>	<b>100%</b>	<b>182</b>	<b>100%</b>	<b>216</b>	<b>100%</b>

# Technological Resources

At KPMG in Spain we ensure that we acquire, develop and implement the necessary technological resources to support both the operation of the Firm's System of Quality Management and the effective execution of our engagements. In addition, we undertake to continuously maintain and use these resources so as to ensure excellence in our services.

Our audits are set apart by their **innovative** approach, offering **quality and expertise** tailored to the specific challenges and opportunities of companies across various sectors. We are committed to harnessing the technical experience and knowledge of our professionals, recognising their fundamental role in delivering high-quality audits. We make significant investments in audit methodologies and tools to foster high quality and excellence in our engagements.

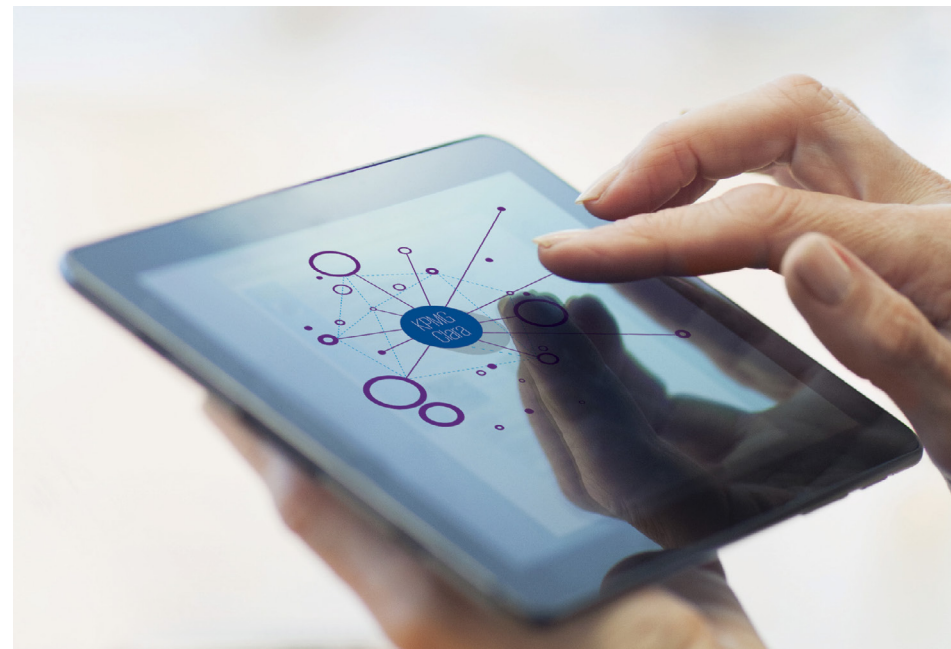
At KPMG in Spain, digital auditing has become integral to how we work, enabling us to interact with clients more effectively. Our ongoing commitment is to provide **automated** and risk-based audits. We deploy **advanced technology** such as robotics, **artificial intelligence**, predictive analytics and cloud tools to **transform** the audit process.

The combination of these **technological tools** and auditors' knowledge and judgement serves to **bolster trust** in the financial information. We are developing advanced methodologies to identify exceptions and potential risks, thus providing more robust conclusions and greater value to our clients.

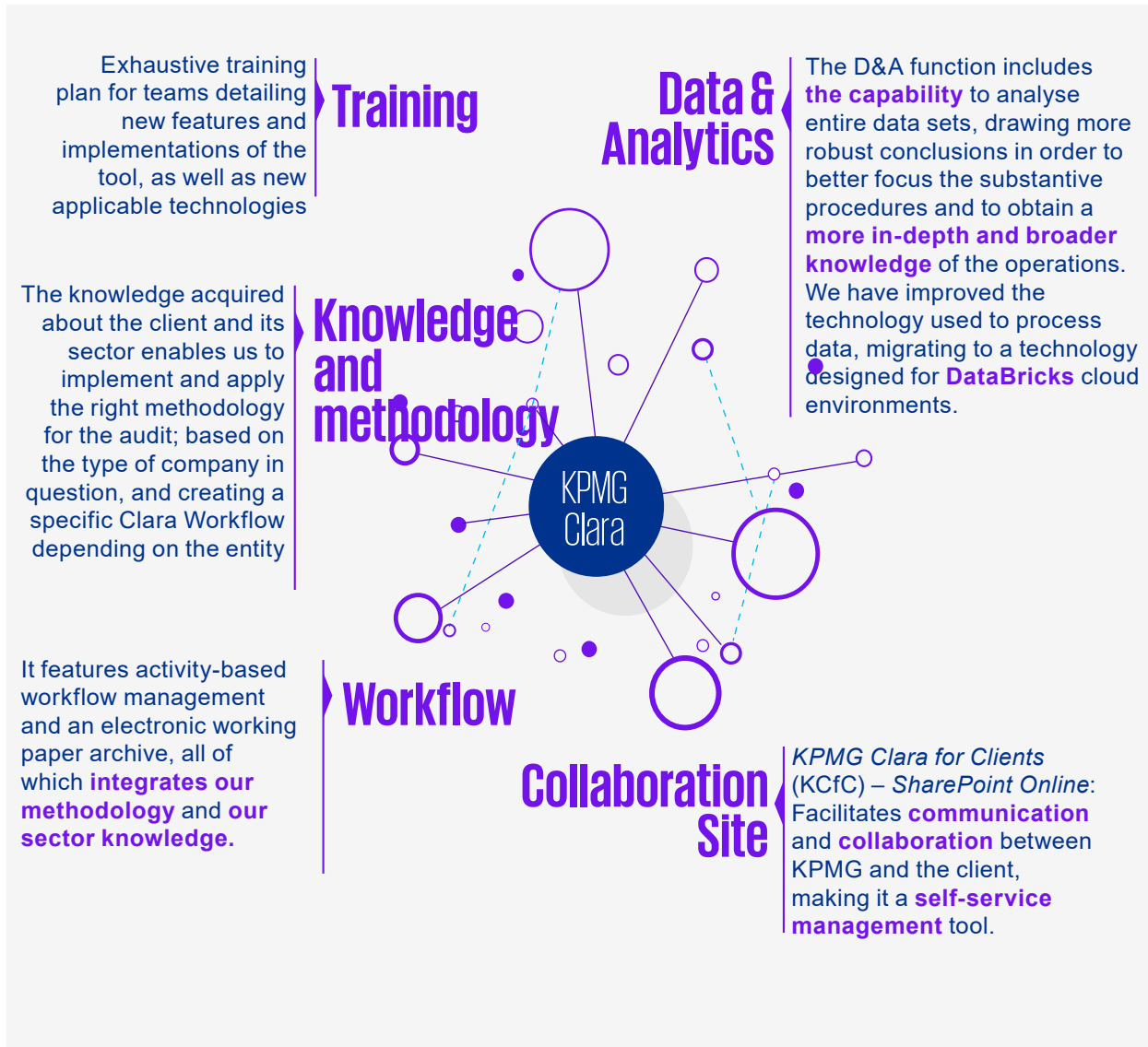
## KPMG Clara workflow (KCw)

We have **KPMG Clara workflow (KCw)**, which is an automated, agile, intelligent and scalable platform that can adapt to changing needs. This platform empowers our auditors through data-enabled workflows in a growing ecosystem of advanced capabilities via an all-in-one, streamlined interface.

KPMG Clara workflow (KCw) brings together our powerful data and analytics capabilities, innovative new technologies and intelligent workflows in a single platform. This is how we are delivering a fully digital audit approach that is more consistent and increases **audit quality, providing our clients with more in-depth and practical insights.**



KPMG, our audit quality is based on a combination of advanced technology, efficient collaboration, specialised methodology and continuous training, which is why the following functions are built into KPMG Clara workflow (KCw):



- We use **Data & Analytics** to analyse entire data sets and draw robust conclusions, allowing us to focus our substantive procedures and obtain in-depth insight into the operations. In addition, we have enhanced our data processing technology by migrating to a platform designed for *DataBricks* cloud environments.
- We facilitate communication and collaboration between KPMG and our clients through *KPMG Clara for Clients (KCfC) - SharePoint Online*, a self-service management tool that enables seamless two-way interaction.
- Our activity-based workflow management system and electronic audit working paper archive integrates our **methodology and sector knowledge**, which allows us to carry out audits efficiently and effectively.
- Our in-depth **knowledge** of the client and the sector allows us to apply the right **methodology** to each audit, developing specific workflows for our clients.
- In addition, we offer a comprehensive **training** plan for our teams to keep them up to date with new developments and technologies applicable to our audit work.

## IT and Data & Analytics (D&A) Specialists

To reinforce the quality of the audit work, KPMG has a department of IT and Data & Analytics (D&A) Specialists, who form part of the Audit department and work exclusively on supporting the teams. Their main duty is to assess technological risks and facilitate the analysis of large volumes of data.

IT specialists are responsible for establishing processes to develop, test, implement and support the use of Software Audit and Assurance Tools (SATs) through specific controls in place in our System of Quality Management. These SATs are programs, applications and routines that are used by audit teams to examine, classify, filter and analyse transactions or other data used as evidence in audits.

### Workpapers Retention and Protection Policy

At KPMG in Spain we have a policy that establishes the protocols to be followed for the retention and protection of engagement workpapers, in order to comply both with the requirements of our network and with the established local requirements, and once the pertinent time frame has elapsed, they are destroyed; this process is supported by a robust environment of controls over access to the server and the cloud.

– KPMG has the following two key tools to comply with, manage and evaluate its System of Quality Management:

#### KPMG Quality & Compliance Evaluation (KQCE) Program

The objective of this tool is to document, evaluate and verify the implementation of the ISQM 1 standard (and its adaptation NIGC 1-ES) and the extent to which the Firm's System of Quality Management complies with global quality and risk management policies, as well as with legal and regulatory requirements. To this end, the Firm conducts an annual assessment of its System of Quality Management and compliance with KPMG International's risk management policies.

Moreover, an evaluation is conducted as to whether the Firm and its personnel comply with relevant professional standards and applicable legal and regulatory requirements.

#### RSA Archer

Platform used to manage and document the execution of controls forming part of KPMG in Spain's System of Quality Management.

# Intellectual Resources

At KPMG in Spain we use intellectual resources to enable the operation of the System of Quality Management and to perform high-quality engagements in a consistent manner. These intellectual resources take into account professional standards and, where appropriate, applicable legal and regulatory requirements. The intellectual resources are duly communicated and made available to all professionals to whom they apply.

In order to comply with the provisions of the applicable standard, KPMG in Spain has the Department of Professional Practice and Risk Management - Audit, which provide support to the teams when necessary.

## Department of Professional Practice (DPP)

The purpose of the DPP is to help professionals perform **high-quality and efficient audits**. It is composed of Audit Partners, Directors and Managers who are highly skilled and specialised.

There is a **consultation process** in place to help teams resolve any accounting and audit queries that may arise in audit and client advisory service engagements.

They are an integral part of the **training** delivered locally and can respond to local requirements, accounting developments and country standards. They can also form part of the training action plans on matters and areas of improvement identified in monitoring programs.

## Risk Management - Audit (RMA)

Risk Management - Audit assists teams with all risk management and quality-related matters. It makes **policies, bulletins, communications and models** available to teams. In addition, it has a consultation process in place where the team can ask questions in relation to a client or engagement.





# Information and communication

At KPMG in Spain, we identify, capture, process and retain the relevant and reliable information on which our System of Quality Management is based.

In addition, we promote a culture that fosters the exchange of relevant and reliable information among professionals and with the Firm.

When required by law, regulation or professional standards, or to assist others in learning about our System of Quality Management, we also provide information outside the Firm.

## Transparency report

Our Transparency Report provides information on how we perform **high-quality work** at KPMG and on all the components of our System of Quality Management. This document seeks to help boost the confidence of our clients, regulators and others interested in our Firm and our robust System of Quality Management.

For more information on our **Transparency Report**, see:

## Global People Survey - GPS

To be able to execute our audits with the quality we expect, we need **motivated and talented professionals**.

Every year we conduct a Global People Survey (GPS) for professionals to share their views on their experience of working at KPMG and the engagement of our people.

Given the importance of audit quality, the survey includes specific questions for audit professionals on audit quality.

We analyse and monitor the results and take appropriate actions to communicate and respond to the findings of the survey. Results can be analysed in various ways – by functional or geographic area, grade, age or gender – to focus action and define action plans accordingly.

These results are presented annually to the Global Audit Steering Group to prepare action plans, where appropriate.

## Ongoing communication related to monitoring and remediation

At KPMG in Spain, within the System of Quality Management we inform the engagement teams and others who have been assigned activities within the System of Quality Management about the monitoring activities carried out during the process of evaluating our SoQM, the deficiencies identified and the related remedial actions, as well as the conclusion of the evaluation for KPMG in Spain.

## Communications with third parties on the operating effectiveness of the System of Quality Management

From time to time we may receive requests from third parties (regulators, clients, potential clients, etc.) to inform them about the result of our self-evaluation of the operating effectiveness of our System of Quality Management.

KPMG Auditores, S.L.'s *Transparency Report 2023* includes the **statement of effectiveness** of KPMG Auditores, S.L.'s quality controls as of 30 September 2023.

In addition, for audits of listed companies, we report our conclusion on the operating effectiveness of our System of Quality Management to the corporate governance body.

# Monitoring and remediation

KPMG in Spain has set up a monitoring and remediation process to ensure the quality of its engagements. This includes providing relevant, reliable and timely information

on the System of Quality Management, as well as taking appropriate measures to address the deficiencies identified. We conduct monitoring activities to identify deficiencies so that they can be remedied.

In addition, we assess the findings identified in the monitoring programs to determine, where appropriate, the severity and pervasiveness of the deficiencies, and we design and implement effective remedial measures. Ongoing communication ensures that all parties are properly informed about actions taken to maintain and improve audit quality.

Notable within this component are the following programs and initiatives:

## Root Cause Analysis

At KPMG, the System of Quality Management provides the basis for consistently executing quality work, and our Root Cause Analysis (RCA) program is integral to the monitoring and remediation component of the System of Quality Management, driving improvements in audit quality.

The key objective of RCA is to improve audit quality by gaining a better understanding of how audits can be improved. Drawing on inputs from other internal monitoring programmes, external inspections and others, we identify audit-related quality issues and conduct an RCA based on the nature and severity of the problems.

Our methodology for root cause analysis comprises the following 5 stages:



After performing the RCA, we design and implement remedial actions designed to address the underlying cause of the audit-related quality issues and subsequently monitor the effectiveness of these actions. The action plans of the RCA designed and the outcomes arising from the monitoring of these plans are reported to the regional and global heads of audit.

As required by applicable legislation, our System of Quality Management at KPMG features RCA for all serious or widespread and serious deficiencies identified in the annual System of Quality Management assessment.

KPMG in Spain has an RCA Committee that meets periodically and an RCA working group that carries out the various RCA, supported by specialists when required. In 2021 a Challenge Panel was set up that complements and offers an additional point of view on KPMG's response to aspects designed to improve audit quality.

### Audit Quality Performance Reviews (QPR) Program

KPMG's QPR program evaluates audit performance at engagement level, identifying opportunities for improvement in quality. A risk-based approach is used to select engagements every year following KPMG Global instructions to foster consistency across all firms. The reviews are supervised by an independent reviewer from another KPMG firm and the results are reported to KPMG International. Consistent criteria are used to determine engagement ratings and evaluate the member firm's practices.

Below is data from the last two years:

	FY23	FY22
Engagements included in the program (engagements)	41	36
Engagements included in the program (hours)	72,660	94,290

### Global Quality & Compliance Review (GQCR)

KPMG International's GQCR program is executed to review KPMG firms applying a risk-based approach, considering financial factors, country risks, monitoring results and climate surveys. Every firm is reviewed at least once every four years by an independent team of partners and managers. The objective is to assess compliance with KPMG International's policies, including those relating to governance and the System of Quality Management.

### Monitoring of SoQM control testing

We periodically monitor the testing of controls performed by Internal Audit implemented in the Firm's System of Quality Management. Internal Audit is an independent function whose mission is to monitor the effectiveness of our controls and contribute to the continuous improvement of our quality and compliance. The results of this monitoring are shared with the Head of Audit at KPMG in Spain and with the Chairman of KPMG in Spain as those ultimately responsible for the System of Quality Management.

### Deficiency Evaluation Committee

This Committee was created to evaluate the findings identified in testing the effectiveness of the controls in place at the Firm so as to decide whether there are deficiencies and, if so, whether they are severe or severe and widespread. Based on all the information available from the various findings and deficiencies obtained from other sources, it is also the body charged with proposing a suggested conclusion (annual evaluation) of the Firm's SoQM. The Committee is made up of four independent partners from Audit, with expertise in IT audit and control, and the SoQM operational manager and delegate.

### Key audit quality indicators of our Firm

As mentioned above, KPMG in Spain has an Audit Quality department comprising professionals from different categories (partner, directors and managers) who have a wealth of experience and are almost exclusively dedicated to promoting audit engagement quality.

The time assigned to tasks related to driving audit quality improvements has increased in recent years.

The hours incurred in different quality-related projects in recent years are shown below, as a testimony to KPMG in Spain's ongoing commitment to quality:

	FY23	FY22	FY21
Root Cause Analysis (RCA)	509	446	275
Second Line of Defence (2LoD)	2,774	2,442	3,400
Audit Quality Ratings (AQR)	2,949	3,192	3,283
Audit Risk Management	3,587	2,818	2,683
Audit Quality Performance Reviews (QPR) Program	5,138	4,359	5,560
System of Quality Management (SoQM)	8,691	10,836	8,598
Other audit quality projects	3,965	3,809	3,125
	<b>27,613</b>	<b>27,902</b>	<b>26,924</b>





# Transformation never stops. We don't either.

At KPMG we believe that transformation is an opportunity that cannot be missed. By integrating the best technology with the right processes and the necessary skills and vision, the transformation will be successful. Accordingly, for decades we have worked inside businesses, helping our clients maximise the potential of their people and their technology—working together to achieve tangible results. Because when people and technology come together, the result is unbeatable.

## **Building a different world:**

KPMG professionals make the difference in the technological transformation of your organisation. Together, we help you focus your business on the customer, optimise functions to meet new challenges, manage risk and regulation, reach new heights of value generation and create an environment to adapt to change.

**KPMG. Make the Difference.**



# Contacts



**David Hernanz**

Head of Audit  
dhernanz@kpmg.es



**Manuel V. Martínez**

Head of Audit Quality  
mvmartinez@kpmg.es

© 2024 KPMG Auditores S.L., a limited liability Spanish company and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

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

KPMG and the KPMG logo are registered trademarks of KPMG International Limited, a private English company limited by guarantee.