



Gibraltar Transparency Report 2019

**In respect of the year
ended 30 September 2019**

January 2020

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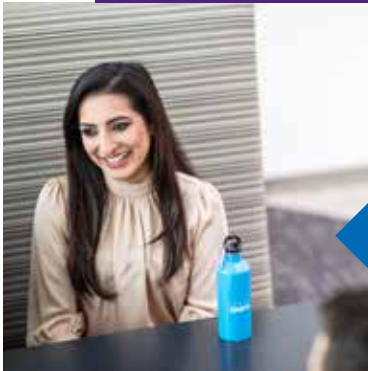


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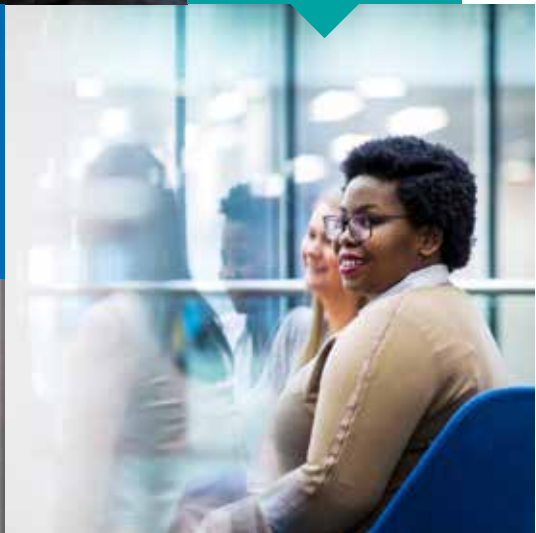
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A woman with dark hair, wearing a black sleeveless top and a black skirt with a thin gold belt, is sitting and smiling. She is wearing a silver watch on her left wrist. The background is a colorful, abstract, geometric pattern with blue, green, yellow, and pink elements. The overall scene is brightly lit and professional.

Opening statement

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Message from our Managing Director

Jonathan Tricker,
Managing Director



We have embedded the UK firm's audit quality transformation program within our audit work – a commitment to the quality of our work and the audit files underpinning it.

Our 2019 Transparency Report provides insight into how we uphold our professional obligations and responsibilities. The key to our success is our reputation and we have a responsibility to our people, our audited entities and society to maintain the highest levels of integrity in everything that we do.

The 2019 financial year has been a year of consolidation, following the acquisition in April 2018 by the UK member firm of KPMG. In particular in that period we have worked hard to implement the systems, controls and policies of KPMG UK, including in some cases where to do so has meant taking tough decisions which go further than local legislation.

We have embedded the UK firm's audit quality transformation program within our audit work – a commitment to the quality of our work and the audit files underpinning it.

A summary of the manner in which this document meets the disclosure requirements of the EU Audit Regulation is set out in appendix 6.

Transparency about how we operate is more important than it's ever been. Public expectations of business are changing, and scrutiny of our profession is increasing. We have a duty to get it right – for our people, our profession and for wider society. In Gibraltar we are proud to act as trusted auditor to some of the most important entities in the jurisdiction. I trust you will find this report a useful insight into how we strive to enhance the quality of our work. If you would like to discuss any aspect of this report or have any questions or feedback I would be pleased to hear from you.

Navigating the Transparency Report



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An explanation of how our firm is structured and its relationships with other firms that are members of the KPMG network.

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Our quality control and risk management systems

Details of where the responsibility for risk sits within the firm. It also sets out the principal risks and uncertainties facing our firm and the controls and processes in place to manage these risks.

It includes a statement by the Board on the effectiveness of internal controls and independence and the confirmation of the firm's compliance with the relevant professional standards.

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Audit quality

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Our commitment to audit quality

Audit is at the heart of our firm. We know that quality audits play an important part in a well-functioning market. We also know that, in the aftermath of high-profile corporate failures, we have a responsibility to regain the public's trust in audit. That is a responsibility we take very seriously.



Robust quality audits are key to the successful working of the capital markets, providing objective assurance over the data on which investors and others can rely. Quality essentially means doing the right thing, and it remains our highest priority.

Bill O'Mara
Global Head of Audit

System of quality control

KPMG International has policies of quality control based on the International Standard on Quality Control 1 ('ISQC1') issued by the International Auditing and Assurance Standards Board ('IASB') and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, relevant to firms that perform statutory audits and other assurance and related services engagements. These policies and associated procedures are designed to assist Member Firms in complying with relevant professional standards, regulatory and legal requirements, to help our personnel act with integrity and objectivity, and perform their work with diligence.

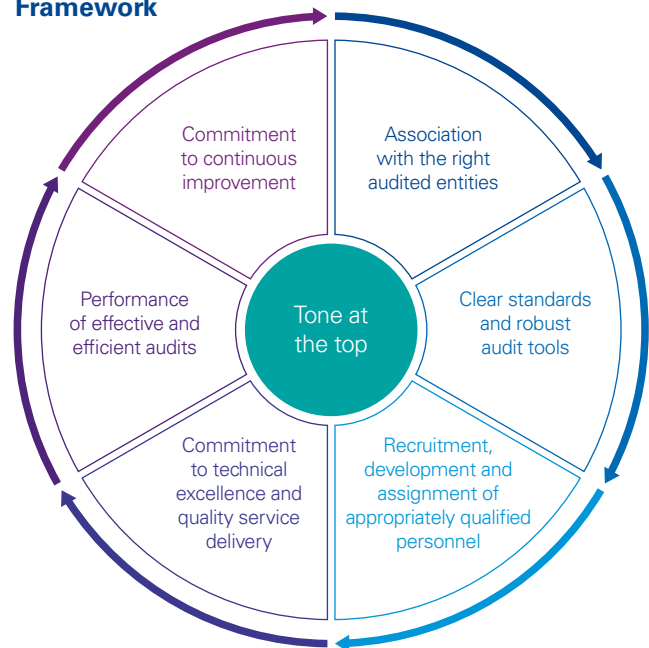
KPMG in the UK supplements KPMG International policies and procedures with additional policies and procedures that are designed to address rules and standards issued by the FRC and KPMG Gibraltar strives to achieve compliance with both KPMG International's and KPMG in the UK's policies and procedures.

Quality control and risk management are the responsibility of all KPMG personnel. This responsibility includes the need to understand and adhere to policies and associated procedures in carrying out their day-to-day activities. The system of quality control applies to all of our personnel whether based in the UK, Gibraltar or at one of our off-shore locations.

At KPMG audit quality is not just about reaching the right opinion, but how we reach that opinion. It is about the processes, thought and integrity behind the audit report. We view the outcome of a quality audit as the delivery of an appropriate and independent opinion which is compliant with the auditing standards. This means, above all, being independent, objective and compliant with relevant legal and professional requirements.

To help all audit professionals concentrate on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have a global Audit Quality Framework. This framework introduces a common language that is used by all KPMG Member Firms to describe what we believe drives audit quality, and to highlight how every audit professional at KPMG contributes to the delivery of audit quality. Tone at the Top sits at the core of the Audit Quality Framework and helps ensure that the right behaviours permeate across our Firm.

Audit Quality Framework



All of the other drivers are presented within a circle, because each driver is intended to reinforce the others. We have a series of performance metrics linked to each of these drivers that are monitored and reviewed regularly. Each of the seven drivers, and how they were applied in the year, are described in more detail in Appendix 2 of this Report. The policies and practices set out also ensure that persons eligible for appointment as statutory auditors continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level.

External reviews of the audit profession in the UK expected to impact the provision of audit in Gibraltar

The Kingman Review

The Kingman Review looked at the role of the FRC. We are advocates of the new regulator it recommended – the Audit, Reporting and Governance Authority (ARGA). We share the view that a strong and effective regulator should have clarity of purpose, independence and the ability to enforce the rules. It should also be able to hold directors to account.

The Competition and Markets Authority review

The CMA published its review in April. It looked at the operations and resilience of the audit sector. In particular, it addressed the question of choice in the market. It recommended the introduction of joint audits, greater regulatory scrutiny and an operational split of the big four firms' audit practices.

The Business, Energy and Industrial Strategy Select Committee inquiry

The BEIS Select Committee concluded its inquiry with a call for a full, legal and structural separation of audit and non-audit businesses.

The Brydon Review

Sir Donald Brydon is looking at the scope, quality and effectiveness of audit. Among other things, Brydon is examining the 'expectation gap': the difference between what people think an audit does and what it actually does. The Review concluded in late 2019.



How we're improving: our Audit Quality Transformation Programme



KPMG UK is now in the third year of the Audit Quality Transformation Programme. We're concentrating our efforts on standardising the way we do audits, giving auditors additional support, training and greater confidence to challenge management of the entities we audit. KPMG International is significantly enhancing our global audit methodology and is creating a new automated audit workflow. It was in limited deployment in 2019 and full deployment is planned from 2020. This will embed the changes already made as part of our audit quality transformation plan into our audit workflow.

KPMG UK began the multi-year Audit Quality Transformation Programme in October 2017 and has continued to invest in, and expand, the programme. In 2019 KPMG UK invested an incremental £45m in the audit quality initiatives, in addition to the incremental £24m invested in 2018.

Our Audit Quality Transformation Programme



Standardisation

A standardised approach brings greater consistency to our audits.



Challenge and support

Audit teams have greater support, and challenge, from senior auditors, including:

- increasing the strength and depth in our second line of defence team and other technical experts to support delivery of audit quality;
- increasing investment in technology and data analytics to enhance audit quality;
- the Audit Centres of Excellence – establishing centres in specialist areas to support and challenge teams in complex or emerging areas, starting with the audit of pension balances;
- Risk Panels led by an audit quality or risk management partner to enable direct challenge of the approach to the key audit issues on our highest risk audits.



Training

In-depth practical training to all our experienced auditors at the KPMG Audit University – our annual immersive course, supporting the existing training and coaching programmes.



Reporting

We are encouraging the companies we audit to engage us to include graduated findings in our audit reports – allowing us to communicate more of our audit findings and balancing between what stakeholders want to know and the reporting standards we are held to.



Governance

Strengthening the governance of our Audit practice through the creation of an Audit Board and the Chair of Audit role.



Coaching

We have rolled out a bespoke coaching programme to be attended by all our audit engagement leaders and managers. It is supported by external behavioural psychologists and coaching experts and provides our people with the tools to coach and support each other.



Project management

Improving the way we deliver audits by:

- creating a specialist project management support team;
- extending the depth and timeliness of planning and risk assessment on all audits with an expansion of mandatory planning deadlines to accelerate audit execution;
- embedding project management skills as a theme in KPMG Audit University.



Technology-based audit tools

We use technology to improve audit quality, create greater consistency in the performance of audits and strengthen monitoring of engagements. We believe that audit quality is best achieved when the power of smart technology is matched with inquiring minds and professional scepticism and our tools support exactly that.

We are replacing our core audit tool with the new KPMG Clara Workflow application and embedding it in our launched 'smart' audit platform (KPMG Clara). KPMG Clara unites in a single sharing platform our data and analytics capabilities, innovative new technologies, collaboration capabilities, and audit capabilities and workflow to enhance quality and efficiency.

Introduced in 2019 – with a broader roll out planned in 2020 – KPMG Clara Audit Workflow will transform the way our people deliver audits and gives the entities we audit a better user experience.

KPMG Clara gives access to:

- **Predictive analytics** and the ability to create multifaceted real-time sensitivity analysis of key assumptions, as well as use inputs from market and industry data. This provides greater capability to challenge management on key judgements.
- The **Inventory Count Tool** which provides our auditors with a user-friendly step-by-step workflow to capture inventory count results in an efficient and digital fashion.
- **Sentiment analysis** providing real-time feedback on issues, using social listening tools in multiple languages.
- **The ability to collaborate securely** with the entities we audit, so teams can share information and manage projects in real time, in a single location.

How we're measuring our progress: audit quality indicators



We are committed to achieving the highest levels of quality in our work. To do that, we not only follow ethical standards, we also monitor our progress and use feedback to improve.

Monitoring and continuous improvement

We employ a broad range of mechanisms to monitor our performance and understand our opportunities for continuous improvement.

We take what we learn from the monitoring process and undertake root-cause analysis of any issues we uncover. This involves interviewing team members and Engagement Quality Control Reviewers across engagements subject to external and internal review. The outcome of this analysis helps us drive continuous improvement.

External monitoring

In March 2018, the Gibraltar firm's audit practice was the subject of a periodic Quality Assurance Review as required under Article 26 of the EU Audit Directive by the Gibraltar Financial Services Commission. Three audit files were reviewed, one of them being an EU Public Interest Entity, and the audit work reviewed was found to be generally acceptable and only limited areas for further development were identified.

Internal monitoring

Our internal monitoring comprises principally three main components:

- Quality Performance Review ('QPR');
- Risk Compliance Programme ('RCP') and;
- Global Compliance Review ('GCR').

QPR

Our QPR programme assesses engagement level quality for each of our functions including Audit. All engagements are awarded one of three grades: 'Satisfactory', 'Performance Improvement Necessary' ('PIN') and 'Unsatisfactory'. In Audit, a 'Satisfactory' grading requires both (i) the audit work performed, the evidence obtained and the audit documentation produced to comply fully with our internal policies, applicable auditing standards and legal and regulatory requirements in all bar inconsequential areas and (ii) key judgements concerning significant matters in the audit and the audit opinion itself to have been appropriate.

In 2018, the year in which the Gibraltar audit firm was the subject of external inspection by the Financial Services Commission, no files were the subject of QPR. In 2019 and 2017, one file relating to a statutory audit opinion of KPMG Limited was selected for QPR. Observations in respect of all file reviews are received by the Board, with a root cause analysis for findings performed – that root cause analysis leading to action plans to ensure improved audit quality. One of the actions taken following the QPR review performed in 2019 was to involve the UK firm's second line of defence team in the review of key working papers on our higher risk audited entities.

RCP

The RCP is our annual self-assessment programme that monitors, assesses and documents firm-wide compliance with KPMG International's quality and risk management policies and applicable legal and regulatory requirements.

The conduct of the UK firm's RCP is designed to provide assurance over compliance by not just the UK firm, but also its other controlled entities and sub-licensees. As Gibraltar engagements and personnel have been integrated into the UK systems, they are included within the scope of testing performed and essentially can be selected by the review team within a particular data set being used for sampling. Additionally, the wider ethical policies, risk management roles and responsibilities and various other human resources policies that have all been applied to Gibraltar are also tested within the UK RCP.

We categorise levels of compliance as green, yellow or red. Green indicates that the firm is substantially compliant with KPMG's policies and procedures; yellow indicates that the firm is substantially compliant with KPMG policies and procedures and, although there may be several instances of non-compliance with policies or procedures, these do not indicate serious deficiencies within the firm as a whole; and red indicates that there are serious deficiencies. The firm's RCP evaluation also considers the results and status of action plans arising from other reviews assessing risk, quality and compliance, including QPRs and GCRs.

In 2019, our self-assessment finds that our overall level of compliance is Yellow (2018: Yellow).

GCR

The GCR is a triennial review focused on significant governance, risk management (including an assessment of the robustness of the firm's RCP), independence and financial processes. Representatives of KPMG International who are independent of the UK firm, undertake the review. The last GCR inspection was in October 2018, and reviewers identified a small number of opportunities for improvement. The next inspection is due in 2021.



People Survey

We recognise the importance of listening to feedback from our people about how they are feeling about KPMG and their working environment. The results from the most recent People Survey for our Gibraltar people for the following questions are shown below:



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

92% favourable response



I have access to the tools and resources I need to do my job effectively

73% favourable response



I am satisfied with the learning and development available to improve my knowledge and skills

67% favourable response

Training delivered in audit

For the year ended 30 September 2019 our formal audit training programme (excluding courses for unqualified staff on training contracts) included mandatory audit technical training, industry-specific training and risk courses. This year our audit people attended the second KPMG Audit University. This is a three-day immersive training course covering all aspects of the audit process.

In addition to this training, partners and staff must complete additional training relevant to their grade and role. This includes, for example, mandatory Audit Quality Workshops for all engagement leaders, mandatory training and accreditation for all partners and managers providing services on US GAAP and/or US GAAS/PCAOB audits and industry-specific training.





Culture

Our culture and its impact on audit quality

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Our culture and its impact on audit quality



Our culture promotes consultation, challenge and open discussion of issues and is a fundamental contributor to audit quality. This encourages partners and colleagues to debate and discuss difficult or contentious matters.

A clear link between culture and high-quality audits

We know that the right culture has a positive impact on the quality of audits, which is why we have placed increased emphasis on reinforcing that culture. Our decision to ban non-audit services for FTSE 350 entities we audit is one example of this. It's a decision we took ahead of our competitors and removes perceptions of conflict of interest. And we know that moves like these will help promote quality, independence, objectivity and professional scepticism.

Getting the right tone at the top

Our emphasis on 'doing the right thing' starts at the very top of our firm. In firm-wide messages, and in targeted messages to the partner and director population, our leadership places considerable focus on culture and the importance of living the firm's values.

Connecting our culture to audit quality

The culture we aspire to supports both the firm's audit quality objectives and our wider 'trust and growth' strategy. This strategy is also shared by other member firms in the KPMG network, underlining its importance. Trust is a global issue, which is why it is part of our global strategy. Internally, we have grouped our efforts and communications under the campaign *Trust. It starts with us* to reiterate the importance of individuals: they are the first line of defence in our firm.

The culture we aspire to is underpinned by Our Values and defines what it's like to feel part of a TEAM at KPMG.

Trust – we have an open, inclusive, safe environment where we can speak up and be our best.

Empowerment – we are clear about our roles and responsibilities.

Accountability – we are responsible for our decisions, behaviours and performance.

Mastery – we are supported to own our development and build our personal brand.

Audit quality depends on a culture where colleagues, whatever their level of experience, can speak out if they have concerns.

Structure & governance

Structure and governance

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Structure and governance



Legal structure

Since 27 April 2018, KPMG Limited ('the Gibraltar Audit Firm'), the entity licensed to act as external auditor to Gibraltar entities, has been owned directly by KPMG Holdings Limited, with ultimate ownership by KPMG LLP (ie KPMG UK).

KPMG LLP ('the Firm') is incorporated as a limited liability partnership in the UK under the Limited Liability Partnerships Act 2000. The capital in KPMG LLP is contributed by its Members (the Members are referred to as "Partners" within the Firm and the two terms are used interchangeably in this report).

KPMG LLP is affiliated with KPMG International Cooperative ('KPMG International'), a legal entity which is formed under Swiss law. Further details about KPMG International and its business, including our relationship with it, are set out in Appendix 1.

KPMG Limited has one subsidiary, KPMG Advisory Limited, which provides non-audit services to clients of the Gibraltar office of KPMG.

Consistent with our commitment to build trust, we apply high standards of governance and adopt a legal structure reflective of the nature and extent of our activities.

The Firm's governance structures, management team and Members are subject to formal, rigorous and on-going performance evaluation.

The Board of KPMG Limited

The main governance body of the Gibraltar audit firm is the Board of KPMG Limited, which is responsible for growth and long term prosperity, ensuring it keeps with, and is true to, its purpose, its vision and the 'KPMG Values'.

The Board comprises of Jonathan Tricker, Michael Harper, the National Markets Head of Audit for KPMG in the UK, Stuart Crisp, the Financial Services Head of Audit for KPMG in the UK, Sarah Willows, the Chief Financial Officer for KPMG in the UK, and, since 2 September 2019, Darren Anton – KPMG Gibraltar's head of tax services and KPMG Limited's compliance officer.

KPMG Limited's Board met formally 5 times during the year to 30 September 2019.

Quality control and risk management

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Our quality control and risk management systems

There are numerous policies and procedures in place to help the UK firm and hence also the Gibraltar firm, and members of KPMG International, comply with professional standards. Responsibility for complying with these policies, and managing risk, lies with all employees; there are controls and processes in place to help them.

Policies and procedures

KPMG International has policies of quality control based on the International Standard on Quality Control 1 (ISQC1) issued by the International Auditing and Assurance Standards Board (IAASB) and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, relevant to firms that perform statutory audits and other assurance and related services engagements.

These policies and associated procedures help member firms comply with relevant professional standards, regulatory and legal requirements, to help our personnel act with integrity and objectivity, and perform their work with diligence.

Responsibility for risk

Quality control and risk management are the responsibility of all KPMG personnel, whether they are based in the UK, Gibraltar, or in one of our off-shore locations. This responsibility includes the need to understand and adhere to policies and associated procedures in carrying out their day-to-day activities. KPMG UK's Senior Partner assumes ultimate responsibility for KPMG in the UK's system of quality control, in accordance with the principles in the revised ISQC1 issued by the IAASB.

At KPMG audit quality is not just about reaching the right opinion, but how we reach that opinion. It is about the processes, thought and integrity behind the audit report. We view the outcome of a quality audit as the delivery of an appropriate and independent opinion that complies with the auditing standards. This means, above all, being independent, objective and compliant with relevant legal and professional requirements.



The following statements articulate our approach to taking risk responsibly, in the public interest and in the interests of our clients, our people, our regulators and the markets and communities we work in.

We will:

- act in the public interest and be the most trusted professional services firm by of our clients, our people, our regulators and the markets and communities we work in
- have high standards in leadership, accountability, ethics and governance
- act as stewards for the brand, and take proactive steps to ensure that we support one another in achieving our goals
- engage responsibly with a broad range of clients
- deliver high quality services – through experienced teams, integrated solutions and use of robust technology
- set financial targets that are consistent with achieving both the trust and growth elements of our strategy
- manage financial performance and resilience effectively
- work with trusted partners and alliances, as well as engage in M&A to obtain capability, where it meets our trust and growth objectives
- comply with applicable laws, regulations and codes of conduct, including KPMG's global standards and KPMG's tax principles
- manage actual and perceived conflicts of interest
- protect confidential data and ensure business service continuity
- live our values through high standards of behaviour, and promote a culture of Trust, Empowerment, Accountability and Mastery that supports our values
- anticipate and respond to changes in the competitor landscape, macro-economy and clients' needs
- be courageous in undertaking work in the public interest and in support of our wider purpose
- be brave in working together, contributing to important issues in accordance with our values
- develop our diverse, talented and motivated people through inclusive leadership

Risk management

The identification, evaluation, management and monitoring of the most significant risks that face our firm and could threaten the achievement of our strategic objectives are the responsibility of our Board. The principal risks and uncertainties facing our firm are as follows:

Risk	Risk description	Mitigation
Major or multiple audit failures	Issuance of an incorrect audit opinion and/or poor quality auditing resulting in shareholder loss, litigation, regulatory action or lost clients through the resulting reputational damage.	<ul style="list-style-type: none"> — A tone at the top which emphasises quality, ethics and integrity. — Board oversight of both internal and external audit quality reviews, recommendations and actions. — Robust audit quality controls including adoption of all KPMG UK audit policies and procedures. — Use of KPMG UK's second line of defence function to support in the audits of high risk and certain selected other entities as appropriate. — Rigorous client and engagement acceptance procedures and risk policies. — Involvement of UK Engagement Quality Control Reviewers on all high risk clients and public interest entities. — Involvement of actuaries on all insurance clients. — Global methodologies and mandatory training.
Major litigation or regulatory investigation	Actual or suspected failure in any of our services potentially resulting in loss for our clients and shareholders, harming our reputation, opening us to increased scrutiny, the prospect of major claims and legal costs or significant remediation costs.	<ul style="list-style-type: none"> — A tone at the top which emphasises quality, ethics and integrity. — General engagement quality and risk management controls, including robust contracts put in place with clients and recipients of our reports. — Rigorous and robust inter-firm contracting protocols when working with other KPMG International Member Firms. — Rigorous client and engagement acceptance procedures.
Data loss	Failure to protect client confidential or personal data, as a result of either cyber attack or through failures in our internal procedures leading to loss for our clients, potential damage to our reputation, loss of key clients, potential litigation and/or regulatory fines.	<ul style="list-style-type: none"> — Migration to KPMG UK IT security policies and processes. — Ongoing training and awareness campaigns. — Our Code of Conduct.

Risk	Risk description	Mitigation
Financial risk	Failure to achieve growth or budget aspirations thereby losing market share and competitor positioning. Poor cost control and ineffective cash management (including significant bad debt losses, failure to control costs such as staff, premises and IT). Reliance on a small number of large clients.	<ul style="list-style-type: none"> — Board role in budget and performance oversight. — Quarterly financial analysis at board level. — Financial support from KPMG UK.
Delivering inappropriate services	Delivery of services which are either illegal, unethical, contravene professional standards or are otherwise perceived by investors, regulators or other stakeholders as inappropriate could damage our or our clients' reputations and potentially result in regulatory sanctions, legal action or damage our relationship with key regulators.	<ul style="list-style-type: none"> — Our internal quality control system, adopted from the UK and overseen by the Board, including (i) Rigorous client and engagement acceptance procedures, (ii) Engagement quality controls (including the involvement of an Engagement Quality Control Review), (iii) Robust conflicts checking processes, (iv) Policies and procedures around auditor independence, (v) Robust compliance programmes and (vi) Our Code of Conduct and Values. — Whistle-blowing processes.
Failure of another network firm	Our ability to service our clients or our reputation in the marketplace is severely impacted by the failure of another KPMG Member Firm.	<ul style="list-style-type: none"> — Global processes and procedures including (i) Risk policies and procedures and (ii) Audit methodology and (iii) Quality Review Programmes.
Working with the wrong clients	Working with the wrong clients damages our reputation in the marketplace/ with the regulators or exposes the Firm to litigation.	<ul style="list-style-type: none"> — Robust client acceptance processes, for example with relation to high risk industries such as online gaming and cryptocurrencies. — Speak-Up hotline.
Cultural behaviour	Actual behaviour and actions of individuals not aligned with target culture leading to disengagement and demotivation. Behaviours of Gibraltar people not aligned to KPMG Values / KPMG Way.	<ul style="list-style-type: none"> — A tone at the top which emphasises quality, ethics and integrity - Global People Survey results and actions. — Robust people management process. — Code of Conduct and Values training.

Risk	Risk description	Mitigation
Failure to manage resources	Capability gaps, an inability to retain and recruit appropriate resource and poorly motivated Partners and staff adversely impacts the Firm's ability to generate revenue and service clients. A loss of key individuals bringing about short term client service and wider retention problems.	<ul style="list-style-type: none"> — Recruitment plan and investment in recruitment. — Succession planning (including through more Gibraltar resident responsible individuals) and talent development. — Process to identify key skills and capabilities required. — People management processes and remuneration benchmarking.
Failure to achieve strategic plan	Unanticipated national and global market developments (including the impact of Brexit) result in the Firm being unprepared for shifts in the marketplace and/or changes in the needs and priorities of clients causing loss of market position.	<ul style="list-style-type: none"> — Diversification of client base and core services. — Ongoing investment in core capabilities. — Ongoing assessment of impact of Brexit and other changes in the market place on Gibraltar and the firm's client base (for example pressures on Gibraltar from the OECD or EU).

Statement by the Board on the effectiveness of internal controls and independence

Internal controls statement

The Board of KPMG Limited is responsible for the Gibraltar Audit Firm's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, loss, or non-compliance with relevant regulatory or legislative requirements.

The key elements of the Board's review of the risk management systems and internal controls during the period under review have been:

- Consideration of the design and operation of the quality control systems as described in this report;
- Consideration of the findings from the various compliance programs operated by our firms (including the KPMG International review programmes as described in this report and findings from oversight provided by the UK Member Firm of KPMG); and
- Findings from regulatory inspections and subsequent follow-up and/or remedial actions.

Conclusions

The Board of KPMG Limited confirms that internal reviews of the effectiveness of internal controls and of independence practices within the Gibraltar Audit Firm have been undertaken. Our compliance programmes identify deficiencies and opportunities for improvement and, in such instances, remediation activities are agreed with subsequent follow up to assess the extent to which the matters identified have been addressed satisfactorily. However, matters arising from these activities are not considered either individually or in the aggregate to undermine the overall system of internal control in place.

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Appendix 1 – Network arrangements

Legal Structure

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law. KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. One of the main purposes of KPMG International is to facilitate the provision by member firms of high-quality Audit, Tax, and Advisory services to their clients. For example, KPMG International implements and maintains uniform policies, standards of work and conduct by member firms, and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity that is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture, or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

The name of each audit firm that is a member of the network and the EU/EEA countries in which each network member firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available at the following link¹.

Aggregated revenues² generated by KPMG audit firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.8 billion³ during the year ended 30 September 2018. An updated statement of aggregated EU/EEA statutory audit revenues for the 12 months to 30 September 2019 is available within the Appendix to the 2019 KPMG International Transparency Report.

¹ <https://assets.kpmg/content/dam/kpmg/xx/pdf/2019/12/list-of-kpmg-audit-entities-located-in-eu-and-eea-september-2019.pdf>

² The aggregated EU/EEA 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 30 September 2018 (and 30 September 2019 for the updated numbers to be published in the KPMG International Transparency Report).
<https://home.kpmg/xx/en/home/about/governance/transparency-report.html>

³ The financial information set forth represents combined information of the separate KPMG member firms 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.

Responsibilities and obligations of member firms

Under agreements with KPMG International, member firms comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools. Each member firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG values.

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

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

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 – focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. It performs functions equivalent to a shareholders' meeting (albeit KPMG International has no share capital and, only has members, not shareholders). The Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 59 member firms that are members of KPMG International as a matter of Swiss law.
- Global Board – the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International, and approving policies and regulations. It also admits member firms.
- Global Management Team – supports the member firms in their execution of the global strategy and is responsible for holding them accountable for commitments. It develops global strategy by working together with the Executive Committee.

Further details about KPMG International including the governance arrangements, can be found in the Governance and leadership section of the KPMG International Transparency Report⁴.



⁴ <https://home.kpmg/xx/en/home/about/governance/transparency-report.html>

Appendix 2 – Audit Quality Framework

We have a global Audit Quality Framework to help all audit professionals concentrate on the fundamental skills and behaviours required to deliver an appropriate and independent opinion. This framework is used by all KPMG member firms to describe what we believe drives audit quality and to highlight how every audit professional at KPMG contributes to the delivery of audit quality.

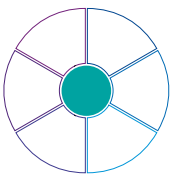


Tone at the top sits at the core of the framework and ensures that the right behaviours permeate across our firm. All of the other drivers are presented within a circle with each driver reinforcing the others. Performance metrics linked to each of these drivers and are monitored and reviewed regularly.

The policies and practices set out also ensure that persons eligible for appointment as statutory auditors continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level.



1. Tone at the top



KPMG's Tone at the top provides a clear focus on quality through:

- culture, Values, and Code of Conduct – clearly stated and demonstrated in the way we work;
- a strategy with quality at its heart;
- standards set by leadership; and
- governance structures and clear lines of responsibility for quality, with skilled and experienced people in the right positions to influence the quality agenda.

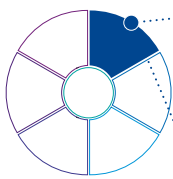
Our leadership demonstrates and communicates a commitment to quality, ethics and integrity. Regular communications are released to cover emerging issues, new developments, policies and guidance including key audit technical and quality messages. For us, integrity means upholding the highest professional standards in our work, providing sound, good-quality advice to the entities we audit and rigorously maintaining our independence. Our Values are embedded into our working practices and are considered in our performance appraisal process.

Our Code of Conduct defines the standards of ethical conduct we require from our people. It sets out KPMG's ethical principles and helps our people understand and uphold those principles emphasising that each partner and employee is personally responsible for following the legal, professional and ethical standards that apply to their job function and level of responsibility. All our personnel are required to confirm their understanding of, and compliance with, the applicable Code of Conduct upon joining the firm, and annually thereafter.



Individuals are encouraged to raise their concerns when they see behaviours or actions that are inconsistent with our values or professional responsibilities and required to do so when they see breaches of KPMG policies, laws and regulations and professional standards. The Speak Up hotline operates as a whistleblowing hotline which is available for our personnel, entities we audit and other parties to confidentially report concerns they have relating to how others are behaving (both internally and externally) and concerns regarding certain areas of activity by the firm, its partners or employees. In addition to this, we have introduced Ethics Champions from all parts of the firm that act as a local point of contact for colleagues to discuss ethical concerns.

2. Association with the right audited entities



- Select audited entities within risk tolerance
- Manage audit responses to risk
- Robust engagement acceptance and continuance processes
- Portfolio management

Rigorous engagement acceptance and continuance policies and processes are vitally important to our ability to provide quality professional services and to protect KPMG's reputation and support its brand.

We evaluate all prospective audited entities before accepting them. This involves background checks on the prospective audited entity, its key management and beneficial owners. A key focus is on the integrity of management.

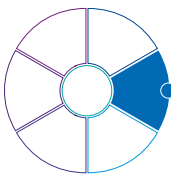
A second partner, as well as the evaluating partner, approves the prospective audited entity evaluation. Where the audited entity is considered to be 'high risk' a risk management partner is involved in approving the evaluation. Each prospective engagement is also evaluated. The engagement leader evaluates this in consultation with other senior personnel and Risk Management leadership as required.

A range of factors are considered as part of this evaluation including potential independence and conflict of interest issues (using Sentinel™, KPMG International's proprietary global conflicts and independence checking system) as well as factors specific to the type of engagement. Controls are built into our engagement management system to ensure we complete the audited entity and engagement acceptance process appropriately.

In addition, when taking on a statutory audit for the first time, the prospective engagement team performs additional independence evaluation procedures. These include a review of any non-audit services provided to the entity and of other relevant relationships and matters which may have a bearing on our independence. We perform similar independence evaluations following a change in the circumstances of the entity. Additional safeguards may be introduced to help mitigate any identified risks and potential independence or conflict of interest issues are documented and resolved prior to acceptance. We will decline a prospective audited entity or engagement if a potential independence or conflict issue cannot be resolved satisfactorily.

An annual re-evaluation of all audited entities is undertaken. In addition, audited entities are re-evaluated earlier if there is an indication that there may be a change in their risk profile. Recurring or long-running engagements are also subject to periodic re-evaluation. Audit services are reviewed at least annually.

3. Clear standards and robust audit tools



- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

All of our professionals adhere to KPMG's policies and procedures (including independence policies) and we provide a range of tools to support them.

Audit methodology and tools

We dedicate significant resources to keeping our standards and tools complete and up to date. Our global audit methodology is based on the requirements of the International Standards on Auditing (ISAs) and is set out in KPMG International's KPMG Audit Manual (KAM) which all member firms are obliged to follow. KAM includes additional requirements that go beyond the ISAs and which KPMG believes enhance the quality and value of our audits. KPMG in the UK also adds local requirements and guidance in KAM to comply with additional professional, legal or regulatory requirements specific to the UK and our own internal policies.

Our audit methodology is supported by eAudit – KPMG's electronic audit tool. This provides KPMG auditors worldwide with the methodology, guidance and industry knowledge needed to perform effective and focused quality audits.

Technology and innovation are changing the way we execute our audit engagements, empowering our people to deliver greater quality and value. Making data and analytics (D&A) a core part of the KPMG audit is critical to our mission of driving audit quality. KPMG Clara builds on our existing eAudit platform to offer teams new ways of interacting, accessing audit methodology and tools and also providing access to collaboration solutions. Our new KPMG Clara Workflow automated audit workflow has been in limited deployment in 2019 and full deployment is planned from 2020. We have included further details in respect of KPMG Clara and the development of our audit tools on page 12.





Independence, integrity, ethics and objectivity

We have adopted the KPMG Global Independence Policies which are derived from the IESBA Code of Ethics (the IESBA Code) and incorporate, as appropriate, the US Securities & Exchange Commission, the PCAOB and other applicable regulatory standards. KPMG in the UK supplements these policies with other processes to ensure compliance with the FRC's Ethical Standard (ES).

These policies and processes cover areas such as firm independence, personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services. In the UK Firm, the Ethics Partner is supported by a core team to help ensure that we apply robust and consistent independence policies, processes and tools and this applies equally to Gibraltar. Ethics and independence policies are set out in our intranet-hosted Quality & Risk Management Manual and reinforced through training which is delivered twice a year.

Failure to comply with the firm's independence policies, whether identified in the rolling compliance review, self-declared or otherwise, is factored into promotion and compensation decisions and, in the case of engagement leaders and managers, reflected in their individual ethics and compliance metrics. The Ethics Working Group oversees policies and procedures in relation to ethical matters and breaches of requirements of ethical standards.

Personal independence

KPMG International policy extends the IESBA Code restrictions on ownership of audited entity securities to every member firm partner in respect of any audited entity of any member firm. KPMG in UK and Gibraltar has a policy whereby all client-facing staff are unable to hold investments in companies audited by KPMG.

Our professionals are responsible for making appropriate inquiries to ensure that they do not have any personal financial, business or family interests that are restricted for independence purposes and we use a web-based independence tracking system (KICS) to assist our professionals in their compliance with personal independence investment policies.

Partners and all client-facing staff are required to use this system prior to entering into an investment to identify whether they are permitted to do so and maintain a record of all of their investments in KICS which automatically notifies them if their investments subsequently become restricted. Partners and our client-facing directors (partner equivalents) are required to obtain specific clearance from the Partner Independence Team for any investment they or their immediate family propose to make.

We monitor partner and manager compliance with these requirements as part of a programme of independence compliance audits of a sample of professionals. In the year ended 30 September 2019, 991 (2018: 452) of our UK (and Gibraltar) people were subject to these audits (this included approximately 16% of our partners and 71% of our partner equivalents). The increase in compliance audits in 2019 was driven by an exercise to cover all partner equivalents during 2019 with the aim to cover 100% of partner equivalents prior to the end of 2019. In addition to these, all direct-entry partners are subject to a compliance audit as a condition of their admission, and are subject to a further audit after 12 months in the firm.

Our policy which applies to members of the audit team being recruited by entities we audit goes beyond the requirements of the ES and requires any members of an audit team to inform the Ethics Partner of any potential employment with an entity we audit.

Significant matters not governed by the ES or our internal policy but which are considered to have a bearing on independence are raised with the Ethics Working Group for their consideration.

Firm financial independence

KPMG in the UK maintains a record of its investments (made, for example, through pension and retirement plans and treasury activities) in KICS. This record is monitored through our compliance process.

Business relationships/suppliers

We have policies and procedures in place to ensure that business relationships are maintained in accordance with both the ES and the IESBA Code. Consultation with our ethics and independence professionals is required in any case of uncertainty to ensure that no relationship is entered into with an entity we audit or its management which is not permitted for independence purposes and compliance with these policies and procedures is reviewed periodically.

Independence training and confirmations

We provide all relevant personnel (including all partners and client service professionals) with independence training twice per year appropriate to their grade and function and provide all new personnel with relevant training when they join the firm.

All personnel are required to sign an independence confirmation upon joining the firm. Thereafter, all personnel confirm annually they have remained in compliance with applicable ethics and independence policies throughout the period. In addition, partners and partner equivalents make an additional confirmation at the mid-year in respect of their personal investment compliance.

Audit engagement leader rotation

All audit engagement leaders are subject to periodic rotation of their responsibilities for entities we audit under applicable laws and regulations and independence rules which limit the number of years that engagement leaders may provide audit services to an audited entity. KPMG rotation policies are consistent with the IESBA Code and also require our firm to comply with the requirements of the ES (and, where applicable for certain engagements, the rules of the PCAOB).

We monitor the rotation of audit engagement leaders and any other key roles where there is a rotation requirement, including the Engagement Quality Control reviewer and have transition plans to enable us to allocate partners with the necessary competence and capability to deliver a consistent quality of service to audited entities. The rotation monitoring is subject to compliance testing.

Firm rotation

EU Public Interest Entities (EU PIEs), as defined in the FRC's ES, are required to rotate their firm of auditors. Mandatory Firm Rotation (MFR) rules in the UK and Gibraltar require that all EU PIEs must tender their audit contract at least every 10 years and change or rotate their auditor at least every 20 years. We have processes in place to track and manage MFR.

Non-audit services

We have policies regarding the scope of services that can be provided to companies for whom we are auditors which are consistent with the ES and the IESBA Code, and, where applicable, the rules of the SEC and PCAOB. KPMG policies require the audit engagement leader to evaluate the threats arising from the provision of non-audit services and the safeguards available to address those threats.

Every engagement intended to be entered into by a KPMG member firm is required to be included in our Sentinel™ tool prior to starting work enabling group lead audit engagement partners to review and approve, or deny, any proposed service for those entities worldwide.

In 2018, we announced that the firm was discontinuing the provision of non-audit services (other than those required by law or regulation or closely related to the audit) to the FTSE 350 companies we audit. This goes beyond the requirements of the ES and is a step we have taken to remove even the perception of a possible conflict.

To maintain auditor independence, no individual with the ability to influence the conduct and outcome of an audit can be rewarded for selling non-audit services to entities we audit.

Fee dependency

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

During the year ended 30 September 2018, no public interest entity to whom KPMG Gibraltar provides audit services accounted for more than 10% of the total fees received. In the year ended 30 September 2019, total fees received from Acromas Insurance Company Limited accounted for 10.2% of KPMG Gibraltar's total revenues, and total fees received from Mulsanne Insurance Company Limited accounted for 10% of KPMG Gibraltar's total revenues. In both cases a UK-based EQCR is involved as appropriate on the audits.

Conflicts of interest

Conflicts of interest may prevent our firm from accepting or continuing an engagement. Sentinel™ is also used to identify and manage potential conflicts of interest within and across member firms. Any potential conflict issues identified are resolved in consultation with other parties as applicable and the outcome is documented.

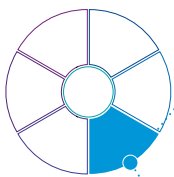
It may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise or be perceived to arise such as establishing formal dividers between engagement teams serving different audited entities. If a potential conflict issue cannot be resolved, the engagement is declined or terminated.

Compliance with laws, regulations, and anti-bribery and corruption

We provide training on compliance with laws (including those relating to anti-bribery and corruption), regulations, professional standards and the KPMG Code of Conduct to all client-facing partners and employees on joining the firm, and every two years thereafter. The same training is also provided to certain other non-client-facing personnel (such as those who work in finance, procurement or sales and marketing).



4. Recruitment, development and assignment of appropriately qualified personnel



- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

We are committed to equipping our people with the skills and tools they need to deliver high-quality work for our stakeholders and for the entities that we audit.

One of the key drivers of quality is making sure we assign people with the right level of skills and experience to the right engagements. This requires a focus on recruitment, development, promotion and retention of our personnel and the development of robust capacity and resource management processes.

Recruitment

All candidates applying for professional positions apply and follow a thorough selection process, which may include application screening, competency-based interviews, psychometric and ability testing and qualification and reference checks.

The UK firm recruited over 2,000 new people into Audit in the year ended 30 September 2019. Upon joining the firm, new joiners (including Gibraltar-based new joiners) participate in an onboarding programme. Induction programmes includes training in areas such as ethics and independence, quality and risk management principles, engagement management and our people management procedures.

Personal development

Attracting, retaining and developing talented individuals is at the very top of our people agenda and is key to KPMG being a magnet for talent. The firm dedicates a significant amount of time, money and other resources to build professional capability, leadership and business skills and technical expertise.

All our people are encouraged to think about their careers and personal development needs via regular performance conversations with ongoing feedback and support. To support career and professional development there is a range of core skills programmes that support performance improvement and ensure that individuals reach their full potential. Our learning and development framework focuses on critical and stretching experiences and learning opportunities are provided through a blend of formal learning for the development of key technical, leadership and business skills; social learning or learning through others; and through their engagement and project work.

A clear focus on high performance and regular feedback helps our firm identify high performers who have the potential to take on more senior or more complex roles. High performers are further developed through coaching and mentoring on the job, rotation opportunities, global mobility opportunities and secondments.

Inclusion, diversity and social equality

Our trust and growth objectives are underpinned by an inclusive culture, which is critical to ensuring that we can thrive as a firm. We embrace and harness diversity of background, diversity of experience, diversity of perspective – as we recognise the value that diverse thinking brings to our organisation and our reputation in the marketplace. We're committed to inclusion at every level in our organisation and acknowledge the role of leaders in driving this from the top through their personal actions and behaviours.

We promote a positive integration between work and life to encourage not only professional achievements but also to provide an environment that enables everyone, regardless of gender, ethnicity, age, disability, religion, socio-economic background or sexual orientation, to reach their full potential. We strive to be an employer of choice by ensuring that all our people are empowered to make decisions and feel proud and motivated to do their best. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and ways of working.

Our established Inclusion, Diversity and Social Equality strategy drives the actions that we believe are necessary to promote inclusive leadership and enhanced accountability to increase diversity. Our Employee Networks and our calendar of events throughout the year help us to engage all colleagues in conversation and to drive action. We also recognise the importance of enabling people to work in the ways that best suit them so that high performance and increased engagement can lead to better service.

Performance evaluation and compensation

All professionals meet regularly with their performance manager and undergo annual goal-setting and performance reviews and are evaluated on attainment of agreed-upon goals, demonstration of the KPMG global behaviours, technical capabilities and market knowledge. As part of the year-end performance review activity they discuss their achievement of agreed goals, identify strengths and development areas and assess their performance in respect of individual quality, ethics and compliance metrics. The outputs of the performance discussion influences their reward and promotion discussions.

The quality assessment of audit engagement leaders goes beyond the results of internal and external inspections. It also includes indicators of the individual's personal contribution to the firm's overall audit quality through their participation in quality improvement actions, their involvement in quality monitoring together with other matters, positive and negative, that inform us of the individual's commitment to audit quality. We have enhanced our performance management process with the introduction of a quality scorecard reflecting audit quality as the overarching determinant of performance.

Reward and promotion

We have reward and promotion policies that are clear, simple, and linked to the performance evaluation process so that our people know what is expected of them and what they can expect to receive in return. Reward decisions are based on consideration of individual, business area and firm-wide performance.

Partner admissions

Our process for admission to partner is rigorous and thorough. This procedure includes a business and personal case for the individual candidate. Our key criteria for admission to partner are consistent with a commitment to professionalism and integrity, quality and being the best choice for our audited entities and people. Similarly, attitude to quality and risk is explored for any external partner hires that we are considering.

Assignment

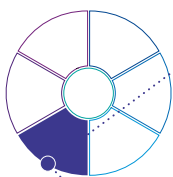
We have procedures in place to assign both engagement leaders and other professionals to a specific engagement on the basis of their skills, relevant professional and industry experience and the nature of the assignment or engagement. Within the Audit function, key considerations include experience, accreditation and capacity to perform the engagement in view of the size, complexity and risk profile of the engagement and the type of support to be provided. This may include involving local specialists or those from other KPMG member firms.

As an additional control in Audit, the Audit Chief Risk Officer oversees an annual review of risks facing the audit function which involves the UK Head of Audit and each UK Performance Group Leader. Each Performance Group Leader (or their approved delegate) meets every audit engagement leader in their Performance Group to perform a review of their portfolio and workload (the Partner Portfolio Review process).

KGS Audit (KGS) is KPMG in the UK's Audit offshoring capability and comprises more than 1,000 employees located in Delhi and Bangalore, India. KGS employees are an extension of the UK audit team. Where it has been determined by the professional judgement of the individual UK audit teams that KGS has the appropriate skills and experience, audit procedures will be allocated to KGS on the same basis as to UK-based team members and is subject to the same review process and oversight. The training and recruitment process at KGS is based on the UK model and the same high standards are maintained at KGS as in the UK. The firm's system of quality control applies to all of our personnel whether whether based in the UK, Gibraltar or one of our off-shore locations.



5. Commitment to technical excellence and quality service delivery



- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

We provide all professionals with the technical training and support they need. This includes access to networks of specialists and technical experts. At the same time we use our audit accreditation and licensing policies to require professionals to have the appropriate knowledge and experience for their assigned engagements.

Technical training

Our technical learning curriculum provides a core training programme for all colleagues and differs by grade and experience level. To drive continued focus on audit quality, we deliver Audit Quality Workshops for engagement leaders (which is extended to all audit staff through Audit Quality Department Workshops). These cover key messages regarding quality, and actions in respect of the internal and external monitoring. In addition all our audit people complete quarterly technical training focusing on performing an effective quality audit with different topic areas included as relevant. KPMG Audit University is an annual three-day compulsory immersive training course in which participants cover all aspects of the audit process with a practical focus on how to evidence effectively designed and executed audit procedures.

Audit training includes mandatory courses and completion of these is monitored through a Learning Management System. This allows individuals to monitor their compliance both with their ongoing Continuing Professional Development requirements and with KPMG's mandatory training and accreditation requirements. In addition to structured technical training, we encourage coaching, consultation, on-the-job training and mentoring.



Accreditation and licensing

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. We have accreditation requirements for many of our services which ensure that only partners and employees with the appropriate training and experience are assigned to engagements and are appropriately licensed where necessary.

Access to specialist networks

Our engagement teams have access to a network of specialists (including in other KPMG member firms where necessary). Engagement leaders are responsible for ensuring that their engagement teams have the appropriate resources and skills. Annually we assess the availability of specialists to audit teams to ensure that adequate resources are available when required.

Consultation

Internal consultation, both formal and informal, is a fundamental contributor to quality; it is always encouraged and mandated in certain circumstances. We provide appropriate consultation support to audit engagement professionals through professional practice resources that includes DPP Accounting & Reporting and DPP Audit Support.

Our policies include mandatory consultation requirements on certain matters such as audited entity integrity. We have also established Risk Panels and Going Concern Panels led by an audit quality or risk management partner to enable direct challenge of the approach to the key audit issues on our highest risk audits.

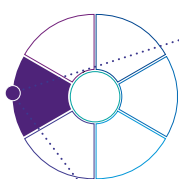
Technical support is also available through the International Standards Group (ISG) as well as the US Capital Markets Group based in New York, for work on SEC registrants, or our US Accounting and Reporting group based in London.



Developing business understanding and industry knowledge

A key part of engagement quality is having a detailed understanding of the audited entity's business and industry. For significant industries global audit sector leads are appointed to support the development of relevant industry information, which is made available to audit professionals within eAudit. This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes).

6. Performance of effective and efficient audits



- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

Timely partner, manager and second line of defence involvement

The engagement leader is responsible for the overall quality of the audit engagement and therefore for the direction, supervision and performance of the engagement. Involvement and leadership from the engagement leader early in the audit process helps set the appropriate scope and tone for the audit. To reinforce this, we mandate the completion and review of audit planning activities within specified timeframes to evidence completion of the relevant planning activities.

The engagement leader reviews key audit documentation – in particular documentation relating to significant matters arising during the audit and conclusions reached. The engagement manager assists the engagement leader in meeting these responsibilities and in the day-to-day liaison with the audited entity and team.

Our second line of defence team is a group made up of senior auditors which supports our higher risk engagements with a focus on public interest and listed entities. The team performs in-flight reviews of audits to improve the quality of audit execution and documentation, including effective challenge of management in judgemental areas. These senior auditors also help throughout the audit cycle, to identify issues before they impact audit quality. This has a dual purpose, firstly to enable coaching of teams and secondly to act as another level of review and challenge to help engagement teams in the delivery of high-quality audits.

Appropriate and timely involvement of specialists

Our engagement teams have access to a network of specialists and this may include involving local specialists or those from other KPMG member firms. Our audit methodology requires the involvement of relevant specialists in the core audit engagement team when certain criteria are met or where the audit team considers it appropriate or necessary.

Critical assessment of audit evidence, exercise of professional judgement and professional scepticism

We consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence. The analysis of the audit evidence requires each of our team members to exercise professional judgement, maintain professional scepticism and demonstrate appropriate challenge to obtain sufficient appropriate audit evidence.

Professional judgement and scepticism training are embedded in our core audit technical training programme for junior staff and ongoing training for more experienced staff.



Ongoing mentoring and on-the-job coaching, supervision and review

To invest in the building of skills and capabilities of our professionals we use a continuous learning environment. We support a coaching culture throughout KPMG as part of enabling personnel to achieve their full potential.

Ongoing mentoring and on-the-job coaching and supervision during an audit include:

- engagement leader participation in planning discussions;
- tracking the progress of the audit engagement;
- considering the competence and capabilities of individual members of the engagement team;
- helping engagement team members address any significant matters that arise during the audit and modifying the planned approach appropriately; and
- identifying matters for consultation with more experienced team members during the engagement.

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

Appropriately supported and documented conclusions

Audit documentation records the audit procedures performed, evidence obtained and conclusions reached on significant matters on each audit engagement. Our policies require review of documentation by more experienced engagement team members.

Our methodology recognises that documentation prepared at the time the work is performed is likely to be more efficient and effective than documentation prepared later. Teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period – the period during which teams are required to complete audit documentation is a maximum of 15 days from the date of the audit report unless dispensation is provided by the Head of Audit Risk or Head of Audit Quality. For audit year ends from December 2019 onwards, we have changed this policy for listed and other Public Interest Entities such that audit files will need to be closed within two days of the audit report date. For all other audited entities, this will apply for year ends from March 2020.

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

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

Standardised approaches and workpapers assist our audit teams with appropriately supported and documented conclusions.



Appropriate involvement of the Engagement Quality Control reviewer (EQC reviewer)

Our EQC reviewers are independent of the engagement team and have appropriate experience and knowledge to perform an objective review and challenge of the more critical and judgemental elements of the audit. The audit report can only be released when the EQC reviewer is satisfied that all significant questions raised have been resolved.

An EQC reviewer is appointed for the audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with a high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements as designated by the Head of Audit Risk Management or the UK Head of Audit. The EQC reviewers for individual engagements are ratified by Audit Risk Management and specifically, for high risk engagements, the Audit Risk Management Partner.

Clear reporting of significant findings

In preparing audit reports, engagement leaders have access to extensive reporting guidance and technical support especially where there are significant matters to be reported to users of the audit report.

Auditing standards and the Companies Act 2014 or similar legislative requirements largely dictate the format and content of the audit report that includes an opinion on the fair presentation of the entity's financial statements in all material respects.

Insightful, open and honest two-way communication with those charged with governance

Two-way communication with those charged with governance is key to audit quality. We stress the importance of keeping those charged with governance informed of issues arising throughout the audit and of understanding their views. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings and ongoing discussions with members of the audit committee.

We deliver insights such as the appropriateness of accounting policies, the design and operation of financial reporting systems and controls, key accounting judgements and matters where we may disagree with management's view and any uncorrected audit misstatements. We ensure the content of these reports meets the requirements of auditing standards and we share our industry experience to encourage discussion and debate with those charged with governance.

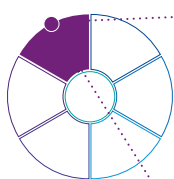
Focus on effectiveness of group audits

Our audit methodology stresses the importance of effective two-way communication between the group engagement team and the component auditors, which is key to audit quality. The group audit engagement leader evaluates the competence of component auditors, whether or not they are KPMG member firms, as part of the engagement acceptance process. Our guidance and training focuses on the quality of group audit instructions, the oversight of component auditor team structures, the evaluation of their work, communication between group and component audit teams, scoping of components, review and evaluation of the components work and clearly evidencing this, the involvement of the EQC reviewer with group and component auditors and the conclusions reached by the group team on the group file.

Confidentiality, information security and data privacy

We are committed to providing a secure and safe environment for the personal data and confidential information we hold, as well as protecting the privacy of our audited entities, service providers and other third parties. The importance of maintaining audited entity confidentiality is emphasised through a variety of mechanisms including through regular communications on the topic, the Code of Conduct, training and the annual independence/confirmation process, which all of our professionals are required to complete.

7. Commitment to continuous improvement



- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

We focus on ensuring our work continues to meet the needs of participants in the capital markets. To achieve this goal, we employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for continuous improvement.

Internal monitoring

Details of internal monitoring including the Quality Performance Review, Risk Compliance Programme and Global Compliance Reviews processes are included on page 14.

Our Internal Audit function is led by a partner from the firm's Risk Consulting practice and provides independent and objective assurance on the adequacy and effectiveness of our governance, risk management and internal control processes. The internal audit plan was approved at the start of the year and was updated during the year to ensure that it remained appropriate and reflected changes to business and emerging risks. The plan is devised by understanding the risk profile of the firm (whether strategic, operational, or change risks), considering other risk management, compliance and assurance activities and, therefore, agreeing what internal audit work is required. In reviewing and approving the internal audit plan, the Audit Committee ensured a balance between coverage of the highest priority risks and maintaining appropriate coverage of the core business processes. The internal audit plan in place for 2019, included areas of focus such as information protection recognising the importance of this area in the current environment.

Audited entity feedback

Understanding the needs of audited entities and what they value is of critical importance. Audited entity feedback helps us to develop strong relationships and ensure delivery of services that not only meet, but exceed, expectations. Senior leadership has visibility of all feedback to identify trends and ensure appropriate response.

Monitoring of complaints

We have procedures in place for monitoring and addressing complaints received relating to the quality of our work. These procedures are detailed on our website and are also included in our general terms of business. All formal complaints are investigated under the authority of the Chief Risk Officer.

Interaction with regulators

At a global level KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss issues identified and actions taken to address such issues at a network level. In the UK, we have regular meetings and ongoing dialogue with the AQR team of the FRC which is responsible for the monitoring of the audits of all listed and other major public interest entities.

In Gibraltar representatives of KPMG Limited attend periodic meetings with the Financial Services Commission to discuss emerging matters with respect to EU public interest entities as required by EIOPA.



Appendix 3 – Financial information

Relative importance of statutory audit work

2019	KPMG Limited £m	KPMG Advisory Limited, £m	Total £m
Revenue			
Audit and directly related services	1,307	-	1,307
Other assurance work	9	27	36
	1,316	27	1,343
Tax and other non-audit services	-	235	235
	1,316	262	1,578

Total KPMG Gibraltar revenues can be further analysed on the following basis:

2019	Total £m
Revenue	
Audit and directly related services for audited entities	1,307
Non-audit services for audited entities	87
Non-audit services for non-audit clients	184
	1,578

Audit and directly related services reflects revenue of £470k in respect of Gibraltar-registered EU public interest entities and their subsidiaries and £837k audit and related services provided to other entities.

Appendix 4 – Basis of partner remuneration

The remuneration model is designed to drive and reward one-firm behaviour consistent with our strategy and values, reflect an individual's medium term value as well as current year performance against their goals, and promote clarity and transparency amongst Members of the LLP regarding their own remuneration and that of other Members. A Member's remuneration generally comprises three elements as described below based on benchmark pay. Benchmark pay is communicated to members in November/December each year and is determined in relation to an individual's medium term value to the group. Each member's benchmark pay is determined with quality as the primary factor and with others factors such as past performance, market value of skill set, individual capability, leadership qualities and overall contribution to the group also taken into account.

The profit allocated to members is distributed as follows:

- Basic profit share – each member will receive 60% of their benchmark pay;
- One Firm Profit Share – each member will receive a set percentage of their benchmark pay (the same percentage applies to all members) which is determined by reference to the Firm's overall profitability;
- Discretionary Profit Share – paid from a pool of profit that is equal to the aggregate of the One Firm Profit Shares and is allocated to members on the basis of their relative in-year performance against their balanced scorecard goals.

During the year members receive monthly drawings and, from time to time, additional profit distributions. The level and timing of the additional profit distributions are decided by the Executive Committee, taking into account the partnership's cash requirements for operating and investing activities. Both the monthly drawings and profit distributions are reclaimable from members until the date on which profits are allocated.

To maintain auditor independence, no individual can be rewarded for selling non-audit services to companies we audit.



Putting quality at the core of remuneration

Audit quality is the most important metric for measuring the performance – and by extension, the reward – of audit partners and audit professionals. The Quality and Performance Matrix we use to assess an individual's performance looks at quality and how it interacts with other factors. Their overall rating depends on the interaction of both.

We use a quality scorecard to collate both objective and subjective evidence of an auditor's performance. Evidence includes indicators from reviews and inspections, and feedback on the auditor's engagement with the quality process.

The Head of Audit Quality, Chief Auditor and Audit Chief Risk Officer contribute to the assessment of performance in respect of risk and quality matters. They are also involved in the remuneration discussions for audit partners to make sure that the process complies with the firm's policies. The governance of this process is overseen by the Audit Oversight Committee.

Auditors must be independent to do their jobs effectively. As such, everyone in the Audit practice, and staff from other areas of the firm that contribute to audit, are not evaluated, promoted or remunerated for the selling of non-audit services to companies we audit. There are no incentives for auditors to do this.

Appendix 5 – Public Interest Entities listing

Disclosures in accordance with Article 13.2 (f) of the EU Audit Regulation

The list below has been prepared in accordance with Article 13 of the EU Audit Regulation and is in respect of the year ended 30 September 2019. The list includes the entities which meet all of the following conditions: i) the entity is incorporated/established in Gibraltar; ii) KPMG Limited signed an audit report on the entity's annual financial statements during the year ended 30 September 2019; iii) on the date the audit report was signed the entity was an EU PIE; and iv) the audit was a statutory audit within the meaning of section 257 of the Gibraltar Companies Act.

Pursuant to the EU Audit Regulation, the definition of a PIE includes: i) Companies with transferable securities listed on EU regulated markets (as opposed to all markets in the EU) and governed by the law of an EU member state; ii) Credit institutions authorised by EU member states authorities; iii) Insurance undertakings authorised by EU member state; and iv) Other entities a member state may choose to designate as a PIE.

Acromas Insurance Company Limited

Advantage Insurance Company Limited

Argus Insurance Company Limited

Lighthouse General Insurance Company Limited

Lighthouse Life Assurance Company Limited

Mulsanne Insurance Company Limited

Appendix 6 – Disclosure requirements

Under Article 13.2 of the EU Audit Regulation we are required to disclose certain information. The table below shows where these disclosures may be found in this Transparency Report.

Provision of Article 13.2	How KPMG Limited complies
a) A description of the legal structure and ownership of the audit firm;	A description of the legal structure and ownership of the audit firm; A description of our legal structure and ownership is set out on page 20.
b) where the statutory auditor or the audit firm is a member of a network: <ul style="list-style-type: none"> <li data-bbox="185 734 903 792">i) a description of the network and the legal and structural arrangements in the network; <li data-bbox="185 797 871 855">ii) the name of each statutory auditor operating as a sole practitioner or audit firm that is a member of the network; <li data-bbox="185 860 871 965">iii) the countries in which each statutory auditor operating as a sole practitioner or audit firm that is a member of the network is qualified as a statutory auditor or has his, her or its registered office, central administration or principal place of business; <li data-bbox="185 969 903 1055">iv) the total turnover achieved by the statutory auditors operating as sole practitioners and audit firms that are members of the network, resulting from the statutory audit of annual and consolidated financial statements 	A description of the network and its legal and structural arrangements are set out in Appendix 1.
c) a description of the governance structure of the audit firm;	A description of our governance structure is set out on page 20.
d) a description of the internal quality control system of the statutory auditor or of the audit firm and a statement by the administrative or management body on the effectiveness of its functioning;	A description of our internal quality control systems is set out on pages 13 to 14 and Appendix 2. The statement by the Board on the effectiveness of internal controls is included on page 27.
e) an indication of when the last quality assurance review referred to in Article 26 was carried out;	A description of the external monitoring process is set out on page 14.
f) a list of public-interest entities for which the statutory auditor or the audit firm carried out statutory audits during the preceding financial year;	A list of relevant public interest entities is set out in Appendix 5.
g) a statement concerning the statutory auditor's or the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted;	A description of our independence procedures is set out in Appendix 2 and the confirmation in relation to the review of independence practices by the Board is included on page 27.
h) a statement on the policy followed by the statutory auditor or the audit firm concerning the continuing education of statutory auditors referred to in Article 13 of Directive 2006/43/EC;	A statement of the policies and practices applied is included in Appendix 2.
i) information concerning the basis for the partners' remuneration in audit firms;	A description of the basis for Partner remuneration is set out in Appendix 4.
j) a description of the statutory auditor's or the audit firm's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7);	A description of the Firm's basis for the rotation of key audit Partners is set out in Appendix 2.
k) where not disclosed in its financial statements within the meaning of Article 4(2) of Directive 2013/34/EU, information about the total turnover of the statutory auditor or the audit firm, divided into the following categories: <ul style="list-style-type: none"> <li data-bbox="185 1861 903 1944">i) revenues from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity; <li data-bbox="185 1948 903 2007">ii) revenues from the statutory audit of annual and consolidated financial statements of other entities; <li data-bbox="185 2011 903 2069">iii) revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and <li data-bbox="185 2074 703 2101">iv) revenues from non-audit services to other entities. 	Financial information is included within Appendix 3.

Appendix 7 – KPMG's Values

KPMG's Values

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



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