



Transparency report 2020

Our relentless focus on
quality



KPMG Iceland

kpmg.is

Foreword

We are living in an era of major changes: Technological advances are disrupting existing business and delivery models, differences between industries are being erased, geopolitical factors are impacting both trust-based relationships and global trade and in 2020 the COVID-19 pandemic has forced businesses, people and societies to adjust and change their ways of working. Increased uncertainty is changing risk profiles for all companies and thus making our role as auditors and advisers even more important. The purpose of this Transparency Report is to demonstrate our attitude and our commitment to that mission in society.

At KPMG, our ambition is to be the clear choice, for clients and employees alike. For us this means evolving our employees to be extraordinary, ensure that the clients see a difference in us and build public trust in everything we do. We regard building trust and being the preferred choice as two sides of the same coin, both of which depend on prioritizing quality and integrity in everything we do.

Independence, ethical conduct and high moral standards are critical for our business, and we attach significant importance to embedding this in our work for clients and associated deliveries. Our global Code of Conduct clarifies the values and ethical principles that underpin our role as trustees for society.

Competence development is the bedrock of a strong quality culture. A continuous focus on competence enhancement and ensuring an appropriate combination of skills among our team is therefore crucial for delivering high-quality services. In addition, attitudes, conduct and prioritizations among our leaders are fundamental to the internal trust on which our quality work is based.

We wish to make a difference through compliant, solution-oriented and smart service deliverables that combine the best of our centres of expertise in audit, advisory, tax and legal services.

We are proud of our contributions to business and society throughout these years and our current position as auditor for many of Iceland's largest companies. We believe we are well placed to fulfil our social responsibility, now and in the future.

KPMG's quality system covers all areas of our business and we set high quality standards for all client engagements and for all types of service we deliver. This Transparency Report describes our quality system and showcases our work on continuous quality improvements.

We hope you find this report informative and insightful.



Jón S. Helgason
Senior Partner
KPMG Iceland



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Who we are

KPMG ehf. is a professional services firm that delivers Audit, Tax and Advisory services. We operate out of 16 offices across Iceland and had 273 partners and employees as at 30 September 2020 (2019: 284).

Our audit services in Iceland are delivered through KPMG ehf. Full details of the services offered by KPMG ehf. can be found on [our website](#).

Our strategy is set by the KPMG ehf. Board and demonstrates a commitment to quality and trust. Our focus is to invest significantly in priorities that form part of a multi-year collective strategy implementation that is taking place across our entire global organization.



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Our structure and governance

Legal structure

KPMG ehf. is affiliated with KPMG International Cooperative (“KPMG International”). KPMG International is a Swiss cooperative which is a legal entity formed under Swiss law. Prior to 1 October 2020 it was the coordinating entity for the network and the entity with which all the member firms of the KPMG organization were required to be affiliated with. Further details about KPMG International and its business activities, including our relationship with it for the financial year ending 30 September 2020, are available in the ‘Governance and leadership’ section of the [2019 KPMGI Transparency Report](#).

Legal structure and ownership from 1 October 2020

On 1 October 2020, KPMG ehf. and all other KPMG firms entered into new membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organization became members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee. KPMG International Limited acts as the coordinating entity for the overall benefit of the KPMG member firms. It does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

Further detail on the revised legal and governance arrangements for the KPMG global organization from 1 October 2020 can be found in section ‘Governance and leadership’ of the [2020 KPMG International Transparency Report](#).

KPMG International Limited and the KPMG member firms are not a global partnership, single firm, multinational corporation, joint venture, or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International Limited, any of its related entities or any other member firm vis-à-vis third parties, nor does KPMG International or any of its related entities have any such authority to obligate or bind any member firm. KPMG ehf. is part of the KPMG global organization of professional services firms providing Audit, Tax, and Advisory services to a wide variety of public and private sector organizations. The KPMG organization structure is designed to support consistency of service quality and adherence to agreed values wherever its member firms operate.

KPMG ehf. is a private limited liability company incorporated under the Act on Private Limited Liability Companies no. 138/1994.

It was established on 4 September 1975 and became an affiliate with KPMG International in 1985. It is wholly owned by 34 practicing partners as at 30 September 2020 (2019: 36 partners). A list of the partners is accessible at the company’s [website](#).

KPMG is authorised in accordance with the Icelandic Act on Auditors and Auditing no. 94/2019, and has the auditor registration number EF-2011-003.

At 30 September 2020, the company employed a total of 53 state-authorised public accountants.

Audit, Tax and Advisory services are delivered through the legal entity KPMG ehf. and legal services through the legal entity KPMG Law ehf.

Name, ownership and legal relationships

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

Member firms are generally locally owned and managed. Each member firm is responsible for its own obligations and liabilities. KPMG International and other member firms are not responsible for a member firm’s obligations or liabilities.

Member firms may consist of more than one separate legal entity. If this is the case, each separate legal entity will be responsible only for its own obligations and liabilities, unless it has expressly agreed otherwise.

Responsibilities and obligations of member firms

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

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



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Our Values represent what we believe in, and what's important to us as an organization. They guide our behaviors day-to-day, informing how we act, the decisions we make, and how we work with each other, our clients, companies that we audit, and all our stakeholders.

Our Values express our firm's long-standing core beliefs, and in 2020 the language was updated to make them bolder, simpler, and more memorable to help each of us bring them to life every day.

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

➤ **Integrity**

We do what is right

➤ **Excellence**

We never stop learning and improving

➤ **Courage**

We think and act boldly

➤ **Together**

We respect each other and draw strength from our differences

➤ **For Better**

We do what matters



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Governance structure

KPMG ehf. strives to maintain good corporate governance.

KPMG ehf.'s governance is described in its Articles of Association.

Shareholders' Meeting

The Shareholders of KPMG ehf. is the ultimate decision-making body of KPMG Iceland.

The Board

The Boards of Directors of KPMG ehf. is constituted in accordance with Icelandic corporate legislation, including the provisions of the Icelandic Act on Auditors and Auditing. All Board members shall uphold the company's shared interests. In accordance with the company's Articles of Association, the Board shall comprise five members. Members of the Board are elected for a term of one year. The Board appoints its own Chairperson.

The Board meets generally once a month to undertake certain statutory duties for KPMG ehf., including approving the annual accounts and the transparency report.

Full details of those charged with governance for KPMG ehf. are set out in Appendix A.

The Executive Committee

The Executive Committee is responsible for management of the day-to-day activities of KPMG ehf., recommending policy to the Board and developing the business plan within the overall strategy set by the Board, together with its subsequent implementation. It deals with operational matters affecting the firm, including monitoring operating and financial performance, budgets, new business proposals, marketing, technology development, recruitment, and retention and general remuneration, prioritization and allocation of resources and investment and managing the risk profile of KPMG ehf.

The Executive Committee consists of the Senior Partner, Heads of Functions, CFO and Head of HR.

Senior Partner/Chief Executive Officer

The role of Senior Partner is a fixed-term position. The Senior Partner acts as CEO and is appointed by the Board. The Senior Partner is responsible for the day-to-day management of KPMG ehf.'s activities.

The Senior Partner bases all his or her work on KPMG's Values, overarching goals and adopted strategies.



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System of quality control

Overview

Tone at the top, leadership, and a clear set of Values and conduct are essential to set the framework for quality. However, these are required to be backed up by a system of quality control that ensures our performance meets the highest professional standards.

To help all audit professionals concentrate on the fundamental skills and behaviours required to deliver a quality audit, KPMG has developed the Audit Quality Framework, based on International Standards on Quality Control (ISQC 1), issued by the International Auditing and Assurance Standards Board (IAASB) and on the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA), which apply to professional services firms that perform audits of financial statements .

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

KPMG ehf. is required to implement KPMG International policies and procedures and also adopts additional policies and procedures that are designed to address rules and standards issued by relevant regulators as well as applicable legal and regulatory requirements.

Quality control and risk management are the responsibility of all KPMG ehf. partners and employees. This responsibility includes the need to understand and adhere to firm policies and associated procedures in carrying out their day-to-day activities. The system of quality control applies to all KPMG partners and employees wherever they are based

We are implementing our program to adopt the new international standard on quality management (ISQM 1), which was [approved by the IAASB](#) in September 2020 and is expected to be effective from December 2022. ISQM 1 requires each KPMG firms to design, implement and operate a system of quality management to consistently deliver quality audits, and to evaluate the effectiveness of the system on an annual basis.

While this Transparency Report summarizes KPMG's approach to audit quality, it may also be useful for stakeholders interested in member firms' Tax and

Advisory services, as many KPMG quality control procedures and processes are cross-functional and apply equally to all services offered.

Audit quality framework

At KPMG ehf. audit quality is not just about reaching the right opinion, but how that opinion is reached. It is about the processes, thought and integrity behind the auditors' report. The outcome of a quality audit is the delivery of an appropriate and independent opinion in compliance with relevant professional standards and applicable legal and regulatory requirements. To help all audit professionals concentrate on the fundamental skills and behaviours required to deliver a quality audit, KPMG International has developed the Audit Quality Framework.

KPMG's audit quality framework introduces a common language that is used by all KPMG firms to describe what drives audit quality and to help highlight to their audit professionals how they contribute to its delivery.

Tone at the top sits at the core of the Audit Quality Framework's seven drivers of audit quality and helps ensure that the right behaviours permeate all KPMG firms. All of the other drivers create a virtuous circle because each driver is intended to reinforce the others.



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Tone at the top

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

At KPMG ehf. we promote a culture in which consultation is encouraged and recognized as a strength.

Tone at the top means that KPMG ehf. leadership demonstrates commitment to quality, ethics and integrity and communicates its commitment to clients, stakeholders, and society at large to earn public trust.

The KPMG Values are set out in the previous chapter.

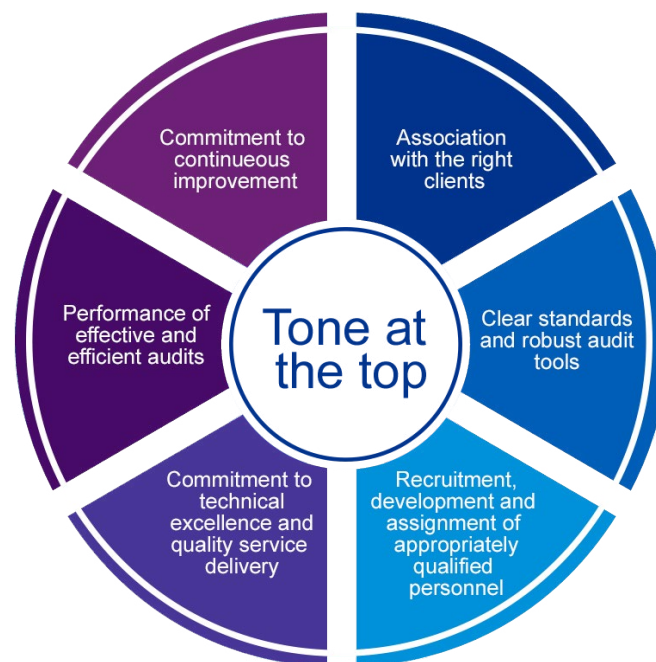
Outlined in [KPMG's Global Code of Conduct](#) are the responsibilities all KPMG personnel have to each other, our clients, and the public. It shows how our Values inspire our greatest aspirations and guide all of our behaviours and actions. It defines what it means to work at and be part of KPMG, as well as our individual and collective responsibilities.

Our Values lie at the heart of the way we do things.

To do the right thing, the right way. Always. They drive our daily behaviours, guide our decisions, and shape our admissions. They form the foundation of a resilient culture ready to meet challenge with integrity, so we never lose sight of our principal responsibility to protect the public interest. And they propel us forward — through our work and the example we set — as we inspire confidence and empower change throughout the world.

Everyone at KPMG is required to comply with the Global Code of Conduct and to confirm their compliance with the Code. Everyone at KPMG is also required to take regular training covering the Code. We are committed to holding ourselves accountable for behaving in a way that is consistent with the Code. Individuals are encouraged to speak up if they see something that makes them uncomfortable or that is inconsistent with our Values.

Moreover, everyone at KPMG is responsible for reporting — and is required to report — any activity that could potentially be illegal or in violation of our Values, KPMG policies, applicable laws, regulations or professional standards.



To safeguard this, each KPMG firm is required to have procedures and established channels of communication so that anyone working there can report suspected ethical and quality issues or concerns.

In addition, the [KPMG International hotline](#) is a mechanism for KPMG personnel, clients and other third parties to confidentially report concerns they have relating to certain areas of activity by any KPMG International entity, activities of KPMG firms or KPMG personnel.

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

At KPMG ehf., we regularly monitor the extent to which our people feel that the firm lives the KPMG Values through the Global People Survey (refer to section *Insight from our people*).



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Leadership responsibilities for quality and risk management

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

Our leadership team is committed to building a culture based on quality, integrity and ethics, demonstrated through their actions - written and video communications, presentations to teams and one-to-one discussions.

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

Senior Partner

In accordance with the principles in ISQC 1, our Senior Partner, Jón S. Helgason, has assumed ultimate responsibility for KPMG ehf. system of quality control. Details of some of the measures that he and the Board have taken to ensure that a culture of quality prevails within KPMG ehf. are set out in this transparency report.

Risk Management Partner / Ethics and Independence Partner

The Risk Management Partner (RMP) is responsible for setting overall professional risk management and quality control policies and monitoring compliance for KPMG ehf. The RMP has a seat on the Executive Committee and has a direct reporting line to the Senior Partner. The RMP consults with the appointed Area Quality and Risk Management Leader.

The fact that the role is an Executive Committee position, and seniority of the reporting lines, underlines the importance that the firm places on risk and quality issues. The RMP is supported by a team of partners and professionals in each of the functions.

The Ethics and Independence Partner (EIP) has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG ehf. The RMP is also EIP.



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Audit, Tax and Advisory functions – Function Heads

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

KPMG ehf. Head of Audit is responsible for leading a sustainable high-quality Audit practice. This includes:

- setting the right 'tone at the top' by demonstrating an unwavering commitment to the highest standards of professional excellence, including scepticism, objectivity, and independence;
- developing and implementing strategies to monitor and maintain knowledge and skills required of partners and employees to fulfil their professional responsibilities; and

- working with the Risk Management Partner to monitor and address audit quality and risk matters as they relate to the Audit practice, including an annual evaluation of activities considered to be key to audit quality.

What is audit quality?

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

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

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

Audit Leadership Team

The Audit Leadership Team of KPMG ehf. holds regular discussions about current and emerging audit quality issues arising from external and internal quality review processes, queries being raised by engagement teams, root cause analysis procedures and other quality matters identified from a variety of sources. These were debated, other observations collected from client-facing teams were considered, and actions agreed. Typically, most of these actions are short term, in which case they are developed and communicated through the regular technical briefings issued to the whole Audit function of KPMG ehf. and also, if considered of sufficient magnitude, included in the next mandatory training.

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

Investing in continuous improvement

KPMG continues to invest significantly in audit quality across the global organization. We are building on our sound audit quality foundations, both in terms of how we manage our firms and how we execute audit engagements.

This means ongoing investment in our system of quality management, global monitoring of audit quality, enhanced support, and providing best-in class technology and tools for engagement teams.

Our global audit quality program supports consistent deployment of investments to enhance and drive a common approach.

Association with the right clients

Acceptance and continuance of clients and engagements

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

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

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

Client and engagement acceptance process

Client evaluation

KPMG ehf. undertakes an evaluation of every prospective client.

This involves obtaining sufficient information about the prospective client, its key management and significant beneficial owners and then properly analysing the information to be able to make an informed acceptance decision. This evaluation includes completion of a questionnaire to assess the client's risk profile and obtaining background information on the client, its key management, directors and owners. In addition, we obtain additional information required to satisfy our local legal and regulatory requirements.

Engagement evaluation

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors are considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel™, KPMG's conflicts and independence checking system), intended purpose and use of engagement deliverables, public perception, as well as factors specific to the type of engagement. For audit services, these include the competence of the client's financial management team and the skills and experience of partners and employees assigned to staff the engagement. The evaluation is made in consultation with other senior KPMG ehf. partners and employees and includes review by quality and risk management leadership as required.

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

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

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

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



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Continuance process

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

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

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

Withdrawal process

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

Client portfolio management

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

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



Clear standards and robust audit tools

All KPMG ehf. professionals are expected to adhere to KPMG International and KPMG ehf. policies and procedures, including independence policies, and are provided with a range of tools and guidance to support them in meeting these expectations. The KPMG ehf. policies and procedures set for audit engagements incorporate the relevant requirements of accounting, auditing, ethical and quality control standards, and other relevant laws and regulations, such as the Icelandic Act on Auditors and Auditing no. 94/2019.

Our approach to audit

The KPMG organization has been investing significantly in evolving its audit capabilities and will continue to do so in the coming years including a new global electronic audit workflow delivered through KPMG Clara platform – KPMG's smart, modular audit platform – capable of continually integrating new and emerging technologies, with advanced capabilities embedded that leverage data science, audit automation, data visualization and more. Digital audit is integral to the way how KPMG member firms obtain audit evidence and interact with clients in the digital era.

KPMG's high-quality audit process will continue to include:

- **timely partner and manager involvement** throughout the engagement
- **access to the right knowledge** including involvement of specialists, training and experience requirements and relevant industry expertise
- **critical assessment of all audit evidence obtained during the audit**, exercising appropriate professional judgment
- **ongoing mentoring, supervision and review** of the engagement team managing and documenting the audit.



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KPMG's commitment to audit quality during the COVID-19 pandemic

The COVID-19 pandemic has forced us all to think differently, we continue to respond to and embrace this challenge. Most organizations are likely to be impacted by the COVID-19 pandemic, either directly or indirectly, and the increased economic uncertainty and risk may have significant financial reporting implications. Issues including going concern, asset impairments and valuations will require careful judgment as organizations deal with a high degree of uncertainty and market volatility. KPMG firms' role as auditors is to evaluate these judgements.

Since the start of the pandemic we have maintained an online COVID-19 information site to assist companies and other stakeholders.

KPMG International has issued extensive guidance to assist teams in addressing the various accounting, financial reporting and audit related matters arising from the impacts of the COVID-19 pandemic including going concern, asset impairments, valuations and related disclosures, materiality, risk assessment, group audits, inventory, subsequent events, audit evidence communications with Those Charged With Governance, and considerations for remote working environments.

KPMG's guidance has been continually updated throughout the pandemic as other significant auditing, accounting and reporting issues have been identified.

KPMG is a technology-enabled organization, with all audit technical accounting and auditing resources, guidance and audit platforms and tools available electronically, enabling the conversion to a remote working environment.

Communication has been increasingly important to everyone during the COVID-19 pandemic. We have leveraged our investments in technology to provide KPMG firms with more regular updates, including virtual meetings to share best practices and guidance.



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Consistent audit methodology and tools

Bringing consistency through our methodology

Our audit methodology, tools and guidance are:

- globally consistent and fully compliant with the applicable standards, including International Standard on Auditing (ISA), Public Company Accounting Oversight Board (PCAOB) and the American Institute of CPAs (AICPA) and are supplemented to comply with local auditing standards and regulatory or statutory requirements by member firms
- inclusive of KPMG methodology interpretations that drive consistency in areas where the applicable standards are not prescriptive in the approach to be followed
- centered on identifying risk, focusing on risks of material misstatements and the necessary audit response
- made available to all KPMG audit professionals and required to be used, where necessary
- applied even where local auditing standards may be less demanding than the ISAs

The KPMG audit methodology is set out in KPMG's Audit Manual (currently used with eAudit) and the

KPMG Audit Execution Guide (for use with the KPMG Clara workflow) and includes additional requirements that go beyond the ISAs, which we believe enhance audit quality. The methodology emphasizes applying appropriate professional scepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence.

Enhancements to the audit methodology, guidance and tools are made regularly to maintain compliance with standards and address emerging auditing areas of focus and audit quality results (internal and external). For example, as a result of the COVID-19 pandemic, many companies are experiencing significant financial uncertainty. We have issued guidance to our auditors on conducting audit procedures in a remote-working environment, raising awareness of key audit risks such as going concern and impairments and provided reminders of the importance of exercising professional scepticism taking appropriate actions if information is identified that is unexpected or unusual and may be indicative of potential management bias, a fraud risk or fraud.

KPMG firms may add local requirements and/or guidance in the Audit manual to comply with additional professional, legal, or regulatory requirements.

Delivering through our current audit workflow

The current KPMG audit is enabled through eAuditIT, an activity-based workflow and electronic audit file used by all KPMG member firms. eAuditIT is KPMG's audit documentation workflow that allows professionals to complete quality and consistent audits. eAuditIT integrates KPMG's audit methodology, guidance and industry-specific, and the tools needed to execute and document the audit work performed.

eAuditIT can be "scaled" to present the relevant requirements and guidance, depending on the nature of the entity to be audited and in accordance with professional standards and applicable legal and regulatory requirements. It provides direct access to KPMG's audit guidance, professional standards and documentation templates.

Investing for the future

While our current audit workflow and methodology are robust and consistent with all auditing standards' requirements, the changes we are making will enable us to execute on our objective of a relentless focus on audit quality and provide us with the platform to build in continuous enhancements as the power of new technologies develops.

We have laid the groundwork for this already with the launch of our smart audit platform, KPMG Clara, in 2017.

Audit solutions for today's world

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

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

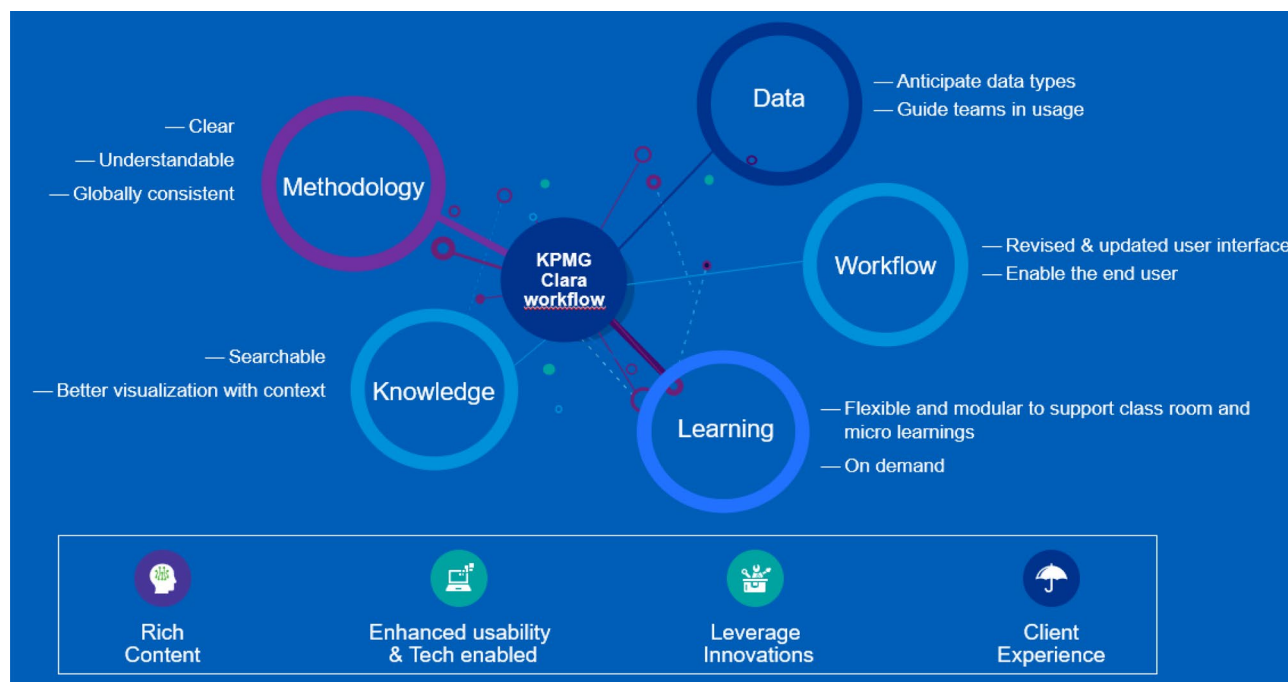
The continuation of this process will see a new workflow and revised audit methodology embedded into the KPMG Clara platform. Limited deployment of the new "KPMG Clara workflow" took place during 2019, and full deployment globally started in 2020, and is expected to be completed by the end of 2022.

The release of the KPMG Clara workflow and revised audit methodology is an important milestone in KPMG's journey to innovate, digitalize and transform the audit experience for our people.

It is a significant investment that underlines our commitment to audit quality, consistency and innovation.

Bringing it all together in KPMG Clara

The KPMG Clara smart audit platform brings together KPMG's digital audit capabilities, innovative new technologies, collaboration capabilities and our new KPMG Clara workflow.



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Creating the new KPMG Clara workflow

The new KPMG Clara workflow will be used by our audit teams to execute and document KPMG audits. It will guide audit teams through a series of steps in a logical sequence aligned to the applicable auditing standards with a clear display of information, visuals, and guidance available at the moment of need, and with embedded advanced digital audit capabilities. The workflow and revised audit methodology will also be scalable – adjusting the requirements to the size and complexity of the audit engagement. This globally-driven project will significantly overhaul and redesign the execution of an audit by KPMG professionals and clearly drive audit quality and global consistency.

Through the use of data mining and tracking of relevant engagement level data indicators, the KPMG Clara workflow will also facilitate member firms' monitoring of audit execution at the engagement level.

Once the KPMG Clara workflow has been fully deployed our predecessor audit workflow tool, eAudit, will be retired.

Strategically embedding the use of data through digital audit capabilities

KPMG Clara also allows us to more seamlessly build digital audit capabilities into our audits. Digital audit routines are capable of interrogating and analysing vast quantities of data.

KPMG's audit is designed to:

- **enhance audit quality**; by providing a deeper understanding of data populations, giving focus to higher risk transactions;
- **be secure**; by restricting access to data both in transit and within KPMG's IT environments; and
- **be transparent**; by facilitating detailed analysis to uncover the reasons behind, and root causes of, outliers and anomalies and provide increased visibility into higher risk transactions and process areas.

Digital audit capabilities and routines are built on principles and professional standards underlying an audit and do not relieve auditors of their responsibilities.

Current capabilities in this area facilitate the performance of planning and risk assessment activities and substantive procedures, and include capabilities that:

- enable the analysis of account balances and journal entry data
- automate 'period on period' balances comparison and 'time series' evolution information
- enable the analysis of sub-ledger, transactional data over certain business processes and accounts.

Together with our KPMG Clara platform, we are significantly investing in digital audit capabilities and paving the way for the increasing use of emerging technologies such as robotic process automation and machine learning — which will take the power of technology applied in the audit to an even greater level.



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Independence, integrity, ethics and objectivity

Overview

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

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

These policies are supplemented by other processes to ensure compliance with the standards issued by local law or regulations. These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services.

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

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

- implementing/monitoring the ethics and independence quality control process and structure within the firm;
- approving/appointing partners responsible for ethics and independence within the firm;
- overseeing the processes related to the evaluation of specific independence threats in connection with clients and prospective clients;
- participating in the development and delivery of training materials,
- monitoring compliance with policies;
- implementing procedures to address non-compliance; and
- overseeing the disciplinary process for ethics and independence matters.

Amendments to KPMG International's ethics and independence policies in the course of the year are included in regular quality and risk communications with all KPMG firms. KPMG firms are required to implement changes as specified in the communications, and this is checked through the internal monitoring programs described in section *Internal monitoring and compliance programs* of this report.

KPMG ehf. partners and employees are required to consult with the EIP on certain matters as defined in the GQRMM. The EIP may also be required to consult with the Global Independence Group, depending upon the facts and circumstances.

Personal financial independence

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

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

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



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Employment relationships

Any KPMG ehf. professional providing services to an audit client irrespective of function is required to notify our EIP if they intend to enter into employment negotiations with that audit client. For partners, this requirement extends to any audit client of any KPMG firm that is a public interest entity.

Former members of the audit team or former partners of KPMG ehf. are prohibited from joining an audit client in certain roles unless they have disengaged from all significant connections to KPMG ehf., including payments which are not fixed and predetermined and/or would be material to KPMG ehf. and ceased participating in KPMG ehf. business and professional activities.

Key audit partners and members of the chain of command for an audit client that is a public interest entity are subject to time restrictions (referred to as 'cooling-off' periods) that preclude them from joining that client in certain roles until a defined period of time has passed.

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

Firm financial independence

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

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

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

On an annual basis, KPMG ehf. confirms compliance with independence requirements as part of the Risk Compliance Program.

Business relationships/suppliers

KPMG ehf. has policies and procedures in place that are designed to ensure its business relationships with audit clients are maintained in accordance with the IESBA Code of Ethics and other applicable independence requirements.

These include establishing and maintaining a process to evaluate potential third-party arrangements (for example business alliances and joint working arrangements, procurement relationships and marketing and public affairs activities) with particular regard to whether they have a bearing on auditor independence.

All prospective business relationships are evaluated to assess association risks and to identify potential auditor independence and conflicts of interest issues. A relationship involving a third-party service provider, that a member firm will use to assist with client engagements or other purposes, is also required to be evaluated to determine whether the third party has the competence to provide the relevant services. The individuals providing the services are required to confirm they understand and will comply with applicable ethics and independence requirements, and they are also required to complete ethics training. Third parties providing services to audit or assurance clients are required to complete independence training.

Business acquisitions, admissions and investments

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

Independence clearance process

KPMG ehf. follows specific procedures to identify and evaluate threats to independence related to prospective audit clients that are public interest entities; these procedures, also referred to as 'the independence clearance process,' required to be completed prior to accepting an audit engagement for these entities.

All engagements for the prospective audit client from the prior 2-3 years are evaluated and results documented. Results are presented to the EIP for approval prior to accepting the engagement. Evaluation can result in termination of specific engagements.

The 'KPMG Independence Checkpoint' tool is used within the network to automate and standardize all the workflows that comprise the independence clearance process.



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Independence training and confirmations

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

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

We also provide all partners and employees with annual training on:

- the Global Code of Conduct and ethical behaviour, including KPMG's anti-bribery policies, compliance with laws, regulations, and professional standards; and
- reporting suspected or actual non-compliance with laws, regulations, professional standards, and KPMG's policies.

New partners and employees are required to complete this training within three months of joining KPMG ehf.

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

Non-audit services

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

KPMG ehf. is required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG ehf. KPMG ehf.'s EIP is involved in the review of potential independence issues related to these new or modified services.

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

Lead audit engagement partners (LAEPs) are required to maintain group structures for their publicly traded and certain other audit clients including their related entities or affiliates in Sentinel™. They are also responsible for identifying and evaluating any independence threats

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

KPMG global independence policies prohibit member firm audit partners from being evaluated on, or compensated based on, their success in selling non-assurance services to their audit clients. The partner remuneration committee at KPMG ehf. is responsible for ensuring adherence to the policies through its annual evaluation process.

Fee dependency

KPMG International's policies recognize that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the KPMG firm expressing the audit opinion. These policies require firms to consult with their Area Quality & Risk Management Leader where it is expected that total fees from an audit client will exceed 10 percent of the annual fee income of the member firm for two consecutive years. In the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10 percent of the total fees received by a particular member firm for two consecutive years, these policies further require that:

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

No audit client accounted for more than 10 percent of the total fees received by KPMG ehf. over the last two years.

Resolving conflicts of interest

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



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

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

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

Escalation and dispute resolution procedures are in place for situations in which agreement cannot be reached on how to manage a conflict. If a potential conflict issue cannot be appropriately mitigated, the engagement is declined or terminated.

Any potential conflict matters that raise important points of principle for our group are referred to our Risk Management Partner for resolution; in cases of difficulty a panel of partners may be convened to resolve the matter.

Independence breaches

All KPMG ehf. personnel are required to report an independence breach as soon as they become aware of it to the EIP. In the event of failure to comply with our independence policies, whether identified in the compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy. All breaches of independence rules are required to be reported to those charged with governance as soon as possible except where alternative timing for less significant breaches has been agreed to with those charged with governance.

KPMG ehf. has a documented and communicated disciplinary policy in relation to breaches of independence policies, incorporating incremental sanctions reflecting the seriousness of any violations. Our Disciplinary Committee oversees policies and procedures in relation to ethical matters and breaches of requirements.

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

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

Compliance with laws, regulation and standards is a key aspect for everyone at KPMG ehf. In particular, we have zero tolerance of bribery and corruption.

We prohibit involvement in any type of bribery — even if such conduct is legal or permitted under applicable law or local practice, which is not the case in Iceland. We also do not tolerate bribery by third parties, including by our clients, suppliers or public officials.

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

Partner and firm rotation

Partner rotation

KPMG International partner rotation policies are consistent with the requirements of the IESBA Code of Ethics and require all member firms to comply with any stricter local applicable rotation requirements.

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

- participate in the audit;
- provide quality control for the audit;
- consult with the engagement team or the client regarding technical or industry-specific issues;
- in any way influence the outcome of the audit;
- lead or coordinate professional services at the client;
- oversee the relationship of the firm with the audit client; or
- have any other significant or frequent interaction with senior management or those charged with governance at the client.

KPMG ehf. monitors the rotation of audit engagement leaders (and any other key roles, such as the Key Audit Partner and Engagement Quality Control Reviewer, where there is a rotation requirement) and develops transition plans to enable allocation of partners with the necessary competence and capability to deliver a consistent quality of service to clients.



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Firm rotation

KPMG ehf. is permitted to act as an auditor for a public interest entity for a maximum period of 20 years and not to act as auditor for such clients for a 4 year period thereafter (referred to as the 'cooling off period'). KPMG ehf. has processes in place to track and manage compliance with audit firm rotation requirements.

Recruitment, development and assignment of appropriately qualified people

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

Recruitment

KPMG ehf. is committed to building an extraordinary people experience for all current and prospective KPMG partners and employees.

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

KPMG ehf. also recruits significant numbers at an experienced hire and partner level.

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

KPMG ehf. recruited over 10 new graduates in the year ended 30 September 2020 (2019: approximately 11).

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

Personal development

Development

KPMG ehf.'s approach to performance development, 'Open Performance Development', is built around the 'Everyone a Leader' performance principles, and includes:

- Global role profiles (including role profiles specific to audit quality accountabilities and responsibilities);

- a goal library (including audit quality content); and
- Standardized review forms (with provision for audit quality ratings).

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

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

KPMG ehf. monitors quality and compliance incidents and maintains quality and compliance metrics in assessing the overall evaluation, promotion and remuneration of partners and managers. These evaluations are conducted by performance managers and partners who are in a position to assess performance.

Inclusion and Diversity programs

KPMG ehf. is committed to fostering an inclusive culture for all. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and perspectives.

For more about Inclusion & Diversity at KPMG read [here](#).

Reward and Promotion

Reward

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

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

The result of their annual performance evaluation directly affects the compensation of our partners and other professionals and in some cases their continued association with KPMG

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



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Promotion

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

Partner admissions

The KPMG ehf. process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. Our criteria for admission to the KPMG ehf. partnership are consistent with our commitment to professionalism and integrity, quality, and being an employer of choice.

All recommendations for admission to membership of KPMG ehf. need to be approved by the Board and approved by a shareholders meeting.

Assignment of professionals

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

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

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

- an understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation
- an understanding of professional standards and legal and regulatory requirements
- appropriate technical skills, including those related to relevant information technology and specialized areas of accounting or auditing
- knowledge of relevant industries in which the client operates

- ability to apply professional judgment
- an understanding of KPMG ehf.'s quality control policies and procedures
- Quality Performance Review (QPR) results and results of regulatory inspections.

As an additional control in Audit (where the services are of more of a recurring nature than across much of the rest of our business), our Heads of Audit and Quality & Risk Management together perform an annual review of the portfolio of our audit engagement partners. The purpose of this portfolio review is to look at the complexity and risk of each audit and then to consider whether or not taken as a whole the specific engagement partner has the appropriate time and the right support to enable them to perform a high-quality audit for each client in their portfolio.

Insights from our people – Global People Survey (GPS)

Annually KPMG ehf. invites all its people to participate in an independent Global People Survey to share their perception about their experience of working for KPMG. The GPS provides an overall measure of our people's engagement through an Engagement Index as well as insights into areas driving engagement which may be strengths or opportunities. Results can be analysed by functional or geographic area, grade, role, gender to provide additional focus for action. Additional insight is provided on how we are faring on categories known to impact employee engagement. We also cover areas of focus which are directly relevant to audit quality; the survey includes specific audit quality related questions that all individuals who participated in audit respond to, giving us a particular data set for audit quality related matters.

The survey also specifically provides KPMG ehf. leadership and KPMG global leadership with results related to quality and risk behaviours, audit quality, upholding the KPMG Values, employee and partner attitudes to quality, leadership and tone at the top.

KPMG ehf. participates in the GPS, monitors results and takes appropriate actions to communicate and respond to the findings of the survey. The results of the GPS are also aggregated for the entire global organization and are presented to the Global Board each year and appropriate follow-up actions agreed.



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Commitment to technical excellence and quality service delivery

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

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

Lifetime learning strategy

Formal training

Annual training priorities for development and delivery are identified by the Audit Learning and Development steering groups at global, regional and, where applicable, at a local level. Training is delivered using a blend of learning approaches and performance support to assist auditors on the job.

Mentoring and on the job training

Learning is not confined to a single approach — rich learning experiences are available when needed through coaching and just-in-time learning, available at the click of a mouse and aligned with job specific role profiles and learning paths.

Mentoring and on-the-job experience play key roles in developing the personal qualities important for a successful career in auditing, including professional judgment, technical excellence and instinct.

We support a coaching culture throughout KPMG as part of enabling KPMG professionals to achieve their full potential and instil that every team member is responsible for building the capacity of the team, coaching other team members and sharing experiences.

In relation to audit, KPMG ehf.:

- deploys a variety of learning solutions that are designed to reinforce the KPMG Values and ensure our professionals get the fundamentals right, and develop the necessary skills and attitudes to make judgments, and apply professional skepticism that enhance audit quality and the value of audit;
- provides instructor-led and virtual classroom training, performance support tools, coaching guides and just-in-time learning. Guidance is available on judgmental audit topics — this is used by audit teams and this guidance is embedded across audit learning solutions;

- provides courses to enhance personal effectiveness and develop leadership and business skills. Our partners and employees are developed further for high performance through coaching and mentoring on the job, stretch assignments and country rotational and global mobility opportunities.

Licensing and mandatory requirements for IFRS and U.S. GAAP engagements

Licensing

All KPMG ehf. professionals are required to comply with applicable professional licence rules and satisfy the Continuing Professional Development requirements in the jurisdiction where they practice. KPMG International policies and procedures are designed to facilitate compliance with licence requirements. We are responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge, and experience in the local predominant financial reporting framework – IFRS.

Mandatory requirements – IFRS and U.S. GAAP engagements

In addition, KPMG has specific requirements for partners, managers and Engagement Quality Control (EQC) reviewers working on engagements performed outside the U.S. to report on financial statements or financial information prepared in accordance with U.S. GAAP and/or audited in accordance with U.S. auditing standards, including reporting on the effectiveness of the entity's internal control over financial reporting (ICOFR). These require that at a minimum, all partners, managers and, if appointed, the EQC reviewers (and for engagements conducted in accordance with US GAAP and/or US auditing standards engagements, the engagement partner, engagement team members and, if appointed the EQCR reviewers) assigned to the engagement have completed relevant training and that the engagement team, collectively, has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

Access to specialist network

KPMG ehf. engagement teams have access to a network of local KPMG specialists – either within their firm or in other KPMG firms. These specialists receive the training they need to ensure they have the competencies, capabilities and objectivity to appropriately fulfil their role.

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



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Culture of consultation

Encouraging a culture of consultations

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

To help with this, firms are required to have established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. In addition, the GQRMM includes mandatory consultation requirements on certain matters.

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

Consultation with a team member at a higher level of responsibility than either of the differing parties usually resolves differences. In other circumstances, the matter may be elevated through the chain of responsibility for resolution by technical specialists. In exceptional circumstances, a matter may be referred to the Head of Audit, Head of DPP, RMP or ultimately the Senior Partner.

Technical consultation and global resources

Technical auditing and accounting support is available to member firms through the Global Audit Methodology Group (GAMG), KPMG Global Solutions Group (KGSG), the ISG and the PCAOB Standards Group (PSG).

Global Audit Methodology Group (GAMG)

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

KPMG Global Solutions Group (KGSG)

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

Key areas of work performed include:

- developing innovative audit capabilities (i.e. technology solutions) and deploying and using advanced audit solutions

- deploying KPMG Clara — our smart audit platform, incorporating advanced technologies, data science, audit automation, data visualization and more
- enhancing KPMG's audit methodology, workflow and knowledge used by member firms' audit professionals.

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

International Standards Group (ISG)

The ISG works with Global IFRS topic teams, with geographic representation from around the world, and the IFRS Panel and ISA Panel to promote consistency of interpretation of IFRS and auditing requirements between member firms, identify emerging issues, and develop global guidance on a timely basis.

The ISG also supports the following groups to facilitate information sharing within the DPP network, and to ensure sector-specific issues are dealt with proactively.

- The KPMG Global ISA Panel, chaired by the Global Audit Quality and Risk Management Partner, and which includes senior DPP partners from key member firms and is responsible for monitoring the development of ISA guidance, and the development of response letters to the International Auditing and Assurance Board and/or regulators. .
- Global Topic Teams, which formulate guidance on IFRS accounting and reporting practice on sector specific or specific technical areas, and act as central contact points for their regions/home practices in identifying and addressing issues related to relevant topics.
- The Global IFRS Panel is responsible for monitoring the development of IFRS guidance and response letters to the International Accounting Standards Board and/or regulators by the ISG and the Topic Teams. The panel is chaired by the Global IFRS Leader and includes Global IFRS topic leaders.

PCAOB Standards Group (PSG)

The PCAOB Standards Group (PSG) comprises a dedicated group of professionals with background in PCAOB auditing standards who promote consistency of interpretation of PCAOB auditing standards applied globally in KPMG firms' audits of non-US components and foreign private issuers and non-US components of SEC issuers, as defined by SEC regulations. The PSG also provides input into the development of training for auditors who work on PCAOB audit engagements and, where practicable, facilitates delivery of such training.



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Member firm professional practice resource

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

Performance of effective and efficient audits

How an audit is conducted is as important as the final result. KPMG ehf. partners and employees are expected to demonstrate certain key behaviours and follow certain policies and procedures in the performance of effective and efficient audits.

Embedding ongoing mentoring, supervision and review

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

Ongoing mentoring, coaching and supervision during an audit involves:

- engagement partner participation in planning discussions
- tracking the progress of the audit engagement
- considering the competence and capabilities of the individual members of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement
- helping engagement team members address any significant matters that arise during the audit and modifying the planned approach appropriately
- identifying matters for consultation with more experienced team members during the engagement.

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

Engagement quality control (EQC) reviews

The EQC review is an important part of KPMG's framework for quality. An EQC reviewer is required to be appointed for 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 Risk Management Partner or country Head of Audit.

An EQC review provides reasonable assurance that the team has appropriately identified significant risks, including fraud risks, and has designed and executed audit procedures to address them.

EQC reviewers are required to meet training and experience criteria to perform a quality control review for a particular engagement. Reviewers are independent of the engagement team and audit client and have the appropriate experience and knowledge to perform an objective review of the more critical decisions and judgments made by the engagement team and the appropriateness of the financial statements.

Ensuring that the role performed by EQCRs is also taken into account when performing the Partner Portfolio Review (refer to 4.3.5) process to ensure adequacy of time and appropriate skill set for the role and reallocation if needed; and Assessing, as part of our Quality Performance Reviews, the work performed by the EQC reviewer and the adequacy of involvement including discussion with the EQC reviewer.

The audit is completed only when the EQC reviewer is satisfied that all significant questions raised have been resolved, though the engagement partner is ultimately responsible for the resolution of accounting and auditing matters.

KPMG is continually seeking to strengthen and improve the role that the EQC review plays in member firm audits and have taken a number of actions to reinforce this, including issuing leading practice guidance, incorporating specific review requirements into our audit workflow, and developing policies relating to recognition, nomination and development of EQC reviewers.

Reporting

Auditing standards and the Act on Auditors and Auditing no. 94/2019 and other local legislation or regulation largely dictate the format and content of the auditors' report that includes an opinion on the fair presentation of the client's financial statements in all material respects. Experienced engagement partners form all audit opinions based on the audit performed.

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



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As a result of the EU Audit Directive and Regulation implemented by the Act on Auditors and Auditing nr. 94/2019, the auditors' reports for PIEs also include increased transparency on the auditor independence:

- a declaration that the NAS prohibited were not provided and the auditor remains independent of the client in conducting the audit;
- an indication of any services, in addition to the audit, which were provided by the auditor to the client and its undertakings and which have not been disclosed in the annual report or the financial statements of the client;
- the disclosure of the auditor's period of tenure.

Engagement Documentation

Our audit documentation is completed and assembled according to the timeline established by the global policy, auditing standards and we have implemented administrative, technical and physical safeguards to protect the confidentiality and integrity of client and firm information.

Insightful, open, and honest two-way communication

Two-way communication with those charged with governance, often identified as the Audit Committee, is key to audit quality and is a key aspect of reporting and service delivery.

At KPMG ehf. we stress the importance of keeping those charged with governance informed of issues arising throughout the audit. We achieve this through a combination of reports and presentations, attendance at Audit Committee or board meetings, and, when appropriate, ongoing informal discussions with management and members of the Audit Committee.

IFRS Institute

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

Client confidentiality, information security, and data privacy

The importance of maintaining client confidentiality is emphasized through a variety of mechanisms including the KPMG Global Code of Conduct, training, and the annual affidavit/confirmation process, that all KPMG professionals are required to complete.

We have a formal document retention policy concerning the retention period for audit documentation and other records relevant to an engagement in accordance

with the relevant IESBA requirements as well as other applicable laws, standards and regulations.

We have clear policies on information security that cover a wide range of areas. Data Privacy policies are in place governing the handling of personal information, and associated training is required for all KPMG ehf. personnel.

Commitment to continuous improvement

KPMG commits to continually improve the quality, consistency and efficiency of KPMG audits. Integrated quality monitoring and compliance programs enable member firms to identify quality deficiencies, to perform root cause analysis and develop, implement and report remedial action plans, both in respect of individual audit engagements and the overall system of quality control.

The quality monitoring and compliance programs (see section *Internal monitoring and compliance programs* for details) are globally administered and consistent in their approach across all member firms, including the nature and extent of testing and reporting. KPMG ehf. compares the results of its internal monitoring programs with the results of those of any external inspection programs and take appropriate action.

Internal monitoring and compliance programs

KPMG ehf. monitoring programs evaluate both:

- engagement performance in compliance with the applicable standards, applicable laws and regulation and KPMG International key policies and procedures; and
- KPMG ehf. compliance with KPMG International key policies and procedures and the relevance, adequacy and effective operation of key quality control policies and procedures.

Our internal monitoring program also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively. These include:

- Quality Performance Reviews (QPR) and Risk Compliance Programs (RCP), which are conducted annually across the Audit, Tax and Advisory functions; and
- A cross functional Global Compliance review (GCR) program with firms selected for review at various intervals based on identified risk criteria.

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



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Audit Quality Performance Reviews (QPRs)

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

Risk-based approach

Each engagement leader is reviewed at least once in a three-year cycle. A risk-based approach is used to select engagements.

KPMG ehf. conducts the annual QPR program in accordance with KPMG International QPR instructions. The reviews are performed at KPMG ehf. level and are monitored regionally and globally. Firm Audit QPR reviews are overseen by a senior experienced lead reviewer independent from the firm.

Reviewer selection, preparation and process

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

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

Evaluations from Audit QPR

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

Audit engagements selected for review are rated as 'Satisfactory', 'Performance Improvement Needed' or 'Unsatisfactory'.

Reporting

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

These areas are also emphasized in subsequent inspection programs to gauge the extent of continuous improvement.

Lead audit engagement partners are notified of less than satisfactory engagement (defined as 'Performance Improvement Needed' or 'Unsatisfactory') ratings on their respective cross-border engagements. Additionally, lead audit engagement partners of parent companies/head offices are notified where a subsidiary/affiliate of their client group is audited by a member firm where significant quality issues have been identified during the QPR.

Risk Compliance Program (RCP)

KPMG International develops and maintains quality control policies and processes that apply to all KPMG

firms. These policies and processes, and their related procedures, include the requirements of ISQC 1. During the annual RCP, we perform a robust assessment program consisting of documentation of quality controls and procedures, related compliance testing and reporting of exceptions, action plans and conclusions.

The objectives of the RCP are to:

- document, assess and monitor the extent of compliance of KPMG ehf. system of quality control with Global Quality & Risk Management (GQ&RM) policies and key legal and regulatory requirements relating to the delivery of professional services; and
- provide the basis for KPMG ehf. to evaluate that the firm and its personnel comply with relevant professional standards and applicable legal and regulatory requirements.

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

Global Compliance Review (GCR) program

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

The GCR team performing the reviews is independent of the firm and is objective and knowledgeable of GQ&RM policies. GCRs assess compliance with selected KPMG International policies and procedures and share best practices among member firms. The GCR provides an independent assessment of:

- a firm's commitment to quality and risk management (tone at the top) and the extent to which its overall structure, governance and financing support and reinforce this commitment;
- a firm's compliance with KPMGI policies and procedures; and
- the robustness with which the member firm performs its own compliance program (RCP).

KPMG ehf. develops action plans to respond to all GCR findings that indicate improvement is required and agree these with the GCR team. Our progress on action plans is monitored by the GCR central team. Results are reported to the GQ&RM Steering Group and where necessary, to appropriate KPMG International and regional leadership.



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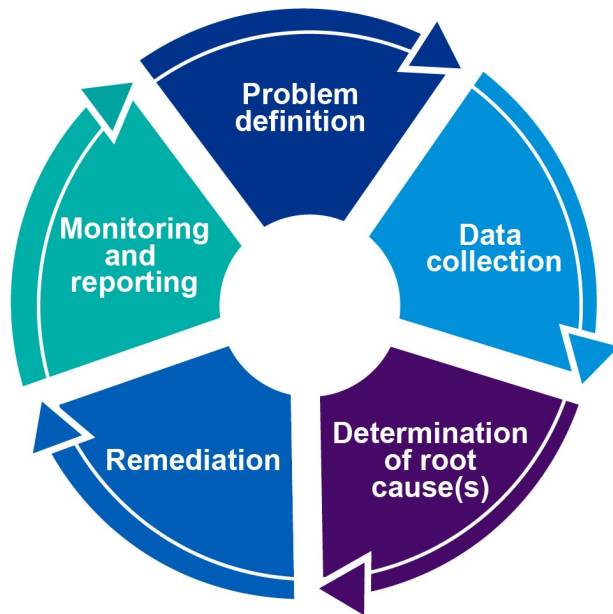
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Root Cause Analysis (RCA)

KPMG ehf. performs root cause analysis to identify and address audit quality issues in order to prevent them from recurring and help identify good practices as part of continuous improvement.

The Global RCA 5 Step Principles are as follows:



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

KPMG ehf.'s Head of Audit is responsible for the development and implementation of action plans as a result of RCA, including identification of solution owners. Our Risk Management Partner monitors their implementation.

Recommendations for improvements

At a global level, through the Global Audit Quality Council and the GQ&RM Steering Group, KPMG International reviews the results of the quality monitoring programs, reviews firm root causes and planned remedial actions and develops additional global remediation actions as required.

Global remediation actions developed by KPMG International are aimed at changing culture and behaviour across the global organization and at driving consistent engagement team performance within KPMG firms. The remediation actions have been implemented through the development of global training, tools and guidance to drive consistency, ensure the fundamentals are right and that best practice is shared across the global organization.

External feedback and dialogue

Regulators

In Iceland the Auditors' Oversight Board has been carrying out independent inspections for a number of years. The external inspections have not identified any issues that have a material impact on the conduct of our statutory audit business. We have considered each of the findings and recommendations and have implemented actions to address those items identified and strengthened policies and procedures as appropriate.

KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss audit quality findings and actions taken to address such issues across the entire organization.

Client feedback

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

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 in this report and communication channels detailed on our firm's website.



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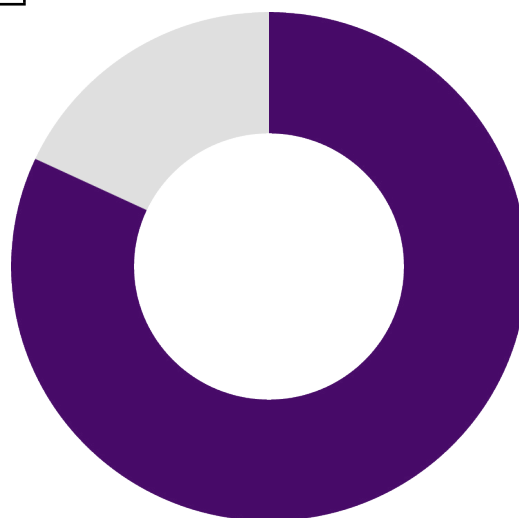
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The following information is provided in line with finance disclosure requirements in the Act on Auditors and Auditing no. 94/2019, which implemented EU Audit Reform (Regulation (EU) 537/2014).

| Audit Revenue | % | 2019/2020 |
|----------------------------------|-------------|--------------|
| From PIE audit clients (291) | 18% | 291 |
| From other audit clients (1.352) | 82% | 1.352 |
| Total | 100% | 1.643 |

18%

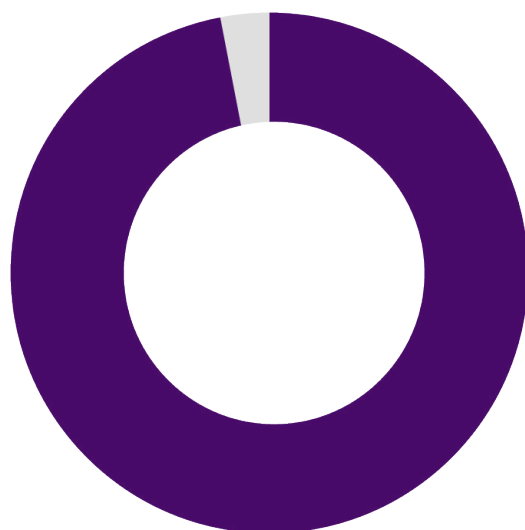
82%



3%

| Non-Audit Revenue | % | 2019/2020 |
|----------------------------------|-------------|--------------|
| From PIE audit clients (122) | 3% | 122 |
| From other audit clients (3.412) | 97% | 3.412 |
| Total | 100% | 3.534 |

97%



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Partner remuneration

Partners' remuneration is established once a year. Remuneration is defined as a share of KPMG ehf.'s overall result that is allocated to the individual partner.

The main purpose of the remuneration model is to motivate, recognise and reward partners based on their individual contribution to the company's performance. It is important that the model inspires desired behaviours consistent with KPMG's strategies, goals and values.

The total remuneration consists of two elements: specifically agreed remuneration and a share of profits. Remuneration paid to individual partners is linked to KPMG ehf.'s overall result and individual partners' contributions. Measurable results relating to quality and compliance and other matters are directly reported to the Compensation Committee by the Quality & Risk Management Partner and are included in the evaluation.

KPMG's policy prohibits audit partners from being evaluated on or compensated based on their success in selling non-assurance services to audit clients, as such incentives could jeopardise the auditor's independence.

However, it is important that objectives are established to ensure that experts from the firm's Advisory team are included in the audit team in order to improve the quality of the audit and the overall service delivery.

Shareholders meeting at KPMG ehf. elects a Compensation Committee that performs an overall review of each partner's remuneration and provides feedback to each individual partner. The partners may appeal the remuneration set by the Compensation Committee. The Partner Committee establishes the final remuneration. The general remuneration process is transparent, and individual partners' final remuneration (but not the assessment basis for each partner) is disclosed to the group of partners at KPMG ehf.



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Legal Structure

Legal structure for the Financial Year ending 30 September 2020

KPMG ehf. is affiliated with KPMG International Cooperative (“**KPMG International**”). KPMG International is a Swiss cooperative which is a legal entity formed under Swiss law. Prior to 1 October 2020 it was the coordinating entity for the network and the entity with which all the member firms of the KPMG organization were required to be affiliated with. Further details about KPMG International and its business activities, including our relationship with it for the financial year ending 30 September 2020, are available in the ‘Governance and leadership’ section of the [2019 report](#).

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

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

KPMG International 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 organization and the EU/EEA countries in which each firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available here: [List of KPMG audit entities located in EU & EEA](#)

Legal structure from 1 October 2020

On 1 October 2020, KPMG ehf. and all other KPMG firms entered into new membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organization became members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee. From 1 October 2020, KPMG International Limited acts as the coordinating entity for the overall benefit of the KPMG member firms. It does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

Further detail on the revised legal and governance arrangements for the KPMG global organization from 1 October 2020 can be found in section ‘Governance and leadership’ of the [2020 KPMG International Transparency Report](#).

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

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

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

Aggregated revenues generated by KPMG firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.8 billion during the year ending 30th September 2020. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent currently calculable and translated at the average exchange rate prevailing in the 12 months ended 30th September 2020.



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Responsibilities and obligations of member firms

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

Each KPMG firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG Values (as set out in the Appendices to this document).

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 firms. A firm's status as a KPMG member firm and its participation in the KPMG global organization may be terminated if, among other things, it has not complied with the policies set by KPMG International or any of its other obligations owed to KPMG International.

Professional Indemnity Insurance

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.

Further details on KPMG International governance structure can be found in the [2020 KPMG International Transparency Report](#).

Area Quality & Risk Management Leaders

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders (ARL) who serve a regular and ongoing monitoring and consultation function to assess the effectiveness of a member firm's efforts and processes to identify, manage and report significant risks that have the potential to damage the KPMG brand. Significant activities of the ARL, including member firm issues identified and related member firm response/remediation, are reported to GQ&RM leadership. The objectives of the ARL role are to:

- assist GQ&RM leadership in the monitoring of member firms' quality and risk activities;
- work with GQ&RM leadership and the International Office of General Counsel (IOGC) when significant brand and legal risk issues occur to assist in ensuring that matters are properly handled; and
- assist in monitoring the effectiveness of firm remediation of significant issues, including identification of the root cause(s) of serious quality incidents.



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Statement by the Board of KPMG ehf. on the effectiveness of quality controls and independence

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

The Board of KPMG ehf. has considered:

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

Taking all of this evidence together, the Board of KPMG ehf. confirms with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 30 September 2020.

Further, the Board of KPMG ehf. confirms that an internal review of independence compliance within our firm has been conducted in the year to 30 September 2020.

Reykjavík, 24 February 2021

Hlynur Sigurðsson, Chairman of the Board

Ágúst Karl Guðmundsson

Hrafnhildur Helgadóttir

Kristrún Helga Ingólfssdóttir

Haraldur Örn Reynisson



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Details of those charged with governance at KPMG ehf. as at 30 September 2020

The Board of Directors

Svanbjörn Thoroddsen Chairman of the Board
Ágúst Karl Guðmundsson
Hlynur Sigurðsson
Hrafnhildur Helgadóttir
Kristrún H. Ingólfssdóttir

Management

Jón S. Helgason Senior Partner and CEO
Benedikt K. Magnússon Head of Advisory
Magnús Jónsson Head of Audit
 Birna M. Rannversdóttir Head of Bookkeeping
Soffía Eydís Björgvinsdóttir Head of Tax



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Appendix B

The list of public interest entity audit clients for which KPMG ehf. has signed an audit opinion in the year ended 30 September 2020 (FS 2019 audited in 2020) is given below. The definition of public interest for this purpose is that given under the provisions of the Act on Auditors and Auditing no. 94/2019, item 3, paragraph 1, Article 2.

AAM GLEQ3
Alda Credit Fund slhf.
Atom
Brú Lífeyrissjóður starfsmanna sveitarfélaga
Eik fasteignafélag hf.
Eimskipafélag Íslands hf.
Fagfjárfestastjóðurinn ÍSH
Festa - Lífeyrissjóður
FÍ Fasteignafélag slhf.
Fjarðabyggð
Fljóttdalshérað
Garðabær
Heimavellir hf.
Icelandair Group hf.
Íbúðalánastjóður
Landfestar ehf.
Lífeyrissjóður starfsmanna Reykjavíkurborgar

Lífsverk Lífeyrissjóður
Marel hf.
Méllon
Mosfellsbær
Origo hf.
Rangárþing ytra
REG3A fjármögnun
Reginn hf.
Síminn hf.
SIV fjármögnun
Sjóvá-Almennar tryggingar hf.
Skeljungur hf.
Sparisjóður Austurlands
Sparisjóður Strandamanna
Veðskuld slhf.
Veðskuldabréfastjóðurinn Virðing
Vestmannaeyjabær



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