



# Transparency Report 2016

**KPMG Luxembourg,  
Société coopérative**

December 2016

[kpmg.lu](http://kpmg.lu)





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**Philippe Meyer**

# KPMG Luxembourg, Société coopérative 2016 Transparency Report

**Welcome to the KPMG Luxembourg  
Transparency Report for the year  
ended 30 September 2016<sup>1</sup>.**

<sup>1</sup> Our Transparency Report for the year ended 30 September 2016 has been prepared in accordance with the requirements of Article 73 of the former Luxembourg Law of 18 December 2009 on the audit profession. The provisions of Article 13 of the EU Regulation 537/2014 of the European parliament and the Council of 16 April 2014 will be applicable to our 2017 Transparency Report, according to the transitional provisions.



**Emmanuel Dollé**

Our overall ambition remains to be the most relevant professional services firm in Luxembourg, focusing on and responding to our clients' needs in terms of the quality of our services and the expertise of our people.

At KPMG, we are passionate about audit quality and continuous improvement, and we are united in our commitment to providing independent assurance on what matters to stakeholders. We drive a relentless focus on quality and service excellence and aspire to be the standard of trust in our profession. We recognize that trust is not a 'given' — it must be earned.

Our audit quality initiatives are focused on:

- Building public trust and inspiring confidence in capital markets, by bringing to life our commitment to quality, ethics and integrity through our culture and values.
- Ensuring that our people are extraordinary, by nurturing talent, creating high-performing teams and deploying talented staff globally to help deliver insights and innovative ideas.
- Driving a relentless focus on quality and excellence in our engagements and providing valued insights, so that clients see a difference in us.
- Driving continuous improvement and getting to the root cause of quality issues.

Audit quality, supported by our methodologies and processes, is at the heart of our culture of integrity and our drive for continuous improvement.

We are committed to working closely with regulators, audit committees, investors and businesses to meet the expectations of audit quality.

With this in mind we are continually investing in innovation and technology to help deliver quality, not only in our audit and assurance services but across all our lines of business. The quality of our services also relies on the strength of our talented pool of professionals, our culture of integrity and employing robust methodologies and processes.

We hope this 2016 edition of our report provides you with a useful insight into our continuing commitment to quality and how we strive to deliver work of the highest standard.

Luxembourg, 30 December 2016

**Philippe Meyer**  
*Managing Partner*

**Emmanuel Dollé**  
*Head of Audit*

# Who we are

## 1.1 Our business

KPMG Luxembourg, Société coopérative is a leading provider of professional services including Audit, Tax and Advisory.

We employ approximately 1,575 people and operate out of one office in Luxembourg. Further details of our service offerings can be found on our website at the following link:

**[www.kpmg.com/lu](http://www.kpmg.com/lu)**

## 1.2 Our strategy

Our vision is simple – it is to become the dominant professional services firm in Luxembourg. We have defined dominating professional services as being the most relevant firm for our clients, our people and for society.

To do that we must maintain and build further the trust our clients, our people and wider society have in our ability to provide assurance in the widest sense. Our strategy to achieve this is underpinned by four key pillars (i) being an issues led business – focusing relentlessly

on the issues that keep our clients awake at night, (ii) being market focused – offering the breadth of our services to our clients where this is appropriate and being more concentrated on the market opportunities for growth, (iii) achieving operational excellence in everything we do – delivering our services in an efficient, agile and cost-effective manner but at the same time never compromising on quality and (iv) culture and motivation – maintaining a high performance culture where our people can excel.

# Our structure and governance

## 2.1 Legal structure

KPMG Luxembourg, Société coopérative is affiliated with KPMG International Cooperative ('KPMG International'), a legal entity which is formed under Swiss law. KPMG International is a global network of professional services firms providing Audit, Tax, and Advisory services to a wide variety of public and private sector organizations. KPMG International's structure is designed to support consistency of service quality and adherence to agreed values wherever the member firms operate. Further details about KPMG International and its business, including our relationship with it, are set out in Section 6.

KPMG Luxembourg, Société coopérative is incorporated as a Luxembourg private limited liability cooperative company which is controlled by its partners.

KPMG Luxembourg, Société coopérative is the entity which operated as a registered audit firm in Luxembourg ('Cabinet de révision agréé') during the year to 30 September 2016.

During the year to 30 September 2016 a wholly owned subsidiary, KPMG Services S.à r.l., was incorporated as a Professional of the Financial Sector.

The details of the legal structure, regulatory status, nature of business and area of operation of both entities are set out in Appendix 1.

## 2.2 Name and ownership

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

### Ownership

During the year to 30 September 2016 there was an average of 38 partners at KPMG Luxembourg (2015: 35 partners).

## 2.3 Governance structure

The key governance bodies for KPMG Luxembourg are the Executive Committee and the Supervisory Board.

The Executive Committee consisted of five members during the year, comprising a number of key national and functional leaders. The role of the Executive Committee is to implement the strategy of the firm within Luxembourg and also to deal with key Luxembourg operational issues. The Executive Committee meets regularly – in the year to 30 September 2016 it met 44 times.

The Supervisory Board consists of five members who are representative of the firm's partners. The role of the Supervisory Board is to provide oversight of the management of the firm by the Executive Committee, to provide support by acting as a sounding board for the Executive Committee, and to review the local partner remuneration process and the financial statements of the local firm at the year end. In the year to 30 September 2016 the Supervisory Board met seven times, including



one joint meeting with the Executive Committee.

Details of those charged with governance for KPMG Luxembourg are set out in Appendix 2.

## 2.4 Leadership responsibilities for quality and risk management

KPMG Luxembourg demonstrates commitment to quality, ethics and integrity, and communicates its focus on quality to clients, stakeholders and society. However, leadership plays a critical role in setting the right tone and leading by example.

While we stress that all professionals are responsible for quality and risk management the following individuals have leadership responsibilities for this.

### Managing Partner

In accordance with the principles in the International Standard on Quality Control 1 (ISQC1), our Managing Partner assumes ultimate responsibility for KPMG Luxembourg's system of quality control. The Executive Committee has taken measures to ensure that a culture of quality prevails within KPMG Luxembourg.

### Head of Audit

The Head of Audit is accountable to the Managing Partner for the quality of service delivered in the Audit function. Between them, they therefore determine the operation of the risk management, quality assurance and monitoring procedures for the Audit function. These procedures all make it clear though that at engagement level risk management and quality control is ultimately the responsibility of each and every partner and employee.

The 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 skepticism, objectivity, and independence
- developing and implementing strategies to monitor and maintain knowledge and skills required of partners and employees to fulfill their professional responsibilities
- working with the Quality & 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.

### Quality & Risk Management Partner

Operational responsibility for the system of quality control, risk management and compliance in KPMG Luxembourg rests with the Quality & Risk Management Partner. He is responsible for setting overall professional risk management and quality control policies and monitoring compliance in accordance with firm policy. The Quality & Risk Management Partner attends all meetings of the Executive Committee of KPMG Luxembourg. He has a direct reporting line to the Managing Partner and consults with the appointed Area Quality and Risk Management Leader. He is supported in Luxembourg by a full time Director and Functional Quality & Risk Management Partners.

### Quality Performance Liaison Partner

The Quality Performance Liaison Partner (QPLP) is responsible for the performance of the Quality Performance Review Program in the Audit practice. The nature of the programme is described in Section 3.7. The QPLP reports the results of the programme to the Quality & Risk Management Partner, the Head of Audit and the Managing Partner of KPMG Luxembourg.





# System of quality control

A robust and consistent system of quality control is an essential requirement for performing high quality services.

Accordingly, KPMG International has policies of quality control that apply to all member firms. These are included in KPMG's Global Quality & Risk Management Manual (Global Q&RM Manual) available to all personnel. These policies are based on the International Standard on Quality Control 1 (ISQC1), issued by the International Auditing and Assurance Standards Board (IAASB), and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), relevant to firms that perform statutory audits and other assurance and related services engagements. These policies and associated procedures are designed to guide member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances.

Our firm implements KPMG International policies and procedures and adopts additional policies and procedures that are designed to address rules and standards issued by the Commission de Surveillance du Secteur Financier (CSSF) and other relevant regulators as well as local legal and other requirements.

KPMG International's policies reflect individual quality control elements to help our personnel act with integrity and objectivity, perform their work with diligence, and comply with applicable laws, regulations and professional standards.

Quality control and risk management are the responsibility of all KPMG personnel. This responsibility includes the need to understand and adhere to firm policies and associated procedures in carrying out their day-to-day activities.

While many KPMG quality control processes are cross-functional and apply equally to tax and advisory

work, the primary focus of the transparency report requirements relate to audit and the remainder of this section focuses on what we do to ensure delivery of quality audits.

## Audit Quality Framework

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

To help all audit professionals concentrate on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we utilise our global Audit Quality Framework. This Framework uses a common

language that is used by all KPMG member firms to describe what we believe drives audit quality, and to highlight how every audit professional at KPMG contributes to the delivery of audit quality.

Our Audit Quality Framework identifies seven drivers of audit quality:

- Tone at the Top;
- Association with the right clients;
- Clear standards and robust audit tools;
- Recruitment, development and assignment of appropriately qualified personnel;
- Commitment to technical excellence and quality service delivery;
- Performance of effective and efficient audits; and
- Commitment to continuous improvement.

Tone at the Top sits at the core of the Framework.

All of the other drivers are presented within a virtuous circle, because each driver is intended to reinforce the others. Each of the seven key drivers is described in more detail in the following sections of this report.

## Audit Quality Framework



### 3.1 Tone at the Top

Tone at the Top sits at the core of the Audit Quality Framework and ensures the right behaviours permeate our entire network and maximizes our outcomes through a focused and consistent voice.

Our leadership demonstrates and communicates its commitment to quality, ethics and integrity through a number of mechanisms including:

- Culture, values, and code of conduct - clearly stated and demonstrated in the way we work;
- A strategy with quality at its heart;
- Standards set by leadership;
- Governance structures and clear lines of responsibility for quality, skilled and experienced people in the right positions to influence the quality agenda.

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG Core Value: "Above all, we act with Integrity". For us integrity means constantly striving to uphold the highest professional standards in our work, providing sound good-quality advice to our clients and rigorously maintaining our independence. Our Values, which have been explicitly codified now for a number of years, are embedded into our working practices. For example, they are considered in the performance appraisal process that our people follow and adherence to these Values is also reviewed when our people are considered for more senior promotions, including to partner. Our Core Values are set out in Appendix 4.

Our Code of Conduct incorporates our Core Values and defines the standards of ethical conduct that we require from our firms and our people. It sets out KPMG's ethical principles, and helps partners and employees to understand and uphold those principles. The Code of Conduct emphasises that each partner and employee is personally responsible for following the legal, professional, and ethical standards that apply to his or her job function and level of responsibility.

It has provisions that require KPMG people to:

- Comply with all applicable laws, regulations and KPMG policies;
- Report any illegal acts, whether committed by KPMG personnel, clients or other third parties;
- Report breaches of risk management policies by KPMG firms or people;
- Uphold the highest levels of client confidentiality; and
- Not offer, promise, make, solicit or accept bribes (whether directly or through an intermediary).

The commitments in our Code of Conduct underlie our values-based compliance culture where individuals are encouraged to raise their concerns when they see behaviour or actions that are inconsistent with our Values or professional responsibilities.

We operate a whistle-blowing hotline in Luxembourg which is available for our personnel to confidentially report concerns they have relating to how others are behaving (both internally and externally) and concerns regarding certain areas of activity by members

of the group itself, those who work for KPMG Luxembourg and the senior leadership of the Firm. The whistle-blowing hotline allows people to report their concerns via a secure internet line to a third-party organisation. Our people can raise matters anonymously and without fear of retaliation.

### **3.2 Association with the right clients**

#### **3.2.1 Acceptance and continuance of clients and engagements**

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

Accordingly, KPMG International has established policies and procedures which all member firms are required to implement in order to decide whether to accept or continue a client relationship, and whether to perform a specific engagement for that client.

#### **3.2.2 Prospective client and engagement evaluation process**

Before accepting a client, we undertake an evaluation of the prospective client. This involves an assessment of its principles, its business, and other service-related matters. This also involves background checks on the prospective client, its key management and beneficial owners. A key focus is on the integrity of management as a prospective client. The Risk Management Department as well as the evaluating partner, approves the prospective client evaluation. Where the client is considered to

be 'high risk' the Quality & Risk Management Partner is involved in approving the evaluation.

Each prospective engagement is also evaluated; in practice this may be completed at the same time as the client evaluation, particularly in respect of audit appointments. The engagement leader evaluates a prospective engagement in consultation with other senior personnel and Quality & Risk Management leadership as required. A range of factors are considered as part of this evaluation including potential independence and conflict of interest issues (using Sentinel™, KPMG International's global conflicts and independence checking system) as well as a range of factors specific to the type of engagement, including for audit services, the competence of the client's financial management team.

In addition, when taking on a statutory audit 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 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. We follow specific procedures to identify and evaluate threats to independence for prospective audit clients that are public interest entities.

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 documented and resolved prior to acceptance.

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

Section 3.3.2 provides more information on our independence and conflict checking policies.

### 3.2.3 Continuance process

An annual re-evaluation of all audit clients is undertaken. In addition, clients are re-evaluated earlier if there is an indication that there may be a change in their risk profile. Recurring or long-running engagements are also subject to re-evaluation.

This re-evaluation serves two purposes. Firstly our firm will decline to act for any client we consider that it would not be appropriate to continue to be associated with. Secondly, and more commonly, we use the re-evaluation process to consider whether or not any additional risk management or quality control procedures need to be put in place for subsequent engagements we perform for that client (this may include the assignment of additional professionals or the need to involve additional specialists in the case of audit).



### 3.2.4 Withdrawal

Where we obtain information that indicates that we should withdraw from an engagement or from a client relationship, we consult internally and identify any required legal and regulatory steps. We also communicate as required with those charged with governance, the CSSF and other appropriate authorities.

## 3.3 Clear standards and robust audit tools

All of our professionals are expected to adhere to KPMG's policies and procedures (including independence policies) and we provide a range of tools to support them in meeting these expectations. The policies and procedures set for audit incorporate the relevant requirements of accounting, auditing, ethics, and quality control standards, and other relevant laws and regulations.

### 3.3.1 Audit methodology and tools

Significant resources are dedicated to keeping our standards and tools complete and up to date. Our global audit methodology, developed by KPMG International's Global Service Centre (GSC), is based on the requirements of International Standards on Auditing (ISAs). The methodology is set out in the KPMG Audit Manual (KAM) which all member firms are obliged to follow and includes additional requirements that go beyond the ISAs where KPMG believes these enhance the quality of our audits. We may also add local requirements and/or guidance in KAM to comply with additional professional, legal or regulatory requirements.

Our audit methodology is supported by eAudit, KPMG's electronic audit tool, which provides KPMG auditors worldwide with the methodology, guidance, and industry knowledge needed to perform efficient, high-quality audits.

eAudit's activity-based workflow provides engagement teams with ready access to relevant information at the right time throughout the audit, thereby enhancing effectiveness and efficiency and delivering value to our audit clients. The key activities within the eAudit workflow are:

### Engagement setup

- Engagement acceptance and scoping; and
- Team selection and timetable.

### Risk assessment

- Understand the entity;
- Plan for involvement of specialists and others including experts, internal audit, service organisations and other auditors;
- Evaluate design and implementation of selected controls;
- Risk assessment and planning discussion; and
- Determine audit strategy and planned audit approach.

### Testing

- Test operating effectiveness of selected controls; and
- Plan and perform substantive procedures.

### Completion

- Update risk assessment;
- Perform completion procedures, including overall review of financial statements;
- Perform overall evaluation, including evaluation of significant findings and issues;
- Communicate with those charged with governance (for example, the Audit Committee); and
- Form the audit opinion.

KAM contains, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks. The methodology encourages engagement teams to exercise professional scepticism in all aspects of planning and performing an audit. The methodology encourages the use of specialists when appropriate and also requires the use of certain specialists in the core audit engagement team when certain criteria are met.

KAM includes the implementation of quality control procedures at the engagement level that provide us with reasonable assurance that our engagements comply with the relevant professional, legal, regulatory and KPMG requirements.

The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the Global Quality & Risk Management Manual that is applicable to all KPMG member firms, functions and personnel.

### 3.3.2 Independence, integrity, ethics and objectivity

#### 3.3.2.1 Overview

We have adopted the KPMG Global Independence Policies which are derived from the IESBA Code of Ethics and incorporate, as appropriate, the Securities & Exchange Commission (SEC), US PCAOB and other applicable regulatory standards. These policies are supplemented by other processes to ensure compliance with the Luxembourg law of 23 July 2016 relating to the audit profession and the standards issued by the CSSF. These policies and processes cover areas such

as firm independence, personal independence, post-employment relationships, partner rotation, and approval of audit and non-audit services.

Our firm has a designated Ethics and Independence Partner. In addition, there is a core team of specialists within the EMA region to help ensure that robust and consistent independence policies and procedures are implemented across our firm and group and that these are updated and communicated as required. Amendments to the ethics and independence policies in the course of the year are communicated by e-mail alerts and included in regular quality and risk management communications.

To help ensure ethical conduct, including integrity and independence, our firm, and its personnel must be free from prohibited financial interests in, and prohibited relationships with, the network's audit clients, their management, directors, and significant owners.

In the event of failure to comply with relevant independence policies, whether identified in the rolling compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy. Matters arising are factored into promotion and compensation decisions and, in the case of partners, are reflected in their individual quality and risk metrics (see Section 3.4).

#### 3.3.2.2 Personal independence

KPMG International policy extends the IESBA Code of Ethics restrictions on ownership of audit client securities to every member



firm partner in respect of any audit client of any member firm.

Our professionals are responsible for making appropriate inquiries to ensure that they do not have any personal financial interests that are restricted for independence purposes. In common with other member firms of KPMG International, we use a web-based independence tracking system, KICS, to assist our professionals in their compliance with personal independence investment policies. This system contains an inventory of publicly available investment products. Partners and client-facing managers are required to use this 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 the system, which automatically notifies them if their investments subsequently become restricted. Our firm monitors compliance with this requirement as part of a programme of independence compliance audits of a sample of professionals.

Any professional providing services to an audit client is also required to notify the Ethics and Independence Partner if they intend to enter into employment negotiations with that audit client.

### 3.3.2.3 Firm financial independence

KPMG Luxembourg also uses the KICS independence tracking system to monitor the firm's own investments, made through the firm's pension and retirement plan.

### 3.3.2.4 Independence training and confirmations

Our firm provides all relevant personnel (including all partners and client service professionals)

with annual independence training appropriate to their grade and function and provides all new personnel with relevant training when they join.

All personnel are required to sign an independence confirmation upon commencement of employment. Thereafter, professionals are required to provide an annual confirmation that they have remained in compliance with applicable ethics and independence policies throughout the period. This confirmation is used to evidence the individual's compliance with and understanding of our firm's independence policies.

### 3.3.2.5 Audit partner and firm rotation

Audit partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws and regulations and independence rules. These limit the number of years that partners in certain roles may provide audit services to an audit client. KPMG rotation policies are consistent with the IESBA Code of Ethics and also require our firm to comply with any stricter applicable rotation requirements.

Our firm monitors the rotation of partners, and develops transition plans that help audit engagement teams to deliver a consistent quality of service to clients. The rotation monitoring is subject to compliance testing.

KPMG Luxembourg is also subject to mandatory firm rotation requirements under the new EU Audit legislation for public interest entity audit clients. The firm has processes in place to track and manage audit firm rotation.

### 3.3.2.6 Non-audit services

Our firm has policies regarding the scope of services that can be provided to audit clients which are consistent with IESBA principles and CSSF independence requirements. KPMG policies require the lead audit engagement partner to evaluate the threats arising from the provision of non-audit services and the safeguards available to address those threats.

Lead audit engagement partners are required to maintain group structures for their publicly traded and certain other audit clients and their affiliates in Sentinel™ which facilitates compliance with KPMG policies. Every engagement entered into by any KPMG member firm in our network is required to be included in Sentinel™ prior to starting work. The Sentinel™ system enables lead audit engagement partners for restricted entities to review and approve, or deny, any proposed service wherever in the world the service is proposed to be provided and whichever member firm is to provide the service.

### 3.3.2.7 Fee dependency

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

In particular, these policies require that in the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10% of the total fees received by a particular member firm for two consecutive years:

- This would be disclosed to those charged with governance at the audit client; and



- A senior partner from another member firm would be appointed as the engagement quality control reviewer.

No audit client accounted for more than 10% of the total fees received by our firm over the last two years.

### 3.3.2.8 Business relationships/suppliers

Our firm has policies and procedures in place that are designed to ensure that business relationships are maintained in accordance with the IESBA Code of Ethics and CSSF independence requirements.

Compliance with these policies and procedures is reviewed periodically.

### 3.3.2.9 Conflicts of interest

Conflicts of interest may prevent our firm from accepting or continuing an engagement. The Sentinel™ system is also used to identify and manage potential conflicts of interest within and across member firms. Any potential conflict issues identified are resolved in consultation with other parties as applicable, and the resolution of all matters is documented. An escalation procedure exists in the case of dispute between member firms. If a potential conflict issue cannot be resolved, the engagement is declined or terminated.

It may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise or be perceived to arise so that the confidentiality of all clients' affairs is maintained. Such procedures may, for example, include establishing formal dividers between engagement teams serving different clients and making arrangements to monitor the operation of such dividers.

### 3.3.2.10 Breaches of independence policy

All KPMG personnel are required to report an independence breach as soon as they become aware of it. In the event of failure to comply with our independence policies, whether identified in a compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy.

KPMG Luxembourg has a documented disciplinary policy in relation to breaches of independence policies. The disciplinary policy is communicated to all professionals and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations. Any breaches of auditor independence regulations are to be reported to those charged with governance at the audit client, on the basis agreed with them.

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

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

Training covering compliance with laws (including those relating to anti-bribery and corruption), regulations, professional standards and the KPMG Code of Conduct is required to be completed by client-facing professionals at a minimum of once every two years, with new hires completing such training within three months of joining our firm. In addition, certain non-client-facing personnel who work in finance, procurement or sales and marketing departments, and who are at the manager level and above, are also required to participate in anti-bribery training.



### 3.4 Recruitment, development and assignment of appropriately qualified personnel

One of the key drivers of quality is ensuring the assignment of professionals with the skills and experience appropriate to the client. This requires recruitment, development, promotion and retention of our personnel and robust capacity and resource management processes. We believe it is essential to attract and retain the best people. We actively manage our high-potential talent pool across the firm through our Emerging Leaders Programme. In 2016 we had 22 high-performing and passionate individuals engaged in our Emerging Leaders Programme.

#### 3.4.1 Recruitment

All candidates applying for professional positions are required to 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.

We recruited at all levels during the year - 552 talented people made up of experienced hires, graduates and trainees.

Upon joining our firm, new personnel are required to participate in a comprehensive on-boarding programme, which includes training in areas such as ethics and independence, quality and risk management principles and our people management procedures. Our on-boarding programme also includes ensuring that any issues of independence or conflicts of interest are addressed before the individual's employment or partnership commences.

#### 3.4.2 Personal development

Talent and development is at the very top of our people agenda and there is a significant investment of time, money and other resources to build professional capability, leadership and business skills and technical expertise (see Section 3.5.1).

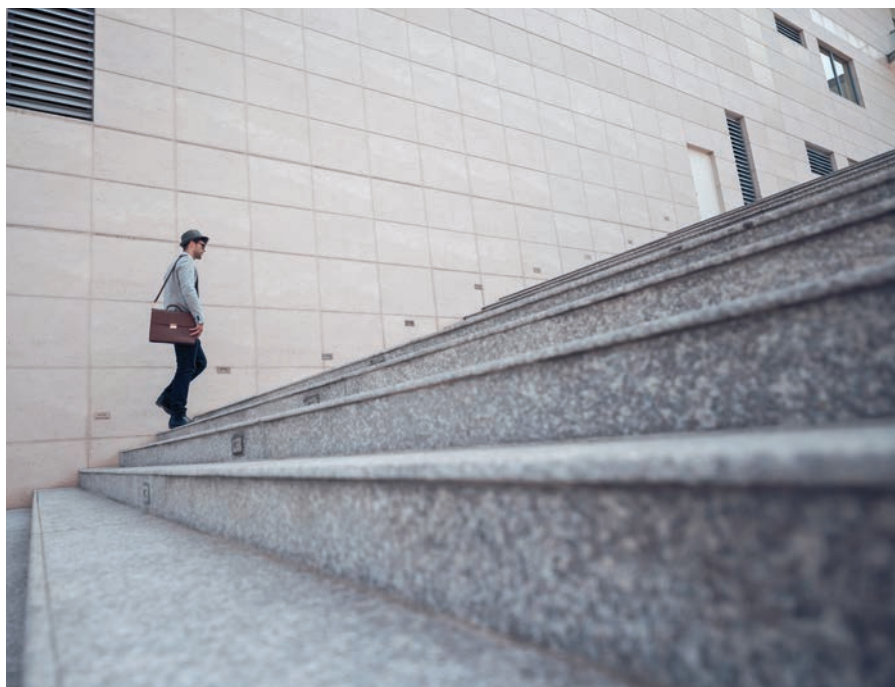
A partner development framework is in place that links particular training programmes to various partner levels and roles. Partners are encouraged to make use of these development opportunities, and also to contribute to the development of other partners and staff through coaching, mentoring, and teaching on our core programmes.

In relation to audit we provide opportunities for professionals to develop the skills, behaviours and personal qualities that form the foundations of a successful career in auditing. Courses are available to enhance personal effectiveness and develop technical, leadership and business skills. We further develop our personnel for high performance through coaching and mentoring on the job, stretch assignments and global mobility opportunities.

#### 3.4.3 Performance evaluation and compensation

At KPMG our commitment to professionalism, openness and quality and risk management principles starts at the very top with our partners but also extends throughout the people processes.

All professionals undergo annual goal-setting and performance reviews. Each professional is evaluated on attainment of agreed-upon goals, demonstration of





the KPMG global behaviours for their level, and adherence to the KPMG Values and attributes. This is achieved through our global performance management process, which is supported by a web-based application. These evaluations are conducted by performance managers and partners who are in a position to assess their performance. In preparation for their counselling all of our people are required to seek evidence of their performance during the year. As part of the year end counselling process they are awarded a grading based on how well they have performed in meeting their objectives.

This grade directly influences the total amount of remuneration that they are paid. The results of the annual counselling are also considered when promotion decisions are being made.

Similarly, each year, partners are also required to agree objectives for the coming year which are specific to their individual role. As for staff, as part of the year end counselling process our partners are awarded a grading based on how well they have performed in meeting their individual objectives. They are required to provide objective evidence to demonstrate this, which includes their individual quality and risk metrics which are described in further detail below. The result of the annual performance review directly affects the compensation of our partners and in some cases their continued association with KPMG.

All engagement leaders are issued with quality and risk metrics which are fed into their annual

counselling process. The quality and risk metrics include a number of parameters, such as the results of external regulatory reviews, timely completion of training, and the outcome of internal monitoring programmes. As part of these metrics, an overall red, amber or green grading is awarded.

### Compensation and promotion

Our firm has compensation and promotion policies that are clear, simple, and linked to the performance evaluation process so that our people know what is expected of them and what they can expect to receive in return. Our compensation policies do not permit audit partners to be compensated for the sale of non-audit services to their audit clients.

### Partner admissions

Our process for admission to the partnership is rigorous and thorough. Our key criteria for admission to partner are consistent with a commitment to professionalism and integrity, quality and being an employer of choice. Anyone who is being considered for promotion to partner is evaluated against criteria which include evidence of the way that an individual has managed quality and risk as well as their overall adherence to our Values. Similarly, attitude to quality and risk is explored for any external partner hires that are considered.

#### 3.4.4 Assignment

Our firm has procedures in place to assign both the engagement partners and professionals to a specific engagement by evaluating their skill sets, relevant professional

and industry experience, and the nature of the assignment or engagement. Function heads are responsible for the process of allocating particular engagement partners to clients.

Key considerations include partner experience, accreditation and capacity based on the results of the annual partner portfolio review (see below) to perform the engagement in view of the size, complexity and risk profile of the engagement and the type of support to be provided (i.e. the engagement team composition and specialist involvement).

Audit engagement leaders are required to be satisfied that their engagement teams have appropriate competencies and capabilities, including time, to perform audit engagements in accordance with KAM, professional standards and applicable legal and regulatory requirements. This may include involving KPMG's local and global specialists.

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 specialised areas of accounting or auditing;

- Knowledge of relevant industries in which the client operates;
- Ability to apply professional judgement;
- An understanding of KPMG's quality control policies and procedures; and
- 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 Head of Audit together with the Audit Group Leaders, under the oversight of the Quality & Risk Management Partner, performs an annual review of the portfolio of all of our Audit engagement leaders. 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 leader has the appropriate time, suitable experience and the right level of support to enable them to perform a high-quality audit for each client. This process takes into account the findings of internal and external reviews and the quality and risk metrics.

### 3.5 Commitment to technical excellence and quality service delivery

We provide all professionals with the technical training and support they need, including access to networks of specialists and technical experts and departments of professional practice (DPP), which are made up of senior

professionals with extensive experience in audit, reporting and risk management, either to provide resources to the engagement team or for consultation.

At the same time we use our audit accreditation and licensing policies to require professionals to have the appropriate knowledge and experience for their assigned engagements. Our structure enables our engagement teams to apply their business understanding and industry knowledge to deliver valued insights and to maintain audit quality.

#### 3.5.1 Technical training

In addition to personal development discussed at 3.4.2 our policies require all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

Our technical training curriculum covers all grades of staff with a core training programme for junior staff and periodic and annual update training for qualified and experienced staff and partners.

Audit Learning and Development steering groups at the global, regional and local levels identify annual technical training priorities for development of new courses, content for periodic and annual update training and amendments to the core programme. Delivery of training is through a blend of classroom, e-learning and Virtual Classroom approaches. Audit Learning and Development teams work with subject experts and leaders from the Global Service Centre (GSC), International Standards Group (ISG) and DPPs,

as appropriate, to ensure the training is of the highest quality, relevant to performance on the job and is delivered on a timely basis.

Audit training is mandatory and completion is monitored at country level through a Learning Management System. This allows individuals to monitor their compliance both with their ongoing Continuing Professional Development requirements and with KPMG's mandatory training and accreditation requirements (see Section 3.5.2). Non-attendance at mandatory training is captured as one of the measures in the quality and risk metrics.

In addition to structured technical training, there is a coaching culture that encourages consultation, on-the-job training and mentoring.

#### 3.5.2 Accreditation and licensing

All KPMG professionals are required to comply with applicable professional licence rules in the jurisdiction where they practice.

Our firm is responsible for ensuring that Audit professionals working on engagements have appropriate audit, accounting and industry knowledge and experience in the local predominant financial reporting framework. We have accreditation requirements for many of our services (including for US audit and accounting work, International Financial Reporting Standards, Transactions Services and Corporate Finance services) which ensure that only partners and employees with the appropriate training and experience are assigned to clients and are appropriately licensed where necessary.

Our firm requires that all Audit professionals are also required to maintain accreditation with their professional bodies and satisfy the Continuing Professional Development requirements of such bodies (at a minimum, professionals comply with IESBA and legal requirements). Our policies and procedures are designed to ensure that those individuals who require a licence to undertake their work are appropriately licensed.

### 3.5.3 Access to specialist networks

Our engagement teams have access to a network of local and global specialists in KPMG member firms. Engagement partners are responsible for ensuring that their engagement teams have the appropriate resources and skills.

The need for specialists (e.g. Information Technology, Tax, Treasury, Pensions, Forensic, Valuation) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process.

### 3.5.4 Consultation

Internal consultation is a fundamental contributor to quality and is mandated in certain circumstances and always encouraged.

Our firm provides appropriate consultation support to audit engagement professionals through professional practice resources that include DPP.

Across our firm, 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 International Financial Reporting Standards (IFRS) and ISAs.

To assist audit engagement professionals in addressing difficult or contentious matters, we 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. Consultation with a team member at a higher level of responsibility than either of the differing parties usually resolves such 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, the Quality & Risk Management Partner or ultimately the national Managing Partner.

Technical support is also available to our firm through the International Standards Group (ISG) as well as, for work on SEC foreign registrants, the U.S. Capital Markets Group based in New York.

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

The ISG has a network of contacts and holds regular calls both in relation to auditing and IFRS to update our professional practice representatives.

### 3.5.5 Developing business understanding and industry knowledge

A key part of engagement quality is having a detailed understanding of the client's business and industry.

For significant industries global audit sector leads are appointed to support the development of relevant industry information to audit professionals. A key element of this industry information is the provision of industry knowledge within eAudIT. This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes). In addition, industry overviews are available which provide general and business information in respect of particular industries as well as a summary of the industry knowledge provided in eAudIT.

Our firm, along with other KPMG member firms, provides specialist input into the development of global industry knowledge, and deploys it via the use of eAudIT.

## 3.6 Performance of effective and efficient audits

How an audit is conducted is as important as the final result.

We expect our people to demonstrate certain key behaviours in the performance of effective and efficient audits. These behaviours are discussed below.

### 3.6.1 KPMG audit process

As set out in Section 3.3 above, our audit workflow is enabled in eAudIT. The key behaviours that our auditors apply throughout the audit process to deliver effective and efficient audits are:

- Timely partner and manager involvement;
- Critical assessment of audit evidence;
- Exercise professional judgement and professional scepticism;
- Ongoing mentoring and on-the-job coaching, supervision and review;
- Appropriately supported and documented conclusions;
- If relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC reviewer);
- Clear reporting of significant findings;
- Insightful, open and honest two-way communication with those charged with governance; and
- Client confidentiality, information security and data privacy.

#### 3.6.1.1 Timely partner and manager involvement

To identify and respond to the significant audit risks applicable to each audit, the engagement team requires an understanding of the client's business, its financial position and the environment in which it operates. The engagement leader is responsible for the overall quality of the audit engagement and therefore the direction, supervision and performance of the engagement. The engagement leader is a key participant in planning meetings, reviews key audit documentation – in particular documentation relating

to significant matters arising during the audit and conclusions reached – and is responsible for the final audit opinion.

The engagement manager assists the partner in meeting these responsibilities and in the day-to-day liaison with the client and team.

Involvement and leadership from the engagement leader early in the audit process helps set the appropriate scope and tone for the audit and helps the engagement team obtain maximum benefit from the engagement leader's experience and skill. Timely involvement of the engagement leader at other stages of the engagement allows the engagement leader to identify and appropriately address matters significant to the engagement, including critical areas of judgement and significant risks.

#### 3.6.1.2 Critical assessment of audit evidence with emphasis on professional scepticism

We consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence. The nature and extent of the audit evidence we gather is responsive to the assessed risks. We critically assess audit evidence obtained from all sources. The analysis of the audit evidence requires each of our team members to exercise professional judgement and maintain professional scepticism to obtain sufficient appropriate audit evidence.

Professional scepticism involves a questioning mind and alertness to contradictions or inconsistencies in audit evidence. Professional scepticism features prominently



throughout auditing standards and receives significant focus from regulators. Our Audit Quality Framework emphasises the importance of maintaining an attitude of professional scepticism throughout the audit.

We have developed a Professional Judgement Framework that provides audit professionals with a structured approach to making judgements. Our Professional Judgement Framework has professional scepticism at its heart. It recognises the need to be alert to biases which may pose threats to good judgement, to consider alternatives, to critically assess audit evidence by challenging management's assumptions and following up contradictory or inconsistent information and to document the rationale for conclusions reached on a timely basis as a means of testing their completeness and appropriateness.

Professional judgement training is embedded in our core Audit Technical training programme for junior staff as well as being included in our periodic and annual update training for qualified and experienced staff and partners.

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

We understand that skills build over time and through exposure to different experiences. To invest in the building of skills and capabilities of our professionals, without compromising on quality, we use a continuous learning environment. We support a coaching culture throughout KPMG as part of enabling personnel to achieve their full potential.

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

- Engagement leader participation in planning discussions;
- Tracking the progress of the audit engagement;
- Considering the competence and capabilities of 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; and
- Identifying matters for consultation with more experienced team members during the engagement.

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

#### 3.6.1.4 Appropriately supported and documented conclusions

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

Our methodology recognises that documentation prepared at the time the work is performed is likely to be more efficient and effective

than documentation prepared later. Teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period, which is ordinarily not more than 60 days from the date of the audit report but may be more restrictive under certain applicable regulations.

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

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

Our firm has a formal document retention policy in accordance with the local regulation that governs the period we retain audit documentation and other client-specific records.

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

EQC reviewers have appropriate experience and knowledge to perform an objective review of the decisions and judgements

made by the audit team. They are experienced audit professionals who are independent of the engagement team and are required to be involved at crucial stages throughout the audit. They offer an objective review of the more critical and judgemental elements of the audit.

An EQC reviewer is required to be appointed for the audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements as designated by the Quality & Risk Management Partner or Head of Audit. Before the date of the auditor's report, these individuals review:

- Selected audit documentation and client communications;
- The appropriateness of the financial statements and related disclosures; and
- The significant judgements the engagement team made and the conclusions it reached with respect to the audit.

The audit report can only be released when the EQC reviewer is satisfied that all significant questions raised have been resolved.

We are continually seeking to strengthen and improve the role that the EQC reviewer plays in audits, as this is a fundamental part of the system of audit quality control. In recent years we have taken a number of actions to reinforce this, including:

- Issuing leading practices guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EQC reviewers;

- Incorporating specific procedures into eAudit to facilitate effective reviews; and
- Ensuring that the role performed by EQC reviewers is also taken into account when performing the Partner Portfolio Review process (refer Section 3.4.4) to ensure adequacy of time and appropriate skill set for the role and reallocation if needed.

#### 3.6.1.6 Clear reporting of significant findings

Auditing standards and local legislation or regulation largely dictate the format and content of the audit report that includes an opinion on the fair presentation in all material respects of the client's financial statements. Experienced engagement leaders arrive at all audit opinions after involvement in the audit and review of the work performed by the audit team.

We provide extensive reporting guidance and technical support to audit partners in preparing audit reports, where there are significant matters to be reported to users of the audit report, either as a qualification to the audit report or through the inclusion of an emphasis of matter paragraph.

Effective for December 2016 year ends onward in compliance with the new IAASB requirements, we are enhancing auditor reporting for those auditors' reports prepared under the ISAs. The changes in auditors' reporting will give users more insight into the audit and improve transparency.

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

Two-way communication with those charged with governance at our

clients is key to audit quality. Often the Audit Committee will be the body identified as those charged with governance. We stress the importance of keeping those charged with governance informed of issues arising throughout the audit and of understanding their views. We achieve this through a combination of reports and presentations, attendance at Audit Committee or Board meetings, and ongoing discussions with members of the Audit Committee. We deliver insights such as the appropriateness of accounting policies, the design and operation of financial reporting systems and controls, key accounting judgements and any matters where we may disagree with management's view, and any uncorrected audit misstatements. We ensure the content of these reports meets the requirements of auditing standards and we share our industry experience to encourage discussion and debate with those charged with governance.

In recognition of the demanding and important role that audit committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, the KPMG Audit Committee Institute (ACI) aims to help Audit Committee members enhance their awareness, commitment and ability to implement effective Audit Committee processes. The Institute operates in Luxembourg as well as many other KPMG member firms and provides Audit Committee members with authoritative guidance on matters of interest to Audit Committees as well as the opportunity to network with their peers during an extensive programme of technical updates and awareness seminars.



#### 3.6.1.8 Focus on effectiveness of group audits

Our audit methodology covers the conduct of group audits in detail. We stress the importance of effective two-way communication between the group engagement team and the component auditors, which is a key to audit quality. The group Audit engagement leader is required to evaluate the competence of component auditors, whether they are KPMG member firms or not, as part of the engagement acceptance process. Our audit methodology incorporates the heightened attention currently being given to key risk areas for group audits e.g., emerging markets and business environments that may be subject to heightened fraud risks.

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

We are committed to providing a secure and safe environment for the personal data and confidential information we hold, as well as protecting the privacy of our clients, service providers and our third parties. The importance of

maintaining client confidentiality is emphasised through a variety of mechanisms including the Code of Conduct, training and the annual independence confirmation process, which all of our professionals are required to complete.

Our firm is required to meet the security requirements set out in the Global Information Security Policies and Standards published by KPMG International. Compliance monitoring against these standards and policies is carried out through our internal audit programme.

As part of these Global requirements, a National IT Security Officer (NITSO), with the necessary authority, skills and experience, has been appointed to lead the information security function. The NITSO is in charge of the firm's information security programme and works closely with the local IT services and Quality and Risk Management. The NITSO also reports to the firm's Senior Management and also to the Global IT Security Officer and Global Head of Information Protection.

The firm is required to implement an incident response procedure to minimise the impact of a security breach or data loss.

Everyone has a role to play in protecting client and confidential information. Policies and practices are communicated to all personnel and, as appropriate, reinforced through guidance, awareness and training. An Acceptable Use Policy that applies to all KPMG personnel has been issued. The policy encourages effective and appropriate use of KPMG information technology resources, and highlights the protection requirements of all employee, KPMG, and client confidential

and personal information. Data privacy policies are also in place governing the handling of personal information.

Our firm is required to 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.

### 3.7 Commitment to continuous improvement

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

Additionally, we have processes in place to proactively identify emerging risks and to identify opportunities to improve quality and provide insights.

#### 3.7.1 Monitoring

##### 3.7.1.1 Internal monitoring

KPMG International has an integrated monitoring programme that covers all member firms to assess the relevance, adequacy, and effective operation of key quality control policies and procedures. This monitoring addresses both engagement delivery and KPMG International policies and procedures and meets the ISQC1 monitoring requirements.

The results and lessons from the programmes are communicated within our firm, and the overall results and lessons from the

programmes are considered, and appropriate actions taken, at local, regional and global levels.

Our monitoring procedures involve ongoing consideration of:

- Compliance with KPMG’s policies and procedures;
- The effectiveness of training and other professional development activities; and
- Compliance with applicable laws and regulations as well as our standards, policies, and procedures.

We use two formal inspection programmes conducted annually across the Audit, Tax and Advisory functions: the Quality Performance Review (QPR) Program; and the Risk Compliance Program (RCP). Both programmes are developed and administered by KPMG International.

Additionally all KPMG member firms are covered once in a three-year cycle by cross-functional Global Compliance Reviews (GCRs) performed by reviewers in the Global Compliance Group who are independent of the member firm and report to Global Quality & Risk Management. These programmes are designed by KPMG International and participation in them is a condition of ongoing membership of the KPMG network (see Section 6 for further details on the KPMG network).

#### Quality Performance Reviews (QPRs)

The QPR Program is the cornerstone of KPMG’s efforts to monitor engagement quality and one of the primary means of ensuring that member firms collectively and consistently meet both KPMG International’s

requirements and applicable professional standards. The QPR Program assesses engagement level performance in the Audit, Tax and Advisory functions and identifies opportunities to improve engagement quality. All engagement leaders are generally subject to selection for review at least once in a three-year cycle.

The reviews are tailored to the relevant function, performed at a member firm level, overseen by a Lead Reviewer from outside the specific member firm being reviewed, and are monitored regionally and globally. Remedial action plans for all significant deficiencies noted are required at an engagement and member firm level. We disseminate our findings from the QPR Program to our professionals through written communications, internal training tools, and periodic engagement leader, manager and staff meetings. These areas are also emphasised in subsequent inspection programmes to gauge the extent of continuous improvement.

In 2016 our QPR Program covered the following:

	Number of engagements reviewed	Number of engagement leaders reviewed
Audit	19	18
Tax	17	9
Advisory	18	10

KPMG International continues to refine and strengthen the Audit QPR programme in light of latest developments. All engagements are awarded one of three grades: ‘Satisfactory’; ‘Performance Improvement Necessary’ and

‘Unsatisfactory’. A ‘Satisfactory’ grading requires both (i) the audit work performed, the evidence obtained and the audit documentation produced to all comply with our internal policies, applicable auditing standards and legal and regulatory requirements and (ii) key judgements concerning significant matters in the audit and the audit opinion itself to have been appropriate. A ‘Performance Improvement Necessary’ grading is attributed where the auditor’s report is generally supported by the work performed and the auditor’s report is appropriate but where improvements are necessary in one or more significant area including with respect to the documentation of the work performed. An ‘Unsatisfactory’ grading is attributed where the engagement was not performed in accordance with the firm’s policy and professional standards in a significant area, in particular where there are significant deficiencies either in the financial statements themselves, the audit work paper documentation or the actual work undertaken.

Lead Audit Engagement Partners are notified if (i) any subsidiary in their respective cross-border and/or global audit accounts was subject to review and received a less than ‘Satisfactory’ rating; and (ii) if a subsidiary of their global account is audited by a KPMG member firm where more pervasive quality concerns have been identified during the Audit QPR Program.

#### Risk Compliance Program (RCP)

The RCP is a member firm’s annual self-assessment programme. The objectives of the RCP are to monitor, assess, and document firm-wide/cross-



functional compliance with the system of quality control established through KPMG International's quality and risk management policies and applicable legal and regulatory requirements as they relate to the delivery of professional services. The programme is overseen and monitored regionally as well as globally.

#### Global Compliance Reviews (GCRs)

GCRs are performed by reviewers independent of the member firm led by the Global Compliance Group and are carried out once in a three-year cycle. These reviews focus on significant governance, risk management and independence and finance processes (including an assessment of the robustness of the firm's Risk Compliance Program). In the event that a GCR identifies significant issues that require immediate or near-term attention, a follow-up review will be performed as appropriate. The firm was last subject to a GCR during 2015 with no serious deficiencies identified.

All three programmes require action plans to address identified issues, with timelines, to be developed by the member firm, and these actions to improve performance are followed up at the regional and global level to ensure that the actions are addressing deficiencies with the objective of continuous improvement.

#### Root cause Analysis (RCA)

We perform 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 member firms to perform RCA and thereby identify and subsequently develop appropriate remediation plans for the audit quality issues identified.

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

##### 3.7.1.2 External monitoring

The firm's audit practice and its registered statutory auditors (réviseurs d'entreprises agréés) are subject to annual inspection by the CSSF.

##### 3.7.2 Client feedback

In addition to internal and external monitoring of quality, we operate a formal programme where we actively solicit feedback from management and those charged

with governance at our clients on the quality of specific services that we have provided to them. The feedback that we receive from this programme is formally considered by our firm and individual client service teams to ensure that we continually learn and improve the levels of client service that we deliver. Any urgent actions arising from client feedback are followed up by the engagement partner to ensure that concerns on quality are dealt with on a timely basis.

##### 3.7.3 Interaction with regulators

At an international level KPMG has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) and the European Audit Inspection Group (EAIG) and its successor, the Committee of European Audit Oversight Bodies (CEAOB), to discuss issues identified and actions taken to address such issues at a network level.

# Financial information

The following table shows gross revenues from KPMG Luxembourg's entities in the year ended 30 September 2016.

Service	Revenue (EUR'000)	Percent
Statutory audit	75,583	40
Other assurance services	13,875	7
Other services		
• Tax	52,159	28
• Advisory	46,626	25
<b>TOTAL</b>	<b>188,243</b>	<b>100</b>



# Partner remuneration

Partners working in Luxembourg are employees of KPMG Luxembourg, Société coopérative.

Their remuneration packages comprise a base salary and associated benefits as for other employees. They receive an additional variable element to their pay which is established once the profits for the year have been determined. Remuneration is paid out as salary and bonus in accordance with prevailing company and tax laws. The Partner Remuneration Model determines the amounts available for distribution. The overall process lies under the responsibility of the Managing Partner and the KPMG Luxembourg Executive Committee. The Supervisory Board reviews the process.

In Luxembourg, partners contribute to a common pension scheme operated for all employees meeting certain pre-defined seniority criteria for the firm (employee funded only).

The Partner Remuneration Model foresees clear rules for the variable elements including quality of work, excellence in client service, growth in revenue and profitability, leadership, responsibility and living the Values of the firm. Audit partners are explicitly not remunerated for non-audit services sold to their audit clients.



# Network arrangements

## 6.1 Legal structure

The independent member firms of the KPMG network (including KPMG Luxembourg, Société coopérative) are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law. The KPMG International network consists of approximately 189,000 professionals working in 152 countries. For the year ended 30 September 2016 the member firms comprising the network generated aggregate revenues of US\$25.42 billion.

KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by its member firms.

The structure is designed to support consistency of service quality and adherence to agreed

values wherever in the world the member firms operate. One of the main purposes of KPMG International is to facilitate the provision by member firms of high quality Audit, Tax and Advisory services to their clients. For example, KPMG International establishes and facilitates the implementation and maintenance of uniform policies and standards of work and conduct by member firms and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity which 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 oblige or bind

any member firm. Member firms are generally locally owned and managed. Each member firm is responsible for its own obligations and liabilities.

## 6.2 Responsibilities and obligations of member firms

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

In these agreements, member firms commit themselves to a common set of KPMG Values. 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. This includes having a structure that ensures

continuity and stability and being able to adopt global and regional strategies, share resources, service multinational clients, manage risk, and deploy global methodologies and tools. Each member firm takes responsibility for its management and the quality of its work.

In accordance with the Global Code of Conduct, partners and professionals working within member firms are required to act with integrity at all times. Compliance with key quality standards (including key aspects of methodologies, tools and management of risk) are specifically assessed as part of the International Review Programmes described in section 3.7.1.

The results of these programmes are reported to various governance and management bodies within KPMG International which can, at its discretion, take a number of actions against the firm concerned – including, ultimately, removal from the KPMG International network for any firm which fails to meet the required quality standards.

Member firms are also required to have the capability to provide certain types of core services and to refer work to other member firms where appropriate (for example, if the engagement concerns work in that other member firm's country and that other member firm has the required capacity and expertise to perform the work).

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such

amounts is approved by the Global Board and consistently applied to the member firms.

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

### 6.3 Professional indemnity insurance

A substantial level of 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 through a programme that is available to all KPMG member firms. In addition member firms may enter into local insurance arrangements in respect of the amount below the deductible under the insurance programme.

### 6.4 Governance structure

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

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. It performs functions equivalent to a shareholders' meeting (albeit that KPMG International has no share capital and, therefore, only has members, not shareholders). Among other things, the Global

Council elects the global chairman for a term of up to four years (renewable once) and also approves the appointment of Global Board members. It includes representation from 58 member firms that are 'members' of KPMG International as a matter of Swiss law. Sub-licensees are generally indirectly represented by a member.

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International, and approving policies and regulations. It also admits member firms and ratifies the global chairman's appointment of the global deputy chairman.

The Global Board includes the global chairman, the global deputy chairman, the chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)) and a number of senior partners of member firms. It is led by the global chairman who is supported by the Executive Committee, consisting of the global chairman, the global deputy chairman, the chairman of each of the regions and currently four other senior partners of member firms.

One of the other Global Board members is elected as the lead director by those Global Board members who are not also members of the Executive Committee of the Global Board ("non-executive" members). A key role of the lead director is to act as liaison between the global chairman



and the “non-executive” Global Board members. The list of Global Board members, as at 1 October 2016 is available in the International Annual Review.

The Global Board is supported in its oversight and governance responsibilities by several other committees, including a Governance Committee, an Operations Committee, an Investments Committee, a Quality and Risk Management Committee, and a Professional Indemnity Insurance Committee. The lead director nominates the chairs and members of certain Global Board committees for approval by the Global Board.

The Global Board has delegated certain responsibilities to the Global Management Team. These responsibilities include developing global strategy by working together with the Executive Committee. The Global Management Team also supports the member firms in their execution of the global strategy and is responsible for holding them accountable for commitments. It is led by the global deputy chairman, and includes the global chairman, the global deputy chairman, the global chief operating officer, global function and infrastructure heads and the general counsel. The list of Global Management Team members, as at 1 October 2016, is available in the International Annual Review.

The Global Steering Groups are responsible for supporting and driving the execution of the strategy and business plan in their respective areas and act under oversight of the Global Management Team. The role of the Global Quality & Risk Management Steering Group is outlined in more detail in the KPMG International Transparency Report.

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

Members of the Global Board and Global Management Team are members of the various network firms. Such members perform these roles on behalf of KPMG International and in that capacity do not act for KPMG Luxembourg.

Further details about KPMG International including the governance arrangements, can be found in its latest Transparency Report, which is available at: <https://home.kpmg.com/xx/en/home/about/governance/transparency-report.html>

## 6.5 Area Quality & Risk Management Leaders

KPMG International has a network of Area Quality & Risk Management Leaders (AQRMLs), reporting to the Global Head of Quality & Risk Management. The AQRMLs are members of the Global Quality & Risk Management Steering Group and each AQRML performs a monitoring function over a group of member firms. Their role is to enhance the KPMG network’s ability to proactively monitor quality and risk management across member firms.

# Statement by KPMG Luxembourg Executive Committee on effectiveness of quality controls and independence

The measures and procedures that serve as the basis for the system of quality management for KPMG Luxembourg, Société coopérative outlined in this report aim to provide a reasonable degree of assurance that the statutory audits carried out by KPMG Luxembourg, Société coopérative comply with the applicable laws and regulations.

The Executive Committee of KPMG Luxembourg has considered:

- The design and operation of the quality management systems as described in this report; and
- The findings from the various compliance programmes operated by our firm (including the KPMG International Compliance Programmes as described in Section 3.7); and
- Findings from regulatory inspections.

Taking all of this evidence together, the KPMG Luxembourg Executive Committee 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 2016.

Further, the KPMG Luxembourg Executive Committee confirms that an internal review of independence compliance within our firm has been conducted in the year to 30 September 2016.

# Key legal entities and areas of operation

The key legal entities delivering services that were part of our firm ('KPMG Luxembourg') during the year to 30 September 2016 are noted below.

Name of entity	Legal structure	Regulatory status	Nature of business	Area of operation
KPMG Luxembourg, Société coopérative	Luxembourg Private Limited Liability Cooperative Company	Cabinet de révision agréé Experts comptables	Audit, Tax and Advisory services	Luxembourg
KPMG Services S.à r.l.	Luxembourg Private Limited Liability Company	Professionel du Secteur Financier	IT services	Luxembourg



# Details of those charged with governance at KPMG Luxembourg

The Executive Committee of KPMG Luxembourg exists to deal with local strategic and operational matters in Luxembourg. The Supervisory Board is a non-executive oversight body. Details of the members of both of those bodies and the roles that they have held for the Luxembourg firm are as follows:

## Senior Leadership Team

<b>Philippe Meyer</b> * **	Managing Partner (since 1 October 2016), Quality & Risk Management Partner (until 30 September 2016)
<b>Georges Bock</b> *	Managing Partner (until 30 September 2016), Head of Tax (since 1 October 2016)
<b>Pascal Denis</b> *	Head of Advisory
<b>Emmanuel Dollé</b> *	Head of Audit
<b>Thomas Feld</b>	Chief Operating Officer (until 30 September 2016)
<b>Sébastien Labbé</b>	Head of Tax (until 30 September 2016)
<b>Fabrice Leonardi</b> *	Chief Operating Officer (since 1 October 2016)
<b>Stephen Nye</b> ***	Quality & Risk Management Partner (since 1 October 2016)
<b>Frauke Oddone</b>	Head of Markets (since 1 October 2016)
<b>Thierry Ravasio</b>	Head of People (since 1 October 2016)

\* Executive Committee member and gérant of KPMG Luxembourg, Société coopérative

\*\* Member of the Global Council of KPMG International

\*\*\* The Quality & Risk Management Partner has a permanent seat at the Executive Committee

## Supervisory Board

<b>Patrick Wies</b>	Chairman
<b>Ravi Beegun</b>	Head of Investment Management
<b>Stanislas Chambourdon</b>	Head of Banking (until 30 September 2016)
<b>Michael Hofmann</b>	Head of IT Risk Management (since 1 October 2016)
<b>Sébastien Labbé</b>	Tax partner (since 30 September 2016)
<b>Laurence Lhote</b>	Head of Indirect Tax (since 1 October 2016)
<b>Alison Macleod</b>	Audit partner (until 30 September 2016)
<b>Louis Thomas</b>	Tax partner (until 30 September 2016)

# Public interest entities

The list of public interest entity audit clients for which KPMG Luxembourg, Société coopérative has signed an audit opinion in the year ended 30 September 2016 is given below.

4finance S.A.	BBGI SICAV S.A.	Global Bond Series XIV S.A.
ABLV Bank Luxembourg S.A.	Braas Monier Building Group S.A.	Globality S.A.
ABN Amro Bank (Luxembourg) S.A.	Breeze Finance S.A.	Grand City Properties S.A.
ABN Amro Life S.A.	CIBA Specialty Chemicals Finance Luxembourg S.A.	Hannover Finance (Luxembourg) S.A.
ADO Properties S.A.	Citigroup Global Markets Funding Luxembourg S.C.A.	HSH Nordbank Securities S.A.
Advanzia Bank S.A.	Clearstream Banking S.A.	Industrial and Commercial Bank of China (Europe) S.A.
Aeolos S.A.	Compagnie de Banque Privée Quilvest S.A.	Intesa Sanpaolo Bank Luxembourg S.A.
AFI.ESCA Luxembourg S.A.	CPI Property Group S.A.	Koromo S.A.
Agate Assets S.A.	CRC Breeze Finance S.A.	La Mondiale Europartner S.A.
Ageas Hybrid Financing S.A.	Credit Suisse (Luxembourg) S.A.	Logwin AG
Ageasfinlux S.A.	D.A.S. Luxembourg Allgemeine Rechtsschutz - Versicherung S.A.	M.M. Warburg & CO Luxembourg S.A.
Allegro Investment Corporation S.A.	DB Vita S.A.	Nestlé Finance International Ltd.
Allianz Life Luxembourg S.A.	DekaBank Deutsche Girozentrale Luxembourg S.A.	NORD/LB Luxembourg S.A.
Alpha Trains Finance S.A.	DEPFA Pfandbrief Bank International S.A.	Covered Bond Bank
A.M.E. Life Lux S.A.	Deutsche Bank Luxembourg S.A.	O'Key Group S.A.
AmTrust Insurance Luxembourg S.A.	DKV Luxembourg S.A.	Orco Property Group S.A.
Andbank Luxembourg S.A.	EQT Mid-Market Credit SV S.A.	Palladium Securities 1 S.A.
Apicil Life S.A.	European Directories BondCo S.C.A.	Primelux Insurance S.A.
Arisa Assurances S.A.	Fideuram Bank (Luxembourg) S.A.	Regus Plc S.A.
Aspecta Assurance International Luxembourg S.A.	FMC Finance VIII S.A.	Sal. Oppenheim Jr & Cie Luxembourg S.A.
Banco Bradesco Europa S.A.	FWU Life Insurance Lux S.A.	Silver Arrow S.A.
Bank GPB International S.A.	Global Bond Series I S.A.	SMBC Nikko Bank (Luxembourg) S.A.
Banque BCP S.A.	Global Bond Series II S.A.	Société Nationale de Crédit et d'Investissement
Banque Degroof Petercam Luxembourg S.A.	Global Bond Series IV S.A.	Stabilus S.A.
Banque de Patrimoines Privés	Global Bond Series V S.A.	Sumitomo Mitsui Trust Bank (Luxembourg) S.A.
Banque Hapoalim (Luxembourg) S.A.	Global Bond Series VII S.A.	Talanx Finanz (Luxembourg) S.A.
Bavarian Sky S.A.	Global Bond Series VIII S.A.	The Bank of New York Mellon (Luxembourg) S.A.
	Global Bond Series X S.A.	The Shipowners' Mutual Protection & Indemnity Association (Luxembourg)
	Global Bond Series XIII S.A.	Vorsorge Luxemburg Lebensversicherung S.A.

# KPMG's Global Values

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



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