



# Transparency report 2018

**Our relentless focus on quality**

KPMG Luxembourg, Société coopérative

January 2019

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



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# Message from our Leadership

## Quality is our Priority

Welcome to the 2018 edition of our Transparency Report, covering the financial year to 30 September 2018.

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.

We have an unshakeable commitment to quality and know that our standards must be of the very highest level in order to build public trust. Responsibility for quality starts at the top and means reinforcing accountability through the complete chain of command in all our teams so that every action helps us meet our rigorous quality objectives.

Our 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 finding and 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 through robust quality monitoring, with a focus on getting to the root cause of quality issues and effective remediation.

We are committed to working closely with regulators, audit committees, investors and businesses to meet their expectations of 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 have a strong vision for the future at KPMG and an exciting journey ahead of us. Our commitment to quality is fundamental to our journey, and is the overriding priority.

Luxembourg, 31 January 2019



**Philippe Meyer**  
*Managing Partner*



**Emmanuel Dollé**  
*Head of Audit*

<sup>1</sup> Our Transparency Report for the year ended 30 September 2018 has been prepared in accordance with the provisions of Article 13 of the EU Regulation 537/2014 of the European parliament and the Council of 16 April 2014.



# 2

## Who we are

### 2.1 Our business

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

As at 30 September 2018, we employ 1,690 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).

### 2.2 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 achieve that we must maintain and further increase 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.



# 3

# Our structure and governance

## 3.1 Legal structure

KPMG Luxembourg, Société coopérative is affiliated with KPMG International Cooperative ('KPMG International'), a Swiss cooperative which is a legal entity formed under Swiss law. It is the entity with which all the member firms of the KPMG network are affiliated. Further details about KPMG International and its business activities, including our relationship with it, are available in section 'Governance and leadership' to the **KPMG International Transparency Report**.

KPMG Luxembourg is part of 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 its member firms operate.

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 2018.

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.

## 3.2 Name, ownership and legal relationships

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 defined by 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

During the year to 30 September 2018 there was an average of 41 partners at KPMG Luxembourg (2017: 40 partners).

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

Member firms commit to a common set of KPMG values.

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



### 3.4 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 2018 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 2018 the Supervisory Board met 14 times, including two joint meetings with the Executive Committee.

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



# 4

# 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 and associated procedures are designed to assist member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances, as well as to help member firm personnel act with integrity and objectivity and perform their work with diligence.

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), applicable to member firms that perform statutory audits and other assurance and related services engagements.

Our firm 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 the Commission de Surveillance du Secteur Financier (CSSF) and other relevant regulators as well as local legal and regulatory requirements.

Amendments to risk and quality policies, including ethics and independence policies, are included in quality and risk management alerts and are communicated by email.

Quality control and risk management are the responsibility of all KPMG personnel wherever they are based. 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 of KPMG’s quality control processes are cross-functional and apply equally to tax and advisory work, the primary focus of the transparency report requirements relates to audit and the remainder of this section focuses on what we do to ensure delivery of quality audits.

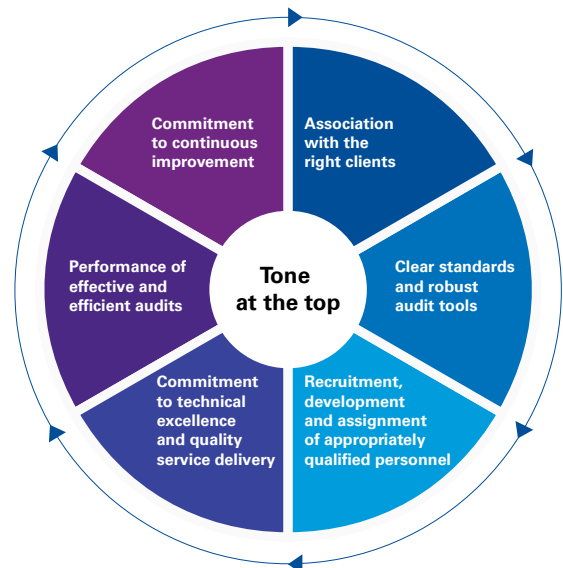
## Audit Quality Framework

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 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 behaviors required to deliver a quality audit, KPMG International has developed the Audit Quality Framework. This Framework uses a common language that is adopted by all KPMG member firms, including KPMG Luxembourg, to describe what the KPMG network believes drives audit quality, and to highlight how every audit professional at each KPMG member firm contributes to the delivery of audit quality.

“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 behaviors permeate across the entire KPMG network.

All of the other drivers create 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.



## 4.1 Tone at the Top

The culture of KPMG International and KPMG member firms is underpinned by a strong set of values and supporting policies and processes that enable the right attitudes and behaviors to permeate throughout the KPMG network.

Our global leadership, working with regional and member firm leaderships, 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 and investors rely.

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

Tone at the top means that our leadership demonstrates its commitment to quality, ethics and integrity and communicates its commitment to clients, stakeholders, and society at large 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 for a number of years, are embedded into the working practices and values-based compliance culture.

We communicate our values clearly to our people and embed them in our people processes - induction, performance development and reward.

Our values are set out in Appendix 5.

### *KPMG Code of Conduct*

KPMG's commitment to integrity and quality is enshrined in the KPMG values that lie at the heart of the way we do things. They define KPMG's diverse and inclusive culture and our commitment to the right personal and professional conduct. The KPMG values emphasize that, above all, KPMG personnel act with integrity, uphold the highest professional standards and provide sound advice

while rigorously maintaining independence and complying with laws, regulations, and professional standards.

The KPMG values are communicated clearly to all people and are embedded into member firms' people processes - induction, performance development and reward.

In addition KPMG Luxembourg's Code of Conduct lays out the expectations of ethical behavior for all partners and employees and is built on the foundation of the KPMG values, the shared set of beliefs and principles at KPMG.

The Code of Conduct emphasizes 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.

The Code of Conduct sets out our commitments and includes provisions that require KPMG personnel to:

- comply with all applicable laws, regulations, professional standards and KPMG policies
- work with the right clients and third parties
- focus on quality
- maintain our objectivity and independence
- not tolerate any illegal or unethical acts, whether committed by or within KPMG Luxembourg by clients, or suppliers, or public officials with whom we deal
- protect information
- compete fairly
- help our people to be extraordinary
- be responsible corporate citizens
- build public trust.

All KPMG Luxembourg personnel are required to:

- comply with both the Code of Conduct and confirm their compliance with the Code of Conduct upon joining the firm, and annually thereafter; and
- complete regular training covering the Code of Conduct upon joining the firm and on a biennial basis thereafter.

Individuals are encouraged to speak up when they see something that makes them uncomfortable or that is inconsistent with the KPMG 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 the KPMG values, KPMG policies, applicable laws, regulations, or professional standards.

We have procedures and established channels of communication so that our personnel can report ethical and quality issues. Retaliation is prohibited against individuals who report in good faith.

We operate a whistle-blowing hotline in Luxembourg which is available to KPMG 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 organization. Our people can raise matters anonymously and without fear of retaliation.

In addition, the KPMG International hotline is a mechanism for KPMG partners, employees, clients and other external parties to confidentially report concerns they may have relating to certain areas of activity by KPMG International itself, KPMG member firms or the senior leadership or employees of a KPMG member firm.

At KPMG Luxembourg, we regularly monitor the extent to which our people feel we live the KPMG values through the Global People Survey.

#### *Leadership responsibilities for quality and risk management*

KPMG Luxembourg 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.

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.

#### *Ethics and Independence Partner (EIP)*

The Ethics and Independence Partner has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG Luxembourg and reports on ethics and independence issues to the Managing Partner.

#### *Head of Audit, Tax and Advisory*

The three heads of the client service functions (Audit, Tax and Advisory) are accountable to the Managing Partner for the quality of service delivered in their respective functions. Between them, they determine the operation of the risk management, quality assurance and monitoring procedures for their specific functions. These procedures make it clear that at the engagement level, risk management and quality control is ultimately the responsibility of all professionals.

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 fulfil 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 and 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 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 program is described in Section 4.7. The QPLP reports the results of the program to the Quality & Risk Management Partner, the Head of Audit and the Managing Partner of KPMG Luxembourg.



### *Investing in continuous improvement*

At a global level, KPMG International has introduced a number of changes as the KPMG network continues to invest in continuous improvement. These include the creation of the Global Audit Quality Committee of the Global Board, comprised of Senior Partners from the largest firms in the KPMG network, and the appointment of a dedicated Global Head of Audit Quality who reports to the committee. Through these changes, KPMG International is driving greater accountability among Senior Partners and member firm Audit Leaders, which is backed up and reinforced through other measures such as a re-design of our system of quality control, enhanced global monitoring of audit quality, and enhanced resources, support and tools for engagement teams.

## **4.2 Association with the right clients**

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

One of the keys to managing audit quality is to understand the nature of our clients and the issues they face and build a robust audit response to the identified risks.

We understand our clients are linked to the quality of our work and our reputation.

Rigorous client and engagement acceptance and continuance policies and processes help protect KPMG's reputation, support the KPMG brand and are an important part to our ability to provide high-quality professional services.

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.

### *4.2.2 Client and engagement acceptance process*

#### *Client evaluation*

KPMG Luxembourg undertakes an evaluation of every prospective client.

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

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 or a sufficiently skilled and experienced delegate is involved in approving the evaluation.

### *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, 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 personnel assigned to staff the engagement. The evaluation is made in consultation with other senior personnel and includes review by Quality & 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 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. 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 required to be 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 standards and our policies, or there are other quality and risk issues that cannot be appropriately mitigated.



#### 4.2.3 *Continuance process*

KPMG Luxembourg 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 re-evaluation.

In addition, clients are required to be re-evaluated if there is an indication that there may be a change in their risk profile.

#### 4.2.4 *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, professional and regulatory responsibilities. We also communicate as necessary with those charged with governance, the CSSF and other appropriate authorities.

#### 4.2.5 *Client allocation management*

Our 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 at least annually 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.

### **4.3 Clear standards and robust audit tools**

All KPMG Luxembourg's professionals are expected to adhere to the policies and procedures of KPMG International and KPMG Luxembourg (including independence policies) and we provide a range of tools to support them in meeting these expectations. The 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.

KPMG has been investing significantly in evolving the network's 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, automation, and visualization. Data & Analytics (D&A) 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.

#### 4.3.1 *Consistent audit methodology and tools*

Significant resources are dedicated to keeping KPMG's standards and tools complete and up to date. The KPMG audit methodology, developed by the Global Service Centre (GSC), is based on the requirements of International Standards on Auditing (ISAs). The KPMG audit methodology is set out in the KPMG Audit Manual (KAM) and includes additional requirements that go beyond the ISAs where KPMG International believes these enhance the quality of the audit. The methodology emphasizes applying appropriate professional skepticism 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 be in compliance with standards, emerging auditing areas of focus and audit quality results (internal and external). Key topics include accounting estimates, internal control, revenue recognition, group audits, audit sampling and risk assessment.

We may also add local requirements and/or guidance in KAM to comply with additional professional, legal or regulatory requirements.

KAM contains examples and guidance for, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks.

The KPMG audit methodology encourages the use of specialists when appropriate, and also requires involvement of relevant specialists in the core audit engagement team when certain criteria are met or where the audit team considers it appropriate or necessary.

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.

The KPMG audit workflow is enabled through eAudit, an activity-based workflow and electronic audit file. eAudit is KPMG's audit documentation workflow that allows 75,000+ professionals to complete high quality and consistent audits. eAudit integrates KPMG's audit

methodology, guidance and industry knowledge, and the tools needed to execute and document the audit work performed.

eAudit 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 our audit guidance, professional standards and documentation templates.

Significant investments are underway to revise and enhance the KPMG audit methodology (KAM) and workflow tool (eAudit), with the deployment of KPMG Clara Workflow.

#### *KPMG Clara, KPMG Clara Workflow and Audit Data & Analytics (D&A)*

KPMG International is making significant investments to improve audit quality, drive consistency in execution of audits and strengthen both the member firm and global monitoring of engagements.

#### *KPMG Clara*

In 2017, KPMG International commenced the global launch of KPMG Clara – KPMG's Smart Audit Platform, bringing together KPMG's Audit Data & Analytics (D&A) capabilities, innovative new technologies, collaboration capabilities and audit workflow.

This represents KPMG's ambition to:

- transform audit execution for our people and clients through new, modern technology-enabled interfaces and collaboration functionality;
- integrate the required capability to digitize the audit and deliver new D&A routines;
- enable an enhanced and re-designed workflow;
- incorporate the development of monitoring capabilities at the engagement-level and across engagement portfolios for use by engagement teams and member firms;
- support Global's leadership's monitoring of the effectiveness of member firm systems of quality control; and
- develop an extendable audit platform to enable member firm customization and scale, as well as future capabilities.

KPMG Clara also encompasses the tracking of selected engagement-level indicators by engagement teams for an individual engagement and across an engagement portfolio. This provides a summary and visualization of these indicators to:

- measure audit engagement progress and ensure timely issue resolution;
- facilitate audit execution by providing key indicators for prioritizing tasks; and

- highlight unexpected results/relationships that may require further investigation.

KPMG Clara will be enriched over time as emerging technologies continue to transform the audit, with areas like cognitive and predictive technology being channeled through KPMG Clara to deliver ever greater capabilities. Through alliances with some of the world's most advanced technology companies such as Microsoft, KPMG is building the future of audit, aligning with technology leaders to bring new insights faster and, with growing capabilities, deliver even more value through KPMG member firm audits. KPMG International's investment strategy also includes innovation, working with universities on important applied audit research and working with member firms as they develop advanced technologies.

#### *KPMG Clara Workflow*

Building on the launch of KPMG Clara in 2017, KPMG International is creating a new workflow tool that will be used by KPMG audit teams to execute and document KPMG audits. It will be intuitive, user-friendly and modern. The new system will genuinely be a workflow – guiding audit teams through a series of steps in a logical sequence, with clearer display of information and visuals, knowledge and guidance available at the moment of need, and with embedded advanced D&A capabilities. The workflow and 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 drive improvements in audit quality.

KPMG Clara Workflow will incorporate the development of monitoring capabilities (e.g. data mining) at the engagement level for use by member firms. The KPMG Clara Workflow is being piloted in 2018, with initial deployment globally in 2019 and full deployment beginning in 2020. The predecessor audit workflow tool, eAudit, is expected to be decommissioned in the 2021 fiscal year.

#### *Audit Data & Analytics (D&A)*

KPMG's audit, powered by D&A:

- enhances audit quality; by providing a deeper understanding of data populations, giving focus to higher risk transactions;
- is secure; by restricting access to data both in transit and within KPMG's IT environments; and
- is 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.

D&A tools and routines are built on principles and professional standards underlying an audit and do not relieve auditors of their responsibilities.

KPMG Clara, the KPMG smart audit platform, was launched in mid- 2017. It puts technology and D&A right at the heart of our approach, bringing advanced capabilities and knowledge together in one environment.

KPMG Clara will integrate all of KPMG's advanced capabilities and knowledge, and empower our people to work in smarter ways, unlocking the power of innovation to help deliver a robust and leading- edge audit. It is our gateway to continued audit innovation, and incremental additions will be made over time.

Further details on innovation in audit tools and technology are set out in the **KPMG International Global Review**.

#### *4.3.2 Independence, integrity, ethics and objectivity*

##### *4.3.2.1 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 Global Q&RM Manual. Automated tools facilitate compliance with these requirements.

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

These policies are supplemented by other processes to ensure compliance with the EU Regulation No 537/2014 of 16 April 2014, 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 (EIP) who has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG Luxembourg.

Amendments to KPMG International's ethics and independence policies in the course of the year are included in regular quality and risk communications.

Member firms are required to implement changes as specified in the email alerts, and this is checked through the internal monitoring programs.

Our personnel are required to consult with the EIP on certain matters as defined in the Global Q&RM Manual.

Consultations may also be required with the Global Independence Group, depending upon the facts and circumstances.

#### 4.3.2.2 Personal financial independence

KPMG International policies require that KPMG member firms and KPMG professionals must be free from prohibited financial interests in, and prohibited relationships with, KPMG's audit clients, their management, directors, and significant owners. The policies also extend the IESBA Code of Ethics restrictions on ownership of audit client securities to every KPMG member firm partner in respect of any audit client of any member firm.

Our professionals are responsible for making appropriate inquiries and taking other appropriate actions on an ongoing basis to ensure that they do not have any personal financial, business or family interests that are restricted for independence purposes.

In common with other KPMG member firms we use a web-based independence tracking system, KICS, to assist our professionals in complying with personal independence investment policies. This system contains an inventory of publicly available investments.

Partners and all manager grade and above client-facing personnel 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 KICS, which automatically notifies them if any investment subsequently become restricted. Newly restricted investments must 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 a sample of professionals.

#### 4.3.2.3 Employment relationships

Any 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 member firm that is a public interest entity.

Former members of the audit team or former partners of KPMG Luxembourg are prohibited from joining an audit client in certain roles unless they have disassociated from KPMG Luxembourg financially and have ceased participating in KPMG Luxembourg's 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 of KPMG Luxembourg's professionals by audit clients.

#### 4.3.2.4 Firm financial independence

KPMG member firms must also be free from prohibited interests in, and prohibited relationships with, audit clients, their management, directors and significant owners.

In common with other KPMG member firms, KPMG Luxembourg uses KICS to record its own investments in SEC entities and affiliates (including funds), locally listed companies and funds, direct and material indirect investments held in pension, and employee benefit plans (including non-public entities and funds).

Additionally, KPMG Luxembourg is required to record in the system all borrowing and capital financing relationships, and custodial, trust and brokerage accounts that hold member firm assets.

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

#### 4.3.2.5 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.

#### 4.3.2.6 Independence Clearing Process

KPMG Luxembourg 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,' must be completed prior to accepting an audit engagement for these entities.

#### 4.3.2.7 Independence training and confirmations

All KPMG Luxembourg partners and client service professionals must complete independence training that is appropriate to their grade and function upon joining KPMG Luxembourg and on an annual basis thereafter.

New personnel who are required to complete this training must do so by the earlier of (a) thirty days after joining KPMG Luxembourg or (b) before providing any services to, or becoming a member of the chain of command for any audit client, including any of its related entities or affiliates.

We also provide all personnel with training on the Global and the KPMG Luxembourg Code of Conduct and ethical behavior, 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 on a biennial basis. New personnel are required to complete this training within three months of joining KPMG Luxembourg.

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 undertake anti-bribery training.

Upon acceptance of employment, all KPMG personnel are required to confirm that they are in compliance with, and will abide by, applicable ethics and independence rules and policies. Thereafter, all KPMG personnel are required to sign an annual confirmation stating that they have remained in compliance with applicable ethics and independence policies throughout the year covered by the confirmation as well as their understanding of, and compliance with, the applicable Code of Conduct. This confirmation is used to evidence the individual's compliance with and understanding of KPMG's independence policies.

#### 4.3.2.8 *Non-audit services*

We have policies that are consistent with IESBA principles and applicable laws and regulations, related to the scope of services that can be provided to audit clients.

We are required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG Luxembourg.

KPMG Luxembourg's EIP is involved in the review of potential independence issues, and the Global Independence Group is involved in the case of services developed which are intended to be delivered to audit or assurance clients in more than one jurisdiction.

In addition to identifying potential conflicts of interest, Sentinel™ facilitates compliance with these policies. Certain information on all prospective engagements including service descriptions and fees must be entered into Sentinel™ as part of the engagement acceptance process. Lead audit engagement partners are required to maintain group structures for publicly traded and certain other audit clients as well as their affiliates in Sentinel™, and 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. Sentinel™ enables lead audit engagement partners for those entities for which group structures are maintained, to review and approve, or deny, any proposed service for those entities worldwide.

#### 4.3.2.9 *Fee dependency*

KPMG International's policies recognize 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 member firm expressing the audit opinion.

They 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 EQC reviewer.

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

#### 4.3.2.10 *Conflicts of interest*

Conflicts of interest can arise in situations where KPMG personnel 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 Quality & Risk Management and Ethics & Independence Partner is required in these situations.

All KPMG member firms and personnel are responsible for identifying and managing conflicts of interest, which are circumstances or situations that have, or may be perceived by a fully informed, reasonable observer, to have an impact on a member firm or its personnel in their ability to be objective or otherwise act without bias.

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

KPMG Luxembourg has risk management resources ('Resolvers') who are responsible for reviewing an identified potential conflict and working with the affected member firms to resolve the conflict, the outcome of which must be documented. It may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise or be perceived to arise 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.

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.

#### 4.3.2.11 *Breaches of independence policy*

All KPMG Luxembourg 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 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.

#### *4.3.2.12 Compliance with laws, regulations, and anti-bribery and corruption*

Compliance with laws, regulation and standards is a key aspect for all our personnel. In particular, we have zero tolerance of bribery and corruption.

We prohibit involvement in any type of bribery. 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](#).

#### *4.3.2.13 Partner and firm rotation*

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

Our audit 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 statutory 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 or in any way influence the outcome of the audit.

Our firm monitors the rotation of audit engagement leaders (and any other key roles, such as the Key Audit Partner and EQC Reviewer, where there is a rotation requirement), 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 EU Audit legislation for public interest entity audit clients. The firm has processes in place to track and manage audit firm rotation.

## **4.4 Recruitment, development and assignment of appropriately qualified personnel**

One of the key drivers of quality is ensuring that our professionals have the appropriate skills and experience, passion and purpose, to deliver the highest quality in audit. This requires appropriate recruitment, development, promotion, retention and assignment of professionals.

The KPMG performance development approach is linked to the KPMG values, and is designed to articulate what is required for success - both individually and collectively. Ensuring Audit quality is an essential element of the training, planning and development underway to support the KPMG Clara Workflow roll-out and the associated updated KPMG audit methodology, with processes embedded in all KPMG learning programs.

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 Program. In 2018 we had 20 high-performing and passionate individuals engaged in our Emerging Leaders Program.

KPMG Luxembourg works hard to foster an inclusive culture. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and perspectives.

### *4.4.1 Recruitment*

KPMG Luxembourg strives to be an employer of choice by creating an environment where our people can fulfill their potential and feel proud and motivated to give their best.

All candidates submit an application and are only 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 695 talented people including experienced hires, graduates and trainees.

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

The Partner hire process is rigorous and thorough, involving appropriate members of leadership. Our criteria for Partner hires are consistent with our commitment to professionalism and integrity, quality, and being an employer of choice.

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

#### 4.4.2 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 4.5.1).

KPMG is launching a new Performance Development process which will apply to all member firms called 'Everyone a Leader', where stretching goals should be set and reviewed regularly throughout the year. Leadership competencies will include 'driving quality', 'advancing an ethical environment' and 'making sound decisions'.

A goals library is available for colleagues to gain inspiration around what goals they want to set, with one category of goals focused specifically around quality.

As part of the open approach, stretching goals should be set and reviewed regularly throughout the year.

A culture of continuous improvement is encouraged to drive feedback, both positive and developmental, from both junior and senior colleagues, as well as peers. In our performance development approach feedback can be sought and received through two mechanisms:

- informal feedback, which should be regular and owned by the individual for their own development and growth, and
- formal feedback through an engagement review form.

In relation to audit, opportunities are provided for professionals to develop the skills, behaviors, 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.

KPMG Luxembourg professionals are also developed for high performance through access to coaching and

mentoring on the job, stretch assignments, and country rotational and global mobility opportunities.

A partner development framework is in place that links particular training programs 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 programs.

#### 4.4.3 Performance and Reward

##### *Evaluation process including quality and compliance metrics*

KPMG Luxembourg's professionals, including partners, have annual goal-setting and performance reviews.

Each professional is evaluated on their agreed-upon goals, demonstration of our leadership competencies, technical capabilities and market knowledge. A culture of continuous improvement is encouraged to drive feedback, both formal and informal, from junior and senior colleagues, as well as peers. Feedback gathered forms an integral part of performance reviews. The engagement review form specifically requests feedback on quality and inputs it into performance evaluations.

Partners are also required to be evaluated on key quality and compliance metrics.

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

KPMG Luxembourg's policy prohibits audit partners from being evaluated on or compensated based on their success in selling non-assurance services to audit clients.

##### *Reward*

Our firm has compensation and promotion policies that are clear, simple, and linked to the performance review process, which for partners includes the achievement of key audit quality and compliance metrics. This helps our partners and employees know what is expected of them, and what they can expect to receive in return.

Reward decisions are based on consideration of both individual and organizational (member firm) performance. 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 (refer to section 4.4.5).



### *Promotion*

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

### *Partner admissions*

Our process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. Our criteria for admission to the KPMG Luxembourg partnership are consistent with our commitment to professionalism and integrity, quality, and being an employer of choice. These are strongly aligned to KPMG's behavioral capabilities and are based on consistent principles.

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.

### *4.4.4 Assignment of professionals*

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 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 leaders are required to be satisfied that their engagement teams have appropriate competencies, training 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 specialized areas of accounting or auditing;
- Knowledge of relevant industries in which the client operates;
- Ability to apply professional judgment;
- An understanding of KPMG's quality control policies and procedures; and
- 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 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 him 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.

#### 4.4.5 *Insights from our people – Global People Survey (GPS)*

Annually KPMG Luxembourg invites all its people to participate in an independent Global People Survey (GPS) to share their perception about their experience working for KPMG.

The GPS provides an overall measure of our people's engagement through an Employee Engagement Index (EEI) as well as insights into areas driving engagement which may be strengths or opportunities. The survey also identifies opportunities to strengthen those levels of engagement. Results can be analyzed by function, area, grade, role and gender to provide additional insight.

Additional insight is provided on how we are faring on categories known to impact employee engagement.

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

KPMG Luxembourg participates in the GPS, monitors results and takes appropriate actions to communicate and respond to the findings of the survey. This includes monitoring GPS results including those related to audit quality and tone at the top, and employee engagement through the EEI.

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

All KPMG Luxembourg professionals are provided with the technical training and support they need. This includes access to specialists and the professional practice department (DPP), which is 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. Where the right resource is not available within KPMG Luxembourg, access is provided to a network of highly skilled KPMG professionals in other KPMG member firms.

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

### 4.5.1 *Lifetime learning strategy*

In addition to personal development discussed in the section above, our lifetime learning strategy is underpinned by policies requiring all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

#### *Formal training*

Annual training priorities for development and delivery are identified by the Audit Learning and Development steering groups at global and regional levels and, where applicable, KPMG Luxembourg. Training is delivered using a blend of classroom, digital learning and performance support to assist auditors on the job. Audit Learning and Development teams work with subject matter experts and leaders from the Global Services Centre, the International Standards Group (ISG) and member firm DPP as appropriate, to ensure the training is of the highest quality, is 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 (CPD) requirements and with KPMG's mandatory training

and licensing requirements (see Section 4.5.2). Non-attendance at mandatory training is captured as one of the measures in the quality and risk metrics.

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

Learning is not confined to the classroom - 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. All classroom courses are reinforced with appropriate performance support to assist auditors on the job.

#### *4.5.2 Accreditation and licensing*

All KPMG professionals are required to comply with applicable professional license 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 have 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 license to undertake their work are appropriately licensed.

#### *4.5.3 Access to specialist networks*

Our engagement teams have access to a network of local and global specialists in KPMG member firms.

Specialists who are members of an audit team and have overall responsibility for specialist involvement on an audit engagement must have the competencies, capabilities and objectivity to appropriately fulfil their role. Training on audit concepts is provided to these specialists.

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

#### *4.5.4 Culture of Consultation*

KPMG encourages a strong culture of consultation that supports member firm teams throughout their decision-making processes and is a fundamental contributor to audit quality. We promote a culture in which consultation



is recognized as a strength and that encourages personnel to consult on difficult or contentious matters. In addition, our Global Q&RM Manual includes mandatory consultation requirements where certain matters are identified such as concerns over client integrity.

Appropriate consultation support is provided to audit engagement professionals through our professional practice resources.

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 consultation and global resources*

Technical auditing and accounting support is available to all member firms and their professionals through the GSC and the ISG as well as the US Capital Markets Group for SEC foreign registrants.

#### *Global Services Center (GSC)*

The GSC's mission is to drive success for KPMG's global network of Audit practices through collaboration, innovation and technology. The GSC develops, maintains and deploys KPMG's global audit methodology and technology-based tools used by KPMG audit professionals to facilitate effective and efficient audits. With three global locations, one in each region, the GSC Audit team is made up of 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 and ISAs topic teams with geographic representation from around the world to promote consistency of interpretation of IFRS and auditing requirements between member firms, identify emerging issues, and develop global guidance on a timely basis.

Further details about the GSC and ISG and its activities are available in the **KPMG International Transparency Report**.

#### *Member firm professional practice resource*

Appropriate consultation support on auditing and technical accounting matters is provided to audit engagement professionals through our professional practice resources (referred to as Department of Professional Practice or DPP). DPP also assists engagement teams where there are differences of opinion either within teams or with the EQC reviewer. Unresolved differences are required to be escalated to senior partners for final resolution. The ISG is also available for consultation when required.

KPMG International policies include minimum requirements for member firm DPPs.

#### *4.5.5 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, which is made available to audit professionals through the KPMG audit workflow. This knowledge

comprises examples of industry audit procedures and other information (such as typical risks and accounting processes).

In addition, industry overviews are available that provide general and business information in respect of particular industries, as well as a summary of the industry knowledge provided in the KPMG audit workflow.

## **4.6 Performance of effective and efficient audits**

Our personnel are expected to demonstrate key behaviors and follow policies and procedures in the performance of effective and efficient audits.

### *4.6.1 Ongoing mentoring, 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 KPMG professionals, without compromising on quality, KPMG Luxembourg promotes a continuous learning environment and supports a coaching culture.

The engagement partner, supported by the engagement manager, is responsible for driving a culture of coaching and continuous learning throughout the audit process and setting an example in the performance of the audit to drive a culture of continuous audit quality improvement.

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; 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.

### *4.6.2 Timely engagement quality control (EQC) reviewers*

EQC reviewers are independent of the engagement team and have the appropriate experience and knowledge to perform an objective review of the critical decisions and judgments made by the engagement team and the appropriateness of the financial statements.

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 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.

The EQC review takes place before the date of the Auditor's report and includes, among other matters:

- Review of selected audit documentation relating to significant judgments the engagement team made and the conclusions it reached;
- Review of the financial statements and proposed auditor's report;
- Evaluation of the conclusions reached in formulating the auditors' report and consideration of whether the proposed report is appropriate.

Although the engagement partner is ultimately responsible for the resolution of financial reporting and auditing matters, the EQC reviewer must be satisfied that all significant questions raised have been resolved before an audit can be considered complete.

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 the KPMG audit workflow to facilitate effective reviews;
- Implementing policies relating to recognition, nomination and development of EQC reviewers, as well as monitoring and assessing the nature, timing and extent of their involvement; and
- Ensuring that the role performed by EQC reviewers is also taken into account when performing the Partner Portfolio Review process to ensure adequacy of time and appropriate skill set for the role and reallocation if needed.

#### 4.6.3 Reporting

Auditing standards and 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 audit reports, engagement partners have access to extensive reporting guidance and technical support through consultations with the 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).

#### 4.6.4 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 Luxembourg we stress the importance of keeping those charged with governance informed of issues arising throughout the audit and the need to listen to and to understand their views. We achieve this through a combination of reports and presentations, attendance at Audit Committee or Board meetings, and ongoing discussions with management and members of the Audit Committee.

Communications with Audit Committees include:

- An overview of the planned scope and timing of the audit, which includes communicating significant risks identified;
- Significant findings from the audit which may include control deficiencies and audit misstatements;
- An annual written communication, where applicable, that states the engagement team and KPMG Luxembourg have complied with relevant independence requirements; describes all relationships and other matters between KPMG Luxembourg and the audit client that, in our professional judgment, may reasonably be thought to bear on independence; and states related safeguards we have applied to eliminate (or reduce to an acceptable level) identified threats to independence.

We ensure such communications meet the requirements of professional standards.

#### Audit Committee Institute

In recognition of the demanding and important role that Audit Committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, the Audit Committee Institute (ACI) aims to help Audit Committee members enhance their commitment and ability to implement effective Audit Committee processes. The ACI operates in more than 40 countries across the globe (including KPMG Luxembourg) and provides Audit Committee members with authoritative guidance (such as the ACI Audit Committee Handbook, as modified for Luxembourg) on matters of interest to Audit Committees; updates on issues like EU audit reform, changes to accounting standards and other matters of interest to Audit Committees (such as cyber security and corporate culture); and the opportunity to network with their peers during an extensive program of technical updates and awareness seminars.

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

#### *IFRS Institute*

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

#### *4.6.5 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 third parties.

The importance of maintaining client confidentiality is emphasized through a variety of mechanisms including the Global and KPMG Luxembourg Code of Conduct, training and the annual independence 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 Luxembourg personnel.

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 program.

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 program 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 minimize 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 employees, KPMG, and client confidential and personal information. Data privacy policies are also in place governing the handling of personal information.

## **4.7 Commitment to continuous improvement**

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

KPMG International's integrated quality and monitoring programs include the Quality Performance Review (QPR) program, the Risk Compliance Program (RCP) and the Global Compliance Review (GCR) program.

The quality monitoring and compliance programs are globally administered and consistent in their approach across all member firms, including the nature and extent of testing and reporting. We compare the results of internal monitoring programs with the results of those of any external inspection programs and take appropriate action.

### *4.7.1 Internal monitoring and compliance programs*

Our monitoring programs evaluate both:

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

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

Two KPMG International developed and administered inspection programs are conducted annually across the Audit, Tax, and Advisory functions: QPR and RCP.

Additionally, all member firms are covered at least every three years by the cross functional GCR program. Participation in QPR, RCP and GCR is a condition of ongoing membership of the KPMG network.



### Annual Quality Performance Reviews (QPRs)

The QPR Program assesses engagement level performance in the Audit, Tax and Advisory functions 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.

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

In 2018 our QPR Program covered the following:

	Number of engagements reviewed	Number of engagement leaders reviewed
Audit	18	18
Tax	14	7
Advisory	34	17

#### 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'.

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 judgments concerning significant matters in the audit and the audit opinion itself to have been appropriate.

A 'Performance Improvement Needed' grading is attributed where the auditors' report is generally supported by the work performed and the auditors' 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.

#### Reporting

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

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

Lead audit engagement partners are notified of less than satisfactory engagements (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 member 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:

- Monitor, document and assess the extent of compliance of our system of quality control with Global Quality & Risk Management policies and key legal and regulatory requirements relating to the delivery of professional services;
- Provide the basis for KPMG Luxembourg 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)

Each member firm is subject to a GCR conducted by KPMG International's global GCR team, independent of the member firm, at least once in a three-year cycle.

The GCR team performing the reviews is independent of the KPMG member firm and is objective and knowledgeable of Global Quality and Risk Management 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:

- Our commitment to quality and risk management (tone at the top) and the extent to which our overall structure, governance and financing support and reinforce this commitment;
- Our compliance with key KPMG International policies and procedures; and the robustness with which we perform our own compliance program (RCP).

We develop action plans to respond to all GCR findings and agree these with the GCR team. Our progress on action plans is monitored by the GCR central team.

Results are reported to the Global Quality & Risk Management Steering Group (GQ&RMSG) and, where necessary to appropriate KPMG International and regional leadership, to help ensure timely remedial actions taken by the member firm.

The firm was last subject to a GCR during 2018.

*Root Cause Analysis (RCA)*

The Global RCA 5 Step Principles are as follows:



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. 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.

*4.7.2 Recommendations for improvement*

At a global level, through the Global Audit Quality Issues Council (GAQSC) and the GQ&RMSG, KPMG International reviews the results of the quality monitoring programs, analyzes member firm root causes and action plans and develops additional global actions as required.

To date, global remediation plans developed by KPMG International have been aimed at changing culture and behavior across the KPMG network and at driving consistent engagement team performance within KPMG member firms. The remediation plans 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 KPMG network.

*4.7.3 External feedback and dialogue*

*4.7.3.1 Regulators*

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

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 at a network level. At a regional level, we also have regular dialogue with representatives of the Committee of European Auditing Oversight Bodies (CEAOB) - formerly known as the European Audit Inspection Group (EAIG), as well as the ASEAN Audit Regulators Group (AARG).

*4.7.3.2 Client feedback*

In addition to internal and external monitoring of quality, we operate a formal program 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 program 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.

## 5

# Financial information

The following table shows gross revenues from KPMG Luxembourg, Société coopérative in the year ended 30 September 2018, presented in accordance with Regulation (EU) No 537/2014

Service	Revenue (EUR'000,000)	Percent
Statutory audit of annual and consolidated financial statements of PIEs and entities belonging to a group of undertakings whose parent undertaking is a PIE	20	9
Statutory audit of annual and consolidated financial statements of other entities	43	20
Permitted non-audit services to entities that are audited by the firm	23	11
Non-audit services to other entities *	129	60
<b>Total</b>	<b>215</b>	<b>100</b>

\* including contractual audits

Aggregated revenues generated by KPMG audit firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.8 billion during the year ending 30 September 2018. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent calculable and translated at the average exchange rate prevailing in the 12 months ended 30 September 2018.

The financial information set forth represents combined information of the separate KPMG member firms from EU and EEA Member States that perform professional services for clients. The information is combined here solely for presentation purposes.

# 6

# 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 policies 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.

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.

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).



# 7

# Network arrangements

## 7.1 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.

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.

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, standards of work and conduct by member firms, and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity that is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture, or in a principal or agent relationship or partnership with each other.

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

The name of each audit firm that is a member of the network and the countries in which each network member firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available in Appendix 4.

## 7.2 Responsibilities and obligations of member firms

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

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

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the member firms.

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



## 7.3 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 through a program 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 program.

## 7.4 Governance structure

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

### Global Council

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

It performs functions equivalent to a shareholders' meeting (albeit that KPMG International has no share capital and 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.

### Global Board

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.

The Global Board includes the Global 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 Chairman of each of the regions and currently three other senior partners of member firms.

The list of Global Board members, as at 1 October 2018 is available in the **International Global Review**.

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.

### Global Management Team

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 Chairman and includes the Global Chief Operating Officer, Global Chief Administrative Officer, global function and infrastructure heads, and the General Counsel.

The list of Global Management Team members as at 1 October 2018 is available in the **International Global Review**.

### Global Steering Groups

The Global Steering Groups work closely with regional and member firm leadership to:

- Establish and communicate appropriate audit and quality/risk management policies;
- Enable effective and efficient risk processes to promote audit quality;
- Proactively identify and mitigate critical risks to the network.

The Global Steering Groups act under the oversight of the Global Management Team.



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 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 section 'Governance and leadership' of the **KPMG International Transparency Report**.

## 7.5 Area Quality & Risk Management Leaders

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders who serve a regular and ongoing monitoring and consultation function to assess the effectiveness 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 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 in an effort to reduce the number of significant brand and legal risk matters;
- 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 to reduce negative brand and financial impact; and
- monitor the effectiveness of member firm remediation of significant issues, including identification of the root cause(s) of serious quality incidents.

# 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 control 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 control systems as described in this report; and
- The findings from the various compliance programs operated by our firm (including the KPMG International Compliance Programs as described in Section 4); and
- Findings from regulatory inspections and subsequent follow up and/or remedial actions.

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 2018.

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 2018.

## 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 2018 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
<b>Georges Bock*</b>	Head of Tax (until 17 May 2018)
<b>Sébastien Labbé*</b>	Head of Tax (as from 1 June 2018)
<b>Pascal Denis*</b>	Head of Advisory
<b>Emmanuel Dollé*</b>	Head of Audit
<b>Fabrice Leonardi*</b>	Chief Operating Officer
<b>Stephen Nye***</b>	Quality & Risk Management Partner and Ethics & Independence Partner
<b>Frauke Oddone</b>	Head of Markets
<b>Thierry Ravasio</b>	Head of People

### Supervisory Board

<b>Patrick Wies</b>	Chairman
<b>Ravi Beegun</b>	Head of Asset Management
<b>Michael Hofmann</b>	Head of IT Risk Management (until 8 March 2018)
<b>Sébastien Labbé</b>	Tax Partner (until 31 May 2018)
<b>Gerard Laures</b>	Tax Partner (as from 30 June 2018)
<b>Laurence Lhote</b>	Head of Indirect Tax
<b>Petra Schreiner</b>	Audit Partner (as from 28 April 2018)

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

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

\*\*\* Has a permanent seat at the Executive Committee



## 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 2018 is given below.**

**The definition of public interest entity for this purpose is that given under the provisions of Art. 1 (20) of the law of 23 July 2016 concerning the audit profession.**

4finance S.A.	BBGI SICAV S.A.	Industrial Ré S.A.
Aberdeen Global SICAV	Breeze Finance S.A.	ING Belgium International Finance S.A.
Aberdeen Global II SICAV	Bumper 7 S.A.	ING Luxembourg S.A.
Aberdeen Liquidity Fund (Lux), SICAV	Ciba Specialty Chemicals Finance Luxembourg S.A.	Intesa Sanpaolo Bank Luxembourg S.A.
ABLV Bank Luxembourg S.A.	Citigroup Global Markets Funding Luxembourg SCA	Kommun Garanti Reinsurance S.A.
ADO Properties S.A.	Clearstream Banking S.A.	Koromo S.A.
Advanzia Bank S.A.	Compagnie De Banque Privée Quilvest S.A.	La Mondiale Europartner S.A.
Aeolos S.A.	CPI Property Group S.A.	Logwin AG
AFI.ESCA Luxembourg S.A.	CRC Breeze Finance S.A.	Monument Assurance Luxembourg S.A. (formerly ASPECTA Assurance International Luxembourg S.A.)
Agate Assets S.A.	Credit Suisse (Luxembourg) S.A.	NB Aurora S.A. SICAF-RAIF
Ageasfinlux S.A.	D.A.S. Luxemburg Allgemeine Rechtsschutz-Versicherung S.A.	Nestlé Finance International Ltd.
Allegro Investment Corporation S.A.	DB Re S.A.	NORD/LB Luxembourg S.A.
Allianz Life Luxembourg S.A.	DB Vita S.A.	Covered Bond Bank
Alpha Trains Finance S.A.	DekaBank Deutsche Girozentrale Luxembourg S.A.	O'Key Group S.A.
AME Life Lux S.A.	DEPFA Pfandbrief Bank International S.A.	Orco Property Group S.A.
AmTrust Captive Solutions Limited S.A.	Deutsche Bank Luxembourg S.A.	Perpetuum SICAV-FIS S.A.
AmTrust Insurance Luxembourg S.A.	DKV Luxembourg S.A.	RiverBank S.A.
Andbank Luxembourg S.A.	Emerald Bay S.A.	Robeco (LU) Funds III
Aroundtown S.A.	ERGO Life S.A.	Robeco All Strategies Funds, SICAV
Ashmore SICAV	Euler Hermes Ré S.A.	Robeco Capital Growth Funds, SICAV
B&M European Value Retail S.A.	Euromaf Re S.A.	Robeco Global Total Return Bond Fund, SICAV
Banco Bradesco Europa S.A.	European Directories Bondco S.C.A.	Robeco QI Global Dynamic Duration
Bank GPB International S.A.	European Sicav Alliance	ROOF Leasing Austria S.A.
Bank Julius Baer Europe S.A.	EQT Credit II SICAV-FIS S.C.A.	SB Capital S.A.
Banque BCP S.A.	EQT Mid-Market Credit SV S.A.	SI UCITS ETF
Banque de Luxembourg S.A.	Fideuram Bank (Luxembourg) S.A.	Silk
Banque Degroof Petercam Luxembourg S.A.	FMC Finance VIII S.A.	Silver Arrow S.A.
Banque Hapoalim (Luxembourg) S.A.	FWU Life Insurance Lux S.A.	SMBC Nikko Bank (Luxembourg) S.A.
Bantleon Anleihenfonds FCP	Global Bond Series X S.A.	Spandilux S.A.
Bantleon Opportunities FCP	Global Bond Series XIII S.A.	Stabilus S.A.
Bantleon Select SICAV	Global Bond Series XIV S.A.	Sumitomo Mitsui Trust Bank (Luxembourg) S.A.
Bavarian Sky S.A.	Globality S.A.	The Shipowners' Mutual Protection and Indemnity Association (Luxembourg)
	Grand City Properties S.A.	Vianden RCG Re S.C.A.
	Hannover Finance (Luxembourg) S.A.	Wells Fargo (Lux) Worldwide Fund SICAV
	Hauck & Aufhäuser Fund Platforms S.A.	
	Hollenfels RE S.A.	
	HSH Nordbank Securities S.A.	
	Industrial and Commercial Bank of China (Europe) S.A.	

# Appendix 4

## List of KPMG audit entities located in the EU & EEA

As at 30 September 2018

This is a list of KPMG audit firms as defined in Article 2 (3) of EU Directive 2006/43/EC which are located in EU/EEA countries. It has been prepared solely for the purpose of compliance by KPMG member firms with Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC. It is prepared by KPMG International Cooperative ('KPMGI'), a Swiss entity which provides no professional services to clients. To the best of our knowledge, the list is accurate as of 30 September 2018.

Location	Firm Name
Austria	KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (Wien)
Austria	KPMG Alpen-Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (Wien)
Austria	KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (Linz)
Austria	KPMG Niederösterreich GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft
Austria	Plan Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (Wien)
Austria	Securitas Revisions- und Treuhandgesellschaft m.b.H.
Austria	T&A Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH
Belgium	KPMG Bedrijfsrevisoren/KPMG Réviseurs d'Entreprises
Bulgaria	KPMG Audit OOD
Croatia	KPMG Croatia d.o.o. za reviziju
Cyprus	KPMG
Cyprus	KPMG Limited
Cyprus	G. Syrimis & Co
Cyprus	Metaxas Loizides Syrimis & Co
Czech Republic	KPMG Česká republika Audit, s.r.o.
Denmark	KPMG P/S
Estonia	KPMG Baltics OÜ
Finland	KPMG Oy Ab
Finland	KPMG Julkishallinnon Palvelut Oy
France	KPMG Associés S.A.
France	FUTIN Associés
France	KPMG Audit DFA S.A.S.
France	KPMG Audit Est S.A.S.
France	KPMG Audit FS I S.A.S.
France	KPMG Audit ID S.A.S.
France	KPMG Audit IS S.A.S.
France	KPMG Audit Nord S.A.S.
France	KPMG Audit Normandie S.A.S.

Location	Firm Name
France	KPMG Audit Ouest S.A.S.
France	KPMG Audit Paris et Centre S.A.S.
France	KPMG Audit Rhône Alpes Auvergne S.A.S.
France	KPMG Audit Sud-Est S.A.S.
France	KPMG Audit Sud-Ouest S.A.S.
France	KPMG SA
France	KPMG Tartaroli
France	SALUSTRO REYDEL S.A.
France	SAS de Commissaires aux Comptes Berthoud Coldefy Chabaliér
France	SGADG
Germany	KPMG AG Wirtschaftsprüfungsgesellschaft
Germany	ATH Allgemeine Treuhandgesellschaft mbH Wirtschaftsprüfungsgesellschaft
Germany	EUREVISIO GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft
Germany	KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungs- und Steuerberatungsgesellschaft
Germany	KPMG Prüfungs- und Beratungsgesellschaft für den Öffentlichen Sektor Aktiengesellschaft Wirtschaftsprüfungsgesellschaft
Greece	KPMG Certified Auditors AE
Hungary	KPMG Hungária Kft./KPMG Hungary Ltd.
Iceland	KPMG ehf.
Ireland	KPMG
Italy	KPMG S.p.A.
Italy	KPMG Audit S.p.A.
Latvia	KPMG Baltics SIA
Liechtenstein	KPMG (Liechtenstein) AG
Lithuania	'KPMG Baltics' UAB
Luxembourg	KPMG Luxembourg
Malta	KPMG
Netherlands	KPMG Accountants N.V.
Norway	KPMG Holding AS
Norway	KPMG AS
Poland	KPMG Audyt Sp. z.o.o.
Poland	KPMG Audyt Sp. z.o.o. Sp. Komandytowa
Portugal	KPMG & Associados- Sociedade de Revisores Oficiais de Contas, S.A.
Romania	KPMG Audit SRL
Slovakia	KPMG Slovensko spol. s r.o.
Slovenia	KPMG Slovenija, podjetje za revidiranje, d.o.o.
Spain	KPMG Auditores, S.L.
Sweden	KPMG AB
UK	KPMG LLP
UK	KPMG Audit Holdings Limited
UK	KPMG Audit Plc
UK	KPMG Holdings Limited
UK	KPMG Overseas Services Limited





## KPMG values

We **lead by example** at all levels in a way that exemplifies what we expect of each other and member firms' clients.

We **work together** to bring out the best in each other and create strong and successful working relationships.

We **respect the individual** for who they are and for their knowledge, skills and experience as individuals and team members.

We **seek the facts and provide insight** by challenging assumptions and pursuing facts to strengthen our reputation as trusted and objective business advisers.

We **are open and honest** in our communication and share information, insight and advice frequently, and constructively manage tough situations with courage and candor.

We **are committed to our communities** to act as responsible corporate citizens by broadening our skills, experience, and perspectives through work in our communities.

Integrity is a critical characteristic that stakeholders expect and rely on. Therefore, above all we **act with integrity** and are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.

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



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