

Sharing audit insights – our approach to reporting our findings



Restoring Trust

Shaping the future of corporate reporting



Simon Collins

Earlier this year we field-tested a bold idea: in three of KPMG's new, long-form audit reports (including Rolls-Royce) we reported not only 'the risks' and 'our response' but 'our findings'. This innovation attracted widespread interest. It's been a talking point among investors. It's been a talking point globally, not only featured in the New York Times but also as a recurring theme at a PCAOB public meeting about the future of US auditing. This is just the sort of debate that we wanted to promote when we launched our Restoring Trust initiative. And when we were approached by an audit committee chairman asking, "can I have a 'Rolls-Royce' audit report?", we knew that we needed to think about moving beyond a field test.



Tony Cates

So at our own board at KPMG we have carefully debated whether and how to take this forward. We have sounded out our most senior audit partners. We have looked at the feedback from investors. As a board, we have decided that at KPMG we should provide our 'findings' reports more widely. In this public statement we explain that approach and why we have adopted it.

So what is our approach?

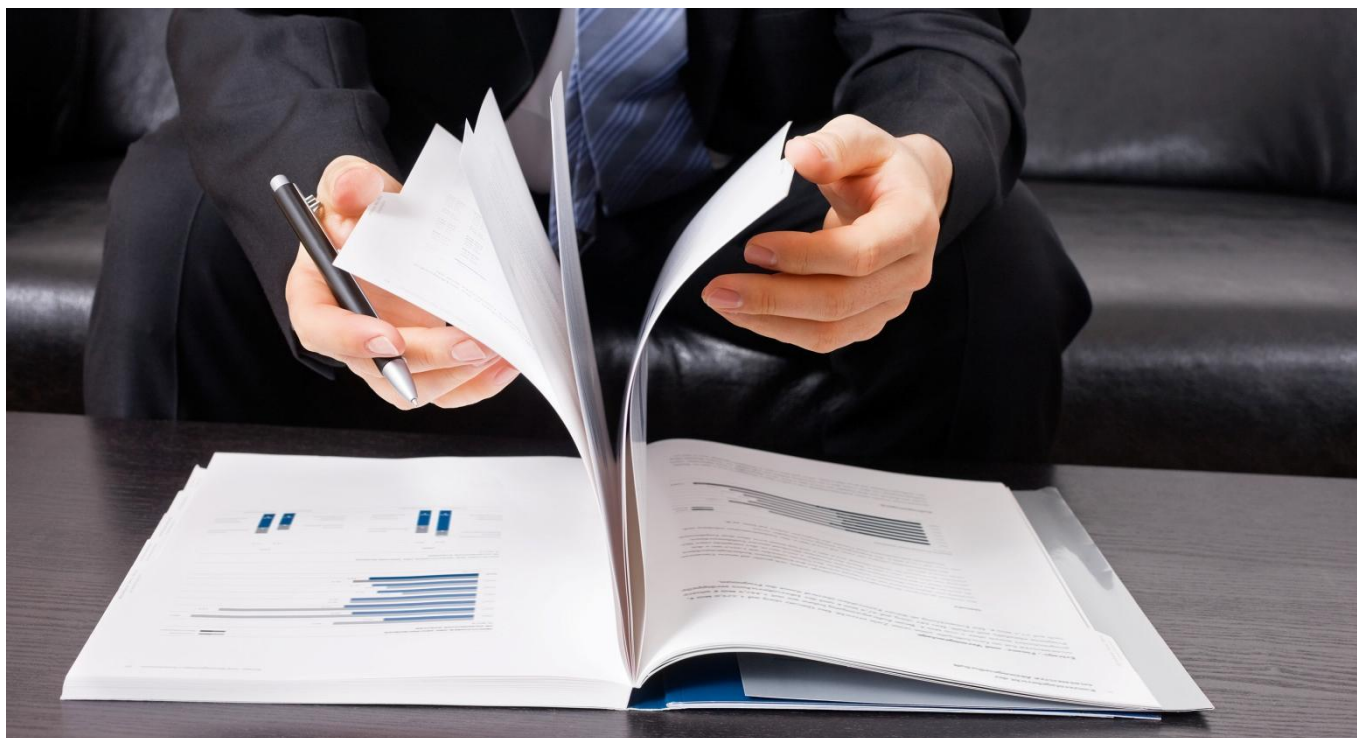
This is an open invitation to companies to have findings on the key risk areas included in their KPMG audit reports. This is, in effect, a call for further companies to come forward to help shape the future of corporate reporting. Our policy is that this reporting would be on a voluntary basis on the part of companies. It is neither possible nor appropriate for us as a firm to insist on reporting findings.

All that we ask of companies is that they decide before the start of the final audit whether to take this up. This will secure that decisions are free from any question of bias and are about participating in the future of corporate and audit reporting.

By publicly issuing this policy we are seeking to be open and transparent ourselves. We want to signal our readiness to do this reporting for any that want it, rather than seeming to select companies. We want to explain openly why we believe that this reporting needs to be taken forward.

KPMG approach

We will include our findings in new, long-form audit reports where, before the final audit commences, the company engages us to do so.



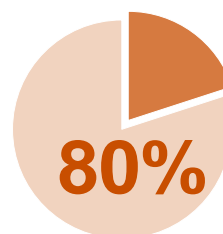
Why is this our approach?

We believe that better stewardship relationships are in the long-term interests of the economy. If companies and their shareholders are positively engaged, then governance and long-term investment would benefit. The annual accounts and the audit report – which is for, and addressed to, shareholders – contribute to that relationship by helping to place it on a solid foundation of trust. In recent years we have seen a need to restore that trust, as well as that in business generally. It is clear to us from the positive feedback received on our field test that findings make a significant additional contribution to that. So if this initiative is not to stall, then we should welcome a second wave of companies to take it up.

When, back in March, we commented on the field test, we said that at KPMG we should be ready to deliver this reporting if there was a consensus between the investment and corporate communities. This will take some time yet to emerge. For example, it is not yet on the active agenda of the FRC, which holds the natural leadership for forging such a cross-community consensus. We presume that it will move up the agenda as the effective date of the EU audit reforms approaches (2016), because they include what appears to be a requirement to report audit findings.

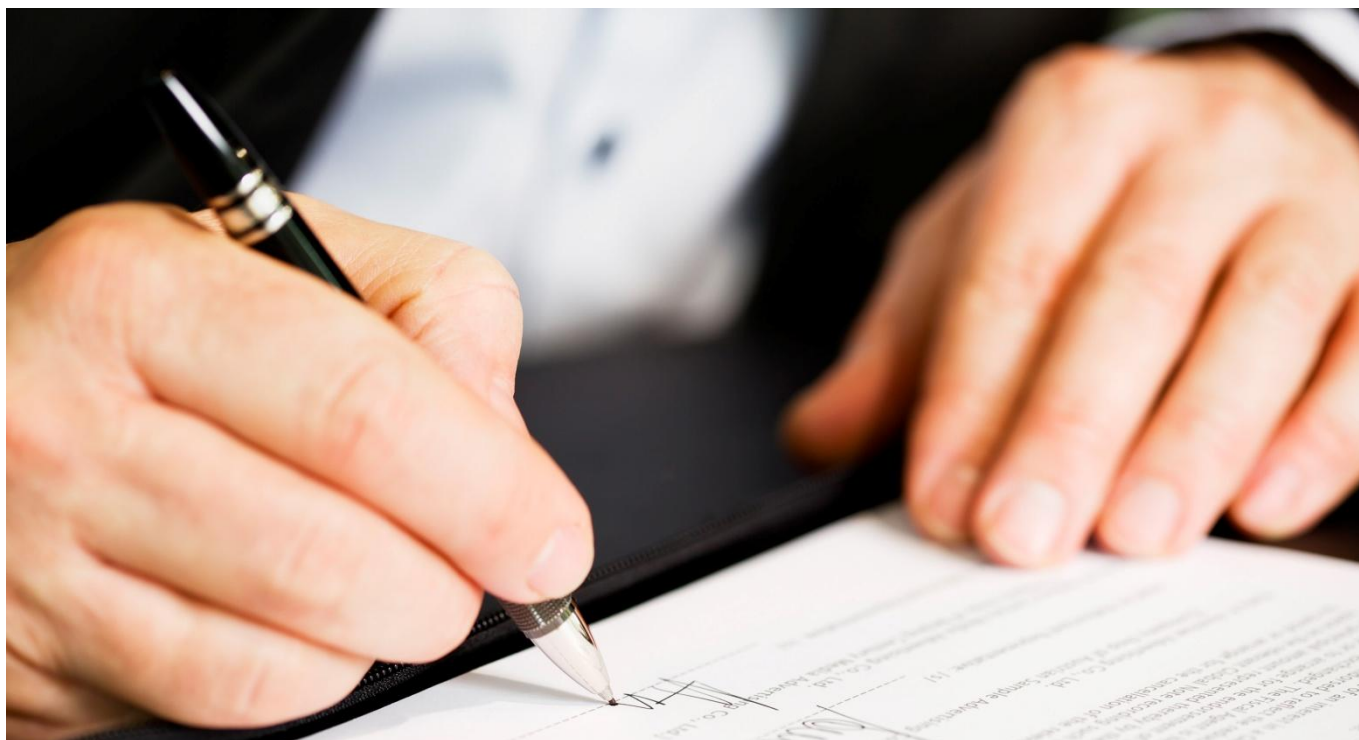
In the meantime momentum needs to be maintained, but it is not for us as auditors to impose a 'consensus' at any individual company. In any case, audit findings are confidential and so cannot be reported without the company's agreement. For these reasons we have adopted a voluntary approach.

We are confident that many companies will volunteer, given that a number of investors have said that they will encourage this. However, we will respect the choices of those that do not and ask that others do so too. After all, not everyone wants or needs to be in the vanguard of change.



of respondents believe that audit reports should include findings

KPMG Restoring Trust survey – July 2014



What is our recommendation?

We urge companies to consider, at your audit committee and your board, an audit report that includes findings. Take soundings from your major shareholders. Ask us to show you what our reported findings would have looked like had we done this reporting last year. Most of all, ask yourself whether you want to help shape the future of audit and corporate reporting and whether you want a more open relationship with your shareholders. If so, then at KPMG we are ready.

“ KPMG’s report on Rolls-Royce should be regarded as best practice, in our view ”

Citi Equity Research, March 2014

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