



Transparency Report 2015

kpmg.com.au

Introduction

At KPMG, we are passionate about audit quality and committed to independent assurance on what matters to stakeholders. We approach an audit with objectivity and professional scepticism. We strive to deliver the highest quality audit within regulatory and contractual time frames with candid communication.

Driving audit innovation has never been more important than in this dynamic business environment featuring volatile markets, heightened regulatory focus and increasing expectations. Through data and analytics, initiatives like *LEAN in Audit* and our willingness to early adopt 'enhanced' auditor reporting, we are driving continuous improvements to audit quality.

Our Data & Analytics innovations allow us to get deeper into the data, revealing more about the business and its risks. This enables us to surface quality audit evidence and new insights into the organisations we audit.

Our *LEAN in Audit* approach has reshaped financial process reviews – it identifies what's working and can be improved, what is wasteful and why, and helps organisations focus on activities that add value.

Of course, a high quality audit is also influenced by the quality of the clients we have, the quality of their boards and management teams, and the quality of the financial processes they have in place.

This report focuses on the areas impacting audit quality that we can directly control.

This is our sixth *Transparency Report* and we hope it provides you with more insight into the centrality of audit quality to our Firm and the significant investment we make in it.



Duncan McLennan
National Managing Partner Audit
October 2015



What is audit quality?

At KPMG we consider 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 final formal audit report. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. This means being independent, complying with our legal and professional obligations, and offering insight and impartial advice to our clients.

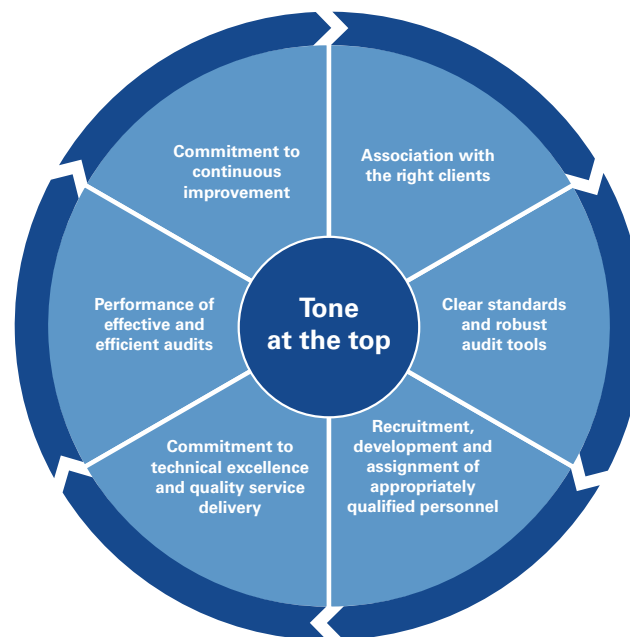
In this chapter

The KPMG Audit Quality Framework

At KPMG we consider 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 final formal audit report. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. This means being independent, complying with our legal and professional obligations, and offering insight and impartial advice to our clients.

We view audit quality as having seven key drivers combined with the commitment of each individual in KPMG. Audit quality is at the centre of our identity and defines our behaviour. Every KPMG member firm uses this framework to describe, focus on, and enhance audit quality.

Outside of KPMG there have been a number of attempts to define audit quality² but none have resulted in universal agreement of a definition, measures or benchmarks, or what actually drives audit quality. Perceptions of what drives audit quality vary depending on stakeholders' level of involvement with the audit process and what is important to them.



The KPMG Audit Quality Framework¹

It can be difficult for clients and stakeholders to determine whether the audit is of high quality because what drives audit quality is a complex set of direct and indirect factors that are often obscured and hard to measure. Our *Audit Quality Framework* focuses on the aspects we can directly control; however, we acknowledge a number of indirect influences exist including certain corporate governance processes and our legal and regulatory environment.

Our commitment

This report discloses the ways KPMG controls and assesses the performance of our audits. We recognise the risks associated with trying to measure something as hard to define as audit quality, along with unintended consequences such as managing to a particular number or benchmark.

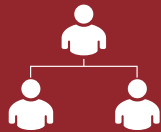
We consider this report helps our performance to be evaluated by users and purchasers of audit services, including audit committees, and each will consider it from their perspective. We trust that our approach assists you in the execution of your responsibilities.

1. © 2010 KPMG

2. Most recent publications include: International Auditing and Assurance Standards Board (IAASB), *Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality* released in February 2014 (www.ifac.org), containing the observation "audit quality is a complex subject and there is no definition or analysis of it that has achieved universal recognition"; The Center for Audit Quality, based in the US, *CAQ Approach to Audit Quality Indicators April 2014*; The PCAOB *Concept Release on Audit Quality Indicators*, July 2015; Institute of Chartered Accountants, *Framework for managing audit quality sustainability*, 2010 (www.charteredaccountantsanz.com); and Treasury's consultation paper *Audit Quality in Australia: A Strategic Review*, March 2010 (www.treasury.gov.au).

KPMG APPROACH TO AUDIT QUALITY

TONE AT THE TOP



126
AUDIT PARTNERS

22.2
YEARS EXPERIENCE

RIGHT CLIENTS



ASSESS
CLIENT



KPMG
INDEPENDENCE



KPMG
CAPABILITY



DECISION

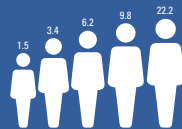


PORTFOLIO
MANAGEMENT

OUR PEOPLE

1,098

CLIENT
SERVICE STAFF



YEARS
EXPERIENCE



INDUSTRY
EXPERIENCE

TECHNICAL EXCELLENCE



CA
CREDENTIAL

91.4

KPMG PASS RATE

79.9

NATIONAL PASS RATE



TRAINING
OFFERING



ACCESS TO
SPECIALISTS

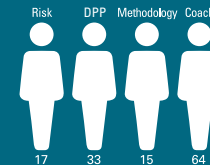
PERFORMANCE



EXERCISE
SCEPTICISM + JUDGEMENT



COACHING



SUPPORT AVAILABLE



GATHER EVIDENCE
AND OPINE

CONTINUOUS IMPROVEMENT



PARTNERS



61 ENGAGEMENTS

QP REVIEW EFFORT



COMPLIANCE REVIEWS



DATA & ANALYTICS



ROOT CAUSE
ANALYSIS



ACTION

STANDARDS AND AUDIT TOOLS



CODE OF CONDUCT



DATA & ANALYTICS



TECHNOLOGY



TOOLS



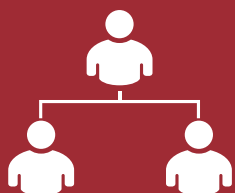
SYSTEMS & PROCESSES



AUDIT MANUAL

Tone at the top

The tone at the top of any organisation drives its culture and accepted behaviours. We make it clear that audit quality is a critical part of our culture and values and therefore non-negotiable. Tone at the top enables the right attitude and behaviours to permeate throughout the firm through a focused and consistent voice. It is the core of our *Audit Quality Framework*.



126
AUDIT PARTNERS



22.2
YEARS EXPERIENCE



CODE OF CONDUCT



COACHING

In this chapter

There are a number of critical components to an effective tone at the top including:

- **Culture, values and code of conduct:** clearly stated and demonstrated in the way we work
- **Focused and well-articulated strategy:** incorporating audit quality at all levels
- **Governance structure:** with clear lines of responsibility and skilled and experienced people in the right positions to influence the quality agenda.



Our culture, values and Code of Conduct

KPMG is committed to doing the right thing in the right way for our people, our clients and the capital markets we serve. To create this shared sense of identity we have clearly stated values³ and a code of conduct against which expected levels of performance and behaviour are considered. These define who we are and how we act. The code emphasises that all partners and staff are personally responsible for demonstrating the legal, professional, and ethical standards and behaviours that apply to their role and level of responsibility.

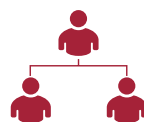
“We believe in acting with integrity.”

For us, integrity means constantly striving to uphold the highest professional standards in our work, providing sound advice to our clients and rigorously maintaining our independence and objectivity.

We communicate our values clearly to our people and we embed them into our performance appraisals and give them specific consideration for senior promotions.

Our Audit Strategy – audit quality in focus

Our Audit Strategy clearly articulates the priority of audit quality and the service delivery standards expected of our audit partners and staff, including commitment to ethical principles. Our Audit Strategy supports our aspiration to reliably deliver independent assurance that inspires confidence amongst stakeholders. The National Managing Partner Audit reinforces this in communications to all audit partners and staff during his periodic presentations.



Governance structure

The Board is the principal governance and oversight body of KPMG in Australia⁴. Led by National Chairman, Peter Nash, key responsibilities include overseeing strategy

implementation, protecting and enhancing the KPMG brand and overseeing management of the firm.

The governance structure includes committees that have risk and quality responsibilities to oversee and influence the firm's quality agenda. However, risk management and quality control are not simply the jurisdiction of one national group or leadership roles. We view risk management and quality as the responsibility of every one of our people.

Leadership responsibilities for quality within the firm

On every audit the assigned partner is responsible for the management and achievement of quality outcomes.

In each group or office a Partner in Charge together with dedicated risk and audit methodology partners provide support and oversight to the performance of audits. Within the audit division, the National Managing Partner Audit, Duncan McLennan, with a dedicated Divisional Risk Management Partner, Martin McGrath, are

responsible for setting the framework for performance of high quality audits, including expected behaviours. The Divisional Risk Management Partner is accountable to the National Managing Partner Risk & Regulation, Chris Hall, who retains overall operational responsibility for our system of quality control and risk management.

The CEO, Gary Wingrove, has responsibility for our system of quality control and the overall performance of the firm.

Setting the right tone is a key responsibility of our senior leadership team. They are committed to building a culture based on quality, integrity and ethics, demonstrated through their actions, written and video communications, presentations to teams and one-on-one discussions. The focus and consistency of their message is important to reinforce our commitment to audit quality.

Committee structures

Our structure aligns our business to optimise its in-house skills and experience, for the benefit of our clients and our people, by providing sufficient oversight and resources to influence the audit quality agenda.

Described below are the most relevant groups dedicated to achieving this objective. Further details about the firm's governance bodies are contained in Appendix 5.

Audit Leadership Group (ALG)

This group is the governance body for our audit practice. It is responsible for the development and implementation of the Audit Strategy and operations. Members include the National Managing Partner Audit, the Divisional Risk Management Partner, the People Performance and Culture Partner Audit and the Partners in Charge of each of the audit groups, structured by location and industry specialisation.

3. Refer to Appendix 3 KPMG's global values

4. Refer to Appendix 5 and 6 for details on the Board

Our National Managing Partner Audit is a member of the KPMG Global Audit Quality Issues Council, established in FY12 to facilitate the consideration of audit quality matters across our network of member firms. It is chaired by the Global Audit Quality and Risk Management Partner and reports to the Global Audit Steering Group.

Audit Quality Committee

The Audit Quality Committee reports to the ALG and ensures risk and quality matters receive the appropriate degree of attention from the audit leadership.

Specifically its responsibilities include:

- Review of proposed significant audit initiatives ensuring the objectives and outcomes align with maintaining or enhancing audit quality.
- Recommending the strategic prioritisation, resourcing and timetabling of audit initiatives as they impact audit quality across all offices.
- Confirming the robustness of our monitoring activities as consistent with our audit quality priorities.

Department of Professional Practice

The Department of Professional Practice (DPP) is the national centre of technical excellence responsible for: conducting technical research, interacting with local and global professional standards-setters and regulators, and providing technical accounting and auditing guidance and support to our people in the field. It is organised into three areas: Audit Quality, Financial Reporting, and US Desk. The DPP work closely with Learning & Development on technical training matters.

Profile of the DPP	FY15	FY14	FY13
No. of Full Time Equivalent professionals in the DPP	33	30	31
Average years of experience of the DPP professionals	13	13	12

Partners and senior staff primarily from the audit groups resource the DPP. They are our technical experts, with deep understanding of Australian and international standards. They take leadership positions on technical matters and are the firm's authority on audit matters.

The Australian DPP takes an influential role in many specialist areas in our Asia Pacific region and internationally. Several of our partners also hold key positions with standard setters, professional bodies and other stakeholders. They take a non-partisan and collaborative approach to improving industry standards.

Risk and audit methodology partners

KPMG uses embedded networks within each of the audit groups and offices to maintain our focus on audit quality.



The visibility and proximity of these specialists to audit teams makes it easy to seek assistance and consult on a daily basis. Our embedded networks include the following dedicated groups.

Risk Management Partners: Responsible for providing leadership on audit quality and risk management and directing adherence to firm policy and professional standards. These highly experienced audit partners consult on industry and audit technical issues, assist in the identification and management of risks to audit service

delivery, and have a consultative role in the identification, prioritisation and response to risks to audit quality. Our Risk Management Partners continue to dedicate significant amounts of time to one on one audit team support for complex issues such as going concern and impairment.

Audit Methodology and Deployment Partners:

Responsible for assisting the local Partner in Charge, they disseminate to audit teams guidance and information relating to our interpretations of auditing standards and national initiatives to enhance quality, identify improvement opportunities and lead our methodology coaches.



Methodology Coaches: Responsible for assisting the Audit Methodology and Deployment Partners, they provide support to audit staff within their group. They work directly and intensively with specific audit teams, collaborating on

identification of audit risks, scoping decisions and nature of testing and approaches to gathering audit evidence. Coaches also facilitate local workshops on topical matters, communicate new methodology guidance and key audit quality messages and provide input into the development of national audit quality initiatives.

Profile of specialist networks	FY15
No. of Risk Management Partners	17
No. of Audit Methodology and Deployment Partners ⁵	15
No. of Methodology Coaches ⁵	64

5. In FY15, we undertook a realignment of participants in and objectives of our embedded networks. The responsibilities of Audit Methodology and Deployment Partners and Methodology Coaches reflect this and update our previous Quality Partner and Quality Manager roles respectively.

Association with the right clients

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.



In this chapter

We understand our clients are linked to the quality of our work and our reputation and so we are selective about the clients we work with.

We have established policies and procedures for determining whether to accept or continue a client relationship, or perform a specific engagement. Rigorous client acceptance and continuance policies are vital to our ability to provide high-quality professional services.



Prospective client and engagement evaluation process

A key focus of our prospective client assessment is the integrity of management and those charged with governance. With

every prospective client the partner responsible conducts an evaluation of the client's principals, business and other service-related matters. This evaluation includes completion of a customised questionnaire to assess the client's risk profile and obtaining background information on the client, its key management, directors and owners.



When the engagement is to provide audit services, at least two additional risk assessment steps are undertaken. These include focusing on whether we are capable of delivering a quality audit, plus, for a first time audit, performing

a review of any non-audit services provided to the client and any other relationships that may compromise audit independence.



We decline to act for a client where we are unable to deliver to our expected level of quality or would not be proud to be associated with them. Some circumstances where we consider declining are: potential impairment of independence, conflict of interest issues, concerns about management integrity, concerns about the client business model or governance structure, overly aggressive or conservative accounting policies, disputes with previous advisors, management being subject to investigation by authorities, and the competence of the client's financial management team.

"One of the keys to managing audit quality is to understand the nature of our clients and the issues they face."

Continuance process

We enter into a relationship with a client expecting to provide incremental benefits and insights. Regardless of the length of time we have been associated with an audit client we re-evaluate our association to ensure we remain capable of independence and audit quality. We evaluate client relationships at least annually; and additionally if there is significant change in their business, financial position or ownership structure.

Safeguards and High Risk Register

KPMG maintains a High Risk Register managed by the DPP and routinely reviewed by our Risk Management Partners.

Clients are placed on the High Risk Register when non-standard or additional risks are identified during acceptance or re-evaluation but we decide we are still capable of ensuring independence and audit quality. In these cases, we mandate additional risk management or quality control safeguards to the conduct of the audit. These include: supplementing the existing skills and experience of the audit team with an additional audit partner (Engagement Quality Control Review Partner), mandated consultations, specialist involvement to deliberate on a specific matter such as valuations and impairment, and performing additional audit testing. Prior to acceptance, and at least annually, a Risk Management Partner assesses these safeguards for adequacy.



Client portfolio management

We review each audit partner's client portfolio at least annually in individual discussions with each audit partner.

Audit partners consider the industry, nature and risk of the client portfolio as a whole to satisfy the Partner in Charge of their competence, capabilities and capacity to deliver a quality audit for every client.

Clear standards and robust audit tools

Acting in the public interest, risk management and quality control are the responsibilities of every KPMG partner and staff member. We expect our people to adhere to the clear standards we set and provide a range of tools to support them in meeting these expectations.



CODE OF CONDUCT



DATA & ANALYTICS



TECHNOLOGY



TOOLS



SYSTEMS & PROCESSES



AUDIT MANUAL

In this chapter

These standards incorporate the relevant requirements of the *Corporations Act 2001* and of accounting⁶, auditing⁷, quality control⁷, ethical and professional standards⁸, and other relevant laws and regulations. We dedicate significant resources to keeping our standards and tools complete and up to date. Amendments to these, outside of annual updates, are communicated by regular alerts and training.

Auditing and audit quality

KPMG Audit Manual



KPMG's Global Services Centre develops the audit methodology adopted by all KPMG member firms, based on the International Standards on Auditing⁹ (ISAs) and compliant with the International Standard of Quality Control (ISQC 1). In Australia, auditing standards (ASAs¹⁰) are legally enforceable and our DPP adapts the global methodology for these standards, and for additional requirements which we believe enhance the quality of our audits. This is set out in our *KPMG Audit Manual* (KAM).



Technology assisting the audit process

Our audit delivery is enabled by eAudit, KPMG's electronic audit tool. It integrates our methodology, auditing standards and industry knowledge with the tools to facilitate the conduct of the audit and production of an electronic audit file. eAudit's activity-based workflow is scalable to customise the audit approach for major multi-national groups through to small or medium enterprises.

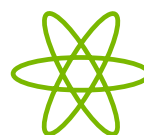
Data and analytics (D&A) in the audit

Data and analytics is not a single process or a single product. It is the collection, organising and analysis of large sets of data to discover patterns, trends, outliers and other relevant information. We use data analysis to better understand the entities we audit, contribute to risk assessment, and provide rich audit evidence, adding confidence and valuable insights. For D&A to be effective we use:



- specialist technology tools to interrogate entire client data populations, automating the analysis of data into trends, and flagging unexpected data changes
- models and benchmarks to set the baseline expectations which take into account industry or geography-specific data trends
- the skill of our partners and staff to convert data testing results into audit evidence, by applying our knowledge of the business combined with professional scepticism, to identify unusual trends or anomalies.

We use these techniques throughout the audit and provide deeper business reporting to our clients. Data and analytics provides rich objective audit evidence, allowing us to focus our judgements on higher risk areas.



Other tools and templates to assist the audit process

To maximise audit effectiveness and efficiency, the DPP continually develop and distribute audit quality updates. These include templates, tools, checklists, quick reference cards and practice aids.

An important weekly publication is the *DPP Bulletin* distributed to all audit partners and staff outlining relevant accounting, auditing and regulatory topics, and frequently asked questions and answers identified by our monitoring.

Accounting and financial reporting

Accounting and financial reporting knowledge is core to quality service delivery and the performance of effective and efficient audits. To support the technical excellence of our people the DPP produce publications and reference materials describing KPMG's interpretations and positions on accounting standards.

Ethics and Independence

Quality and Risk Management Manual

Our *Quality and Risk Management Manual* collates our policies, procedures and guidance. Based on a globally developed manual it reflects the key elements of the IESBA¹¹ Code of Ethics combined with Australian specific provisions. Where applicable, US Securities and Exchange Commission (SEC)¹², US PCAOB¹³ and other regulatory requirements are included. These policies and procedures cover personal independence, business relationships, post-employment relationships, partner rotation and approval of audit and non-audit services. Our people annually confirm their compliance with these policies and procedures.

A dedicated Ethics and Independence Partner with a core team of specialists assist with the interpretation of the independence policies and safeguard against non-compliance or inconsistent application.

6. Australian Accounting Standards Board www.aasb.gov.au

7. Auditing and Assurance Standards Board www.auasb.gov.au

8. Accounting Professional and Ethical Standards Board www.apesb.org.au

9. International Auditing and Assurance Standards Board www.ifac.org

10. Australian Auditing Standards

11. International Ethics Standards Board for Accountants www.ifac.org

12. US Securities and Exchange Commission www.sec.gov

13. US Public Company Accounting Oversight Board www.pcaobus.org



Personal independence

To help ensure independence, as prescribed by our policies and the *Corporations Act 2001*, our partners and the staff members assigned to each audit engagement must be free from prohibited financial interests in,

and prohibited relationships with, our audit clients, their management, directors and significant owners.

Our people are responsible for making appropriate enquiries to ensure they do not enter into or have any prohibited personal financial interests.

We use an online independence tracking system, KPMG Independence Compliance System (KICS), with other member firms in the KPMG global network to assist our partners and staff in complying with independence policies. This system contains a current inventory of publicly available investment products, specifically identifying restricted investments. All partners, client-facing managers and audit staff are required to maintain a record of all of their investments in the system and check their permissibility before entering into any personal investment. If investments become restricted, these individuals receive automatic notification to take appropriate action which may include prompt divestment.

Independence also extends to our contractors and subcontractors, using a process tailored to their circumstances.

Audit partner rotation

All audit partners are subject to the rotation provisions of the *Corporations Act 2001* and Australian professional and ethical requirements. Where relevant, the rotation requirements of foreign regulators such as the US SEC and other local regulatory requirements are also taken into account. Rotation requirements limit the number of years certain partners can provide audit services to a client.

Our Audit Regulatory Compliance database (ARC) logs and tracks a partner's period of service on a relevant audit client and can be used to manage succession planning when introducing a new audit partner to a client. It is important to us, and our clients, to maintain high quality service over the transition period.



Non-audit services – independence systems

We have clear standards that restrict the scope of services provided to audit clients. Providing certain non-audit services to our audit clients may create threats (actual or perceived) to our audit independence, particularly if we were put in a position of auditing our own work. Professional and ethical standards restrict certain non-audit services, and all others need careful evaluation to ensure they do not create, or appear to create, an unacceptable independence threat. To safeguard our independence and prevent the provision of non-permitted services to audit clients, the audit partner uses an international proprietary system (Sentinel) to evaluate the threats arising from the provision of non-audit services and the safeguards available to address them. The audit partner reviews, and approves or denies, any proposed service for restricted clients and their affiliates by any KPMG member firm.

Conflicts of interest

A Commercial Conflicts Resolution Committee comprising the National Managing Partners of the divisions assesses complex cases involving multiple areas of the firm. If accepted, in some instances, we establish ethical dividers to quarantine both the people and information relating to the clients from other parties in the firm. If a potential conflict of interest cannot be resolved, we decline the engagement or prospective client.

“We have clear standards that restrict the scope of services provided to audit clients.”



Internal Ethics and Compliance Hotline

KPMG maintains a confidential Ethics and Compliance (Whistleblower) Hotline, supported by an independent third party.

In FY15 there were no calls to the hotline relating to audit quality (FY14: none).

The hotline is another method of reporting concerns about possible illegal, unethical or improper conduct in circumstances where our people feel uncomfortable reporting a concern through other channels. Callers' reports are handled confidentially with no retaliation or retribution.



External complaints

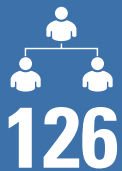
KPMG maintains an international hotline available to external parties to confidentially report complaints relating to the quality of our work or our people. This is accessible through our website and via telephone and surface mail.

In FY15 there were no (FY14: one) complaints regarding audit quality at KPMG in Australia registered to the international hotline.

KPMG's Terms and Conditions of Business also contain a clause outlining how complaints regarding the provision of services may be raised. During FY15 we received no (FY14: three) correspondence regarding audit quality. In FY15 we received additional correspondence from a prior complainant regarding how we described their matter in the FY14 Transparency Report. To address their concerns, we had further discussions to explain our approach and rationale to drafting our FY14 Transparency Report.

Recruitment, development and assignment of appropriately qualified personnel

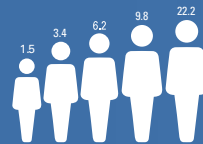
The assignment of audit partners and staff members with deep understanding of the client's risks and industry is one of the key drivers of audit quality.



AUDIT PARTNERS



CLIENT SERVICE STAFF



YEARS EXPERIENCE

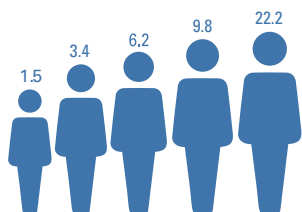


INDUSTRY EXPERIENCE

In this chapter

Profile of KPMG audit personnel ¹⁴	FY15	FY14	FY13
No. of audit partners	126	132	134
No. of client service audit staff (excluding partners)	1,098	1,103	1,190

Average years of experience with KPMG	FY15	FY14	FY13
Partner	22.2	21.4	21.1
Director and Senior manager	9.8	10.0	9.7
Manager	6.2	6.0	6.1
Senior team member	3.4	3.6	3.6
Team member	1.5	1.6	1.6



Development of skills and personal qualities

We continually review and assess our people's capabilities and competence to perform engagements in accordance with professional standards, legal and regulatory requirements.

We understand skills develop over time and through exposure to different experiences. To invest in the development of skills and personal qualities, without compromising on quality, we use a continuous learning environment with emphasis on formal training, experiences and coaching. Experiential development includes participating in interstate and overseas assignments, secondments, and community involvement through pro-bono and volunteering opportunities.

Our KPMG Business School curriculum offers training programs focusing on professional skills, leading self and leading people. This facilitates the development of leadership skills.



Accreditation and licensing

Only Registered Company Auditors can perform audits conducted in accordance with the *Corporations Act 2001*. Registration is granted by ASIC¹⁵ after an assessment of qualifications and competency. All our partners who sign statutory audit reports are Registered Company Auditors.

Our partners and managers are subject to additional internal accreditation requirements in relation to International Financial Reporting Standards (IFRS)¹⁶, and US accounting and auditing standards. KPMG in Australia also has an Assurance Accreditation framework for partners and directors, acknowledging the need for specific skills in

auditing. These frameworks specify the skills required to drive consistency and quality in the delivery of audit services. Professional qualifications, training and experience as well as satisfactory results from the firm's Quality Performance Review Program are considered to qualify and remain accredited.

For the year ended 30 June 2015, 97 percent (FY14: 99 percent) of our eligible audit partners maintained their full Assurance and IFRS Accreditations. In FY15, the firm withdrew internal accreditations to perform financial statement audits from four partners due to quality issues identified from monitoring activities. Each of these partners performed a small number of audits, all in respect of non-listed entities, as part of their broader portfolio of work.



Recognition and reward

Formal goal setting and evaluation of performance is conducted and documented annually in our proprietary system, *MyPD*, with additional feedback offered to staff via engagement-specific evaluations, 360 degree feedback, and half-year checks.

An individual's accountability in achieving audit quality is a core benchmark used to assess performance and progression within the audit division. Assessment of audit quality features explicitly in performance evaluation. The provision of example audit quality goals assists in both setting goals and evaluating performance against expectations. Assessed skills and behaviours relating to audit quality include: delivers quality, exercises professional judgement, makes an impact, and strives for continual improvement.

14. Figures are as at 30 June of each financial year disclosed.

15. www.asic.gov.au

16. www.ifrs.org



Retention and promotion

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

Partner remuneration

Partner remuneration is determined annually by our National Executive Committee (NEC) and subject to review by the Partner Remuneration and Nomination Committee before Board approval. Partners are remunerated solely out of the profits of the firm and are personally responsible for funding superannuation and most other benefits. The NEC determines the final profit allocation to partners after assessing each partner's contribution for the year.

There are two elements to partner remuneration: a base component reflective of role and seniority, and a performance-related bonus, expressed as a percentage of base remuneration, rewarding high performance against previously agreed goals, including audit quality.

A major part of an audit partner's remuneration is based on the delivery of quality audits. Compensation is based on factors including results of internal and external reviews, risk management and independence monitoring, leadership, quality client impact, delivering on our strategy, coaching and developing staff, and living the values of the firm. Audit partners' remuneration does not include any compensation specifically based on their success in selling non-assurance services to their audit clients.

"The assignment of partners and staff members with deep understanding of the client's risks and industry is one of the key drivers of audit quality."

Partner and staff engagement

Bi-annually, KPMG globally invites all partners and staff to participate in our independent Global People Survey (GPS). In alternate years a short-form Pulse survey is conducted. The results, by country and function, provide leadership with information about drivers of business performance, employee engagement and motivation and enables us to see how we are progressing against strategic priorities as well as providing warning indicators if there are areas of concern.



Assignment of audit partners and staff to audit teams

Composition of the audit team

Audit teams generally comprise an audit partner, manager, an assistant manager or 'in charge', specialists, and junior team members. Some junior members may still be completing their post-graduate accounting qualification, usually the Chartered Accountants (CA) Program¹⁷.

Larger engagements often have more than one audit partner assigned to support the signing partner. With multi-national audits, appropriately capable audit partners and staff are assigned from other KPMG member firms.

Audit partners are responsible for ensuring their team, including specialists, has the appropriate resources, skills, experience and time to conduct a quality audit. The team mix is dependent on the type of client and the complexity of the audit. We know that the number of team members does not necessarily equate to the quality of the audit. We take great care to assign the right people to the right clients.



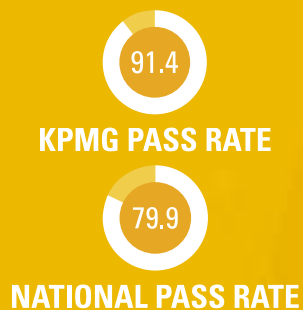
Industry expertise

Our audit clients are assigned to lines of business e.g. financial services, where they are served by industry specialists. This allows our people to work with a specialised portfolio, maximising their understanding of the relevant business, operational and systems-based risks their clients face and respond appropriately to address any industry specific accounting issue.

17. Chartered Accountants www.charteredaccountantsanz.com

Commitment to technical excellence and quality service delivery

Clients expect exceptional service that cuts through complexity. We ensure that our people bring to our clients the most up to the minute and accurate technical solutions and, together with our specialists, deliver valued insights and are capable of solving the most complex audit issues.



In this chapter

Training programs

Our KPMG Business School curriculum offers education programs to hone technical expertise, business acumen and leadership excellence. Our Learning & Development groups develop global, regional and local training to ensure both global consistency and local applicability.



The Chartered Accountants Program

The Chartered Accountant (CA) qualification, awarded by the Chartered Accountants Australia and New Zealand¹⁸, (CAANZ) is the hallmark of a highly qualified and ethical accounting and auditing professional. Highly regarded by business, regulators and members of the public, it forms the foundation of our partners' and staff's technical, business and ethical knowledge.

Unique to KPMG is our CA support program providing in-house, locally developed training, including face-to-face training sessions facilitated by topic specialists, self-study materials, mock exams and online tools. We are the only Big 4 firm in Australia to provide this level of support in-house and results show our people consistently achieve better results than the average national pass rate.

90
Number of KPMG
merits (top 5%)

12.4%
Merits awarded to KPMG candidates
as a percentage of total merits awarded

CA Program Results	FY15	FY14	FY13
No. of CA program exams undertaken by staff	1,161	1,277	1,521
No. of staff who completed the CA Program ¹⁹	222	189	252
CA Program results – national KPMG pass rate	91.4%	88.8%	87.5%
CA Program results – (excl. KPMG) national pass rate	79.9%	78.8%	76.2%



Technical training – auditing, financial reporting and independence

KPMG embraces a culture of active learning. We believe that our people need to continuously enhance their technical

expertise in a relevant way that builds on their existing capabilities.

Technical courses covering independence, financial reporting and auditing topics are mandatory at all personnel levels. These range from independence training as part of induction and annually thereafter through to audit partners and qualified staff attending mandatory accounting and auditing technical updates.

The topics included in audit training are prioritised based on information from many sources such as:

- a needs analysis, conducted in Australia, and at a regional and global level
- findings from continuous improvement activities including regulatory reviews
- new, revised or emerging standards and regulations
- feedback from participants' course evaluations, including post course assessments that indicate gaps in understanding
- input nationally from risk and audit methodology partners in each office or group.



Developing business understanding and industry knowledge

To provide quality service delivery and valued insights to our clients we frame our technical expertise within broader business knowledge. The KPMG Business School curriculum includes courses to develop business acumen, relationship skills and industry knowledge.

18. Chartered Accountants Australia and New Zealand is a trading name for The Institute of Chartered Accountants in Australia and the New Zealand Institute of Chartered Accountants www.charteredaccountantsanz.com.au

19. Number of staff completing the CA Program in any given year coincides with the scheduling of the final CA Program module, *Ethics and Business Application*

Attendance and assessment of training

Partners and staff must attend mandatory technical training and successfully complete a post course assessment. The assessment tests their understanding of the topics covered and has a minimum pass rate and completion deadline.

Key performance indicators – technical excellence	FY15	FY14	FY13
Risk training completion percentage ²⁰	100	99	100
Overall compulsory audit training attendance and completion percentage ²¹	96.8	95.4	96.0

Learning and development offered to audit partners and staff during FY15 included:

Core training (days)	Team member	Senior team member	Manager & Senior manager	Partner
Auditing and assurance, including professional judgement & skills, and IT in the audit	13.1	10.8	2.0	2.0
Accounting, financial reporting and regulatory	3.8	5.8	0.8	0.8
CA candidate in-house training ²²	9.0	9.0		
Independence	0.3	0.3	0.4	0.4
Coaching and performance skills ²³	0.9	1.6	1.8 ²⁴	1.3 ²⁴
Total before specialist and non-core training	27.0	27.4	4.8	4.3



Additional learning and development programs are mandatory depending on the individual's audit client profile and include:

- US audit and accounting training – 4.3 days training where the client's audit requires US specific audit and accounting application
- Coaches and champions training – 2 additional days training including audit methodology, D&A, technology tools and coaching techniques
- Industry group training offered for lines of business including banking, funds management, insurance, real estate, energy and natural resources, and information communication and entertainment – up to 3 days training for team members.

Continuing professional education

We require all our client service partners and staff to maintain the CAANZ's standard of continuing professional education (CPE). They must obtain a minimum of 30 CPE hours annually and at least 120 CPE hours over a three-year period. To assist our people in maintaining their CPE records we offer an attendance report tracking CPE hours.

We test a sample of our partners and staff compliance with the CPE requirements in the firm's annual monitoring program.



Access to specialists

We understand that not all audits are the same or managed in the same way, so KPMG specialists provide input on significant risks in the audit. In certain

situations specialist involvement is mandated. Otherwise, the audit partner and manager determine whether to use a specialist by considering the risks for the engagement, and the nature and complexity of the information, data, or calculations to be audited. Our most frequently used in-house specialist capabilities are in the areas of tax, information technology, actuarial, financial risk management and valuations.

We ensure that the full resources of the firm across all areas of our business are available to assist our audit teams. This encourages them to 'when in doubt, consult'.

"Our KPMG Business School curriculum offers education programs to hone technical expertise, business acumen and leadership excellence."

20. Risk training is relevant to all partners and staff in the firm and in FY15 included topical matters as they related to Independence (FY14: Ethics and Independence; Privacy and Acting with Integrity).

21. If a staff member fails to attend compulsory technical training that contributes to their accreditation they are required to review either a video recording of the training or the leader's manual to ensure there are no knowledge gaps.

22. A CA candidate attends, on average, an additional 3 days of KPMG instructed training per CA module undertaken, with 2 or 3 modules completed in a 12 month period depending on CAANZ module scheduling

23. Additional business acumen and relationship skills learning and development is available to partners and staff, particularly through our short eLearning courses.

24. Core business acumen and relationship skills training offered, over an average 3 year period as a manager/senior manager and partner, is 5.4 days and 3.8 days respectively

Performance of effective and efficient audits

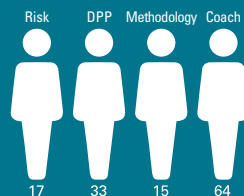
We understand that how an audit is conducted is as important as the final result. Effective and efficient audits are dependent on the demonstration of certain behaviours. We focus on these behaviours during the performance of the audit, education sessions, coaching and our review processes.



EXERCISE
SCEPTICISM + JUDGEMENT



COACHING



SUPPORT AVAILABLE



**GATHER EVIDENCE
AND OPINE**

In this chapter

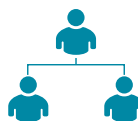


Exercise of professional judgement and professional scepticism

Professional scepticism involves a questioning mind and alertness to inconsistencies. It features prominently throughout auditing standards and attracts significant focus from regulators. We recognise the exercise of professional scepticism is critically important to our role as auditor.

Our global professional judgement process²⁵ enhances every individual's ability to exercise their professional scepticism. It requires consideration of possible alternatives, conflicting as well as confirming evidence, and documentation of our final judgements. The process includes ways to mitigate the effects of judgement traps and biases which may cloud our judgement.

We reinforce the use of the professional judgement process and the exercise of professional scepticism through coaching and education, acknowledging that judgement is a skill developed over time and with different experiences.



Timely partner and manager involvement

To identify and respond to the significant audit risks for each year's audit, every team member requires sufficient understanding of the client's business, financial position and its operating environment. Leadership and participation from the partner early in the audit directs the scope and tone and maximises the benefit of the partner's experience and skill.

The partner runs the planning meetings and reviews key audit documentation, including audit work papers that cover significant risks and audit judgements. The final audit report is also their responsibility. The partner sets the tone on the audit by their actions and communications with the audit team, reinforcing the importance of professional scepticism and audit quality.

The manager supports the partner in these responsibilities and the day-to-day liaison with the client and team, building deep business understanding that helps the partner and team deliver valued insights.



Ongoing mentoring and on the job coaching, supervision and review

Coaching and on the job experience play a key role in developing the personal qualities important for a successful career in auditing, including professional judgement, wisdom and instinct.

We understand that skills build over time and through exposure to different experiences. We use a continuous learning environment to invest in the building of skills and capabilities, acknowledging that a significant portion of learning occurs on the job and through others, supplementing classroom learning. A key part of effective supervision is timely review of the work performed so significant matters are promptly identified, fed back to the individual responsible and addressed in the audit.

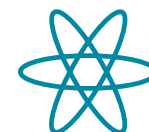
We support a culture where every team member is responsible for building the capacity of the team, coaching and sharing experiences.



Critical assessment of audit evidence

The fundamental role of the auditor is to design and perform procedures to gather persuasive evidence that the client's financial report is fairly stated and in compliance with accounting standards.

We focus on evidence gathering techniques to ensure the quality and the quantity of the evidence obtained is responsive to the assessed risks. We recognise externally sourced evidence is more persuasive but not meaningful unless viewed in its entirety. We consider all audit evidence obtained, including conflicting or missing evidence, since the consistency of the evidence and the picture it creates is just as important as the individual evidence. The analysis of evidence requires an auditor to use professional judgement and remain professionally sceptical to ensure it is sufficient and appropriate.



Efficient and effective work practices

A quality audit relies on a balance between effectiveness and efficiency. Inefficiency has the potential to impact quality service delivery and client satisfaction, the wellbeing of our people, and ultimately the quality of the audit itself. For example, if a partner fails to give timely and clear directions, staff may perform unnecessary procedures or lack focus, resulting in rework or overwork.

Efficient does not mean cutting corners. It means planning the audit well, leveraging technology, tools and templates, and enhancing behaviours that drive audit quality and efficiency. To allow audit teams to focus on key audit judgements we optimise onshore and offshore processes in performing the audit.

25. The Center for Audit Quality published *Professional Judgement Resource*, August 2014, to provide auditors with an example of a decision-making process to facilitate important auditing and accounting judgments in a professionally sceptical manner (www.thecaq.org). Its elements of an effective judgement process are consistent with our professional judgement process developed in FY11.



Appropriately supported and documented conclusions

The audit documentation records the audit procedures performed, evidence obtained and conclusions reached on each audit

engagement. It includes materials prepared by us, received from the client or from relevant third parties. Our policies require review of all working papers by a more experienced team member and audit documentation relating to critical areas of judgement must be reviewed by the partner.

Our methodology recognises that documentation prepared at the time the work is performed is likely to be more efficient and effective than documentation prepared later. Teams are required, under our policy and Auditing Standards,²⁶ to assemble a complete and final set of audit documentation for retention within an appropriate time period, ordinarily no more than 60 days from the date of the auditor's report.

Engagement quality control review partner involvement

All listed, high risk and high public profile entity audits have an Engagement Quality Control Reviewer, a specialist audit partner assigned as an objective additional reviewer on significant and judgemental elements of the audit.

Engagement Quality Control Reviewers are experienced audit partners independent of the team, appointed by the local Risk Management Partner in consultation with the partner and local Partner in Charge. Engagement Quality Control Reviewers must have the same Assurance and IFRS Accreditation as the partner and sufficient time to carry out their review.

The Engagement Quality Control Reviewer's review must be complete and all significant questions resolved satisfactorily before the issuance of the audit report. The extent of the review depends on the risk and complexity of the audit and does not reduce the responsibilities of the partner. A review includes assessing appropriateness of the financial statements and disclosures, significant judgements made and conclusions reached, communications with those charged with governance, and the proposed audit report. The partner is ultimately responsible for the resolution of accounting, auditing and financial reporting matters.



Insightful, open and honest two-way communications

Communicating with and reporting to our clients, with no surprises, underpins the quality of our audit. We strive to build relationships based on mutual respect.

A financial statement audit has two main elements, the formal audit report and s307C independence declaration²⁷ accompanying the signed financial statements, and ongoing communications with our clients. These are the observable outputs to our clients, with the audit report and independence declaration the only observable elements to shareholders and other stakeholders. We believe the quality of our reporting is largely dependent on our ability to optimise the inputs, as depicted in our *Audit Quality Framework*.

Clear reporting of significant findings

Formal audit reports

Auditing standards and the *Corporations Act 2001* largely dictate the format and content of the independence declaration and audit report; including statements on

auditor independence and the truth and fairness of the historical financial statements²⁸ of the client. Experienced partners form the audit opinion after involvement in and review of work performed by the team. The importance of ensuring the clarification of any uncertainties before signing audit reports is emphasised and well understood.

In August 2015, for the first time in Australia, KPMG issued two 'enhanced' audit reports, adopting the new ISA²⁹ principles for inclusion of key audit matters (KAMs). In response to investors calling for more than just a binary pass/fail opinion, we describe the matters we considered to be key to the audit and where most effort was focused, and how our audit addressed the matter.

Communications with those charged with governance

Two-way communication with our clients, including management and audit committees, is a key aspect of our reporting and service delivery. We achieve this through reports and presentations, attendance at audit committee or board meetings, and informal discussions with management and members of the audit committee. We stress the importance of keeping the client informed of issues arising throughout the audit and the need to listen and understand their views.

We share insights on the audit, our client's business practices, the appropriateness of accounting policies, the design and operation of financial reporting systems and controls, key accounting judgements, matters where we may disagree with management's view, and any audit differences or errors identified. We ensure these reports meet the requirements of auditing standards and share our industry experience to encourage discussion with the members of the audit committee. We see these insights as a key mechanism to support our clients in the execution of their responsibilities.

26. ASA 230 paragraph 28 Audit Documentation. (www.auasb.gov.au)

27. A s307C independence declaration is only required for audits of statutory financial reports and not other types of audit and assurance reports

28. Audit and assurance reports over information other than historical financial statements are performed in accordance with Australian Auditing Standards using principles consistent with financial statement audits.

29. Australian auditing standards are in the exposure draft stage and the comment period closed. The AUASB is considering the comments received and expect to publish the new and revised standards in December 2015, with an effective date for reporting years ending on or after 15 December 2016.

Commitment to continuous improvement

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



In this chapter

The complexity and dynamic nature of the economic environment, our clients' businesses and the accounting and auditing frameworks are challenging for us and our clients. We always aim to optimise the inputs to the audit process, but opportunities to learn and improve arise. This is why continuous improvement is a specific driver of audit quality.

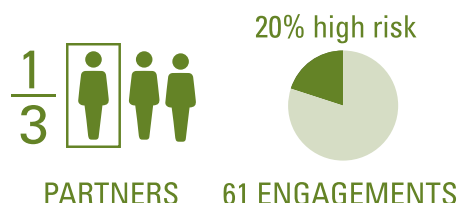
We use both internal monitoring and external inspections against accepted benchmarks, to evaluate our current performance, to understand the existing quality of our audit work and prioritise the areas for improvement. To deserve the confidence of our clients, the capital markets, regulators and shareholders, we are serious about learning from every opportunity, no matter how small.



Internal monitoring

KPMG uses two formal internal inspection programs, the Quality Performance Review (QPR) Program and the Risk Compliance Program (RCP) to annually assess audit quality and independence compliance. These programs review a sample of audit engagements and our compliance with audit methodology, the risk management and independence policies, and practices supporting our broader system of quality control. They are designed globally and incorporate the requirements of international and Australian quality control standards³⁰. In addition to the annual programs, on a triennial basis we participate in a Global Compliance Review³¹, performed by a specialised team of reviewers from other member firms, to assess significant governance, risk management, independence, IT security and finance processes. Participation is a condition of ongoing membership of the KPMG network (see Appendix 2 on network arrangements for further details).

These programs assess the quality and independence of our audits by benchmarking against our global and local standards. The results enable us to provide reasonable assurance our system of quality control is complied with in practice, operating effectively and identifies any areas requiring focus and improvement.



Quality Performance Review (QPR) Program

The global QPR Program is implemented in Australia under the authority of the Quality Performance Liaison Partner, assigned to oversee the independent and objective assessment of the firm. The program assesses performance at an engagement level and identifies opportunities to improve audit quality. Partners and teams from locations other than the office under review, including experienced partners within the global network of member firms outside KPMG in Australia, conduct the reviews.

Key components of the QPR Program

- Led by an experienced partner from another KPMG member firm.
- Performed by partners, directors and senior managers who are active practitioners with industry-specific and technical knowledge, and are up to date with auditing standard requirements.
- Review of partners work on a minimum three year rotating schedule.

- Benchmarking of work to the Australian Auditing Standards and KPMG's own standards.
- Performed soon after the conduct of the work subject to review.
- Findings provided to audit teams for implementation on future audits.
- Partners who receive 'unsatisfactory' ratings are subject to additional reviews and are automatically reviewed again in the following year.

The results are provided to leadership at office, division and firm levels. Specific accountabilities for remediation, where relevant, are identified and detailed action plans drawn up. These are reported globally and subject to ongoing review.

QPR Program (audit and assurance)	FY15	FY14	FY13
Total QPR audit and assurance reviews performed	61	66	68
Percentage of High Risk Register financial statement audits reviewed	20	24	21
No. of audit partners reviewed as percentage of total audit partners	38	38	40
Percentage of reviewers who were from outside KPMG Australia	19	16	13

30. International Standard on Quality Control ISQC1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and Auditing Standard ASQC1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*

31. A Global Compliance Review was undertaken during FY14 and a Green *Substantial Compliance* rating awarded.



Other assessments of audit quality

Other audit quality monitoring mechanisms include:

- Targeted and real time reviews: Tailored programs to assess particular attributes or focus areas of an audit, either during the audit or post completion. These identify opportunities to improve quality and effectiveness by sharing leading practices.
- Local self-assessments of each driver of audit quality: Conducted in each office on a six monthly basis with documented local office action plans to address issues and make improvements.
- Accounting technical reviews of client financial statements: Performed on a sample basis by a qualified person outside of the audit team, prior to signing the audit opinion. Over a three-year period, the sample includes all listed and high risk clients.
- Evaluation of common consultations: Capturing and evaluating the most common questions raised by our individual teams.
- Post training course assessments: These test understanding of specific content and provide evidence about the quality of learning.
- Goal setting and performance evaluation processes: These include explicit evaluation of audit quality inputs and outcomes.

We also review audits in the rare circumstances where the financial statements or audit opinions were reissued. This identifies whether any aspect of the performance of the audit could have contributed to the need for the reissuance. We act promptly to prevent the issue from recurring. The same applies to audits that are subject to regulatory investigation.

Findings from our risk and audit quality monitoring resulted in impacts to compensation in FY15 and / or continued ability to perform financial statement audits for a small number of partners.



Assessments of compliance with independence and ethics requirements

We monitor our compliance with independence requirements of the *Corporations Act 2001*, professional ethical standards, and our mandated internal policies, systems and processes. This monitoring includes an annual declaration of compliance from partners and staff, the performance of personal independence compliance audits on a sample basis, and partner rotation compliance audits on a sample of engagements. Our annual QPR program and RCP, completed in August 2015, also test for compliance with these requirements, including partner terms on relevant audit engagements and the appropriateness of non-audit services provided.



20
PARTNER
ROTATION

Our independence policies are set at or above the requirements of professional standards and the *Corporations Act 2001*. In the event of non-compliance, the actions of partners and staff are considered by our Ethics and Independence Disciplinary Committee (EIDC) in accordance with our disciplinary policy. The severity of disciplinary actions have regard to the seniority of the individual and/or when breaches are not self-reported, such as when identified by a compliance audit. Depending on the circumstances, disciplinary action could include: a caution letter, a disciplinary letter on the individual's personnel file, remuneration adjustment, career progression halted for 12 months or separation from the firm.

Our compliance testing identified instances of individuals not achieving full adherence to our policies and processes. The primary source of non-compliance was failure by individuals to enter or update all their investments into our investments tracking system on a sufficiently timely basis. A small number of instances related to acquisitions of prohibited financial interests, failure to record relevant directorships in non-audit clients in our systems in accordance with KPMG policy, and delays in completing mandatory independence training. These matters were remedied and referred to the EIDC.

Key performance indicators – Ethics and independence	FY15	FY14	FY13
No. of partners and staff subject to an independence compliance audit	150	169	180
No. of engagements subject to a partner rotation compliance audit	20	15	20

In FY15, three individuals joining the firm gave rise to five qualifications of Auditor's Independence Declarations. Four of the qualifications arose as the firm employed two non-partners who, in the immediate 12 months prior to joining KPMG, were directors of non-listed audit clients. One individual had held three director roles. In response to these circumstances, we reviewed and tightened our pre-employment screening processes. The fifth qualification arose due to a non-audit partner joining the firm while holding shares in an audit client with the lead audit engagement partner being located in the same office. Upon identification, the partner disposed of the investment immediately. None of the individuals involved in these circumstances provided audit services to audit clients on behalf of the firm. We are committed to enhancing our systems and processes to address these issues.

Key performance indicators – Ethics and independence	FY15	FY14	FY13
Total no. of qualifications of an Auditors Independence Declaration ³² – listed audit clients	0	1 ³³	0
Total no. of qualifications of an Auditors Independence Declaration ³² – non-listed audit clients	5	0	1



External inspections

We welcome the opportunity to receive feedback on audit quality from outside the firm. This enables us to recalibrate our benchmark of audit quality to an external standard.

Australian Securities and Investments Commission (ASIC)

ASIC conducts an audit inspection program involving a review of compliance with the auditor independence and audit quality provisions of the *Corporations Act 2001*. As part of its cyclical program, ASIC commenced its ninth inspection of KPMG reviewing financial statement audit engagements onsite from June 2015³⁴, expected to complete December 2016. In our most recently completed review³⁵, ASIC's closing comments in the relevant areas subject to their review were, quality and independence systems appear to be mature and functioning and the firm demonstrated a strong ongoing commitment to improving audit quality.

ASIC provided feedback on specific engagement files with suggested areas for improvement including: improving the robustness of our impairment testing; the importance of adequately documenting and assessing the work of others, both KPMG specialists and experts engaged by client management, supervision and review on files, and the need to reinforce the importance of the application of professional scepticism. Our FY15 training forums were heavily weighted to reinforcing ASIC's messages and addressing their concerns.

We maintain a comprehensive action plan detailing feedback from monitoring activities, including ASIC inspections, possible root causes of the issues, appropriate solutions, and resulting actions. Our audit quality action plan is shared with and discussed with ASIC twice annually.

Foreign regulators

The PCAOB released the report on their findings from the March 2014 joint inspection of our firm in October 2014 which did not identify any deficiencies in any of the three audit engagements reviewed³⁶.

Our audit practice is registered with the US PCAOB³⁷, Japanese³⁸, Canadian³⁹, Luxembourg⁴⁰, UK⁴¹ and German⁴² authorities. This is necessary to either participate in audits of global clients or conduct audits of Australian clients who, owing to overseas stock exchange listing requirements, file financial statements in those jurisdictions. Apart from the US PCAOB these regulators have not inspected our firm.

Chartered Accountants Australia and New Zealand (CAANZ)

The CAANZ regulate and govern the work of chartered accountants that perform audits. The CAANZ implemented an innovative review approach for the large firms: an online qualitative audit quality survey assessing the perceptions of partner, manager, qualified staff and graduate respondent groups on drivers of audit quality.

32. Required by the *Corporations Act 2001* section 307C

33. Arose due to the majority of the shares of an audit client being acquired by a non-audit client whereupon one of the acquiring company directors was being remunerated by KPMG for consulting services. Upon identification of the new ownership of the audit client, the consulting agreement with the individual was terminated.

34. ASIC do not report publicly on observations and findings from individual firm inspections. ASIC's most recent public omnibus report *Audit inspection program public report for 2012–13* summarises the observations and findings identified by ASIC's audit inspection program in the 18 months to 31 December 2013 (Report 397). The report is available on their website www.asic.gov.au

35. Finalised in August 2015 covering audits conducted for periods ended 30 June 2013 and 31 December 2013.

36. The report is available on their website www.pcaobus.org

37. Public Company Accounting Oversight Board

38. Japanese Financial Services Authority

39. Canadian Public Accountability Board

40. Luxembourg Commission de Surveillance du Secteur Financier

41. UK Public Oversight Board

42. German Audit Oversight Commission

Statement on effectiveness of system of quality control

We are confident that our framework for audit quality supports our people and enables them to provide a high level of audit quality in an independent, objective and ethical manner, maintaining public and stakeholder confidence.

This report describes our quality control systems to conduct our audits in accordance with applicable standards and laws, and highlights certain measures we consider in operating our audit practice. The results of our internal monitoring programs, consideration of our reported measures, together with feedback from independent regulatory inspections, provides the KPMG Board with a basis to conclude that our systems of quality control described in this Transparency Report are functioning effectively.



Peter Nash
National Chairman



Gary Wingrove
CEO

Appendix

1. KPMG in Australia legal structure and ownership

The global KPMG network consists of separate independent firms that individually provide Audit, Tax and Advisory services to a wide variety of public and private sector organisations.

KPMG in Australia is a member firm of KPMG International Cooperative ("KPMG International"), a Swiss cooperative which is a legal entity formed under Swiss law. Further details about KPMG International and its business, including our relationship with it, are available in the 2014 KPMG International Transparency Report⁴⁴.

KPMG operates in Australia through the KPMG Partnership (Australian Partnership) with offices in Adelaide, Brisbane, Canberra, Darwin, Gold Coast, Hobart, Karratha, Launceston, Melbourne, Parramatta, Perth, Sydney and Wollongong. The Australian firm also has two other KPMG practices sublicensed to use the name KPMG: KPMG Papua New Guinea and KPMG Fiji Islands (Sublicensees). The Australian Partnership and the Sublicensees are separate partnerships. However, under the terms of the Sublicense Agreement, the Sublicensees agree to conduct their affairs in a manner consistent with the objectives, policies, standards and procedures adopted by the Australian firm, which seeks to maintain the prestige and high professional standards associated with the KPMG name.

2. Network arrangements

KPMG member firms can be found in 155 countries and collectively employ more than 162,000 people across a range of disciplines.

KPMG in Australia is affiliated with KPMG International. 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 provided exclusively by member firms.

Under agreements with KPMG International, member firms including KPMG in Australia are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients. This includes having a structure that ensures continuity and stability and being able to adopt global and regional strategies, share resources (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 are required to have the capability to provide certain types of core services and to refer work to other member firms where appropriate (for example, if the engagement concerns work in that other member firm's country and that other member firm has the required capacity and expertise to perform the work).

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.

44. <https://assets.kpmg.com/content/dam/kpmg/pdf/2012/03/transparency-report-2014v2.pdf>

3. KPMG's Global Values

Our commitment to transparency is an important part of our global values that state, 'above all, we act with integrity'.

We lead by example

At all levels we act in a way that exemplifies what we expect of each other and of our clients.

We work together

We bring out the best in each other and create strong and successful working relationships.

We respect the individual

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

We seek the facts and provide insight

By challenging assumptions and pursuing facts we strengthen our reputation as trusted and objective business advisers.

We are open and honest in our communication

We share information, insight and advice frequently and constructively and manage tough situations with courage and candour.

We are committed to our communities

We act as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities and protecting the environment.

Above all, we act with integrity

We are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.

4. Financial and other information

This section sets out financial and other information on the firm that shows the importance of statutory audit work to our overall business and results.

Revenue

Total revenue for KPMG in Australia for the financial years ending 30 June						
Division	FY15 \$m	FY15 %	FY14 \$m	FY14 %	FY13 \$m	FY13 %
Audit	411	34	392	35	389	35
Tax	206	17	201	18	206	19
Advisory	593	49	527	47	518	46
Total	1,210	100	1,120	100	1,113	100

Note: All figures are in Australian dollars and exclude Sublicensees

Total revenue split for the firm can be further analysed on the following percentage basis			
	FY15 %	FY14 %	FY13 %
Audits of financial statements ⁴⁵	23	24	25
Assurance and other services for audit clients	11	13	11
Non-audit services for non-audit clients	66	63	64
Total	100	100	100

45. Includes audits and reviews conducted of financial statements, prepared pursuant to sections 292, 295, 302 and 303 of the *Corporations Act 2001*

5. Governance structure

The Board is the principal governance and oversight body of KPMG in Australia. Key responsibilities include overseeing strategy implementation, protecting and enhancing the KPMG brand and overseeing management of the firm.

Reporting to the Board are, amongst others, the following bodies:

- The CEO and National Executive Committee
- Ethics and Independence Disciplinary Committee
- Partner Remuneration and Nomination Committee
- Audit Committee

The National Executive Committee is the principal management body of KPMG in Australia. It is responsible for driving the financial performance of the business, the development and execution of strategy and establishing the processes to monitor and enforce policy compliance. Its members include the National Managing Partners of each of the Audit, Tax, Advisory and Private Enterprise divisions, along with the National Managing Partner Risk and Regulation.

Reporting to the National Executive Committee are:

- The Service Delivery Risk Committee
- The Risk Management Group
- Ethics and Independence Disciplinary Committee

Primary role as it relates to quality

Service Delivery Risk Committee

- Oversight of risk management processes relating to service delivery to clients
- Evaluate and mitigate emerging business risks as they affect service delivery
- Recommend improvements to firm systems and processes as needed

Risk Management Group

- Promote processes and structures to support risk management and quality
- Design, implement, monitor and test risk and quality policies, systems and procedures
- Create tools and templates to manage compliance obligations
- Provide support and guidance to all professionals on application of appropriate policies and systems

Ethics and Independence Disciplinary Committee

- Deal with referrals of non-compliance with the firm's ethics and independence policies
- Determine disciplinary sanctions with the approval of the National Executive Committee and/or Board
- Recommend improvements to firm policies, systems and processes as needed

6. Board members and NEC members

The Board comprises the National Chairman, the CEO and seven other members currently drawn from our Melbourne, Perth and Sydney offices. The Board met 14 times in the year to 30 June 2015.

Board members as at the date of this report are:

National Chairman Peter Nash, Melbourne	CEO Gary Wingrove, Sydney
Liz Forsyth (Deputy Chair), Sydney	Andrew Dickinson, Sydney
David Gelb, Melbourne	Ian Jedlin, Sydney
Denise McComish, Perth	Angus Reynolds, Melbourne
Stuart Rose, Melbourne	

NEC members as at the date of this report are:

Gary Wingrove, CEO	
John Somerville, Advisory	Duncan McLennan, Audit
Rob Bazzani, Private Enterprise	David Linke, Tax
Susan Ferrier, People, Performance & Culture	James Hunter, Markets & Growth
Chris Hall, Risk & Regulation	Martin Sheppard, Brand & Innovation
Anne Collins, General Counsel	Damian Templeton, CFO / COO

7. Public interest audit clients of the firm

The Australian listed companies, listed registered schemes, Authorised Deposit-Taking Institutions⁴⁶, General Insurers⁴⁷ and Life Companies⁴⁸ for which KPMG in Australia⁴⁹ is statutory auditor for the financial years ended in the 12 months to 30 June 2015 are:

AAI Limited
Aeon Metals Limited
Agrimin Limited
Aims Property Securities Fund
Ainsworth Game Technology Limited
ALE Property Group
Allianz Australia Insurance Limited
Allianz Australia Life Insurance Limited
Allianz Australia Limited
Alloy Resources Limited
ALS Limited
Amalgamated Holdings Ltd
Ansell Limited
ANZ ETFS Physical Gold ETF
ANZ ETFS Physical Renminbi ETF
ANZ ETFS Physical US Dollar ETF
ANZ ETFS S&P 500 HIGH YIELD LOW VOLATILITY ETF
ANZ ETFS S&P/ASX 100 ETF
ANZ ETFS S&P/ASX 300 HIGH YIELD PLUS ETF
ANZ Lenders Mortgage Insurance Pty Limited
ANZCover Insurance Pty Ltd
Appen Limited
ARC Exploration Limited
Arrium Limited
Asciano Limited
Asia Pacific Data Centre Group
Asia Pacific Data Centre Holdings Limited
Asia Pacific Data Centre Trust
Aspen Insurance UK Limited – Australian Branch
Assetinsure Pty Limited
Atlas Iron Limited
Attila Resources Limited
Augur Resources Limited
AusNet Services (Distribution) Ltd
AusNet Services
AusNet Services (Transmission) Ltd
AusNet Services Finance Trust
AusNet Services Holdings Pty Ltd
Austock Group Limited
Austock Life Limited
Austpac Resources NL
Australia and New Zealand Banking Group Limited
Australian Agricultural Company Limited
Australian Central Credit Union Limited
Australian Ethical Investment Limited

Australian Leisure & Entertainment Property Management Limited
Australian Leisure & Entertainment Property Trust
Australian Pharmaceutical Industries Limited
Australian United Investment Company Limited
Auto & General Insurance Company Limited
AVEXA Limited
Bank of Queensland Limited
Barristers Sickness & Accident Fund Pty Ltd
Base Resources Limited
Beach Energy Limited
Beadell Resources Limited
Bell Financial Group Limited
Berkley Insurance Company
BetaShares Agriculture ETF – Currency Hedged (Synthetic)
BetaShares Australian Dividend Harvester Fund
BetaShares Australian Equities Bear Hedge Fund
BetaShares Australian Equities Strong Bear Hedge Fund
BetaShares Australian High Interest Cash ETF
BetaShares Australian Top 20 Equity Yield Maximiser Fund
BetaShares British Pound ETF
BetaShares Commodities Basket ETF – Currency Hedged (Synthetic)
BetaShares Crude Oil Index ETF – Currency Hedged (Synthetic)
BetaShares Euro ETF
BetaShares FTSE RAFI Australia 200 ETF
BetaShares FTSE RAFI U.S.1000 ETF
BetaShares Geared Australian Equity Fund
BetaShares Gold Bullion ETF – Currency Hedged
BetaShares NASDAQ 100 ETF
BetaShares S&P 500 Yield Maximiser Fund
BetaShares S&P/ASX 200 Financials Sector ETF
BetaShares S&P/ASX 200 Resources Sector ETF
BetaShares US Dollar ETF
BHP Billiton Limited
BHP Billiton Marine & General Insurances Pty Ltd
Biotron Limited
Boom Logistics Limited
Boral Insurance Pty Limited
Boral Limited
Buru Energy Limited
BWP Trust
Cabcharge Australia Limited
Callabonna Resources Limited
Calliden Insurance Limited
Caltex Australia Limited
Cardno Limited
Carlton Investments Limited
CBG Capital Limited
Centaurus Metals Limited
Centrex Metals Limited
Centuria Capital Limited
Centuria Life Limited
Centuria Metropolitan REIT
CGU Insurance Limited
CGU-VACC Insurance Limited

CIC Allianz Insurance Limited
Citibank, N.A.
Citigroup Pty Ltd
Clean TeQ Holdings Limited
Club Insurance Holdings Pty Ltd
Cochlear Limited
Cockatoo Coal Limited
Codan Limited
Coffey International Limited
Community Alliance Credit Union Limited
Community CPS Australia Limited
Community First Credit Union Limited
Community Mutual Limited
Corrvas Insurance Pty Ltd
Covata Limited
Coventry Group Limited
Credicorp Insurance Pty Ltd
Credit Suisse AG – Sydney Branch
Credit Union Australia Limited
Credit Union SA Ltd
CSG Limited
CTI Logistics Limited
Cudoco Limited
Deutsche Bank AG – Sydney Branch
Diversa Limited
Diversified United Investment Limited
Domestic & General Insurance PLC – Australian Branch
Downer EDI Limited
Draig Resources Limited
DuluxGroup Limited
Eclix Group Limited
Emeco Holdings Limited
Emerging Markets Masters Fund
Employers Mutual Limited
Encompass Credit Union
Enero Group Limited
Engenco Limited
Equus Mining Limited
Ethane Pipeline Income Financing Trust
Ethane Pipeline Income Fund
Ethane Pipeline Income Trust
Family First Credit Union Limited
Finbar Group Limited
Fire Service Credit Union Limited
First American Title Insurance Company of Australia Pty Ltd
GBST Holdings Limited
GE Capital Finance Australia
Genworth Financial Mortgage Indemnity Limited
Genworth Financial Mortgage Insurance Pty Limited
Genworth Mortgage Insurance Australia Limited
Gindalbie Metals Limited
Global Petroleum Limited
Gondwana Resources Limited
Goodman Group

46. Within the meaning of the *Banking Act 1959*

47. Within the meaning of the *Insurance Act 1973*

48. As registered under section 21 of the *Life Insurance Act 1995*

49. Excludes sublicensees

Goodman Industrial Trust
 Goodman Limited
 Goodman PLUS Trust
 Gordian RunOff Limited
 GPT Metro Office Fund
 Great Lakes Reinsurance (UK) Plc – Australian Branch
 Growthpoint Properties Australia
 Growthpoint Properties Australia Limited
 Growthpoint Properties Australia Trust
 GUD Holdings Limited
 GWA Group Ltd
 Hallmark General Insurance Company Limited
 Hallmark Life Insurance Company Limited
 Hammer Metals Limited
 Hannover Life Re of Australasia Ltd
 Hannover Rueck SE – Australian Branch
 HBF Insurance Pty Ltd
 HDI-Gerling Industrie Versicherung AG
 HFA Holdings Limited
 Hills Limited
 Hospitality Employers Mutual Limited
 Hotel Property Investments
 Hotel Property Investments Limited
 Hotel Property Investments Trust
 HSB Engineering Insurance Limited – Australian Branch
 HSBC Bank Australia Limited
 IAG Finance (New Zealand) Limited
 IAG Re Australia Limited
 IMB Limited
 IMX Resources Limited
 Indue Limited
 Industrial and Commercial Bank of China Limited – Sydney Branch
 Insurance Australia Group Limited
 Insurance Australia Limited
 Insurance Manufacturers of Australia Pty Limited
 InTech Credit Union Ltd
 International Insurance Company of Hannover Limited
 Intra Energy Corporation Limited
 Intrepid Mines Limited
 Inventis Limited
 IOOF Holdings Limited
 IOOF Ltd
 Japara Healthcare Limited
 Keybridge Capital Limited
 King Island Scheelite Limited
 Korvest Ltd
 Lend Lease Corporation Ltd
 Lend Lease Group
 Lend Lease Trust
 LFI Group Pty Ltd
 Lincoln Minerals Limited
 Lodestar Minerals Limited
 Long Grove Insurance Company Limited
 Lovisa Holdings Limited
 Macarthur Credit Union Limited

Macmahon Holdings Limited
 Mako Hydrocarbons Ltd
 Mastermyne Group Limited
 MaxiTRANS Industries Limited
 McAleese Limited
 Medical Insurance Australia Pty Limited
 Mirabela Nickel Limited
 Mitsui Sumitomo Insurance Company Pty Limited
 Monash IVF Group Limited
 Mortgage Risk Management Pty Ltd
 MTA Insurance Limited
 Munich Reinsurance Company – Australian Branch
 Munich Reinsurance Company of Australasia Limited
 Mutual Community General Insurance Pty Limited
 Nearmap Ltd
 Newzulu Limited
 Nido Petroleum Limited
 Nufarm Limited
 Oilex Limited
 OnePath General Insurance Pty Limited
 OnePath Life Limited
 oOh!media Limited
 Orica Limited
 Origin Energy Limited
 OTOC Limited
 Over Fifty Guardian Friendly Society Limited
 Overseas-Chinese Banking Corporation Limited
 OZ Minerals Limited
 Pacific Brands Limited
 Pacific Smiles Group Limited
 PaperlinX Limited
 Payce Consolidated Limited
 Perpetual Equity Investment Company Limited
 Perpetual Limited
 Petsec Energy Limited
 Planet Gas Limited
 Police Financial Services Limited
 Poseidon Nickel Limited
 Qantas Airways Limited
 Qantas Staff Credit Union
 QMS Media Ltd
 Quickstep Holdings Limited
 RAA Insurance Limited
 RACQ Insurance Limited
 RACT Insurance Pty Ltd
 Real Estate Capital Partners USA Property Trust
 Red 5 Limited
 Regis Resources Limited
 Rex Minerals Limited
 Rey Resources Limited
 Ridley Corporation Limited
 Rubik Financial Limited
 Rum Jungle Resources Ltd
 Ruralco Holdings Limited
 Santana Minerals Limited

Sedgman Limited
 Seven Group Holdings Limited
 Seven West Media Limited
 SG Fleet Group Limited
 Shaw River Manganese Limited
 Silver Chef Limited
 Silver Lake Resources Limited
 SMS Management & Technology Limited
 Sompo Japan Nipponkoa Insurance Inc – Australian Branch
 South West Slopes Credit Union Limited
 South32 Limited
 Southern Cross Benefits Limited – Australian Branch
 Southern Cross Electrical Engineering Limited
 St Andrews Insurance (Australia) Pty Ltd
 St Andrews Life Insurance Pty Ltd
 St Barbara Limited
 Standard Chartered Bank
 State Bank of India – Sydney Branch
 Statecover Mutual Limited
 Steadfast Group Limited
 Stewart Title Limited
 Sumitomo Mitsui Banking Corporation – Sydney Branch
 Suncorp Group Limited
 Suncorp Insurance Holdings Limited (FSA)
 Suncorp Life & Superannuation Limited
 Suncorp-Metway Limited
 Sunderland Marine Mutual Insurance Company Limited – Australian Branch
 Surfstitch Group Limited
 Swann Insurance (Aust) Pty Limited
 Sydney Airport
 Sydney Airport Limited
 Sydney Airport Trust 1
 Talon Petroleum Limited
 Tanami Gold NL
 The Bank of New York Mellon – Australia Branch
 The Northern Trust Company
 Thinksmart Limited
 Thorn Group Limited
 Tigers Realm Coal Limited
 TNG Limited
 Tokio Millennium Re Ltd – Australian branch
 TPG Telecom Limited
 Transfield Services Limited
 Treasury Wine Estates Limited
 UGL Limited
 Veda Group Limited
 Virgin Australia Holdings Limited
 W.R. Berkley Insurance (Europe) Limited
 Watpac Limited
 WDS Limited
 WFI Insurance Limited
 White Rock Minerals Limited
 Wildhorse Energy Limited
 Winmar Resources Limited
 Xstate Resources Limited



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