



*cutting through complexity*

# Annual Review 2014

INCLUDING THE KPMG IN MALTA  
TRANSPARENCY REPORT

MARCH 2015

[kpmg.com.mt](http://kpmg.com.mt)

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## Annual Review

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*cutting through complexity*

**At KPMG we build and sustain our reputation as the best firm to work with by ensuring that our people, our clients and our communities achieve their full potential.**

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. The network operates in 155 countries and has 162,000 outstanding professionals working together to deliver value in member firms around the world.

KPMG in Malta is a Maltese Civil Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

## Introduction by Senior Partner



When I took over as Senior Partner in October 2012, we set out a vision for the firm which sees us as becoming the clear benchmark professional services firm in Malta.

This requires us to be the clear choice, being respected and trusted not only for what we do but how we do it. It means we are valued by investors and respected in our profession; it means having the courage of our convictions.

It means that our clients see a difference in us; that we deliver unparalleled quality; that we build enduring relationships and that we bring leading insight and innovative solutions. It means putting our clients at the heart of what we do. This underlies our Client for Life strategy.

## Introduction by Senior Partner

CONTINUED

This is the path we have chosen to follow as we fulfil what we consider to be our purpose, that is to inspire confidence and empower change

It means that we recruit, develop and retain extraordinary people; people who are caring and courageous and share a lasting pride in our firm; people who are smart, curious and who relish a challenge. It means that we thrive on developing the leaders of tomorrow. This is at the heart of our Employer of Choice strategy.

Finally, it also means that we invest in the communities where we live and work.

It requires us to leave the firm better than we found it.

This is the path we have chosen to follow as we fulfil what we consider to be our purpose, that is to inspire confidence and empower change. In 2014 we have asked our people to describe how what we do reflects our purpose. Some of the key messages resonated with me as especially representative of what we stand for: **I PROTECT LIFE SAVINGS.**  
**WE HELP OUR CLIENTS MAKE THE RIGHT DECISIONS.**  
**WE PROTECT MALTA'S FINANCIAL STABILITY.**  
**I HELP MALTA SHAPE ITS COMPETITIVE POSITION.**  
**WE INSPIRE YOUNG PROFESSIONALS.**

I cannot fail to mention the acquisition of Crimsonwing plc by a joint venture comprising our firm and the KPMG firms in the United Kingdom and in the Netherlands. Following the closing of this acquisition in February of this year, KPMG is now the largest professional services provider on the island with a combined staff complement of over 450 people.

In the past year we continued to invest in our people and in developing new service lines. I believe that this investment is essential if we are to achieve our vision. Though we believe that Malta is well placed to achieve further growth in the years to come, we are also conscious of the challenges ahead and that we must take nothing for granted.

In the Global People Survey carried out in the last quarter of 2014, 90% of our people confirmed that they believe that KPMG in Malta has an outstanding future – I fully share this belief.

Tonio Zarb  
SENIOR PARTNER  
30 March 2015

## 2014 Highlights

### Performance/Revenue

Revenue

Total

€14.7m

+7%  
↑  
over  
prior  
year

63%

2014 tax & advisory revenue that  
originated from services provided  
to non-audit clients

Revenue by service line

Audit

€5.2m

/ No change over prior year

Tax & Advisory

€9.5m / +11.25%  
↑  
over prior year

**Note:** Revenue earned from the secondment of audit professionals to the audit function of other KPMG member firms are included as part of revenue from audit services. All other secondment revenue is included under the caption Revenue from tax and advisory services.

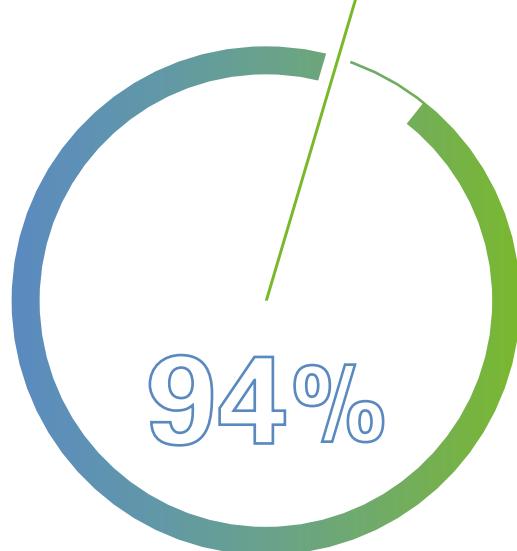
2.47%

total fees earned by  
the firm from its largest  
audit client group

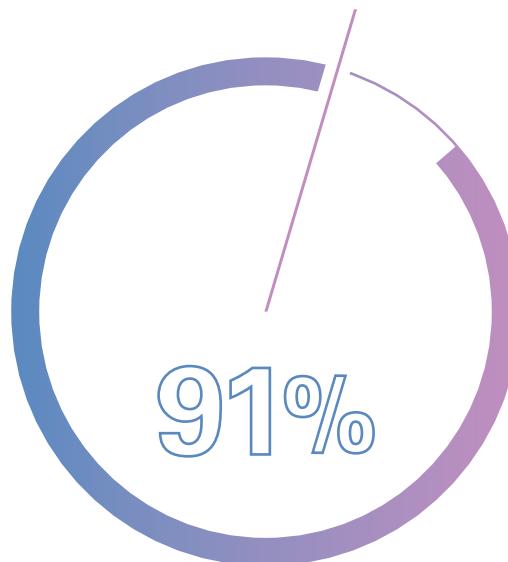
## Highlights

### Performance/Reputation

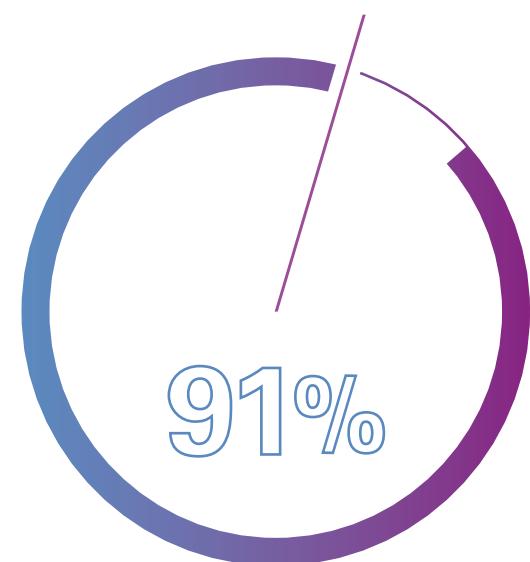
KPMG Client  
Satisfaction Survey



Satisfaction with quality  
and skills of KPMG  
employees



Satisfaction with the extent to which  
KPMG has met or exceeded clients'  
expectations



Satisfaction with the extent to which KPMG  
has demonstrated an understanding of our  
clients' business needs and of the issues and  
challenges that their businesses are facing

## Highlights

### People

97

University students  
participate in  
our graduate  
recruitment programme

265

the average staff complement  
in 2014 expressed in full time  
equivalents (including 21  
principals)

100%

of our people stated that KPMG takes account of the wider public interest (e.g. the needs of financial statement users) when we provide audit services

92%

stated that they are proud to work for KPMG

90%

believe that KPMG has an outstanding future as a firm

87%

believe that KPMG sets clear performance standards for our service delivery

89%

believe that KPMG inspires confidence through the work that it does

85%

believe that KPMG empowers change through the work that it does

\*KPMG Global People Survey 2014

## Highlights

### People

CONTINUED

## female participation

39% female participation in management roles

## family friendly measures

28 working mothers benefit from the Firm's Family Friendly Measures

## training and development

90% of our people stated that KPMG provides them with opportunities for learning and professional development – Global People Survey 2014

23,000 / €4,000  
training hours in 2014      average training spend per employee

## global opportunities

38 client facing professionals were placed on international secondments during 2014

## 2015 In their words



### 2015 - time for a focused strategic approach to Malta's financial and international business sector

#### **Tonio Zarb**

Here in Malta we owe much of our success of recent years to the growth of our services sectors, particularly the growth in financial and international business services that we experienced post-EU accession. The challenge for us is to realise that this growth is not due to us as of right, that if we do not build the future source of our competitive advantage, we may one day find that we have lost that which has taken us so long to achieve. We urgently need to assess our strategic options as a country in this important sector and identify what we must start doing with immediate effect to build the sources of our competitive advantage in the medium to longer term. In addition, though we may consider ourselves successful, we should be aware that success is relative (just consider what Luxembourg and Ireland have achieved over the last few years) and that we can achieve a great deal more with a more focused, strategic approach.

### Objectivity, independence and professional scepticism in audit

#### **Hilary Galea-Lauri**

Increasing risks and pressures make it important to understand our role as auditors, and what we do to support a quality audit. Published surveys have reported that some stakeholders regard the current audit opinion as uninformative, not saying anything other than what's been done or what hasn't been done, and that there's no real transparency about the audit process. In this regard, KPMG remains committed to communicate ever more effectively and transparently with our various audiences. We believe that the new form of auditor reporting will enhance our transparency beyond our opinion; for stakeholders to see what the key issues have been, what key judgements the company and ourselves as auditors have had to address, and to establish if there were any areas of disagreement. Our focus on audit quality - our emphasis on objectivity, independence and professional scepticism - will remain key.

### The opportunity of foresight through the use of Data & Analytics in audit

#### **Noel Mizzi**

For many years, the accountancy profession in Malta has been experiencing consistent growth principally driven by the Island's success in sustainable financial services and international business, which in turn fuelled the jurisdiction's resilience during the international financial crisis. Advances in technology and the explosion of data in today's businesses coupled with more onerous requirements, have changed the scenario within which we all operate, and providing the financial statements audit that delivers compliance and confidence is simply not enough. At KPMG, we see audit as an opportunity to deliver hindsight, insight and, more importantly, foresight through the use of Data & Analytics that ultimately enables us to go beyond the statutory requirements and our professional obligations for the benefit of our clients.

## 2015 In their words

CONTINUED



### Never a dull moment for a tax advisor

**Andre Zarb**

2014 has seen tax continue hitting the headlines internationally. Countries' knee-jerk reaction has been to enact unilateral rules, which contradict what they had committed to, i.e. addressing a review of international tax rules through a concerted effort under the OECD's base erosion and profit shifting (BEPS) project. The last quarter of 2014 saw the publishing of a number of BEPS reports, with more expected in 2015. These reports promise to revolutionise international tax rules: exciting times indeed.

KPMG has been in the forefront of the development of Malta's tax system since the early 90s. This resulted in the development of a simple and transparent system, based on the rule of law rather than a system based on rulings from the tax authority.



### Data analytics will become critical in shaping complex decisions

**Eric Muscat**

With the advent of social media, mobile technology and cloud services, information technology has taken on a totally new dimension with huge increases in the rate with which data is generated by organisations, individuals and through the multitude of sensors that are building the internet of things.

Individually these technologies have clearly moved out of the laboratory and past the adoption stage and the masses of varied data are starting to provide organisations with customer and behavioural insights that they had never had access to before.

2015 will see many more organisations embarking on a journey where data analytics take centre stage in shaping complex decisions.



### Transactions fuelling growth

**David Caruana**

Over the next few years we should witness an increasing number of Merger and Acquisition deals involving Malta based entities operating in various industries. As companies seek to grow in a highly competitive market place and embark on new ventures, we believe that the merger and acquisition route will be one of the priority items on the agenda of business leaders. In 2015 capital market transactions, particularly in the form of public debt issues by local corporates are also expected to be very active, particularly in view of the lower interest rate scenario which is expected to remain in place.

## 2015 In their words

CONTINUED



### Banking continues to re-engineer the way they operate

**Juanita Bencini**

The road back for banks across Europe remains tough. 2014 continued with the wave of unrelenting regulation as the domestic market went through and survived the first-ever Asset Quality Review – a true test to everyone's nerves and stamina. In an industry where regulatory pressures are the norm, KPMG works with clients to understand the impacts on their business and determine how business models need to change. Every financial institution today is re-engineering the way it operates – this is set to remain for some time with banks re-thinking their balance sheets, governance, products, technology and data.

This notwithstanding, Malta continues to tick the right boxes and remains well-placed, positioning itself amidst the safest banking jurisdictions in Europe – a testament of a robust banking industry and a right-minded regulator.

### The need to identify a source of competitive advantage

**Mark Bamber**

Economic instability has been a prevailing force in European affairs over the past months. Uncertainty over the Greek bailout, a collapsing oil price that became a threat to European oil companies and an opportunity for consumers, a weakening Euro and an appreciating US dollar, the threat of deflation, weak economic recoveries and low consumption expenditure, are only a few of the economic challenges facing organisations in these turbulent times. Together with these macro issues, businesses are also operating in an uncertain landscape, the Maltese labour market is tight, competition is sustained and aggressive, and the collection of debtor amounts reflects a slow movement of cash.

As we look to the future, we expect sustained competition in the local market, increasing emphasis on sustainability issues and reporting, and further challenges in the labour market. Sustaining competition in a converging world will continue to be harder. Countries and companies need to identify a source of competitive advantage. It's about striking the right balance between the opportunities and power of the market and the measures needed to prevent abuse of market power.

## KPMG Crimsonwing acquisition

On the 28th November last year, KPMG Investments Malta Limited launched a bid for the acquisition of Crimsonwing plc. On the 4th February 2015, KPMG completed the acquisition. KPMG Investments Malta Limited is a company set up in 2014 as a joint venture between KPMG in the UK, Netherlands and Malta, with the UK firm holding the majority of the shares.

By creating KPMG Crimsonwing, KPMG is today the largest “Big Four” provider of the fast-expanding Microsoft Dynamics market in Europe.

The acquisition is consistent with the firm’s strategy of building an Advisory practice which combines business expertise with the underlying technology capabilities required to implement business solutions.

Founded in 1996, Crimsonwing has developed into an award-winning consultancy providing industry-specific business, mobile and cloud solutions for international clients related to Microsoft Dynamics and eCommerce. Its market leading software incorporates its own intellectual property for clients in print management, property lease management and membership organisations.

Following the acquisition, KPMG has become the largest provider of professional services in Malta with a combined staff complement of over 450.



## KPMG Crimsonwing acquisition

CONTINUED

Over the next three years, the company intends to more than double its size in terms of both revenue and employees and to expand its market reach from Malta, UK and the Netherlands to other European countries.

Richard Fleming, head of KPMG's advisory practice in the UK, says: "The new venture provides an exciting opportunity for clients and staff alike and a real springboard for growth. The acquisition will help us build both onshore and Maltese near-shore capabilities, making us more accessible to European-based clients. The combination of KPMG Crimsonwing's high quality technology expertise with KPMG's broader business skills will make us our clients' partner of choice when it comes to delivering business transformation enabled by Microsoft technologies, and will strengthen and cement KPMG's position as a leading business partner of Microsoft."

David Walsh, founder, and continuing CEO of KPMG Crimsonwing, says: "This acquisition helps us to meet our clients' growing demands for broader business skills and for international reach to support multi-country implementations. With KPMG's support and its global platform, we will be in a better position to support our clients to transform their businesses and ensure they get the full benefit from their investments in new technology and information systems."

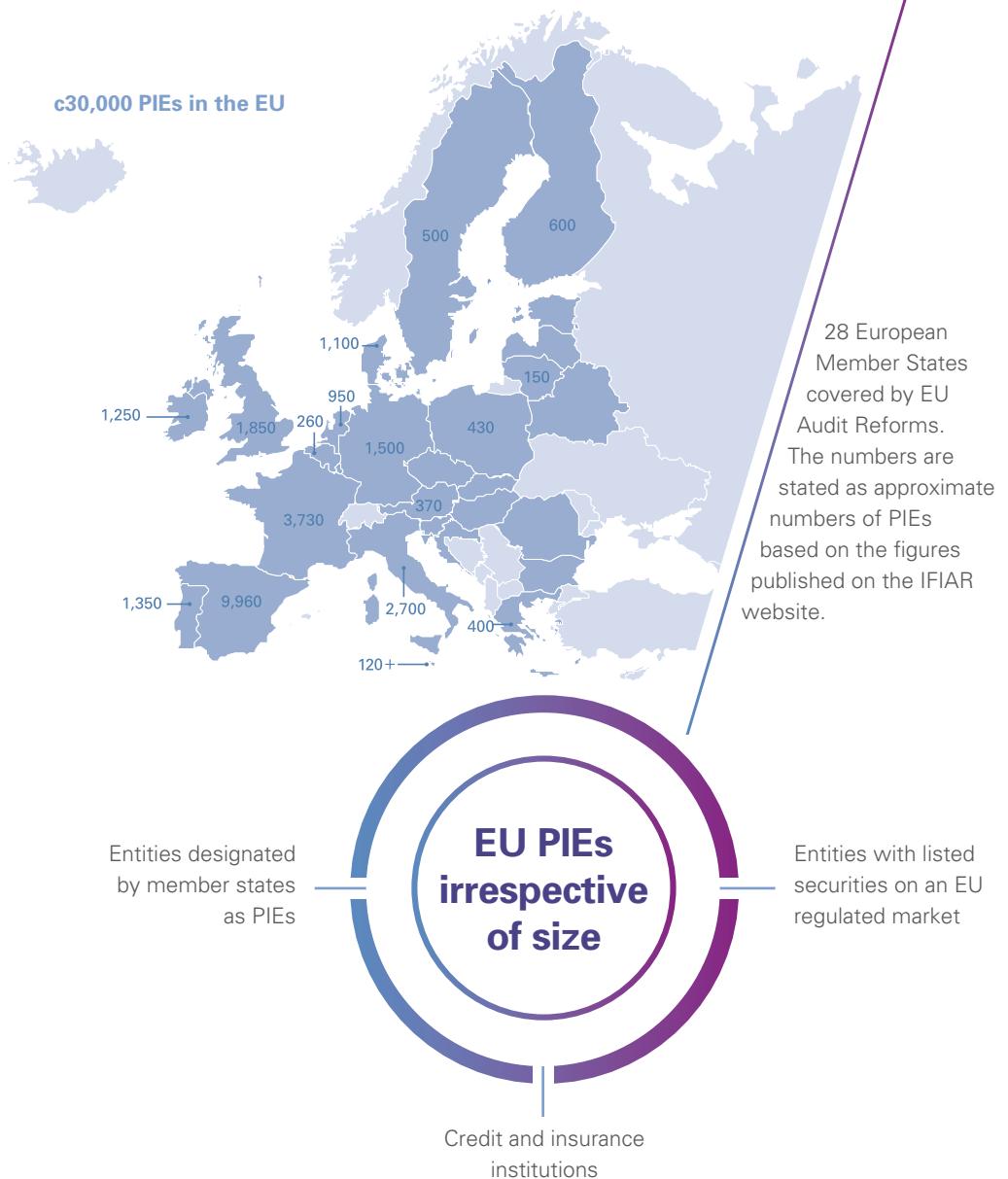


# EU Audit Reform

## Redefining the professional services market and its relevance to Malta

Hilary Galea-Lauri

Undoubtedly, the changes coming out of the new legislation, commonly referred to as the EU Audit Reform, are significant to all public interest entities (PIEs). Although the reforms will only become applicable on 17 June 2016, we are already experiencing an increase in tenders and consequential changes in auditors, even for non-PIEs operating across borders, as best practice.



## EU Audit Reform

CONTINUED

The key aspects  
of the legislation are:



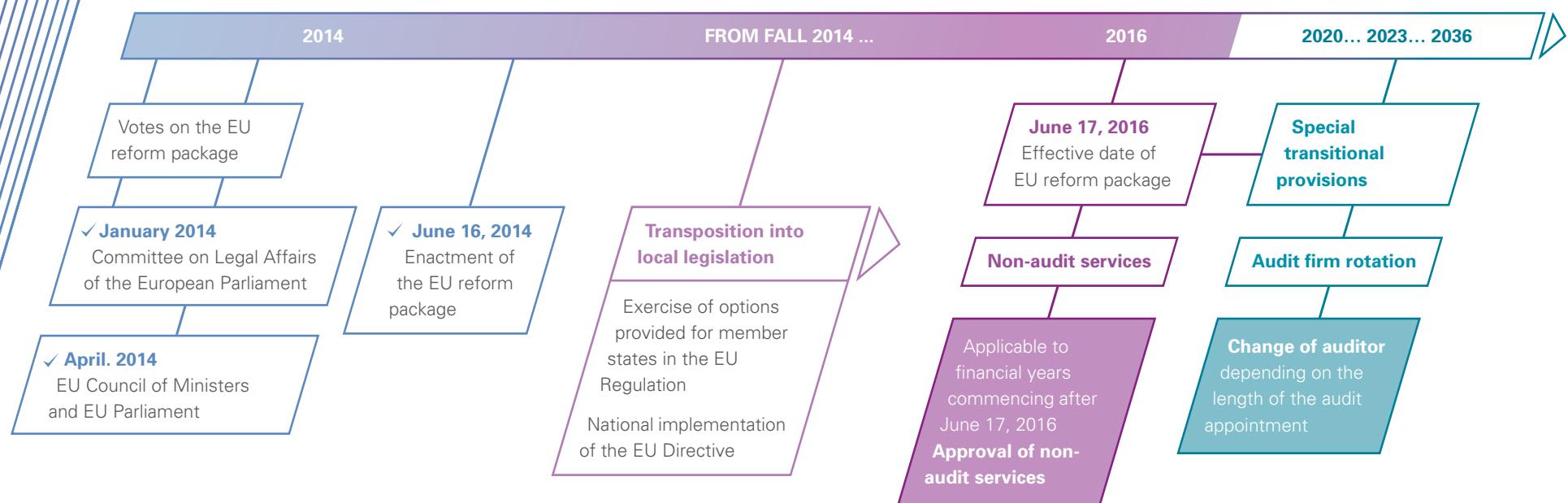
MANDATORY  
FIRM ROTATION

NON-AUDIT  
SERVICES

AUDIT COMMITTEES

Auditor reporting and Auditor  
oversight/Audit regulators

The state of the proceedings and the further  
legislative steps can be summarised as follows:



## EU Audit Reform

CONTINUED

KPMG's view remains that any measures should:

- have a clear and unequivocal benefit to audit quality;
- provide for a robust framework for auditor independence; and
- strengthen corporate governance.

We continue to believe, however, that other aspects of the Legislation, such as mandatory firm rotation, combined with significant restrictions on non-audit services, will inevitably reduce choice for shareholders, while increasing costs to business.

One of the main driving forces of the Reform is that of restoring investors' confidence through improved audit quality. The legislation addresses the need for more detailed and informative audit reports (based on the requirements of International Standards on Auditing) and includes a series of requirements designed to enhance investors' understanding of the audit process, including the critical judgements made during the course of the audit. From the UK's experience, expanded auditors' reports introduced in 2013 have received positive feedback, indicating that users value the insights provided. Coupled with this is the requirement for increased communication between auditors and audit committees, with more detailed information on the results and conclusions of the audit process. In fact, the Regulation provides a detailed list of what auditors are required to report in writing to audit committees and includes, amongst others, identification of key partners involved in the audit, the extent of involvement of external experts and their independence, quantitative and qualitative factors in determining materiality levels and reporting on valuation methods.

Communication with those charged with governance only serves its purpose if external auditors (and the key audit partner in particular) divorce the business and personal relationships which inevitably develop over time, in remaining objective and independent.

Audit firms practice a partner rotation policy on a periodical basis in managing long-term audit client relationships, demonstrating independence and bringing in fresh perspectives. The EU now further imposes mandatory firm rotation to break off what has been described as 'cosy' and excessive familiarity between companies and their auditors, despite partner rotation policies in place. Companies which fall to be defined as PIEs will, under the baseline requirements, be required to rotate their auditor at least every ten years.

In further safeguarding auditor independence, the new rules include a strict 'black list' of non-audit services which prohibits the company's independent auditor from providing several services, including tax advisory services that directly affect the company's financial statements or services linked to the client's financial and investment strategy. Furthermore, all permissible non-audit services provided by the auditors will be capped to no more than 70% of the average statutory audit fees paid over the preceding three consecutive financial years.

## EU Audit Reform

CONTINUED

Audit committees have been assigned expanded roles and entrusted with the explicit responsibility of the audit tender process. Such increased responsibilities will necessitate a heavier demand for experienced professionals who are able to challenge internal processes and ensure that auditors remain independent of those processes, besides having a more-than-average knowledge of the selection and application of key accounting policies which require the exercise of professional judgement in an ever-increasing complex financial and reporting framework. Against this backdrop, we believe it is time for the market to question the adequacy of the remuneration of key audit committee members with such specialist knowledge and, equally important, the extent of the time they contribute to the role, if they are to be effective.

They are further required to recommend at least two options for auditor selection with a justified case for one of them. In identifying a legitimate auditor, audit committees of companies operating in more than one EU member state would need to be up to speed with the different options individual states may decide to adopt. Audit committees will also need to be acutely aware of new restrictions on the additional services that can be provided by the selected audit firm. This will affect an audit committee's policy on non-audit services and their pre-approval. Companies are increasingly becoming aware of the efforts required in the tendering process, which can be an expensive and lengthy one.

Audit committee members have a crucial role in ensuring that mandatory firm rotation is not used abusively as a strategy for negotiating lower audit fees or to remove auditors when standing their ground with management, as this would undeniably have an adverse effect on quality, investor confidence and the auditing profession in general.

There are some other practical aspects which we see coming out of the implementation of the Reform proposals. We expect the market to experience healthier competition amongst audit firms with more inclusion, also requiring audit firms to manage commercial decisions with respect to their preferred role with the client. In borderline cases, audit committees and statutory auditors might tend to err on the side of extra caution when taking decisions relating to the provision of non-audit services which may be perceived as tainting auditor independence.

Overall, the reforms will present a challenge to businesses, particularly the restrictions on non-audit services for those companies which have relied on their auditors to provide additional valued services. Companies will need to balance their preference for an auditor with their preferred advisors in other areas. This is all the more challenging in a market of the size of Malta.

## Perspectives on Audit

In the words of  
our clients

Noel Mizzi



In the midst of all the current debates around the financial statement audit in the past year, we thought that giving a voice to our clients would be an interesting and thought-provoking perspective. As we progressed with our audit mandates in early 2015, we conducted face-to-face interviews with C-suite executives, with a particular focus on public interest entities (PIEs). We inquired about the importance our clients attach to audited financial statements, the importance of the audit process and what, in their opinion, could be included alongside the audit service.

## Perspectives on Audit

CONTINUED

### In the words of our clients

Noel Mizzi

We value such feedback  
in enabling us to better  
our service delivery

Below, we provide a summary of the more important aspects coming out of our inquiries.

Audited financial statements provide "peace of mind" to our clients and have been described as "the most important publication of a company", though, also in the words of one of our clients, "are of little value if companies do not take their preparation seriously and fully own them". These clients, cognisant of their public profile, use audited financial statements to showcase themselves to the outside world and to instil confidence in shareholders and other stakeholders, including their prospective clients. They measure their successes against those of their peers by referring to competitors' audited financial statements.

Our insights into the effectiveness of the entity's internal control environment, both informally and formally through our management letters, have proved to be highly useful and valuable to our clients, mindful of our knowledge on industry best practice through the servicing of other clients. Clients' interest on key areas of risk that concern management, audit committee and investors alike, has highlighted the importance of increased transparency and enhanced auditors' reporting within our audit service, providing broader and more relevant assurance. This of course, would give further ability to those charged with governance to focus on 'what could go wrong' in overseeing the financial reporting process. Notably, some clients have highlighted the importance of not losing sight of the traditional compliance aspect in audit and the auditors' current important role of reporting on the financial statements.

It has transpired that despite having a strong finance function within an organisation, we as auditors, continue to be a sounding board for technical matters to our clients. Coupled with this, they have stressed the importance of regular communication with auditors, communicating and discussing issues as they arise during the audit process, and on a regular basis during the year, as part of the audit relationship. This underpins the importance of thought leadership, providing latest industry updates and technical guidance to our clients.

Our substantive analytical procedures to identify risks and investigate anomalies are well received by our clients and preferred to the traditional checks and balances. They claimed that questions asked by auditors in performing such tests "make them think and sense-check their numbers", also "reconciling the audited figures to those provided by management". Our clients are particularly interested about our findings when we use structured industry benchmarking in predicting and comparing their financial data. Leveraging available information through the power of our Data & Analytics tools not only increases the quality of our audit evidence but also adds value to our clients through a better understanding of the factors affecting performance.

Our clients are suggesting that we should go beyond the compliance aspect of a statutory audit, rendering it into an opportunity to unlock, as it were, the value of our audit process. Whilst this is of great relevance to public interest entities and other medium to large entities, it has been argued that it may be of lesser relevance to smaller non-listed unregulated entities in Malta. The current debate around the statutory audit requirement for all incorporated entities is now taking form and we are to expect developments which would exempt, to some degree, certain companies from such a requirement. Beyond the compelling reason driving that debate, we see this as a means to pave the way to redeploy resources to service the higher end of the spectrum of small enterprises (besides the medium to larger ones and PIEs) for which such an exemption will not apply, providing broader assurance in addition to the traditional binary form of audit reporting.

# The value of comparability

## The case for IFRS convergence in cross-border consolidation

Jonathan Dingli

Malta is well renowned for being a jurisdiction of choice for multinationals seeking a corporate base in Europe in view of its edge on a number of selling points not least its sound regulatory base, multilingual population, tax system, climate and its widespread knowledge and experience on international reporting and auditing standards.

Such multinational groups may re-domicile to Malta from a non-EU jurisdiction with lower financial reporting requirements, if at all, let alone consolidation. The adoption of IFRS and the convergence thereto for consolidation and group reporting purposes will definitely come up at some point during discussions with its advisors as the group plans its redomiciliation. A number of matters make it to the agenda at that stage. From experience we know that there are a number of significant benefits that come along with IFRS convergence and consolidation, amongst which:

- Heightened reporting discipline and accountability. Requiring subsidiaries to report back to the group's consolidation team on a regular basis not only ensures that the flow of consistently comparable data is sustained, but is also very effective in comparing the operating performance of the various entities to common IFRS accounting policies and, in so doing, eliminating any flavours and tweaks otherwise allowed by the various local GAAPs.
- Shareholder value and IPO readiness. Although an exit may not always be imminent, preparing for such an eventuality adds tremendous value in itself. IFRS consolidated historicals covering a number of reporting periods may be required for admission to trading on a regulated market. Such historicals are of course not prepared overnight – the availability of this information opens exit doors wide for shareholder divestment as the need arises. It is never too early to groom a business for sale.

## The value of comparability

CONTINUED

### The case for IFRS convergence in cross-border consolidation

Jonathan Dingli

- Comparability – typically multinationals operate in various jurisdictions with their respective local GAAPs which diverge in many respects. Attempting a consolidation without convergence to one common set of standards is arduous and pointless, hence depriving shareholders and management from a consolidated value of the group's true financial position and performance. While subsidiaries may be required to adhere to their local GAAP for local reporting purposes, converging such entities to IFRS for group consolidation provides shareholders and management with financial information that speaks the same language and eliminates the noise of intra-group trading, resulting in more decision-useful financial information.

Larger, multi-industry and multinational groups may find the convergence and consolidation process daunting at first. It is therefore imperative that a structured convergence methodology is adopted to ensure a seamless, milestone-based transition to IFRS.

In today's world, information is perhaps one of the most valued resources. As with most other valuables, this process requires time, investment and expertise to ensure that the group takes maximum benefit from the end-product.

**We invest the time to build knowledge and develop leading insight**



# Tax Services Case Study

## Cross-border tax efficient structures

**Andre Zarb**

**John Ellul Sullivan**

**Michail Tegos**

A multinational group with its headquarters in Malta has been very active in recent years in the acquisition of various operating companies across Africa. This however resulted in a haphazard organisation structure, with various intermediary holding companies in jurisdictions where the group had little or no presence.

We were asked to advise on the reorganisation of the group, taking into consideration the group's current operating structure and corporate presence, while ensuring a tax efficient structure for group.

The current climate surrounding tax structuring does not assist reorganisations such as these. Our assistance required much more analysis than simply studying a large array of tax treaties in order to identify the most beneficial ones and thereby suggesting where to interpose the intermediate holding companies. Firstly, the myriad of tax cases and the OECD's work on identifying the beneficial owner (and therefore application of the tax treaty), as well as the OECD's Base Erosion and Profit Shifting reports means that the role of a tax advisor in the present and future is significantly different to the role of a tax advisor in the past. Effectively, gone are the days

when a tax advisor simply identifies the most beneficial tax treaty. Secondly, in any case, the jurisdictions involved do not have wide treaty networks.

However, where others see difficulties, we see opportunities. The project embodies the vision of our tax practice. A vision which is not just focused on advising companies with respect to the use of Malta in international tax planning, but positions our practice at the very core of a multinational's business. Not just wearing Malta's Income Tax Act blinkers but requiring us to think with a global mind-set. Digging deeper than a mere desk research of the tax systems of different jurisdictions, which is always interesting for us tax-book-worms, but mainly understanding the core business needs and current and future plans of the business in order to present the group with a holistic proposal.

The global corporate structure of the business is only the beginning of our work with this client, in that upon the implementation of the structure, we will need to consider the operation of the group as a whole.

We are passionate  
about what we do

## Deal Advisory Case Study

### Cross-border ICT transaction

**Hermione Arciola**  
**David Pace**

Over the past year, KPMG in Malta provided essential deal advice to a major local ICT Group with respect to a potential cross-border transaction.

Our client had initiated discussions with a European ICT company ('the Target'), a leading privately owned overseas operator, in connection with a potential investment which included a mix of both debt and equity.

Initially, a team of KPMG deal advisory specialists provided valuation, financing and negotiation advice to the client which proved vital as negotiations continued with the Target. More specifically, we assisted the client with the following: (a) carrying out a detailed review of the Target's business plan, including financial projections, with a view of identifying material issues which may have an impact on the offer price and other relevant considerations; (b) estimating the fair value of 100% equity interest in the Target; (c) providing our comments on the financing structure proposed to be adopted for the said transaction; (d) assisting it in determining the accounting implications of the proposed transaction on the Group's financials.

Following the client's submission of a non-binding offer, a multi-disciplinary team from across different KPMG network offices worked intensively for three weeks to carry out a buy-side due diligence on the Target. Concurrently, we also assisted the client in estimating the impact of the findings from the due diligence exercise on their original offer and subsequently helped the client in closing the transaction.

Our support made a significant contribution to delivering the planned value from the acquisition, sped up the process and minimised the impact on the client's day-to-day operations. Following completion of the said transaction, at the end of the Group's financial year, we also helped the client to estimate, for financial reporting purposes, the fair value of the option embedded in the Share Purchase Agreement entered into, with the Target and its shareholders.

*"Negotiations were a lengthy and challenging process. We chose KPMG to support us because we wanted expert advice, commitment and availability of the team as and when the need arose. The KPMG team excelled in their execution and helped our company to close the deal on favourable terms", Client's CFO*

**We look beyond the transaction itself –  
our goal is to help the client maximise  
value in line with corporate strategy**

## Risk Consulting Case Study

### Asset Quality Review of Malta's largest retail bank

Juanita Bencini

With KPMG being the Big 4 firm that carried out the most Asset Quality Reviews on the 128 European banks that form part of the Single Supervisory Mechanism, the Malta practice too had its fair share.

KPMG Malta was responsible for carrying out the AQR for Malta's largest retail bank. This project involved a review of a sample of loans representative of the full population of loans of the bank with a view to establishing their asset quality. This exercise was necessary to provide clarity to the ECB prior to taking over the supervision of SSM banks in November 2014. The project was carried out to strict deadlines and involved constant liaison and deliverables to the MFSA and the ECB.

The team working on the engagement was brought together from the various areas of the firm - audit, valuation, risk, and at the peak was made up of approximately 50 staff members. During the entire length of the project we formed part of the wider KPMG AQR network and participated on weekly calls to share views and exchange experiences faced in local markets.

The engagement was spread over 10 workstreams and included review of the bank's policies on credit, collateral valuation, credit file review, assessment of the collective provisioning processes of the bank and translating the findings into an effect on the bank's Own Funds. The team's main objective in carrying out the exercise was to drive as much value for the bank from the exercise as possible – value that the bank could translate into their daily processes to drive efficiencies, and streamline their processes to meet the expectations of the new regulator – the ECB.

We believe in strength of teamwork; by working together we are able to bring out the best in each other and leverage skills in order to meet and exceed our clients' expectations

## Focus on... Gaming



The gaming and technology sector, be it digital or iGaming is in a constant state of flux. Likewise the extent of, and volume of data processed by such organisations changes every second. In order to properly position oneself in the market place, it is futile to just compile historical data without analysing it. Organisations today are awash with information - information though which through the right use of, and application of data and analytics, can contribute towards an improvement in player and punter experience, maximise revenues, control operating costs and enable businesses to make the right decisions and ensure that they are properly primed for the next challenge.

**Giles Schembri, Partner,  
Audit Services**

Operators are shifting their focus from one that has been concentrated on customer acquisition, to one that is more concerned with customer retention. Acquiring new players is becoming more expensive due to the industry externalities and the ever present lack of player loyalty. This makes the challenge of spurring on first time depositors a costly investment for any operator, especially when sign up bonuses, marketing campaigns and fixed odds go head-to-head. The use of big data, gamification and third party sophisticated software solutions, now make the term retention a lot more viable.

**Russell Mifsud, Manager,  
Industry Specialisation - Gaming**

In today's rapidly evolving gaming sphere, strategic business acquisitions capitalising on growth opportunities and market penetration, are proving to be more evident across the entire spectrum of the industry. Very often, such transactions are moulded with little consideration to the underlying accounting implications, only to face unpleasant surprises as the acquirer accounts for the acquisition in the succeeding financial statements in accordance with the requirements of International Financial Reporting Standards (IFRS).

**Jonathan Dingli, Director,  
Advisory Services**

The traditional focus on hiring, developing, engaging and retaining the best people is no longer enough. Companies need to design, develop and deploy forward thinking talent strategies that will enable them to evolve to meet their future talent and strategic business challenges. The need to assess the impact of talent management initiatives on an organisation's strategic priorities is driving an emerging trend and HR capability requirement for talent analytics in Gaming companies worldwide.

**Adrienne McCarthy, Senior Manager,  
Advisory Services**

The banking industry has been using features of gaming for years, such as by offering redeemable points based on credit card purchases. Gamification is talked about in many banking circles albeit few have been willing to give the concept a try. The trend is improving with a number of banks across the world looking at launching gaming initiatives in their digital channels, primarily to improve customer retention and boost customer experience.

**Mark Curmi, Senior Manager,  
Industry Specialisation – Banking**

## Focus on... Big Data

Tools are now available to analyse real-time trends based on all sorts of data such as television broadcasts, radio, social media and hundreds of proprietary data sources. These tools discover and spotlight trends that matter, track public perception, anticipate market direction, detect emerging competitive threats, and much more. Focus is no longer on the data you hold within your systems, but what data you have access to, how to turn data into insights, and the insights into real business advantage.

**Eric Muscat, Partner,  
Advisory Services**

The data in disparate systems can now be connected in new and exciting ways to provide valuable insights into customer preferences and behaviour. A massive cultural shift is expected as businesses become more customer centric in response to their discoveries.

**Mark Bamber, Partner,  
Advisory Services**

Bank data is usually historical or incomplete which makes generating insights at enhancing customer experience or assisting in risk mitigation somewhat difficult. The era of Big Data is resolving this with more and more banks turning to the analysis of scattered data to provide improved insights in areas ranging from business growth to fraud prevention.

**Mark Curmi, Senior Manager,  
Industry Specialisation, Banking**

The gaming industry is growing at a phenomenal rate and generating huge volumes of data. Businesses would be wise to take advantage of the valuable insights provided by Big Data to ensure their business capitalises on the opportunity to provide their players with a truly tailored offering.

**Russell Mifsud, Manager,  
Industry Specialisation - Gaming**

Increased automation of audit processes and the facility to process vast amounts of data will result in large populations of data being subject to rigorous audit testing. This will reduce the risks associated with sampling and lead to more confident audit conclusions.

**Kevin Mifsud, Director,  
Audit Services**



## Focus on... Financial Services

Some banks have already embarked on business-wide transformations, which includes a rethink of their strategies, business and operating models.

**Mark Curmi, Senior Manager,  
Industry Specialisation – Banking**

The risk of audit misstatement is not exclusive to the actual figures being audited, but is more pronounced in the disclosures required by the Accounting Reporting Framework. Regulatory restrictions in the distribution of dividends are challenging the attractiveness of equity holdings in banks.

**Darren Govus, Director,  
Audit Services**

We expect sustained interest in merger and acquisition activity in the financial services arena, spurred by economic and regulatory changes or driven by a quest for growth. M&A as a mode of entry into the FS marketplace remains a highly valued route.

**David Pace, Partner,  
Deal Advisory**

The growth of Malta as a domicile for investment management within the EU is largely a reflection of a value proposition by high quality, cost effective service providers on the island, together with an approachable regulator, operating within a robust regulatory regime.

**Sarah Camilleri, Associate Director,  
Industry Specialisation – Investment Services**

In the aftermath of the economic crisis, the EU and OECD have stepped up their efforts to reform the global financial system through policy initiatives aimed at greater tax transparency and exchange of information. As a result of these developments, financial institutions are increasingly taking on the role of administrators for governments in the fight against tax evasion - a role which will gain further momentum during the rest of 2015 as governments drive and broaden the automatic exchange of information agenda.

**Lisa Zarb Mizzi, Associate Director,  
Tax Services**



## Our Story

Who we are

## Vision

**We want to be the clear choice by:**

- Attracting and keeping the best people
- Doing the best work for our clients
- Being the most trusted firm
- Putting forward leading insight and innovative solutions
- Our commitment to giving back to the community in which we live and work

## Values

**What we believe and how it shapes our behaviour:**

- We lead by example
- We respect the individual
- We work together
- We are open and honest in our communication
- We seek the facts and provide insight
- We are committed to our communities
- Above all, we act with integrity



## Strategy

**We will achieve this by:**

- Being market-focused
- Becoming an issues-led firm
- Ensuring operational excellence
- Building the culture and motivation to support our vision

## Purpose

**We are here to:**

- Inspire Confidence
- Empower Change

# Our Story

## Who we are

CONTINUED

### Global View, Local Roots

The global KPMG network creates added value for clients in more than 155 countries. We are proud to form part of this international network, a network that stands out as a leading provider of trusted, high quality and valued audit, tax and advisory services.

Our people are specialists who work together in multidisciplinary teams and, thanks to their core expertise in the areas of Audit, Tax and Advisory, provide clients with customized, individual solutions. We strive to bring clarity to the most complex issues.

We believe in individual responsibility and personal growth. We thrive in team collaboration and an environment built on mutual respect. We believe in hard work and stretching ourselves to become better every day. It is for this reason that we can promise a long-term commitment to providing what truly makes a difference to our clients.

KPMG is a professional services firm that delivers Audit, Tax and Advisory services. The principal services provided by each function include:

#### **Audit**

Provision of statutory, regulatory and other attestation services; provision of advice in relation to compliance with statutory reporting requirements.

#### **Tax**

Tax compliance, advice on direct and indirect taxes, incentive legislation, employee taxes, cross-border tax planning and international business support services.

#### **Advisory**

These services fall under three main headings:

- Deal Advisory comprising corporate finance, restructuring and transaction services
- Risk Consulting comprising accounting advisory services, financial risk management, forensic services, internal audit and risk and compliance services
- Management Consulting comprising IT advisory services, business effectiveness services, and financial management.

# Our Strategy

## Our strategy and growth priorities

KPMG has a clear vision of what we want to achieve as a network. We have taken important steps to ensure that KPMG continues to deliver market-leading, world-class professional services that are aligned with the changing needs of our clients and global markets. The four strategic priorities set out below support our 'Client for Life' and 'Employer of Choice' strategic imperatives.

### Market Focus

Being market-focused is also about having a clear view of where our opportunities for growth lie and being bold enough to explore new ways of operating and investing to achieve that growth, prioritising the profitable and ruthlessly pruning the rest.

We work as a team to provide the market expertise insights that provides our clients with added value. We work with our colleagues in KPMG member firms across the world to open international corridors to new high growth markets for our clients.

We work to ensure that our people have the confidence and skills to form trusted business partnerships with our clients, and the ability to represent all that KPMG has to offer at the highest level.

### Operational Excellence

Operational excellence means that we do not take our eye off the ball for a single second. Our focus is ultimately sustainable growth.

Operational excellence is also about going to market in the most efficient and value-adding ways, harnessing the collective knowledge of our people to create high value solutions – whilst at all times maintaining and enhancing our unwavering commitment to quality.

Operational excellence also means doing what we do at our best, for our clients and for our communities. We are committed to developing environmental initiatives to enable us to reduce our impact on the environment. We are steadfast about developing constructive and engaging community programs and our people are active in volunteering and pro-bono activities. We make a difference.

# Our Strategy

CONTINUED

## Issues Led

By opening wide-ranging conversations with clients and listening to their perspective, we develop a much deeper understanding of their businesses and all the issues that they face. We do our best to pre-empt their needs and provide them with insightful ideas and valid, value add contributions to their business.

We must also demonstrate clearly that our opinions are based on deep research and understanding, and that these are of the highest quality, be bold in expressing our views and unafraid to bring to the agenda issues which others might not yet have thought about. In doing so, we constantly challenge our own thinking.

We have also continued to develop and invest as thought leaders and through our Thought Leadership Programme we have delivered a number of events that shed light on key, topical insights.

**We are each committed to leaving the firm better than we found it**

## Culture and Motivation

We strive to ensure that the concept of 'doing the right thing' is embedded in the thought processes and actions of all our people, in all decisions they take. We are constantly curious – we believe in continuous improvement and encourage curious minds to explore ideas we are not familiar with.

We strive to make our culture truly diverse and motivating so that we can recruit, develop and retain people whose preferences, values and priorities contribute to our business and our purpose. We know we must nurture the right frame of mind – sharing knowledge must become second nature because it will always increase the total value of what we do.

We cultivate a sense of empowerment in all our people, encouraging them to use their own initiative and to take ownership of their work.

We recognise the importance of a healthy work-life balance whilst recognising that at times going the extra mile may be demanding. Nevertheless, we strive to create a work environment in which work-life balance is expected, enabled, and supported.

We provide our people with challenging opportunities in an environment that recognises and rewards exceptional performance. We celebrate success and recognise accomplishments.

# Our People

## A network of exceptionally talented professionals

Every day our people do extraordinary things, they go above and beyond to ensure the work they do at KPMG inspires confidence and empowers change.

A large part of our current and future success depends on recruiting, training and retaining top talent. Around the globe, KPMG is an employer of choice.

Our people are the heartbeat of the firm. They provide the means by which we can achieve our strategy and fulfil our goals. It is our role to continually reaffirm our commitment to ensuring our people are equipped with the skills and tools they need to deliver on the KPMG promise. As a firm we must ensure our people share our values and our purpose.

## Employer of Choice A two-way conversation

We are determined to maintain KPMG's position as a world-class employer. Our approach to people management is based on honest two-way feedback with a real focus on looking forward, both to strengthen performance in the future and to shape longer-term career plans. We encourage our people to take personal responsibility for their development and career.

We are proud of our reputation as a 'People's Firm' and are committed to continuing to cultivate our open culture, a culture based on collaboration, honesty and integrity across the board.

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### Partner and staff complement as at 31 December 2014

Full time employees	257
Professional Staff (including principals)	189
Trainees	24
Support Staff	44

### KPMG Study Support and Graduate Programme

University Graduates recruited by the Firm	97
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### New Recruits

People joining the Firm in 2014	61
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# Our People

CONTINUED

## Learning and Development

We are committed to nurturing talent and developing outstanding professionals who set the bar in our industry.

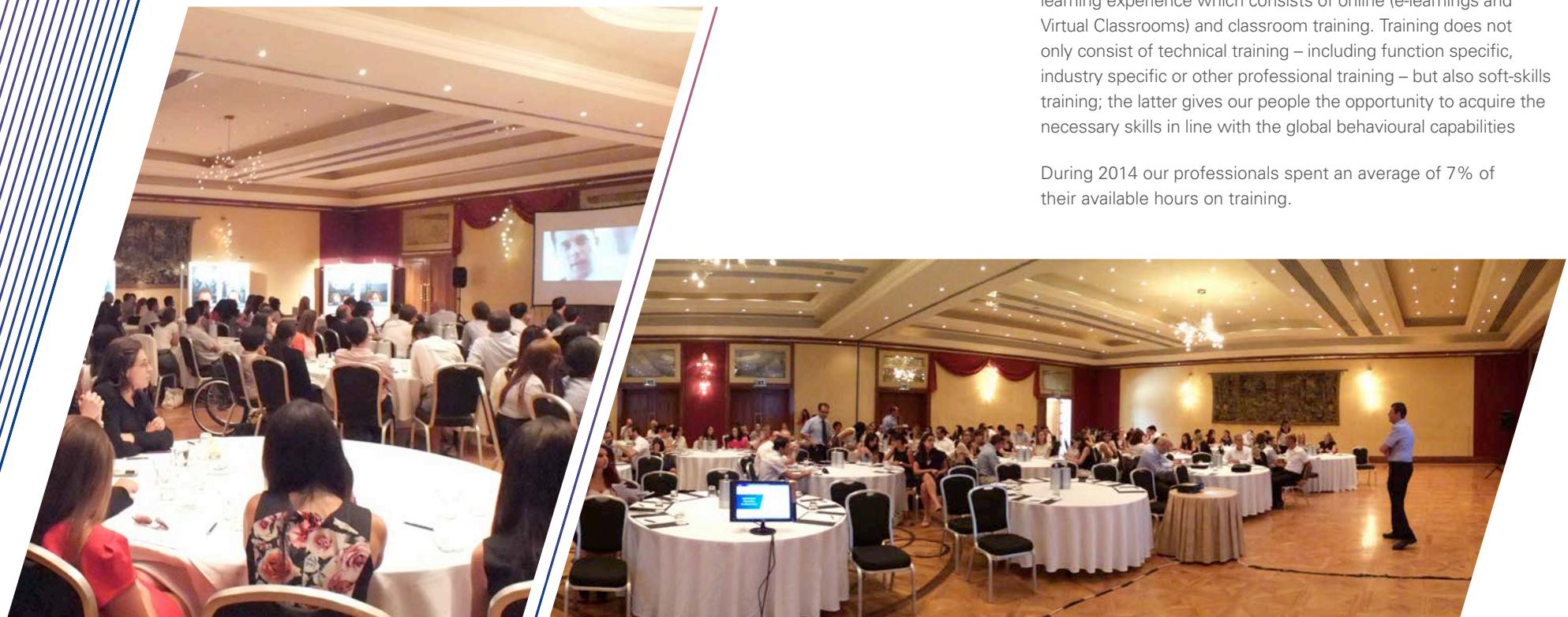
We believe we have developed one of the strongest learning and development programmes – a powerful combination of technical training, coaching, skills-building programmes and milestone events which focus on the importance of ensuring that everyone in the firm is on a journey of continuous development.

This year we invested over 4,000 euro per person in developing our people in the technical and leadership skills required to help deliver our strategic goals to create a market focused and issues-led business.

We have an in-house Learning and Development team whose primary focus is the development of our people's capabilities, skills, confidence and experience required to deliver on our promise.

We employ the latest training technology to provide a varied learning experience which consists of online (e-learnings and Virtual Classrooms) and classroom training. Training does not only consist of technical training – including function specific, industry specific or other professional training – but also soft-skills training; the latter gives our people the opportunity to acquire the necessary skills in line with the global behavioural capabilities

During 2014 our professionals spent an average of 7% of their available hours on training.



# Our People

CONTINUED

## International Opportunities

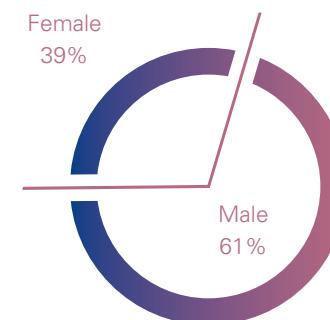
Being part of the KPMG network, with offices around the globe, provides our people with the opportunity to develop their views and skills by exposure to international engagements and opportunities for overseas placements and secondments with other member firms. During 2014, 38 members of our team were placed on international secondments with member firms in 6 cities in Europe, the US and Canada.

## Diversity

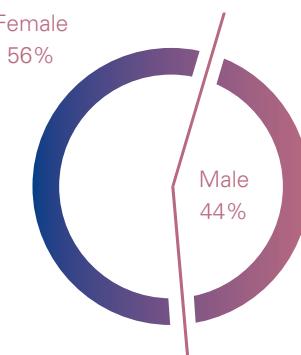
Diversity features highly on the KPMG agenda worldwide.

In Malta alone we employ over 10 different nationalities.

Gender diversity and equal opportunities for men and women is also top on our agenda. We firmly believe in the value and contribution women bring to the table and have set clear objectives and targets for female employment and female engagement in senior and managerial roles.



Management Roles



Firm wide



# Our People

CONTINUED

## Senior Appointments

With effect from 1 January 2015, KPMG has appointed David Pace and Doreen Fenech as Partners and Jonathan Dingli, John Ellul Sullivan and Paul Pace Ross as Directors. This reflects the continued growth that the firm has achieved in 2014 and which is expected to be sustained in the coming years.

Towards the end of 2014, Raymond Azzopardi retired from his role as Partner with KPMG after over 25 years with the Firm's financial services and audit team. He has retained the role of Consultant to the Firm.



## Thought Leadership

We are committed to our brand's position as thought leaders and under our Thought Leadership Programme launched in 2011, we continue to publish articles and host events aimed at developing and sharing the latest thinking on contemporary issues facing the business community.

These articles and high profile events provide access to the latest research, specialist resources and an extensive body of knowledge.

In 2014 we issued and published over 40 features providing insight in various sectors and market segments and hosted 11 client events.

We also celebrated the 10 year anniversary of our highly successful Anti-Money Laundering (AML) Roundtable.

The AML Roundtable has, over the years, matured into a natural forum for sharing information, developing common approaches to issues and promoting desirable policies as well as standards. All of the aforementioned are critical in the fight against money laundering and financing of terrorism, and we believe that the Roundtable creates the perfect environment for sharing ideas on practical measures to deal with AML requirements on a day to day basis.



## Supporting the Community



93%

of our people stated that KPMG is committed to being a responsible corporate citizen

81%

of our people stated that they are encouraged to contribute to their community (e.g. pro bono, volunteering, charitable support, non-profit board service, etc.)

Global People Survey 2014

€53K

invested in CSR and staff events in 2014 in line with our commitment to give back to our communities and to promote a healthy camaraderie and environment at KPMG

250+

man days of effort have been provided on pro-bono work and volunteering



## Supporting the Community

CONTINUED

### My Charity Challenge

Hilary Galea-Lauri



I joined a Discover Adventure group (a UK-based organisation) who engage in fundraising trekking and cycling challenges, in helping individuals raise over £60 million since 1994, for many worthy causes. The organisation works alongside charities, corporate companies, private groups, schools and youth groups, taking people all over the world to take part in life-changing adventures in a safe environment.

My experience of cycling from London to Paris saw me passing through picturesque Kent countryside, crossing the Channel and continuing through the small villages and medieval market towns of Northern France. With long days in the saddle and some strenuous hill-climbs, the sight of the Eiffel Tower (my finishing point) evoked a real sense of achievement. Simply put, the London to Paris bike ride was one of the best things I have ever done after summiting Mount Kilimanjaro! Besides the satisfaction of having contributed to the needs of those less fortunate in the community, I found that the experience enabled me to return back to work reenergized after long months managing conflicting demands on my time (work, family and training).

## Supporting the Community

CONTINUED

### JCI Malta

We have once again renewed our corporate membership agreement with JCI Malta (JCI), an affiliate of the international network of active citizens in their 20s and 30s committed to create development opportunities that empower young people to create positive change.

The agreement includes financial support for JCI's flagship programmes namely, the Best Business Plan Competition, the Business Networking Event and The Outstanding Young Person Award. KPMG extends their commitment in providing a number of guidance sessions to participants of the Best Business Plan Competition.

This year we were also one of the main partners of the 2014 JCI European Conference that took place in June 2014 in Malta. Around 1,100 people from across the globe attended this conference. Our relationship with JCI Malta provides a platform for our staff to develop and learn new skills whilst at the same time giving something back to the community. In our experience, employees who have been actively involved in JCI Malta have enhanced their interpersonal skills, strengthened their confidence as well as expanded their network of contacts.



### Malta Institute of Management (MIM)

We continued our collaboration with the Malta Institute of Management (MIM) with regards to the organisation, delivery and sponsorship of the Advanced Diploma in International Taxation (ADIT) accredited by the Chartered Institute of Taxation (UK).

# Introducing the Transparency Report



Hilary Galea-Lauri  
**HEAD OF AUDIT –  
TECHNICAL & QUALITY MATTERS**

The information contained in the forthcoming sections of this report, in conjunction with other information in earlier sections, is provided in terms of the disclosure requirements of Section 18 of the Accountancy Profession Act (CAP, 281) relevant to audit firms which carry out statutory audits of public interest entities.

It provides a detailed description, using our Audit Quality Framework as a structure, to describe how we not only demonstrate our commitment to audit quality and integrity, but also how we approach achieving audit quality to meet both international and local professional and ethical standards.

Furthermore, it reflects our commitment to delivering value to stakeholders so that we can be seen by them as the best firm in consistently achieving the highest standards of quality, ethics and integrity.

A handwritten signature in black ink, appearing to read 'Hilary Galea-Lauri'.



David Caruana  
**COMPLIANCE PRINCIPAL**

A handwritten signature in black ink, appearing to read 'David Caruana'.

In striving to achieve this ambition, we believe that our unwavering commitment to quality and integrity in day to day business is fundamental to meeting our responsibilities to our clients, communities and the capital markets.

The starting point for the business is the professionalism and integrity of our people. Our leadership strives to promote a culture that quality is everyone's job. Our methodologies and processes, to which we refer to in this document, similarly reflect the drive for quality. Unless otherwise stated, the information in this report reflects the position as at 30 March 2015. We invite you to browse our website for further information relating to other aspects of our firm.

We trust that you find this report a useful insight into how we manage our firm and uphold to the principles of quality and good corporate governance. We expect that this report gives the opportunity for feedback from our stakeholders and we would very much welcome your views as to how we can continue to improve the quality of the information presented herein in future years.

# 1. Our Structure & Governance

## 1.1 Legal Structure

KPMG in Malta is affiliated with 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, is available in the 2014 KPMG International Transparency Report.

KPMG in Malta is a civil partnership constituted under the laws of Malta and is registered as an audit firm with the Accountancy Board in terms of the Accountancy Profession Act (CAP. 281). The Compliance Principal in terms of the Accountancy Profession Act (CAP. 281). KPMG in Malta operates from Portico Building, Marina Street, Pietà PTA 9044, Malta.

KPMG in Malta is wholly owned, and its voting rights are fully held, by its partners all of whom are professionals actively involved in the provision of audit, tax and advisory services to the firm's clients.

KPMG in Malta has two wholly-owned subsidiaries, namely KPMG Holding Limited and KPMG Advisory Services Limited. Most services, including all audit services, are provided by KPMG. KPMG Holding Limited acts as the "paymaster" for the practice whilst KPMG Advisory Services Limited is licensed to provide recruitment services under the Employment and Training Services Act.

KPMG and its subsidiary undertakings in Malta are collectively referred to as KPMG in this report, unless the context clearly indicates otherwise. The contents of this report apply to the whole KPMG practice in Malta including that of its subsidiary undertakings.

There were 13 partners in KPMG in Malta as at 31 December 2014.

## 1.2 Name and Ownership

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

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

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

# 1. Our Structure & Governance

CONTINUED

## 1.3 Governance

KPMG's governance structure as at the date of this report and as reflected in the Partnership Agreement is summarised in the figure below.



# 1. Our Structure & Governance

CONTINUED

## 1.3 Governance

### Partnership Board

The key governance and management body of KPMG is the Partnership Board made up of all of the partners of KPMG. All the voting rights of the firm are held by the partners. The Partnership Board is responsible, amongst others, for setting the policies, direction and strategy of the firm, and the appointment of partners and staff to carry out the managerial roles within the firm's governance structure. 11 partners' meetings were held during 2014.

### Executive Management Committee

The Executive Management Committee (EMC) is responsible for formulating concrete proposals for the consideration of the partners' meeting on a variety of issues including the firm's vision and strategy, financial management, and human resources strategies and policies. It is also responsible for co-ordinating financial reporting and control, including working capital management on a day-to-day basis as well as co-ordinating the performance of the firm on a cross-functional basis. The EMC, which is chaired by the firm's senior partner, met 29 times during 2014.

### Quality and Risk Management Committee

The principle role of the Quality and Risk Management Committee is to provide oversight of quality and risk management matters across the group. As part of its role it oversees that a culture of quality and integrity is maintained within the group and, where required, it will act as a sounding board to the Risk Management Partner on the policies and procedures relating to professional risk management, ethics and independence, and quality control and compliance. The Committee also considers the impact of the key findings from our compliance quality monitoring programmes and the adequacy of proposed remedial actions. The Quality & Risk Management Committee met 3 times in 2014.

### Functional Partners' Committees

The partners and directors working within each of the firm's three functions form part of a partners' committee for that function, chaired by the respective head of function. The objective of these committees is to ensure the effective management of each respective function within the firm.

## 2. System of Quality Control

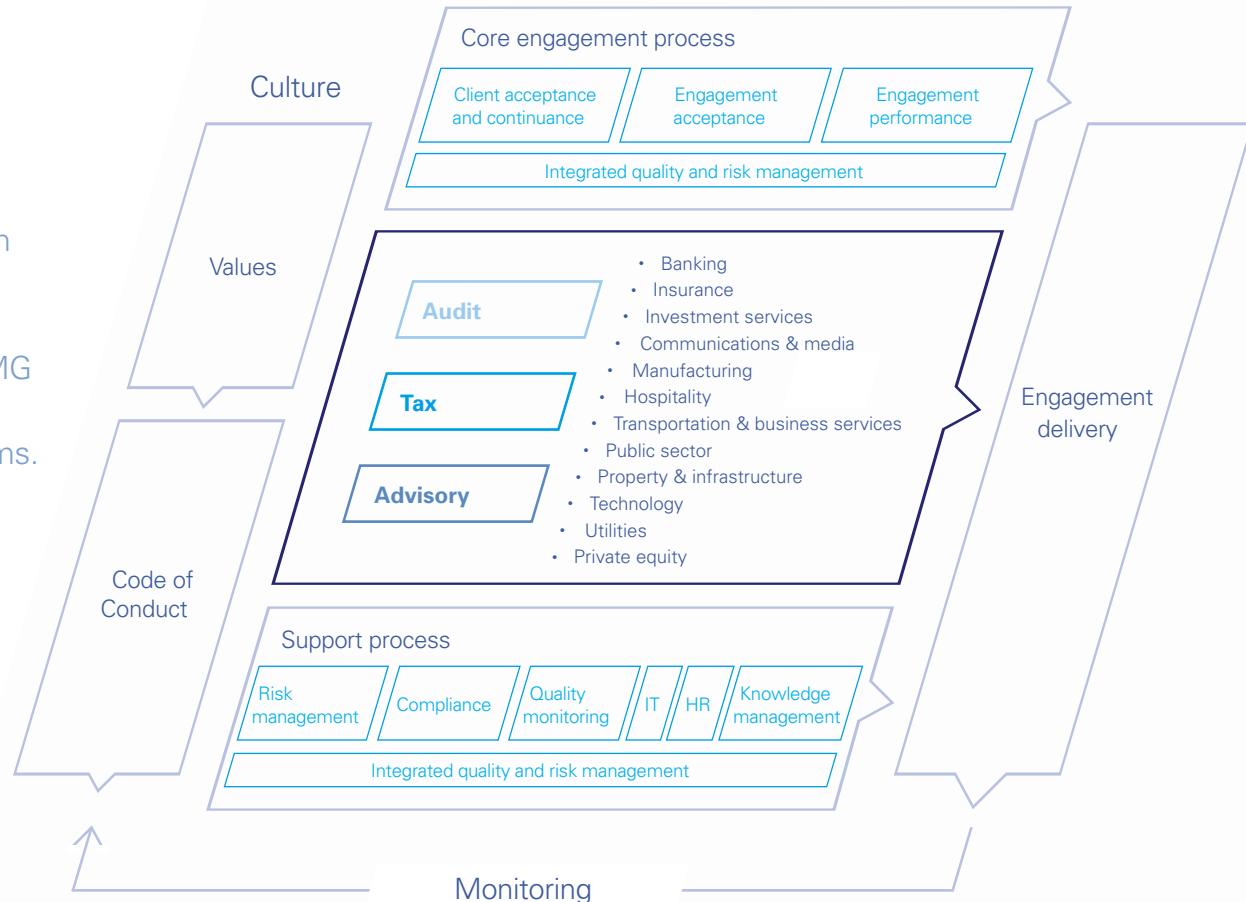
A robust and consistent system of quality control is an essential requirement in performing high quality services. Accordingly, KPMG International has policies of quality control that apply to all member firms.

These policies and associated procedures are designed to guide member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances.

These policies and procedures are based on the International Standard on Quality Control (ISQC 1) issued by the International Auditing and Assurance Standards Board (IAASB), and on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). Both of these are relevant to firms that perform statutory audits and other assurance and related services engagements.

Our firm implements KPMG International policies and procedures. ISQC1 is mandated on us by local regulations. Though many of its provisions are strictly speaking only required to our audit practice, we have adopted its principles across all functions of our practice.

To help ensure quality control, our operating model encompassing each of the key areas from ISQC1, is depicted above.



## 2. System of Quality Control

CONTINUED

In addition to the standards required by ISQC1, we maintain systems of quality control for our audit practice that are designed to meet or exceed the expectations of audit committees (our clients) as well as the rules and standards issued by the Accountancy Board and other regulators.

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

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

While many KPMG quality control processes are cross-functional, and apply equally to tax and advisory work, the remainder of this section focuses on what we do to enable the

delivery of quality audits. In this section we therefore focus on our system of audit quality control.

At KPMG, audit quality is not just about reaching the right opinion, but how we reach that opinion. It is about the processes, thought and integrity behind the audit report.

KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. This means, above all, being independent and compliant with relevant legal and professional requirements.

To help all audit professionals concentrate on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework. Our Framework introduces a common language that is used by all KPMG member firms to describe what we believe drives audit quality, and to highlight how every audit professional at KPMG contributes to the delivery of audit quality.

### Audit Quality Framework

Our Audit Quality Framework identifies seven drivers of audit quality:

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

Tone at the top sits at the core of the Audit Quality Framework's seven drivers of audit quality and helps ensure that the right behaviors permeate across our entire network. All of the other drivers are presented within a virtuous circle because each driver is intended to reinforce the others. Each of the seven key drivers is described in more detail in the following sections of this report.



## 2. System of Quality Control

CONTINUED

### 2.1 Tone at the Top

Tone of the top is a term used to describe an organisation's general ethical climate, as established by its leadership. KPMG and leadership use "tone at the top" to indicate its commitment to quality, ethics and integrity.

KPMG's focus on quality

KPMG's tone at the top provides a clear focus on quality through:

- culture, values, and Code of Conduct - clearly stated and demonstrated in the way we work
- focused and well-articulated strategy - incorporating quality at all levels
- standard set by our leadership
- governance structure and clear lines of responsibility for quality - skilled and experienced people in the right positions to influence the quality agenda.

#### 2.1.1 Culture and Values

At KPMG we are committed to doing the right thing in the right way for our people, our clients and other stakeholders including the capital markets we serve. To create this shared sense of identity, we have clearly stated values and a Code of Conduct (the "Code") against which an expected level of performance and behaviour is understood. The Code incorporates these core values and addresses the commitments that we make as well as the responsibilities of our people at all levels across our firm. We understand that trustworthiness is a critical characteristic that stakeholders expect and rely upon. It is this commitment that underlies our values-based compliance culture where individuals are encouraged to raise their concerns when they see behaviours or actions that are inconsistent with our values or professional responsibilities. Any concern is considered and constructively reviewed, and appropriate action is taken.

We communicate our values clearly to our people and living our values is so important to us that we embed these into our performance appraisals and they are given specific consideration for senior promotions.

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG core value – Above all, we act with Integrity. For us integrity means constantly striving to uphold the highest professional standards in our work, providing sound advice to our clients, and rigorously maintaining our independence.

Setting the right tone is a key responsibility of our senior leadership team. The Senior Partner and all members of the leadership team are committed to building a culture based on quality and ethics. This is fundamental to the work we perform and the maintenance of our reputation.

## 2. System of Quality Control

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Setting the right tone is a key responsibility of our senior leadership team. The Senior Partner and all members of the leadership team are committed to building a culture based on quality and ethics. This is fundamental to the work we perform and the maintenance of our reputation.

- ✓ We lead by example  
At all levels we act in a way that exemplifies what we expect of each other and 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 advisors
- ✓ 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 constantly strive to uphold the highest professional standards, provide sound advice and rigorously maintain our independence

## 2. System of Quality Control

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### 2.1.2 Code of Conduct

Our Code of Conduct is driven by our values. It defines the professional standards required from all of our people both in delivering professional services engagements and in their internal dealings at KPMG. The Code emphasises that each partner and employee is personally responsible for following the legal, professional, and ethical standards that apply to his or her job function and level of responsibility.

The Code of Conduct points out that all of our people have to comply with the internal regulations on independence, impartiality, confidentiality, objectivity and professional ethics and that any breach of the independence regulations should be reported immediately. Partners and employees undertake annual ethics training on relevant Code of Conduct topics, and each year acknowledge that they agree to comply with the Code and confirm such compliance. We operate rigorous policies and procedures to ensure that our partners and employees are free from prohibited financial interests in, and relationships with, our audit clients, their management, directors and significant owners. Both these policies and procedures and the Code are included in the firm's quality and risk management manual which is refreshed at least once annually and, together with guidance notes, is readily available to all our people.

### 2.1.3 Whistle-Blowing

Our policies provide that, anyone who has concerns about how others are behaving (either internally or externally) is required to raise the issue with their line manager or any partner. Anyone, at any time, is entitled to contact our Ethics and Independence Partner, David Caruana, with the assurance that their concern will be dealt within confidence. We recognise that some people may feel uncomfortable reporting through the normal channels of communication within the firm or may consider that concerns they have expressed have not been dealt with effectively. We inform our people in our training and communications including on our intranet portal, that KPMG International maintains a hotline operated by a third party supplier. This hotline serves as a confidential reporting mechanism for any concerns about possible illegal, unethical, or improper conduct, in relation to certain areas of activity by KPMG International itself, those who work for KPMG International, or the senior leadership of a KPMG member firm. Matters can be raised anonymously without fear of retaliation. Matters reported to the hotline are investigated under the supervision of an independent ombudsman and are reported ultimately to the firm's Quality & Risk Management Committee. This report covers matters reported to the hotline, how the investigations were conducted, findings from the investigations, and the implications for our policies and procedures.

## 2. System of Quality Control

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### 2.1.4 Leadership Responsibilities for Quality and Risk Management

While we stress that all professionals are responsible for quality and risk management, the following entities and individuals have leadership responsibilities:

#### Senior Partner

In accordance with the principles set out in ISQC1, our Senior Partner, Tonio Zarb, has assumed ultimate responsibility for KPMG's system of quality control. Details of some of the measures that he and the rest of the Partnership Board have taken to ensure that a culture of quality prevails within KPMG, are set out in this section of the report.

#### Risk Management Partner

Operational responsibility for the system of quality control, risk management and compliance in KPMG has been delegated to the Risk Management Partner who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for the firm. He has a seat on the firm's Executive Management Committee, chairs the Quality and Risk Management Committee, and has a direct reporting line to the Senior Partner. This underlines the importance that the group places on risk and quality issues. The Risk Management Partner is supported, as appropriate, by partners and professionals in each of the functions.

#### The Audit, Tax and Advisory functions – Function Heads

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

## 2. System of Quality Control

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### 2.2 Association with the Right Clients

#### 2.2.1 Acceptance and Continuance of Clients and Engagements

The firm recognises that, rigorous client acceptance and continuance policies are vital to our ability to provide high-quality professional services and to protect KPMG's reputation and support its brand. We have established policies and procedures for deciding whether to accept or continue a client relationship and whether to perform specific services for a particular client. This evaluation includes completion of a standard questionnaire that assesses the risk profile. These evaluations include an assessment of a number of external factors that

have the potential to impact the quality of our audits such as the adequacy of the client's internal governance processes, the robustness of its financial systems and controls, the reputation of the client and the integrity of its owners. Where issues are noted, these should be appropriately considered as part of the audit planning process and where they are very significant these may affect our ongoing association with the client. For higher risk clients and engagements, approval is required from our Risk Management Partner.

#### 2.2.2 Prospective Client and Engagement Evaluation Process

Before accepting a client, we undertake an evaluation of the prospective client. This involves an assessment of its principals, its business, and other service-related matters. This also involves background checks on the prospective client, its key management and significant beneficial owners. A key focus is on the integrity of management at a prospective client and the evaluation considers, amongst other factors, breaches of law and regulation, anti-bribery, corruption and human rights. A second partner, as well as the evaluating partner, approves the prospective client evaluation. Where the client is considered to be 'high' risk, the Risk Management Partner or his delegate is involved in approving the evaluation.

The prospective engagement partner evaluates each prospective engagement. The evaluation identifies potential risks in relation to the engagement. A range of factors is considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel™, our global conflicts and independence checking system) as well as factors specific to the type of engagement, including for audit services, the competence of the client's financial management team and the skills and experience of personnel assigned to

staff the engagement. The evaluation is made in consultation with other senior member firm personnel and includes review by quality and risk management leadership as required.

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

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

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

**Sections 3.3.2.2 and 3.3.2.8 provide more information on our independence and conflict checking policies.**

## 2. System of Quality Control

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### 2.2.3 Continuance Process

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

This re-evaluation serves two purposes. Firstly, we will decline to continue to act for any client where they are unable to deliver to our expected level of quality or if we have reason to believe that it would not be appropriate to continue to be associated with the client. More commonly, we use the re-evaluation to consider whether or not any additional risk management or quality control procedures need to be put in place for the next engagement (this may include the assignment of additional professionals or the need to involve additional specialists on the audit).

### 2.2.4 Client Portfolio Management

Our leadership appoints engagement leaders that have the appropriate competence, capabilities, time and authority to perform the role for each engagement.

The client portfolio of each engagement leader is regularly reviewed to ensure that they have sufficient time to manage the portfolio and that risks are being appropriately managed.

### 2.3 Clear Standards and Robust Audit Tools

Professional practice, risk management and quality control are the responsibilities of every KPMG professional. Our professionals are expected to understand, apply and adhere to KPMG policies and procedures (including independence policies) and are provided with a range of tools to support them in meeting these expectations. The policies and procedures we set for audit incorporate the relevant requirements of accounting, auditing, ethics, and quality control standards, and other relevant laws and regulations.

#### 2.3.1 Audit Methodology and Tools

Significant resources are dedicated to keeping our standards and tools complete and up to date. Our global audit methodology, developed by the Global Services Centre, is based on the requirements of International Standards on Auditing (ISAs). The methodology is set out in our audit manual, the KPMG Audit Manual International (KAM) and includes additional requirements that go beyond the ISAs and which KPMG believes enhance the quality of our audits. KAM is made available to all audit professionals. Such methodology serves as the foundation of our financial statement audit. In addition to engagement, quality and risk matters, KAM also deals with the activities involved in, and standard documentation for all aspects of our audit work.

## 2. System of Quality Control

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

eAudIT's activity-based workflow provides engagement teams with ready access to relevant information at the right time throughout the audit, thereby enhancing effectiveness and efficiency and delivering value to stakeholders.

### The key activities within the eAudIT workflow are:

#### Engagement setup

- perform engagement acceptance and scoping
- determine team selection and timetable.

#### Risk assessment

- understand the entity
- identify and assess risks
- plan for involvement of specialists and external experts, internal audit, service organisations and other auditors as required
- evaluate, design and implement relevant controls
- conduct risk assessment and planning discussion
- determine audit strategy and planned audit approach.

#### Testing

- test operating effectiveness of selected controls
- plan and perform substantive procedures.

#### Completion

- update risk assessment
- perform completion procedures, including overall review of financial statements
- perform overall evaluation, including evaluation of significant findings and issues
- communicate with those charged with governance (e.g. the audit committee)
- form the audit opinion.

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

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

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

## 2. System of Quality Control

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### 2.3.2 Independence, Integrity, Ethics and Objectivity

#### 2.3.2.1 Overview

Member firms and KPMG professionals are required to comply with independence standards that meet or exceed those set out in the IESBA Code of Ethics together with those of other applicable regulatory bodies (which may include those of a foreign jurisdiction where those requirements apply extraterritorially). These policies are supplemented by other processes to ensure compliance with the standards issued by the Accountancy Board.

These policies and processes cover areas such as personal independence, business relationships, partner rotation, and approval of audit and non-audit services.

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

KPMG Malta has a designated Ethics and Independence Partner (EIP) supported by a core team of specialists to help ensure that we implement robust and consistent independence policies and procedures. Ethics and independence policies are set out on our intranet, which contains all our independence policies, and reinforced through an annual training programme. Amendments to the ethics and independence policies in the course of the year are communicated by e-mail alerts and included in regular quality and risk communications.

#### 2.3.2.2 Personal Independence

KPMG International policy extends the IESBA Code of Ethics restrictions on ownership of audit client securities to every member firm partner in respect of any audit client of any member firm.

Our Professionals are responsible for making appropriate inquiries to ensure that they do not have any personal financial, business or family interests that are restricted for independence purposes. In common with other member firms of KPMG International we use a Web-based independence tracking system to assist professionals in their compliance with personal independence investment policies. This system contains an inventory of publicly available investment products. Partners and client facing managers are required to use this system prior to entering into an investment to identify whether they are able to do so. They are also required to maintain a record of all of their investments in the system, which automatically notifies them if their investments subsequently become restricted. We monitor compliance with this requirement as part of our annual program of independence compliance audits of a sample of professionals.

In 2014, 29 of our people were subject to these audits, this included approximately one third of our principals (partners and directors).

In accordance with KPMG International's rules, all partners are prohibited from owning securities in an audit client of any KPMG International member firm worldwide.

In addition, any professional providing services to an audit client is required to notify the EIP if they intend to enter into employment negotiations with that audit client.

## 2. System of Quality Control

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### 2.3.2.3 Independence Training and Confirmations

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

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

Engagement team members assigned to the audit of public interest entities are requested to declare their independence of the audit client immediately prior to the commencement of the audit engagement. In addition, the firm confirms annually its independence to the audit committees of public interest entities.

### 2.3.2.4 Audit Partner Rotation

Partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, and independence rules. These limit the number of years that partners in certain roles may provide audit services to an audit client. KPMG International rotation policies are consistent with IESBA Code of Ethics and require our firm to comply with any stricter applicable rotation requirements. We monitor the rotation of audit engagement leaders (and any other key roles where there is a rotation requirement) and have transition plans to enable and to allocate partners with the necessary competence and capability to deliver a consistent quality of service to clients. The process of monitoring and tracking service time and partner rotation is subject to compliance testing as part of the national quality performance review processes.

### 2.3.2.5 Non-Audit Services

We have policies and procedures as to the scope of services that can be provided to audit clients which are consistent with both IESBA principles and Directive 2, Code of Ethics for Warrant Holders issued in terms of the Accountancy Profession Act (cap. 281). KPMG International policies require the lead audit engagement partner to evaluate the threats arising from the provision of non-audit services and the safeguards available to address those threats.

KPMG International's proprietary system, Sentinel™, facilitates compliance with these policies. Lead audit engagement partners are required to maintain group structures for their publicly traded and certain other audit clients and their affiliates in the system. Every engagement entered into by a KPMG member firm is required to be included in the system prior to starting work. The system enables lead audit engagement partners for which group structures are maintained to review and approve, or deny, any proposed service for those entities worldwide.

In accordance with applicable auditor independence rules, none of our audit partners are compensated on their success in selling non-audit services to their audit clients.

## 2. System of Quality Control

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### 2.3.2.6 Fee Dependency

KPMG International's policies recognise that, self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the operating firm expressing the audit opinion. In particular, KPMG International's policies require that, in the event that the total fees from a public interest entity audit client and its related entities represent more than 10 percent of the total fees received by a particular member firm for two consecutive years, a senior partner from another operating firm would be appointed as the engagement quality control (EQC) reviewer. Also, this would be disclosed to those charged with governance at the audit client. No audit client accounted for more than 10 percent of the total fees received by our firm over the last two years.

### 2.3.2.7 Business Relationships/Suppliers

We have policies and procedures in place that are designed to ensure that business relationships are maintained in accordance with the IESBA Code of Ethics and any additional applicable local independence requirements. Detailed guidance is maintained covering, *inter alia*, business alliances and joint working arrangements, procurement relationships, and marketing and public affairs activities. Consultation is required in any case of uncertainty with the Risk Management Partner to ensure that no relationship is entered into with an audit client or its management, which is not permitted for independence purposes. Compliance with these policies and procedures is reviewed periodically.

### 2.3.2.8 Conflicts of Interest

Conflicts of interest may prevent our firm from accepting a client or an engagement. The Sentinel™ system is also used to identify and manage potential conflicts of interest within and across member firms in the KPMG International network of member firms. Any potential conflict issues identified are resolved in consultation with other parties as applicable, and the outcome is documented. An escalation procedure exists in the case of dispute between KPMG member firms. If a potential conflict issue cannot be resolved, the engagement is declined or terminated. Any potential conflict matters that raise important points of principle for our firm are referred to the Risk Management Partner for resolution; in case of difficulty a panel of partners may be convened to resolve the matter.

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

## 2. System of Quality Control

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### 2.3.2.9 Breaches of Independence Policy

In the event of failure to comply with the firm's independence policies, whether identified in the compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy. Matters arising are factored into promotion and compensation decisions and, in the case of engagement leaders and managers, are reflected in their individual quality and risk metrics.

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

### 2.3.2.10 Compliance with Laws, Regulations and Anti-Bribery and Corruption

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

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

## 2. System of Quality Control

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### 2.4 Recruitment, Development and Assignment of Appropriately Qualified Personnel

One of the key drivers of quality is ensuring the assignment of professionals with the skills and experience appropriate to the entity subject to audit. This requires a focus on recruitment, development, promotion and retention of our personnel, and the development of robust capacity and resource management processes. We monitor quality incidents for the purposes of partner assignments and also for the purposes of partner evaluation, promotion and remuneration.

#### 2.4.1 Recruitment

At KPMG we aim to recruit well-rounded individuals with good communication, critical thinking and problem solving abilities combined with high technical competency and personal values consistent with the firm's values. All candidates for professional positions submit résumés and application forms, and are interviewed. Certain information included in the candidates' application is also verified through independent sources. At interview stage personnel are informed of the general personal independence requirements that apply to all professional staff members.

Upon joining our firm, new personnel are required to participate in a comprehensive on-boarding program, which includes training in areas such as ethics and independence, quality and risk management and IT security, in addition to any job-related modules. This also includes ensuring that any issues of independence or conflicts of interest are addressed before the individual can commence as a partner or employee with the firm. New joiners are asked to ascertain and confirm their independence and to identify any potential problems in this respect.

#### 2.4.2 Personal Development

It is important that all professionals have the necessary business and leadership skills to be able to perform quality work in addition to technical skills. At KPMG we continually review and assess our people's capabilities and competence to perform engagements in accordance with professional standards, legal and regulatory requirements. We provide opportunities for our people to develop the core competencies, skills, behaviours and personal qualities that form the foundations of a successful career. Courses for all staff levels to enhance personal effectiveness and develop technical, leadership and professional skills are provided by the firm on an ongoing basis. We further develop our personnel for high performance through coaching and mentoring on the job, complemented by opportunities to work on challenging engagements both in Malta and overseas through the global mobility program.

The firm requires its professionals to complete annual training on independence standards and the ethical standards embedded in the firm's Code of Conduct. We also ensure that our professionals stay abreast of technical updates by attending internal and external industry-specific training programmes and conferences as well as reviewing pertinent bulletins and periodicals. Quality is continually emphasised to our client service professionals through timely training and communication of accounting, auditing, and reporting matters. During 2014, our people's aggregate time on training, including on-the-job training, was over 49,000 hours.

## 2. System of Quality Control

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### 2.4.3 Performance Evaluation and Compensation

Formal evaluation of performance is conducted and documented annually. All partners and staff have a suitably qualified performance manager assigned who is in a position to assess performance and propose a performance rating on the basis of their evaluation based on: (i) attainment of agreed-upon goals, (ii) demonstration of the KPMG skills and behaviours for their level, and (iii) technical capabilities and market knowledge. This is achieved through our global performance management process, which is supported by a web-based application.

Assessed skills and behaviours relating to quality include: quality focus and professionalism, technical knowledge, accountability, business and strategic focus, leading and developing people, continuous learning and relationship building. An individual's accountability in achieving quality is a core benchmark used to assess performance and progression within the firm. The result of their annual performance evaluation directly affects compensation of personnel and in some cases their continued association with the firm.

KPMG is committed to the career development of its people. To support this, the Global People, Performance, and Culture group has designed a new behavioural capability framework which is being adopted in member firms around the world. This framework, combined with development initiatives in areas such as coaching and mentoring, will support our people in enhancing their skills, maximizing their performance, and reaching their full potential.

Our firm has compensation and promotion policies that are clear, simple, and linked to the performance evaluation process so that our partners and employees know what is expected of them and what they can expect to receive in return. Partners are remunerated solely out of the profits of the whole firm and are personally responsible for funding pensions and other benefits. Audit partner remuneration setting takes no account of the level of non-audit services provided to the partner's audit clients.

### 2.4.4 Partner Admissions

Our process for admission to partnership is rigorous and thorough, involving various levels of assessment carried out both by the local firm and at a sub-regional level. Our criteria for admission to the partnership are consistent with our commitment to professionalism and integrity, quality and being an employer of choice. These are strongly aligned to KPMG's behavioural capabilities and are based on consistent principles.

## 2. System of Quality Control

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### 2.4.5 Assignment

Professionals are assigned to engagements based on a number of factors including their skill set, relevant professional and industry experience, and the nature of the assignment or engagement. Function heads are responsible for the partner assignment process. Key considerations include partner experience, accreditation and capacity, based on an annual partner portfolio review, to perform the engagement in view of the size, the complexity and risk profile of the engagement and the type of support to be provided (i.e. the engagement team composition and specialist involvement).

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

The Senior Partner, in consultation with the Heads of Audit and the Risk Management Partner, is responsible for assigning engagement leaders and engagement quality control reviewers in the case of audit engagements for public interest entities and certain higher risk non-public interest audit clients. These assignments, together with the partner rotation plan, are reviewed periodically by the Quality and Risk Management Committee.

The need for any specialists (e.g. tax, valuation, etc.) to be assigned to a particular engagement is specifically considered as part of the engagement acceptance/continuance process as well as during engagement planning.

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

- an understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation
- an understanding of professional standards and legal and regulatory requirements
- appropriate technical skills, including those related to relevant information technology and specialised areas of accounting or auditing
- knowledge of relevant industries in which the client operates
- ability to apply professional judgment
- an understanding of KPMG's quality control policies and procedures.

## 2. System of Quality Control

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### 2.5 Commitment to Technical Excellence and Quality Service Delivery

We provide all professionals with the technical training and support they need. This includes access to networks of specialists and professional practice departments (DPP) which are made up of senior professionals with extensive experience in audit, reporting and risk management, either to provide resources to the engagement team or for consultation.

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

#### 2.5.1 Technical Training

In addition to personal development, discussed in section 2.4.2, our policies require all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

Learning and Development teams at the global, regional and local levels identify annual technical training priorities for development and delivery using a blend of classroom, e-learning and virtual classroom. These teams work with subject experts and leaders to ensure the training is of the highest quality, relevant to performance on the job and is delivered on a timely basis.

#### 2.5.2 Accreditation and Licensing

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

We are responsible for ensuring that professionals working on engagements have appropriate audit, accounting and industry knowledge and experience in the local predominant financial reporting framework. We have specific accreditation requirements for many of our services (including Transaction Services and

Corporate Finance services) which ensure that only partners and employees with the appropriate training and experience are assigned to clients and are appropriately licensed where necessary.

We require that all client service professionals maintain accreditation with their professional body and satisfy the continuing professional development requirements of the respective body and, where applicable, that they satisfy the Continuing Professional Education requirements of the Malta Institute of Accountants as holders of the warrant of Certified Public Accountant. Our policies and procedures are designed to ensure that those individuals that require a license to undertake their work are appropriately licensed.

#### 2.5.3 Access to Specialist Networks

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

The need for specialists (e.g. information technology, tax, valuation, treasury, pensions, forensic, actuarial) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process.

## 2. System of Quality Control

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### 2.5.4 Consultation

Internal consultation is a fundamental contributor to quality and is encouraged and, in certain circumstances, required to address difficult or contentious matters. Our firm provides appropriate consultation support to audit engagement professionals through professional practice resources that include a DPP and a Professional Practice Committee (PPC). The role of these resources is crucial in terms of the support that it provides to the Audit function. They provide technical guidance to client service professionals on specific engagement-related matters, develops and disseminates specific topic guidance on emerging local technical and professional issues, and disseminates international guidance on IFRS and ISA.

The firm has established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. Consultation with a team member at a higher level of responsibility than either of the differing parties usually resolves such differences. In other circumstances, the matter may be elevated through the chain of responsibility for resolution by the Risk Management Partner and/or Senior Partner.

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

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

### 2.5.5 Developing Business understanding and Industry Knowledge

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

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

## 2. System of Quality Control

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### 2.6 Performance of Effective and Efficient Audits

How an audit is conducted is as important as the final result. Our drivers of audit quality enhance the quality of the engagement team's performance during the conduct of every audit.

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

#### 2.6.1 KPMG Audit Process

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

- timely partner and manager involvement
- critical assessment of audit evidence
- exercise of professional judgment and professional scepticism
- ongoing mentoring and on the job coaching, supervision and review
- appropriately supported and documented conclusions
- if relevant, appropriate involvement of the EQC reviewer
- reporting
- insightful, open and honest two-way communication with those charged with governance
- client confidentiality, information security and data privacy.

#### 2.6.1.1 Timely Partner and Manager Involvement

To help identify and respond to the significant audit risks applicable to each audit, the engagement team requires an understanding of the client's business, its financial position and the environment in which it operates.

The engagement leader is responsible for the overall quality of the audit engagement and therefore for the direction, supervision and performance of the engagement.

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

The engagement leader is responsible for the final audit opinion and reviews key audit documentation – in particular, documentation relating to significant matters arising during the audit and conclusions reached. The engagement manager assists the partner in meeting these responsibilities and in the day-to-day liaison with the client and team.

## 2. System of Quality Control

CONTINUED

### 2.6.1.2 Critical Assessment of Audit Evidence with emphasis on Professional Scepticism

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

Professional scepticism involves a questioning mind and alertness to contradictions or inconsistencies in audit evidence. Professional scepticism features prominently throughout auditing standards and receives significant focus from regulators. Our Audit Quality Framework emphasises the importance of maintaining an attitude of professional scepticism throughout the audit.

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

### 2.6.1.3 Ongoing Mentoring and on the job Coaching, Supervision and Review

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

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

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

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

## 2. System of Quality Control

CONTINUED

### 2.6.1.4 Appropriately Supported and Documented Conclusions

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

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

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

Our methodology recognises that, documentation prepared on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before our report is finalised. Teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period, which is ordinarily not more than 60 calendar days from the date of the audit report but may be more restrictive under certain applicable regulations. We have a formal document retention policy in accordance with the applicable laws and regulations that govern the period we retain audit documentation and other client-specific records.

## 2. System of Quality Control

CONTINUED

### 2.6.1.5 Appropriate Involvement of the EQC Reviewer

Engagement Quality Control (EQC) reviewers have appropriate experience and knowledge to perform an objective review of the decisions and judgments made by the engagement team. They are experienced audit professionals who are independent of the engagement team. They provide an objective review of the more critical and judgmental elements of the audit.

An EQC reviewer is required to be appointed for the audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with a high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements as designated by the risk management partner or country head of audit. Before the date of the auditor's report, these individuals review:

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

The audit is completed only when the EQC reviewer is satisfied that all significant questions raised have been resolved.

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

- issuing leading practices guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EQC reviewers
- incorporating specific procedures in eAudIT to facilitate effective reviews, and
- implementing policies relating to recognition, nomination and development of EQC reviewers, as well as monitoring and assessing the nature, timing and extent of their involvement.

## 2. System of Quality Control

CONTINUED

### 2.6.1.6 Reporting

Auditing standards and the requirements of the Companies Act (cap. 386) largely dictate the format and content of the audit report that includes an opinion on the fair presentation in all material respects. Experienced engagement partners arrive at all audit opinions based on the audit performed.

In preparing audit reports, engagement leaders have access to extensive reporting guidance and technical support to audit partners through consultations with DPPs, especially where there are significant matters to be reported to users of the audit report, either as a qualification to the audit report or through the inclusion of an emphasis of matter paragraph.

### 2.6.1.7 Communication with those charged with Governance

Two-way communication with those charged with governance is key to audit quality. We stress the importance of keeping those charged with governance informed of issues arising throughout the audit and of understanding their views. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings, and ongoing discussions with members of the audit committee.

We deliver insights such as our assessment of the appropriateness of significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures, significant deficiencies in the design

and operation of financial reporting systems, controls when such deficiencies come to our attention during the course of the audit, and any uncorrected misstatements. We share our industry experience to encourage discussion and debate with those charged with governance.

In recognition of the demanding and important role that Audit Committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, our Audit Committee Institute (ACI) aims to help Audit Committee members enhance their awareness, commitment and ability to implement effective Audit Committee processes. The ACI operates in 35 countries across the globe and provides Audit Committee members with authoritative guidance on matters of interest to Audit Committees as well as the opportunity to network with their peers during an extensive programme of technical updates and awareness seminars.

Globally the ACI has thousands of members across both the private and public sectors and in 2014 provided seminars, workshops and roundtables for Audit Committee members, Risk Committee members and other Non-Executive directors.

## 2. System of Quality Control

CONTINUED

### 2.6.1.8 Focus on Effectiveness of Group Audits

Our audit methodology covers the conduct of group audits in detail. We stress the importance of effective two-way communication between the group engagement team and the component auditors, which is a key to audit quality. The group audit engagement partner is required to evaluate the competence of component auditors, whether they are KPMG member firms, as part of the engagement acceptance process. Our audit methodology incorporates the heightened attention currently being given to key risk areas for group audits.

### 2.6.2 Client Confidentiality, Information Security and Data Privacy

We take the issue of client confidentiality very seriously. The importance of maintaining confidentiality is continually emphasised through a variety of mechanisms included in our Code of Conduct, training and the annual affidavit/confirmation processes, that all of our professionals are required to complete.

We have a formal document retention policy concerning the retention period for audit documentation, and other records relevant to an engagement in accordance with the relevant IESBA requirements as well as other applicable laws, standards and regulations.

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

## 2. System of Quality Control

CONTINUED

### 2.7 Commitment to Continuous Improvement

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

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

#### 2.7.1 Monitoring

##### 2.7.1.1 Internal Monitoring

KPMG International has an integrated monitoring programme that covers all member firms, to assess the relevance, adequacy, and effective operation of key quality control policies and procedures. This monitoring addresses both engagement delivery and KPMG International policies and procedures. The results and lessons from the programmes are communicated within each member firm, and the overall results and lessons from the programmes are considered and appropriate action taken at regional and global levels. Our internal monitoring program also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively.

Our monitoring procedures involve ongoing consideration of:

- compliance with KPMG International's policies and procedures
- the effectiveness of training and other professional development activities
- compliance with applicable laws and regulation and member firms' standards, policies, and procedures.

Two KPMG International developed and administered inspection programs are conducted annually across the Audit, Tax, and Advisory functions, the Quality Performance Review (QPR) Program and the Risk Compliance Program (RCP).

Additionally all member firms are covered by cross-functional Global Compliance Reviews (GCRs). These programs are designed by KPMG International and participation in them is a condition of ongoing membership of the KPMG network.

##### Quality Performance Review (QPRs)

The international QPR Programme is the cornerstone of our efforts to monitor engagement quality and one of our primary means of ensuring that member firms are collectively and consistently meeting KPMG International's requirements and applicable professional standards. The QPR Programme assesses engagement level performance in the Audit, Tax, and Advisory functions and identifies opportunities to improve engagement quality. All engagement partners are generally subject to selection for review at least once in a three-year cycle. The reviews are tailored to the relevant function, performed at firm level, generally overseen by a senior experienced lead reviewer independent from the member firm, and are monitored regionally and globally.

## 2. System of Quality Control

CONTINUED

We disseminate our findings from the QPR Program to our professionals through written communications, internal training tools, and periodic partner, manager and staff meetings. These areas are also emphasised in subsequent inspection programs to gauge the extent of continuous improvement.

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

### Risk Compliance Programme (RCP)

The RCP is a member firm's annual self-assessment programme. The objectives of the RCP are to monitor, assess, and document member firm-wide compliance with the system of quality control established through KPMG International's quality and risk management policies and applicable legal and regulatory requirements as they relate to the delivery of professional services. The programme is overseen and monitored regionally as well as globally.

### Global Compliance Review (GCR) Programs

GCRs are performed by reviewers independent of the member firm, who report to Global Quality & Risk Management and are led by the Global Compliance Group. GCRs are carried out on member firms once in a three-year cycle. These reviews focus on significant governance, risk management, independence and finance processes (including an assessment of the robustness of the firm's RCP). In the event that a GCR identifies issues that require immediate or near-term attention, a follow-up review will be performed as appropriate.

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

## 2. System of Quality Control

CONTINUED

### 2.7.1.2 External Monitoring

The Quality Assurance Oversight Committee forming part of the Accountancy Board within the Ministry of Finance, the Economy and Investment, performs quality reviews of audit practitioners in Malta. Our firm was reviewed in 2012. We have considered each of the findings and recommendations and have implemented actions to strengthen policies and procedures as appropriate. Though the final report has not yet been issued we understand that no issues were identified that have a material impact on the conduct of our statutory audit business. As per the final report issued in the first quarter of 2013, no issues were identified that have a material impact on the conduct of our statutory audit business.

### 2.7.1.3 Client Feedback

In addition to internal and external monitoring of quality, we operate a formal program where we actively solicit feedback from management and those charged with governance on the quality of specific services that we have provided to them. The feedback that we receive from this program is formally considered centrally and by the individual client service teams to ensure that we continually learn and improve the levels of client service that we deliver. Any urgent actions arising from client feedback are followed up by the engagement partner to ensure that concerns on quality are dealt with on a timely basis.

In addition, we have procedures in place for addressing complaints relating to the quality of our work.

### 2.7.2 Interaction with Regulators

At an international level, KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss audit quality findings and actions taken to address such issues at a network level.

## 3. Network arrangements

### 3.1 Legal Structure

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law. KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by its member firms.

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

KPMG International is an entity which is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture or partnership with each other. No member firm has any authority to oblige or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to oblige or bind any member firm.

## 3. Network arrangements

CONTINUED

### 3.2 Responsibilities and Obligations of Member Firms

Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and is able to adopt global strategies, share resources (incoming and outgoing), service multinational clients, manage risk, and deploy global methodologies and tools. Each member firm takes responsibility for its management and the quality of its work.

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

### 3.3 Professional Indemnity Insurance

A substantial level of insurance cover is maintained in respect of professional negligence claims. The cover provides a territorial coverage on a worldwide basis and is principally written through a captive insurer that is available to all KPMG member firms.

### 3.4 Governance Structure

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

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. It performs functions equivalent to a shareholders' meeting (albeit that KPMG International has no share capital and, therefore, only has members, not shareholders). Among other things, the Global Council elects the chairman for a term of up to four years (renewable once) and also approves the appointment of Global Board members. It includes representation from 56 member firms that are "members" of KPMG International as a matter of Swiss law. Sub-licensees are generally indirectly represented by a member.

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

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

### 3. Network arrangements

CONTINUED

One of the other Global Board members is elected as the lead director by these Global Board members who are not also members of the Executive Team ("non-executive" members). A key role of the lead director is to act as liaison between the global chairman and the "non-executive" Global Board members. The list of Global Board members, as at 1 October 2014 is available in the International Annual Review.

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

The Global Board has delegated certain responsibilities to the Global Management Team. These responsibilities include developing global strategy by working together with the Executive Committee. The Global Management Team also supports the member firms in their execution of the global strategy and is responsible for holding them accountable for commitments. It is led by the global deputy chairman, and includes the global chairman, the global chief operations officer, global function and infrastructure heads and the general counsel. The list of Global Management Team members, as at 1 October 2014, is available in the International Annual Review.

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

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

#### 3.5 Area Quality and Risk Management Leaders

KPMG International has a network of Area Quality and Risk Management Leaders (ARLs), reporting to the Global Vice Chair—Quality, Risk and Regulatory. The ARLs are members of the Global Quality and Risk Management Steering Group and each ARL performs a monitoring function over a group of member firms. Their role is to enhance the KPMG network's ability to proactively monitor quality and risk management across member firms.

## 4. Partner remuneration

### 4.1 Partners' Profit Share

Partners are remunerated solely out of the whole profits of the firm and are personally responsible for funding pensions and most other benefits.

There are three elements to partner remuneration:

- Base component – a proportion of the firm's budgeted profits are allocated to partners as base component. The amount of base component reflects the role and seniority of each partner
- Performance related remuneration – rewards performance in the year by each partner against individual objectives previously agreed
- Residual profit share – the residual profits are shared by the partners in accordance with the terms of the partnership agreement.

There is transparency among partners over the total income allocated to each partner.

### 4.2 Drawings

During the year, partners receive monthly drawings (the amount being dependent on their level of base component) together with additional distributions of profits from time to time. The timing of the additional distributions of profits is dependent on the firm's working capital requirements.

### 4.3 Remuneration of directors

Directors are salaried employees of the firm and receive a fixed salary plus performance related bonuses.

## 5. Public interest entities (PIEs)

The definition of a PIE is that given by the Accountancy Profession Act (cap. 281). In accordance with this definition, public interest entities comprise **(a)** those entities whose transferable securities are admitted to trading on a regulated market of any Member State; **(b)** credit institutions; **(c)** insurance undertakings; and **(d)** any other entity as may be prescribed by the Accountancy Board (the Accountancy Board has to date not specified any such additional entities). In addition, the firm carries out audits for several other entities which, though not PIEs by definition, are nevertheless entities of significant public interest.

### Note:

- (a)** Based in Gibraltar operating a branch in Malta. The first audit report for tax purposes will be signed in 2015
- (b)** KPMG were appointed auditors on 17 December 2014
- (c)** No longer an audit client. KPMG served as the statutory auditor of Central Bank of Malta up to 21 March 2014. Though not a credit institution as defined in point 1 of Article 1 of Directive 2000/12/EC (recast as Article 4 in the Directive 2006/48/EC), and as such not a public interest entity in terms of the Accountancy Profession Act

### List of PIE audit clients

Name	Audit Report issued in 2014	Listed Equities	Listed Corporate Bonds	Listed Funds	Credit Institutions	Insurance Companies
ACL Fund SICAV p.l.c.	✓			✓		
Argus Insurance Company (Europe) Limited <sup>(a)</sup>						✓
Bank of Valletta p.l.c. <sup>(b)</sup>		✓	✓		✓	
Bavaria Reinsurance Malta Ltd	✓					✓
Central Bank of Malta <sup>(c)</sup>	✓					✓
Credit Europe Bank NV <sup>(d)</sup>	✓					✓
Deutsche Bank (Malta) Ltd	✓			✓		
European Insurance Solution PCC Limited <sup>(e)</sup>						✓
FIMBank p.l.c. <sup>(f)</sup>	✓	✓		✓		
Grand Harbour Marina p.l.c.	✓	✓	✓			
HSBC Bank Malta p.l.c.	✓	✓	✓	✓		
HSBC Life Assurance (Malta) Ltd	✓					✓
HSBC Malta Funds SICAV p.l.c. <sup>(g)</sup>	✓			✓		
HSBC No-Load Funds SICAV p.l.c. <sup>(g)</sup>	✓			✓		
Investkredit International Bank p.l.c. <sup>(h)</sup>	✓			✓		
Izola Bank p.l.c.	✓		✓	✓		
Liberty Global Insurance Company Limited <sup>(i)</sup>						✓
Mediterranean Bank p.l.c.	✓		✓	✓		
Medserv p.l.c.	✓	✓	✓			
Munich Re of Malta p.l.c.	✓					✓
Orlen Insurance Ltd	✓					✓
Pilatus Bank Limited <sup>(j)</sup>				✓		
Platinum Insurance Ltd	✓					✓
Raiffeisen Malta Bank p.l.c. <sup>(k)</sup>	✓			✓		
R&Q Insurance (Malta) Limited	✓					✓
RS2 Software p.l.c.	✓		✓			
Saint John's Insurance Ltd	✓					✓
St Julians Insurance Co Ltd	✓					✓
Volksbank Malta Limited <sup>(l)</sup>	✓			✓		

Cap 281, the Central Bank of Malta is considered to be an entity of particular significant public interest and for all effects and purposes is treated as a PIE by the firm

- (d)** Malta branch
- (e)** New insurance company registered in 2013 and KPMG are the appointed auditors. The first audit report will be issued in 2015
- (f)** Listed corporate bonds were redeemed in September 2013
- (g)** No longer audit clients. KPMG served as the statutory auditor of HSBC Malta Funds SICAV plc and HSBC No-Load Funds SICAV plc up to 29 August 2014

**(h)** Was placed into voluntary liquidation on 31 October 2014. Last statutory report signed by KPMG dated 12 December 2014

**(i)** New insurance company registered in 2014 and KPMG are the appointed auditors. The first audit report will be issued in 2015

**(j)** Pilatus Bank Limited is a new bank which was formed on 6 December 2013. The first audit report will be issued in 2015

**(k)** Changed name to ECCM Bank p.l.c. on 1 July 2014

**(l)** Changed name to Mediterranean Corporate Bank Limited on 26 September 2014

## Appendix **Partners & Directors**

### PARTNERS



**Mark Bamber**  
Partner, Advisory Services  
Head of Markets  
Member of the EMC

Mark is an advisory partner, leading the firm's Management Consulting advisory team. Mark has been a partner for 12 years.



**Juanita Bencini**  
Partner, Advisory Services

Juanita heads the Risk Consulting advisory team in Malta and is also Head of Risk Consulting for KIG. Juanita is a council member of the Institute of Financial Services Practitioners. She has been a partner for 9 years.

## Appendix

# Partners & Directors

### PARTNERS



**Juanita Brockdorff**  
Partner, Tax Services

Juanita, a lawyer, is a partner in the tax function and focuses on international and European taxation. She is a council member of the Institute of Financial Services Practitioners.



**David Caruana**  
Partner, Advisory Services  
Risk Management Partner  
Member of the EMC  
Compliance Principal

David leads the firm's Deal Advisory and the Accounting Advisory Services teams. A partner for 12 years, he is the firm's Risk Management Partner. With effect from 1 January 2013, he was appointed Compliance Principal in terms of the Accountancy Profession Act (Cap. 281) as well as the firm's Money Laundering Reporting Officer (MLRO). David is also Head of Ethics & Independence for KIG.



**Doreen Fenech**  
Partner, Tax Services

Doreen was appointed partner with effect from 1 January 2015. She has 16 years of experience in domestic and international tax.

## Appendix

# Partners & Directors

### PARTNERS



**Hilary Galea-Lauri**  
Partner,  
**Head of Audit – Technical and Quality Matters**  
**Member of the EMC**

Hilary is an audit partner and the lead technical partner on IFRS and the KPMG audit methodology. Hilary heads the firm's Department of Professional Practice (DPP) and Professional Practice Committee (PPC). He sits on the Quality and Risk Committee, and has been a partner for 16 years.



**Noel Mizzi**  
Partner,  
**Head of Audit – Operations**  
**Member of the EMC**

Noel is an audit partner specialising in financial services. He forms part of the firm's DPP and PPC Committee. He has been a partner for 16 years.



**Eric Muscat**  
Partner, **Advisory Services**

Eric is the partner responsible for IT Advisory services and for the coordination of overseas staff secondments. He has been a partner for 16 years.

## Appendix

# Partners & Directors

### PARTNERS



**Anthony Pace**  
Partner, Tax Services  
Head of Finance  
Member of the EMC

Anthony is a partner in the tax function, particularly specialising in indirect taxation. He has been a partner for 12 years.



**David Pace,**  
Partner, Advisory Services

David was appointed partner with effect from 1 January 2015 within the Deal Advisory team, which he joined in 2002. He is actively involved in assisting with business negotiations and has a lead role in the firm's Merger and Acquisition service offering.



**Pierre Portelli**  
Partner, Tax Services

Pierre is a partner in the tax function and heads the corporate services team. He has been a partner of the firm for 18 years and sits on the Quality & Risk Committee. Pierre is also the Firm's Human Resources Partner.

## Appendix

# Partners & Directors

### PARTNERS



**Giles Schembri**  
Partner, Audit Services

Giles is a partner in the audit department. Over the past 20 years he has principally practiced within the firm's audit function in Malta and in Milan. He forms part of the firm's PPC (area specialist).



**André Zarb**  
Partner,  
Head of Tax Services  
Member of the EMC

André assumed responsibility for the tax function in Malta in 1993, followed by making partner in 1994. He chairs the firm's Business development Committee.



**Tonio Zarb**  
Senior Partner,  
Head of Advisory Services  
Chairs EMC

Tonio was appointed as the firm's Senior Partner with effect from October 2012 and chairs the Executive Management Committee. He also leads the firm's advisory services function. He has been a partner for 26 years.

## Appendix **Partners & Directors**

### DIRECTORS



**Hermione Arciola**  
Director, Advisory Services

Hermione is a director in the Deal Advisory, focusing principally on corporate finance and transaction services. She joined the Deal Advisory team in 2007 and was appointed director in January 2014. Prior to joining KPMG, Hermione gained professional experience with another Big 4 firm.



**Norbert Bugeja**  
Director, Audit Services

Norbert has been a director in the audit department since 2010 specialising in financial services and forms part of the firm's PPC (area specialist). He has been employed with the firm since 1989.

## Appendix

# Partners & Directors

### DIRECTORS



**Jonathan Dingli**  
Director, Advisory Services

Jonathan was appointed director with effect from 1 January 2015. He leads a team of professionals within the Accounting Advisory Services (AAS) team at KPMG in Malta.



**John Ellul Sullivan**  
Director, Tax Services

John was appointed director with effect from 1 January 2015. John advises a variety of multinationals and high-net-worth individuals on their international corporate structures, as well as focuses on advising retirement scheme administrators on their operations in Malta. He has been employed with the firm since 2007.



**Darren Govus**  
Director, Audit Services

Darren is a director in the financial services audit department. He forms part of the firm's PPC (area specialist) and provides accounting training, particularly in relation to financial instruments. Darren has been with the firm for 19 years.

## Appendix

# Partners & Directors

### DIRECTORS



**Jan Grech**  
Director, Advisory Services

Jan leads a team of multi-disciplinary advisory professionals within the Management Consulting practice. He first joined the firm in 1987.



**Kevin Mifsud**  
Director, Audit Services

Kevin is a director in the audit department, with expertise in financial services, telecommunications and software development and forms part of the firm's PPC (area specialist). He has been employed with the firm since 1998.



**Paul Pace Ross**  
Director, Tax Services

Paul was appointed Director with effect from 1 January 2015, forming part of the firm's Tax services. Over the years he led numerous cross-border engagements and he now leads a multi-disciplinary team of professionals advising clients on corporate restructuring, mergers, continuations, exit strategies and other reorganisation projects. He has been employed with the firm since 2002.

## Appendix

# Partners & Directors

### DIRECTORS & CONSULTANTS



**Mario J. Vella**  
Director, Advisory Services

Mario J. Vella is a director forming part of the firm's Deal Advisory team. His main area of focus is leading the financing service line, which includes providing advice and assistance to corporate clients in structuring and arranging financing for their projects and operations. Mario joined the firm after a career spanning 44 years with one of Malta's leading banks.



**Raymond Azzopardi**  
Consultant

Raymond retired from the partnership on 31 December 2014, after 26 years' experience as an audit partner in the firm's financial services audit team.