



UK Transparency Report 2021

January 2022

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Our year in numbers

Our Audit practice



Number of audits performed

14,000 (↓6%)



Number of audits of Public Interest Entities performed

324 (↓9%)



Number of audits of major public sector bodies in the UK²

35 (↑9%)



Number of offices

22 (↓1)



Revenue from audit and directly related services

£646m (↑1%)



Audit revenue as a proportion of the firm's revenues

27% (↓1%)

Our people



Number of people in Audit³

6,900 (↑2%)



Women in Audit

47% (↑2%)



Audit colleagues from an ethnic minority background

35% (↑6%)

Audit quality



Audit engagements rated 'good or limited improvement required' by the FRC's AQR⁴

59% (↓2%)



FTSE 350 audit engagements rated 'good or limited improvement required' by the FRC's AQR⁴

75% (↑17%)



Audit engagements rated 'good or limited improvement required' by the ICAEW's QAD⁵

100% (↑10%)

1 Principally UK entities that meet the PIE definition set out in EU Regulation which is applied for consistency – as set out in the regulatory context section in Appendix 1.

2 Major Local Audits as defined in the Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014.

3 Headcount includes both onshore and offshore colleagues.

4 FRC's AQR: Financial Reporting Council's (FRC) Audit Quality Review (AQR).

5 ICAEW's QAD: Institute of Chartered Accountants in England and Wales' (ICAEW) Quality Assurance Department (QAD).

Navigating this report

Our Transparency Report provides information on how we structure and govern our firm, and the controls and processes we have in place to manage risk, as required by various regulations. Whilst KPMG is a multidisciplinary firm, this report is primarily focused on our Audit practice and the policies and programmes we have in place to support audit quality.



01 Messages from our leadership

Pages 4 to 12

An update from our Chair, Chief Executive, Chair of Audit and Head of Audit on how we are building a stronger, more sustainable business with a relentless focus on quality.

Report from the Chair of our Public Interest Committee and the independent oversight provided on matters of public interest.



02 Structure and governance

Pages 13 to 26

An explanation of how our UK firm is structured, the oversight of our Audit practice and its relationships with other firms that are members of the KPMG network. It also explains the roles that internal and independent committees play.

This section also includes reports of the activities of the Board, the Public Interest Committee, the Audit Board, the Audit Committee, the People Committee and the Risk Committee during the year.



03 People and culture in our Audit practice

Pages 27 to 38

An update on our people strategy, our culture and its impact on audit quality.



04 Audit quality

Pages 39 to 55

An update on the initiatives that form part of our Audit Quality Plan and the methods used to monitor audit quality.



05 Quality control and risk management

Pages 56 to 71

This section includes details of where the responsibility for risk sits within the firm. It also sets out the principal risks and uncertainties facing our firm and the controls and processes in place to manage these risks.

It includes a statement by the Board on the effectiveness of internal controls and independence and the confirmation of the firm's compliance with the Audit Firm Governance Code.



06 Financial information

Pages 72 to 73

Financial information in respect of Audit and directly related services.



07 Appendices

Pages 74 to 101

Further information on:

- Our compliance with the UK Corporate Governance Code.
- Key performance indicators for our governance system.
- Board and Committees of the Board membership.
- Network arrangements.
- Our Audit Quality Framework.
- Public Interest Entities and Major Local Audits we perform.
- Our tax strategy and contribution.

Section 1

Messages from our leadership

**An update from our leadership
and the report from the Chair of
our Public Interest Committee.**



Building trust: A message from our Chair and Chief Executive

Our priority is to build a stronger, more sustainable firm, that supports the UK's economic recovery and has a positive social impact. To that end, we are strengthening our governance and our culture, creating longer-term financial sustainability, embedding a culture of continuous improvement, and committing to resolve legacy issues.

We have made important changes to improve KPMG's governance over the last year, including splitting the Chair and Chief Executive roles in line with corporate governance best practice and creating a separate Audit Board, chaired by Claire Ighodaro CBE as an independent Audit Non-Executive, to oversee and monitor our Audit practice.

We are also embedding a culture of challenge and support across the firm, and working hard to create an environment where our people feel comfortable speaking up. We have several routes available to our colleagues to raise concerns, including over 120 dedicated Ethics Champions across our firm who are there to help all our people report or discuss any ethical questions or issues. We publish our colleagues' confidence in our whistleblowing procedures, and the number of reports to our Speak Up hotline on [Our Impact](#) site.

Since 2018, we've made a significant investment in our Audit practice focused on quality. This has included strengthening our governance, controls, technology, culture and training. We will continue to invest and work closely with our regulator to demonstrate progress against our improvement plans, particularly our banking audit regulatory review results.

Our firm has grown strongly over the last twelve months, but at the same time, we have taken a more conservative approach to our financial management. We have introduced a new medium-term financial planning and distribution policy, which provides longer-term incentives for partners to deliver sustainable performance. We also received partnership backing for our decision to retain the funds from the sales of our restructuring and pension businesses to invest in the future of KPMG, instead of distributing them to partners.

We're committed to working with our regulator on concluding and learning from a number of historic investigations. As part of this, we have recently concluded the historic audit case of Coviviality Plc and we're cooperating fully with the regulatory Tribunal focused on information provided by former colleagues to the FRC during the Audit Quality Review of the 2016 audit of Carillion. We became aware of the misconduct at the centre of this case as a result of our own internal investigations and immediately reported it to our regulator. This misconduct is a violation of our processes and clearly against our values. It is unacceptable, we do not tolerate or condone it in any way, and we are very sorry that it occurred in our firm.

We know that working to resolve our past cases will bring further scrutiny, but it is a crucial part of our focus on building trust and confidence.



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We're embedding a culture of challenge and support across our firm and have worked hard to create an environment where people feel comfortable speaking up and understand the routes available to them. //

Bina Mehta
Chair of KPMG in the UK

Building trust: A message from our Chair and Chief Executive

(continued)

We're also focused on ensuring that all our people uphold the highest possible professional standards and that we learn from instances where behaviour falls short. In the case of the FRC tribunal findings on Silentnight, which refers to a restructuring engagement in 2010, we accept these and have made significant efforts in recent years to improve our broader controls and processes, and to strengthen our culture.

We have been working with the Cabinet Office to demonstrate the significant work that has been done, and is being done, to deal with the firm's legacy issues. We have voluntarily offered not to pursue new tenders for Central Government departments whilst these conversations are ongoing.

Finally, we have improved our reporting and disclosures through the publication of [Our Impact](#) in September 2021. This brings together all our environmental, social and governance (ESG) commitments for the first time, setting out our progress against the World Economic Forum International Business Council Stakeholder Capitalism Metrics. This gives our stakeholders a common way of assessing and benchmarking our commitments and progress.

We understand the role our firm and profession play in supporting the UK economy and successful capital markets. We are confident that the work we are undertaking now will make KPMG a stronger and more sustainable firm, in which all our stakeholders can have confidence in the future.

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We're committed to working with our regulator on concluding and learning from a number of historic investigations. This will bring further scrutiny, but it is a crucial part of our focus on building trust and confidence. //

Jon Holt
Chief Executive of KPMG in the UK



A handwritten signature in black ink that reads "Bina Mehta". The signature is fluid and cursive.

Bina Mehta
Chair,
KPMG in the UK

A handwritten signature in black ink that reads "Jon Holt". The signature is cursive and includes a long horizontal flourish at the end.

Jon Holt
Chief Executive,
KPMG in the UK

Building trust in audit

We're transforming the way we govern our business and the way we deliver audits, to develop a leading Audit practice that has a relentless focus on quality, is constantly evolving to respond to the changing needs of stakeholders, and creates rewarding careers.

The crucial role that audits play in the UK and global economy has not changed. The trust they create underpins our profession and creates confidence in our markets.

The pandemic has brought new challenges, but it's been very encouraging to hear our stakeholders talk about the dedication and agility that our people have shown in managing new risks and meeting varying and growing stakeholder needs.

Strong governance – committed to delivering operational separation

We are committed to working with the Financial Reporting Council (FRC) to help shape the future for a profession that produces high-quality audits, acts in the public interest, and supports successful and attractive capital markets around the world. An important part of this is embedding strong and separate governance of our Audit practice to help strengthen trust in the profession.

We were the first firm to create a separate Audit Board to oversee and monitor our Audit practice, its delivery of audit quality and the interaction of the Audit practice with the rest of the firm.

In 2021, we were delighted to welcome Claire Ighodaro CBE as the new Chair of that board. She joined us as an independent Audit Non Executive along with Melanie Hind and Kathleen O'Donovan. It's another significant step on our path to creating an operationally separate Audit practice within our multi-disciplinary firm.

Our focus on audit quality

Audit quality is our number one priority, and we are committed to delivering consistently high-quality audits.

Our ambition is to create a sustainable, operationally standalone Audit practice, built on a culture of high challenge and high support, known for innovation and technology, and underpinned by high audit quality as standard.

Since 2018, we have implemented a three-year Audit Quality Transformation Programme reaching into almost every part of our business and supported by record investment. This included strengthening our governance, implementing more robust controls, investing in leading technology, initiating a cultural change programme and refreshing our approach to training.

During this period we have invested to bring in over 2,000 additional people into our Audit practice, while

at the same time reducing the number of audit engagements we perform by 14% to ensure that we focus on the quality of those audits.

We've made good progress against this Programme, but recognise there is still more to do to improve our external regulatory review outcomes.

While our continued investment has resulted in improvements to our audit quality review scores for FTSE 350 audits, our scores across the board have not been as consistently strong as they should be. We are committed to continuous improvement and our key focus for the year ahead is our Banking audit practice. We're working closely with our regulator to address our banking audit regulatory review results through a comprehensive plan (see page 42).

Other areas of focus include the continued rollout of our new audit platform, KPMG Clara, and embedding our culture programme.



“ I'm personally committed to ensuring our Audit practice is known for doing the right thing and protecting the public interest. Our audit strategy is designed to achieve just that – with high audit quality at its core. ”

Catherine Burnet
Head of UK Audit

Building trust in audit

(continued)

Transforming the way we deliver audits

We use technology to improve audit quality, create greater consistency in the performance of our audits and strengthen monitoring of engagement milestones. We believe that high audit quality is best achieved when the power of smart technology is matched with inquiring minds and professional scepticism, and our tools are designed for exactly that.

We have embedded the best new tools, processes and technologies that simplify and streamline our audit, offer a cutting-edge user experience, and further enhance the high quality, consistency and efficiency of our audit delivery.

Our new cloud-based audit platform – KPMG Clara – is a step-change in how we are innovating, digitalising and transforming the audit experience, not just in the UK but across our global firm. Nearly half of our audit hours are currently transitioning onto the platform, with all audits moving onto it in the year ahead. KPMG Clara enables the deployment of our new audit methodology, which is aligned to the International Standards on

Auditing (ISA) and includes improved risk identification and assessment. Our data analytics are already used widely across our audits, processing over 900 billion rows of data in the last year. Underpinning this, our new Delivery Solutions Group, brings specialist teams together to support audit teams in delivering high-quality audits.

Evolving the audit product to meet changing stakeholder needs

In order to shape the future of our profession, our audit services must continue to develop to meet and exceed the changing needs of our stakeholders. We have spent time over the last year talking with Audit Committee Chairs, Finance Directors, regulators and investors to better understand what’s important to them and how we can best respond.

The Department for Business, Energy and Industrial Strategy (BEIS) consultation on Restoring Trust in Audit and Corporate Governance brought this to the forefront, setting out the preliminary options of how reform across the corporate reporting ecosystem could be taken forward.

This is a once-in-a-generation opportunity to reform the corporate regulatory landscape and build on the UK’s world-leading position so that we continue to be an attractive destination: for business, investment and talented people. In our conversations with stakeholders, consistent messages come through:

- The UK needs a world-leading regulatory framework that responds to the new demands of ESG reporting and evolving shareholder and public expectations.
- New frameworks introduced should be supported by guidance for those implementing the changes to ensure a consistently high standard is met.
- Sequencing, prioritisation and careful implementation will be key, given the number of individual reforms and interdependencies, and the complex legal framework.

For the reforms to be successful, all parties within the corporate reporting ecosystem have a role to play. It’s also critical that the timeline for implementation recognises the need for prioritisation and allows sufficient time to build capacity within the ecosystem. Any new regulatory powers and requirements should be balanced by transparent guidance, processes, and a fair appeals process.

To build the capacity to deliver these changes, the profession needs to be an attractive one. Given the likely pressure on resources, it is essential that audit, and finance more widely, remains a compelling and rewarding career choice for talented people.

Attracting them and, importantly, retaining them once they have qualified, will be critical to audit quality. This is more crucial than ever as we go through significant change and so businesses, the regulator, investors and other key players in the ecosystem all have an important role to play.



It is essential that the UK’s regulatory framework retains and builds on its world-leading position so that we continue to be an attractive place for business, investment, and talent. //

Michelle Hinchliffe
Chair of UK Audit⁶



6 Michelle is currently Vice-Chair for Audit and held the role of Chair of UK Audit until 30 September 2021.

Building trust in audit

(continued)

Creating rewarding careers for our people

We're committed to ensuring that Audit continues to be an attractive and outstanding place to build a career. There is more variety than ever before – whether that is supporting audit quality, ESG assurance, or data and analytics. And we want to ensure that our Audit practice is a place where every talented auditor can thrive, regardless of their background or identity, whether it be through our Black Lives Action Plan, Social Mobility action plan or the wellbeing support we give our people.

We've also expanded our recruitment, with a better mix of graduates, apprentices and offshore roles.

Having the right culture in place is fundamental if we are to deliver high quality, every time. We have a comprehensive programme to strengthen our 'high challenge, high support' culture – one where all colleagues feel they are in an open and inclusive environment, where they are confident to give and receive constructive challenge, and where they have the support they need to do high-quality work.

Audit at KPMG has a bright future. We're extremely proud of the efforts of our 6,900 auditors in such challenging circumstances in the past year, and the role they have played in supporting the entities we audit and the communities and society we are all part of.

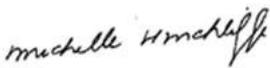
Responding to expectations on ESG

By bringing together experts from across our firm and global network, we are well positioned to respond to these emerging trends.

Working closely with our audit teams, we have a dedicated ESG Assurance team, offering additional assurance to those that are ready.

All our auditors have been trained on the impact of climate change risk on businesses as well as the accounting and reporting implications. In addition to our newly created Climate Risk Team in Audit, audit teams have access to a network of specialists within the rest of the firm, and are equipped with a range of tools and resources to help them integrate climate risks into their audit approach.

We're also embedding ESG into the way we run KPMG in the UK. In 2021, we published [Our Impact](#), which brings the firm's ESG commitments together for the first time and outlines our progress. This is part of our approach to communicate openly where we are on our own ESG journey and to report against a common framework so that our stakeholders can understand our progress.



Michelle Hinchliffe
Chair of UK Audit



Catherine Burnet
Head of UK Audit

Building trust in audit

(continued)

Shaping the future of audit.

Our views on the BEIS consultation on Restoring Trust in Audit and Corporate Governance

Key recommendations	What does it mean?	What's our view?
Creation of the Audit, Reporting and Governance Authority (ARGA)	The FRC will be replaced with ARGA, the new regulator, with powers on a statutory basis.	We are supportive of a new improvement regulator with appropriate powers to regulate across the boardroom with appropriate checks and balances in place.
Operational separation	The audit business within the large accountancy firms will be operationally separate from the rest of the firm which will help to address any perceived conflicts of interest.	We support the introduction of operational separation in the UK and believe it will help make our profession more attractive. It will ensure focus is maintained on the objectives of a high-quality audit while recognising the value of the multidisciplinary firms.
Strengthening the UK internal controls framework	A strengthened internal controls framework for companies.	We are in favour of a strengthened internal controls framework with mandatory independent assurance based on benefits observed in the US following the implementation of Sarbanes Oxley (SOx). We support a regime closely aligned to SOx.
New resilience statement	A new statement by companies about their resilience over different time horizons.	We believe a new resilience statement could move the dial and provide users of Annual Reports with the information they need to make informed decisions.
Competition in the audit market	Promote competition and increase choice of audit firms available to companies to deliver the largest, most complex audits.	We are supportive of greater choice within the audit market. However the proposals introduce significant challenges, including risk of duplication of work and increased costs for businesses. There is also no evidence that they will have a positive impact on audit quality. We have previously offered to participate in a pilot and remain committed to help find solutions to these challenges.

You can access a summary of our response to the consultation [here](#).

Report of the Public Interest Committee



Jonathan Evans
Chair of the Public Interest Committee

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Our responsibility as Independent Non-Executives (INEs) and members of the Public Interest Committee (PIC) is to provide independent oversight on issues that are of public interest. Given the continued impact of the global pandemic and the challenges faced by the firm, our role has never been more important."

I am pleased to provide my annual report as Chair of KPMG's Public Interest Committee (PIC).

Our role as Independent Non-Executives (INEs), who together form the PIC, has never been more important to provide oversight of public interest matters. The audit profession has remained under close scrutiny, significant reforms for the audit industry and corporate Britain are underway and COVID-19 has changed the way we work, possibly permanently. The firm has also faced its own challenges during the year, which has meant the INEs have had increased engagement with the firm and its regulator throughout the year.

Changes in governance and leadership

The firm's leadership changed during the year with the unplanned departure of Bill Michael as Senior Partner. Bill Michael was a strong supporter of the role of the INEs within the firm and recognised the importance of audit quality in the public interest.

As a PIC, we strongly welcome the firm's decision to separate the roles of Chairman and Chief Executive following Bill Michael's departure. Oonagh Harpur and I advised the Board on the new governance arrangements and the transition to them. We welcome the appointment of Bina Mehta in her new role as Chair, and as INEs, we are working closely with her as she embeds the new governance arrangements in the firm. I was a member of the group that oversaw the process to choose KPMG's new Chief Executive, Jon Holt, in a rigorous and fair process. I am delighted that Jon Holt was appointed.

Audit quality

The delivery of high-quality audits has remained at the centre of KPMG's Audit strategy, and we have continued to see investment in this area. KPMG's Head of Audit and Head of Audit Quality present to the PIC on a quarterly basis to ensure that we are kept abreast of the latest results and developments and have an opportunity to challenge the approach taken. Additionally, throughout the year, Kathleen O'Donovan has attended the Audit Board, which is responsible for directly overseeing the delivery of audit quality. To comply with the FRC's Principles for Operational Separation, from 30 September 2021, Kathleen became a member of the Audit Board, along with the new independent Audit Non-Executives (ANEs), Claire Ighodaro CBE and Melanie Hind.



Report of the Public Interest Committee

(continued)

Together they bring a wealth of relevant experience to the Audit Board, and I look forward to working with them closely. Kathleen will remain a member of the PIC to support the transparent and open dialogue between the PIC and Audit Board.

While improvements and areas of good practice were identified, the firm’s most recent Audit Quality Inspection and Supervision report from the FRC was disappointing, particularly in respect of banking audits. The PIC will provide independent oversight of the commitments that the firm has made to the FRC in respect of banking audit quality. We will also work closely with the ANEs as their role develops.

While the FRC’s reviews of individual audits are a useful independent assessment, they are only one measure of audit quality. We continue to believe that a broader view of audit quality is necessary alongside the audit file assessment performed by the FRC and ICAEW. We are pleased that the FRC is overseeing an Audit Quality Indicator programme with each of the firms to identify these broader audit quality measures.

Crucially, to deliver high-quality audits, the firm must have the right culture to support this. Oonagh Harpur has provided guidance to both the firm-wide and the Audit practice’s Culture Leads throughout the year, and attended the Audit Boards for the quarterly People and Culture updates. The INEs have also sought to understand what the firm learnt from the findings of the recent Silentsnight tribunal.

The future of the audit profession

During the year, BEIS launched their long-awaited consultation of Restoring Trust in Audit and Corporate Governance. Anne Bulford was a member of KPMG’s steering committee to provide challenge on the firm’s submission to this consultation, particularly on public interest matters. The PIC also submitted its own response to the consultation, highlighting the importance of the Public Interest Statement and the need for proportionality in the implementation of such significant reforms.

We remain concerned about the attractiveness of the profession; audit needs to be able to attract and retain the best and brightest individuals. We believe that this should be taken into consideration as government finalise the reform agenda.

The firm has made significant progress in relation to operational separation during the year and we have continued to oversee their implementation plan. The INEs have engaged with the firm and the regulator on how the principles have been adopted. Additionally, I was pleased to provide an independent voice in the recruitment and appointment of the new ANEs.

Stakeholder engagement

Communicating with KPMG’s stakeholders is a key part of our role. We oversee the firm’s investor engagement strategy, have meetings with the Audit Committee Chairs’ Independent Forum (ACCIF) and also present at the firm’s annual flagship event, the Annual Audit Review, which is open to audit committee chairs, finance directors, and investors.

One of the firm’s primary stakeholder groups is its partners and its employees. See page 21 for more detail on the INE’s engagement programme within the business.

Contact

The statement above does not contain an exhaustive list of activities performed by the INEs during the year. A more detailed report on the INE’s activities during the year, as well as our priorities for the next 12 months can be found in Section 2. If you would like to get in touch with questions or concerns, please contact any one of us at: ukfmpublicinterestcommittee@kpmg.co.uk



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The audit profession is at a critical crossroads. There is an urgent need to rebuild trust in the role of audit and enhance corporate reporting for the benefit of all market participants. I have been impressed by KPMG’s commitment to increasing the transparency of their audit governance and their work to instil a high challenge, high support culture in their Audit practice. //

Claire Ighodaro CBE
Independent Audit Non-Executive
and Chair of KPMG in the UK’s Audit Board

Section 2

Structure and governance

We're continuing to evolve and strengthen our governance structure, providing greater transparency across our activities.



How our structure and governance supports audit quality

We have been evolving and strengthening our governance structures at the firm-wide level in preparation for the operational separation of our Audit practice.

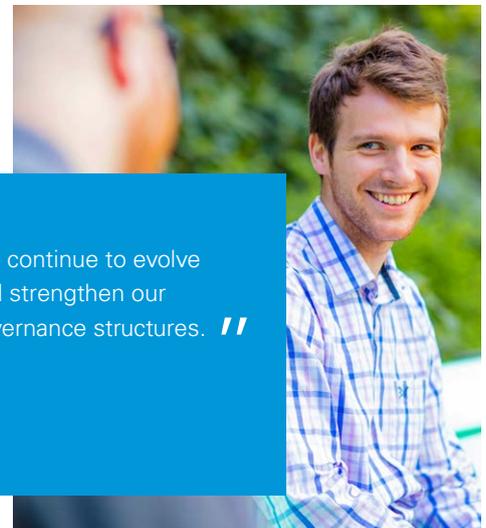
Governance structure at 30 September 2021

Board Committees



Executive Committees

This section explains our relationship with other firms in the KPMG network and the roles that internal and independent committees play.



“ We continue to evolve and strengthen our governance structures. ”

How our structure and governance supports audit quality

(continued)

Legal structure

KPMG LLP (the firm) is constituted as a limited liability partnership under the Limited Liability Partnerships Act 2000. The capital in KPMG LLP is contributed by its members (the members are referred to as partners).

KPMG LLP is a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited (KPMG International), a private English company limited by guarantee. Further details about KPMG International, including our relationship with it, are set out in Appendix 4.

An update on operational separation

We are committed to working with the FRC to help shape the future for a profession which delivers high-quality audits, acts in the public interest and supports successful and attractive capital markets around the world. We have:

- Established an Audit Board in January 2020 and effective 30 September 2021, appointed three independent Audit Non-Executives to the Audit Board: Claire Ighodaro CBE (Chair), Melanie Hind and Kathleen O'Donovan. In line with the principles of operational separation, set out by the FRC, KPMG's Audit Board will oversee and monitor the firm's Audit practice, its delivery of audit quality and the interaction of the Audit practice with the rest of the firm.
- Implemented separate governance and performance management of audit partners and professionals, with audit quality as the most important metric for measuring performance and reward.
- The independent Audit Non Executives will oversee remuneration through a newly created remuneration committee of the Audit Board.
- Moved certain specialist teams into our Audit business to ensure their focus on supporting our audits.

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

Changes made during the year

Consistent with our commitment to build trust, we apply high standards of governance. The firm's governance structures, management team and leaders are subject to formal, rigorous and on-going performance evaluation.

During the course of the year, we have implemented a number of important changes to our governance. These are driven by our ongoing desire to ensure that the firm's leadership structure supports our public interest objectives effectively, combined with early adoption of the FRC's published principles of operational separation of the Audit practice. As a result of the split of the roles of Chair and Chief Executive, the refreshed governance provides additional transparency and checks and balances with a focus on longer term sustainability and performance of the firm.

The most important changes are:

- Strengthening the governance of our Audit practice by appointing three independent Audit Non-Executives to our Audit Board, one of whom is the Audit Board Chair, to provide additional transparency and independence (effective 30 September 2021).
- Splitting the roles of Chair and Chief Executive.
- Updating the terms of reference of our Board and Committees to reflect the split of the roles of Chair and Chief Executive as well as to ensure effective liaison between the various governance bodies.
- Simplifying the governance at the Executive Committee level by discontinuing the Clients and Markets Executive and aligning the membership of the Executive Committee more closely to the business.

How our structure and governance supports audit quality

(continued)

Chair and Chief Executive

In February 2021, the Board took the decision to separate the role of Chair from that of Chief Executive, bringing the firm into alignment with standard practice in the corporate sector as well as ensuring we fully meet the expectations of external stakeholders in the public interest.

In order to provide continuity during the Chief Executive election process, Bina Mehta was appointed Chair on 22 February 2021 for a twelve-month period. She has recently been elected to continue in the role as Chair of the firm until the end of February 2024. Jon Holt was appointed as Chief Executive for a four and a half year term on 9 April 2021 following an internal process and confidential vote of all partners (administered by Civica Election Services).

The Chair is responsible for leading the Board and ensuring the Board fulfils its responsibilities to set the tone, oversee strategy and hold leadership to account. The Chair is accountable to the partners in fulfilling these responsibilities.

The Chief Executive is responsible for leading the whole business of the multi-disciplinary firm and is accountable for the executive leadership's execution of the firm's Board-approved strategy. The Chief Executive is accountable to the Board and the partners in fulfilling these responsibilities.

Board

The main governance body of the firm is the Board, which is responsible for the growth and long-term prosperity of the firm, ensuring it stays true to its purpose and vision. Bina Mehta chairs the Board, which provides oversight of the organisation, approves the firm's strategy and oversees its implementation by the Executive Committee, monitoring performance against the business plan. The Board also ensures that there is a satisfactory process for managing cultural, ethical, risk and reputational matters affecting the firm including compliance with laws, other regulations relevant to our business and KPMG International's policies.

The Board is attended by the Chair of the Public Interest Committee, the Chair of the Audit Board and by other Independent Non-Executives.

Partners at large are elected as members of the Board for fixed terms. The current elected members are serving three-year terms, extendable up to a maximum of five years, to maintain relevant skills and breadth of experience on the Board.

The Executive Committee

The Executive Committee (previously called Executive Board) is chaired by the Chief Executive. The Executive Committee was reconstituted following the Chief Executive's appointment and includes the Chief Digital Officer, the Chief Operating Officer, the Chief Risk Officer, the Head of Audit, the Head of Corporates, the Head of Consulting, the Head of Deals Advisory, the Head of Financial Services, the Head of KPMG Business Services, the Chief People Officer, the Head of Regions, the Head of Corporate Affairs, and the Head of Tax and Legal. At the same time, the Clients and Markets Executive was discontinued to simplify the governance in the Executive space. The Committees of the Executive therefore now comprise: Audit Executive, Operations Executive and Risk Executive. Together the Executive Committee and its sub-groups manage the day-to-day activities of the firm.

The Public Interest Committee

In accordance with the Audit Firm Governance Code, the firm has a Public Interest Committee (PIC), comprising Independent Non-Executives (INEs). We consider the INEs, not being otherwise connected with KPMG in the UK, to be independent. The Chair, upon recommendation of the People Committee and approval by the Board, appoints the INEs. They are chosen to provide specific insights considered to be relevant to the activities of the PIC and the development of the firm, including expertise in financial and corporate matters, governance and investor needs. Their appointments are for a fixed term of either two or three years. This may be renewed up to a maximum of three terms, or nine years. As at 30 September 2021, the PIC consisted of four members: Lord Evans of Weardale (Chair), Anne Bulford CBE, OBE, Oonagh Harpur and Kathleen O'Donovan and there have been no changes to membership during the year.

Members of the PIC attended the Board and the Board Committees during the year, including the Risk Committee, People Committee and Audit Committee, as well as the Audit Board in order to have greater visibility into the operations of KPMG in the UK and to share perspectives gained with fellow members of the PIC.

How our structure and governance supports audit quality

(continued)

KPMG has considered the Audit Firm Governance Code and the FRC's Ethical Standard in drawing up criteria for appointment of the members of the PIC. These criteria recognise the need for INEs to maintain appropriate independence from the firm and its partners and have due regard to the impact of any external financial and business relationships held by the INEs on the firm's independence of its audited entities. Our INEs are not considered to be part of the chain of command for the purposes of auditor independence requirements. In addition, none of them hold board or senior management positions at entities that we audit which are Public Interest Entities. Although they may vote on recommendations as a PIC, they do not carry votes on the Board or its Committees. They are, as a condition of their appointment, under a continuing obligation to disclose any matters which may constitute a potential conflict of interest as soon as they become aware of them.

The annual remuneration of each Independent Non-Executive (including each Audit Non-Executive) is £100,000. The Chair of the PIC and Chair of the Audit Board each receive an additional amount of £25,000 in respect of chairing duties. Oonagh Harpur received an additional amount of £30,000 to reflect her additional work as an INE during the year that required further time commitment.

To support the INEs in discharging their role, the firm provides them with:

- An Executive Lead to help them in navigating the business and discharge their duties under the Code.
- Secretarial support.
- Any information they require about the firm's business to discharge their duties.
- Access to independent professional advice at the firm's expense where judged necessary to discharge their duties.
- Engagement Programmes with colleagues and partners.

Reports on the activities of the Boards and the other committees can be found as follows:

- The Board (page 18)
- The Public Interest Committee (page 20)
- The Audit Board (page 22)
- The Audit Committee (page 24)
- The People Committee (page 25)
- The Risk Committee (page 26)

Communication with partners as members of KPMG LLP

The Chair and Chief Executive, together with members of the Executive Committee have primary responsibility for communication with the partners in the UK. They use different channels to do this, including face-to-face meetings and roundtables (which have been held virtually during the pandemic), regular emails on internal, external and operational matters, and calls/webinars.

There are monthly calls held with the partners, ensuring a timely briefing to partners on key issues and providing the opportunity for two-way feedback.

Where there is an immediate need to communicate matters then an all-partner email is used or, exceptionally, conference calls are convened. In addition, all members are invited to an annual partner conference to discuss a range of topics including the firm's results and business planning. Due to the pandemic, this was turned into a virtual event.

Report on the Board's activities during the year

The main areas of focus have been continued oversight of the firm's response to COVID-19, operational separation of the firm's Audit practice, separation of the role of Chair and Chief Executive and continued focus on improving audit quality.

Our role

The Board oversees the long-term stewardship of the firm and the accountability of management, approving a strategy which fulfils the firm's public interest responsibilities and is aligned to our vision and our long-term values and purpose. In doing so, the Board seeks to balance the interests of various stakeholders in order for the firm to have a successful and sustainable future.

UK Board in numbers

Nine members⁷ comprising:

- Chair (also the Senior Elected Member).
- Chief Executive.
- Five additional Elected Members.
- One Nominated Member.
- One additional Executive Member.
- Ten regular meetings, twenty-four ad-hoc meetings and seven extraordinary meetings in FY21.

Our priorities for 2022

In 2022 we will continue to oversee and monitor:

- Stewardship of the firm and the accountability of leadership, with emphasis on audit quality.
- The strategic direction of the firm in its multi-disciplinary model and its alignment to its Trust and Growth strategy.
- Financial and investment performance to deliver the three-year business plan.
- The firm's culture, setting the tone from the top on culture and ethics.
- The firm's Environmental, Social and Governance strategy.
- The quality of our relationship with our regulators and our response to regulatory matters.

We shall also act on relevant recommendations of our triennial independent Board effectiveness review.

⁷ As at 30 September 2021.

Report on the Board's activities during the year

(continued)

Setting strategic direction and maintaining oversight

During the year the Board's key activities have included:

- Maintaining oversight of the Audit Quality Transformation Programme and its effectiveness.
- Overseeing the sale of the firm's Restructuring Business.
- Overseeing the firm's People and Inclusion Diversity and Equity (IDE) strategy, including the launch and implementation of the Black Lives Action Plan.
- Monitoring the firm's relationship with its regulators.
- Monitoring the culture and associated programmes which support the firm's Trust and Growth strategy.
- Oversight of the development of the Enterprise Risk Management Framework and consideration of the effectiveness of risk management and internal controls.
- Appointing an external advisor to lead on the triennial independent Board effectiveness review.
- Monitoring the firm's preparation for Operational Separation of the Audit practice.
- Monitoring the firm's response to the COVID-19 pandemic.
- Approving material decisions as regards the firm's response to regulatory matters.
- Oversight of lessons learnt and trends emerging from enforcement matters.
- Approving the Partner Capital allocation following the sale of the Restructuring Business.
- Overseeing the firm's role as a member of the global KPMG organisation.
- Overseeing financial and investment performance.
- Overseeing the implementation of the integrated partner design and the refresh of our employee value proposition.
- Overseeing the launch of Our Impact site and ESG metrics.

The Board has been supported in its oversight by specific Board committees (People Committee, Audit Committee and the Risk Committee) and by the Audit Board and receives regular reports from each. In addition, the Board benefits from valuable challenge and input from the Public Interest Committee and its members, the Independent Non-Executives.

Responding to consultations

The Board has overseen the firm's engagement and response to the:

- Business, Energy and Industrial Strategy Consultation into Restoring Trust in Audit and Corporate Governance.
- FRC's Objectives and Principles for Operational Separation of large firms' Audit practices.
- FRC's consultation on proposed reforms to the Audit Enforcement Procedure.
- FRC's Audit Firm Governance Code Consultation.

Bina Mehta
Chair

Report on the Public Interest Committee's activities during the year

The Committee's activities during the year focused on the oversight of the firm's policies and processes for meeting the principal objectives in the Audit Firm Governance Code (AFGC), engagement with the regulator, external investors and other stakeholders and oversight of key initiatives from a culture perspective.

Our role

The purpose of the Public Interest Committee (PIC) is to provide independent oversight of the firm's policies and processes for the core objectives defined within the AFGC:

- Promoting audit quality.
- Securing the firm's reputation more broadly (including its non-audit businesses).
- Reducing the risk of firm failure.

Our areas of oversight

During the year the areas which the Committee exercised oversight included:

- Audit quality.
- The future of audit and the profession.
- The implementation of operational separation.
- Risk management (incl. financial crime).
- Reputation.
- People and culture.
- Ethics and non-financial misconduct.
- Financial resilience.
- Environmental, Social and Governance issues.
- FRC and investor engagement.

These include our priorities in the 2020 Transparency Report. See page 11 for the report on the Public Interest Committee's activities which includes details of our activities in relation to audit quality, the future of the audit and operational separation.

Public Interest Committee in numbers

- Four members.
- Four formal meetings and two ad-hoc meetings during FY21.
- Regular attendance from the Senior Elected Board Member, Chair of the Audit Board, Head of Audit, Head of Audit Quality, Chief Risk Officer, General Counsel and Ethics Partner. The UK Chair and the Chief Executive also attend for specific sessions.

Our priorities for 2022

In 2022 our priorities include:

- Developing our ways of working with the new ANEs.
- Oversight of the commitments made by the firm to the FRC in relation to audit quality.
- Consideration of any requirements of the proposed revised AFGC.
- Consideration of the impact of hybrid working.
- Other firm-wide public interest issues, including significant legal and regulatory matters, ESG, network risk, contracts with government and the People and IDE Strategy and firm-wide culture.

Report on the Public Interest Committee's activities during the year

(continued)

Our engagement activities

Throughout the year we have continued a programme of virtual engagement with the firm. We have done this in a number of ways:

- Attending the Board, Risk Committee, Audit Committee, People Committee and Audit Board meetings throughout the year.
- Frequent meeting with Board and Executive Committee members and key management to discuss their views and concerns.
- A virtual site visit to the South region offices, engaging with the partners, the Shadow Boards, the Ethics Champions, the network groups including the KPMG Network of Women, the African and Caribbean Network, Breathe and WorkAbility.
- Roundtable events with audit directors and senior managers to understand the challenges they face.

We also continued to engage with the global network, including sharing best practices with other independent non-executives within the KPMG global network. Jonathan Evans met with KPMG Netherland's Chair of the Supervisory Board, Bernard Wientjes, during 2021.

The firm provided updates throughout the year on their engagement with the investor community and the INEs provided feedback, insight and strategic direction of how the firm engages with investors further. We believe that this is an important programme, helping KPMG to understand the evolving needs of the core users of the audited financial statements. The INEs met with the Audit Committee Chairs' Independent Forum (ACCIF) and also attended, and presented at, KPMG's Annual Audit Review, which was attended by Audit Committee Chairs, Finance Directors, investors and the regulator.

INE engagement

- Held 86 bilateral meetings with senior executives.
- Attended over 70 Committees and Board meetings.
- Met with over 100 employees within the business.

The firm's financial resilience and risk management framework

Consistent with previous years we have focused on the firm's financial resilience and risk management. We have done this by:

- Attending the Risk Committee and Audit Committee.
- Reviewing the firm's strategy and financial performance, including investments in strategic changes.
- Obtaining updates on key legal and regulatory matters.
- Obtaining updates on the impacts of COVID-19 on the firm, and the plan to manage any challenges in relation to this.
- Reviewing the firm's internal controls and progress on implementing the International Standard of Quality Management (ISQM1).

People and culture

As a business, KPMG is dependent on its people making the right choices and the culture of the organisation, driven by consistent tone from the top, makes a significant difference here.

During the year we have received updates from KPMG's Chief People Officer and one of our INEs, Oonagh Harpur, attends the People Committee meetings, to provide expert advice and challenge. In addition, the Ethics Partner attends all PIC meetings, including a private session to ensure there can be open and transparent communication. Oonagh Harpur also presented at the FRC's first Culture Conference during the year.

We also advised the firm on their new governance arrangements and were part of the panels in a non voting capacity to appoint to senior positions within the firm, including the Chief Executive and the Head of Audit, as well as the new ANEs.

Jonathan Evans

Chair of the Public Interest Committee

Report on the Audit Board's activities during the year

The Audit Board oversees and monitors the Audit practice, with an emphasis on audit quality, and the interaction of the Audit practice with the rest of the firm. In September 2021, the Audit Board was reconstituted and the Board appointed three independent non-executives (Audit Non-Executives or ANEs) to provide independent challenge to KPMG Audit to ensure the firm discharges its public interest responsibilities.

Our role

The Audit Board oversees the Audit practice and makes recommendations to the Board on the adequacy of the firm's approach for meeting the principal objectives in the Audit Firm Governance Code as they relate to the Audit practice. It reviews the firm's responsiveness to challenges in the audit profession specifically in relation to audit quality, actual or perceived conflicts of interest, independence, and regulator objectives and principles of Operational Separation. The Audit Board also oversees the strategy, internal investment needs of the Audit practice and the response to audit-related regulation. By doing so, it ensures that the firm discharges its public interest responsibilities.

Audit Board in numbers

- Five members, including three ANEs⁸.
- Eight regular meetings, three ad-hoc meetings.

Areas of oversight

During the year, the Audit Board maintained oversight of the following in respect of the Audit Practice:

- The response of the Audit business to new hybrid working arrangements.
- The Audit Quality Plan⁹.
- Risk management.
- Key quality and performance indicators.
- Engagement with the FRC, including in relation to supervision under AFMAS as well as lessons and trends emerging from enforcement matters.
- Topics related to the Audit reform agenda.
- KPMG Clara workflow deployment.
- The firm's portfolio of audited entities and tendering approach.
- Financial performance.
- People matters including learning and development, promotions, wellbeing, the Black Lives Action Plan, culture and retention.
- Policy and processes for Audit partner promotion and remuneration through the Remuneration Committee of the Audit Board.
- Development of the Audit practice's three-year strategy.
- Investments in the Audit practice.
- The appointment of the Head of Audit.
- The performance of the Head of Audit and the Audit Executives.

⁸ As at 30 September 2021.

⁹ Previously called Audit Quality Transformation Programme.

Report on the Audit Board's activities during the year

(continued)

Our priorities for 2022

In 2022 we will:

- Continue to focus on the firm's improvement of audit quality through oversight of the implementation of the Audit Quality Plan, the delivery of the Banking Audit Quality Improvement Plan and providing independent and constructive challenge.
- Monitor the deployment of the new digital platform for executing audits, KPMG Clara workflow.
- Monitor the firm's response to the results of external and internal audit quality reviews.
- Oversee Audit partner promotion and remuneration at the Remuneration Committee of the Audit Board.
- Monitor the Audit practice's focus on the attractiveness of the profession, and improving the wellbeing and job satisfaction of our people.
- Engage with partners and employees in the Audit practice on key matters such as audit quality and culture.
- Continue to oversee the operational separation of the Audit practice.
- Monitor the firm's implementation of ISQM1 requirements.
- Continue to oversee the firm's engagement in the FRC's Audit Firm Monitoring and Supervision regime (AFMAS).

Primary focus: audit quality

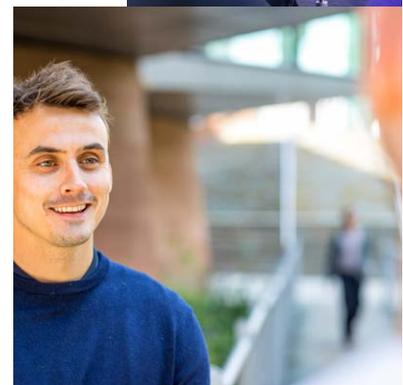
The Audit Board's activities focused on the assessment and monitoring of the Audit Quality Plan, investment in audit quality, including technology and people development, culture plan, future of the audit profession, building capacity to deliver and monitor quality audit work and interactions with the Audit Quality Review team at the FRC. During the year two representatives from the FRC joined one Audit Board meeting.

Audit Board Remuneration Committee

A Remuneration Committee of the Audit Board comprising the Audit Non-Executives was established on 30 September 2021. The Committee will provide oversight in accordance with the FRC's principles of operational separation of the policy and processes for Audit partner promotion and remuneration, including their implementation.

Claire Ighodaro CBE

Chair of the Audit Board



Report on the Audit Committee's activities during the year

One of the main areas of focus has been overseeing the process of the preparation of the firm's financial statements and monitoring the effectiveness of internal controls.

Our role

The purpose of the Audit Committee is to assist the Board in its oversight of the integrity of the LLP's financial reporting, including supporting the Board in meeting its responsibilities regarding financial statements and the financial reporting systems and internal controls, as well as treasury matters.

The Committee also oversees the relationship with our statutory auditors (including recommending their appointment, removal and remuneration as well as monitoring their independence and effectiveness) and reviews the effectiveness of the group's internal audit function.

Audit Committee in numbers

- Three members.
- One INE in attendance.
- Three regular and one ad-hoc meeting.

Internal audit

The Committee undertook its annual review on the effectiveness of Internal Audit, which includes Internal Audit's conformance with the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, including the IIA Code of Good Practice. In undertaking this review, the Committee drew on an external quality assessment, which confirmed that Internal Audit generally conforms with all expected standards. Internal Audit looks for feedback on its work, and reports on service standards and continues to maintain its continuous improvement programme. The Committee will continue to retain oversight of the performance of the service.

The Committee also reviewed the Internal Audit Charter which sets out the mission, authority and responsibility of the Internal Audit function within KPMG. The Committee annually approves the internal audit plan and monitors its progress over the year as well as reviewing the resulting internal audit reports and management's action plans in response to recommendations.

Our priorities for 2022

In 2022 we will:

- Continue to exercise governance over internal controls to comply with the requirements of the Audit Firm Governance Code.
- Oversee the governance of the programme to implement the requirements of ISQM1.
- Consider the key accounting policies and judgement in the financial reports.
- Oversee the preparation of a separate profit and loss account for the Audit practice, within the context of our plan to achieve operational separation in accordance with the FRC's objectives and principles.
- Consider the firm's activities and performance relating to ESG matters.
- Oversee and review the work of KPMG's internal audit department.

Financial statements and year-end matters

During the year, the Committee considered accounting policies and significant judgements relating to the external audit including the impairment of intangibles, professional indemnity provisions, contract reviews, revenue recognition and lease accounting. The Committee reviewed management evidence to support the Board's statement on the effectiveness of internal controls and independence to satisfy the requirements of the Audit Firm Governance Code.

Anthony Lobo

Chair of the Audit Committee

Report on the People Committee's activities during the year

One of the main areas of focus has been monitoring the ongoing people implications of COVID-19 alongside Environmental, Social and Governance (ESG) and Inclusion, Diversity and Equity (IDE). The Committee also formed an Extended Nominations Committee which oversaw the Chief Executive election process.

Our role

The purpose of the People Committee is to assist the Board through its oversight of the implementation of the firm's People strategy, retention of that talent and the firm's culture incorporating inclusion, diversity and ethical health. The Committee oversees policies and practices associated with the strategy, reviewing them for consistency with the firm's values, prescribed culture and inclusion and diversity objectives. In addition, the Committee provides oversight of the processes for the appointment of senior leadership positions, INEs and ANEs.

- Development of policies and processes in relation to culture and behaviour.

The Committee also monitored data to assess the culture and ethical health of the firm and the effectiveness of interventions to support improvements.

People Committee in numbers

- Three members.
- One INE in attendance.
- Eleven regular meetings and two special meetings in FY21.

Areas of oversight

During the year the Committee oversaw:

- People implications of the transition to hybrid working.
- Wellbeing.
- The ongoing implementation of Our KPMG (the employee value proposition).
- Development of the integrated Partner Design Model and the process of changing the partner bandings¹⁰.
- Policies and programmes to promote inclusion and diversity across the business, including the Black Lives Action Plan and progress towards achieving the IDE targets.
- Leadership succession planning.
- Culture levers and associated programmes.

Our priorities for 2022

In FY 2022 we will focus on:

- Our talent strategy.
- Culture and behaviours.
- Inclusion, diversity and equity.
- Health, wellbeing and hybrid working, particularly the return to the office.
- Overseeing the development of partner bandings and reward principles to recognise in-year performance and to support the firm's long-term business strategies and values.
- Overseeing and implementing the new partner model and the changes to performance management.

Leadership changes

Following the resignation of the Senior Partner, the Committee formed an Extended Nominations Committee (comprised of the three members of the People Committee and two additional members of the Board). The Extended Nominations Committee oversaw the Chief Executive election process and was attended by the Chair of the Public Interest Committee.

Melissa Geiger

Chair of the People Committee

¹⁰ Further details on partner remuneration is included on page 35.

Report on the Risk Committee's activities during the year

The Committee's activities have focused on reviewing and overseeing the ongoing transformation of the firm's Enterprise-Wide Risk Management Framework as well as monitoring application of the Board-approved risk appetite.

Our role

The purpose of the Risk Committee is to assist the Board in its oversight of current risk exposures and its determination of risk appetite and risk strategy. The Committee also oversees the effectiveness of the firm's risk management framework, the prevailing risk culture in the organisation, the firm's capability to identify and manage new risk types and the adequacy of risk and assurance resources for first, second and third lines of defence.

Risk Management Framework

The Board has delegated to the Committee responsibility for the strategic oversight of an extensive programme to transform the firm's risk management arrangements, under the leadership of the Chief Risk Officer. This programme has included review of the following key areas:

- Establishing firm-wide and Capability-level risk appetite, against a revised risk taxonomy.
- Oversight of a target operating model for the risk function, and associated resource requirements.

Areas of oversight

During the year the Committee oversaw:

- Key risks, including reputational risk matters.
- Hybrid working model and investment.
- The data strategy, including information security.
- Compliance, whistleblowing and fraud.
- The regulatory engagement plan.
- Ethics and independence.
- Risk Compliance Programme results.

On a quarterly basis the Chief Risk Officer provides a comprehensive report to the Committee covering progress made or issues identified in key risk areas.

Risk Committee in numbers

- Four members.
- One INE in attendance.
- Ten regular meetings, one special meeting in FY21.

Our priorities for 2022

In 2022 we will:

- Continue to monitor and oversee the effectiveness of the Enterprise-Wide Risk Framework.
- Continue to oversee the development of the firm's risk appetite framework and controls in place to ensure the business is operating within that appetite.
- Agree the risk maturity of the firm and oversee the development of that maturity through the associated risk operating model.
- Continue to scan the horizon for emerging risks, evaluating their potential impact and available mitigations.
- Review the risk appetite and tolerance of the firm in light of new investments.

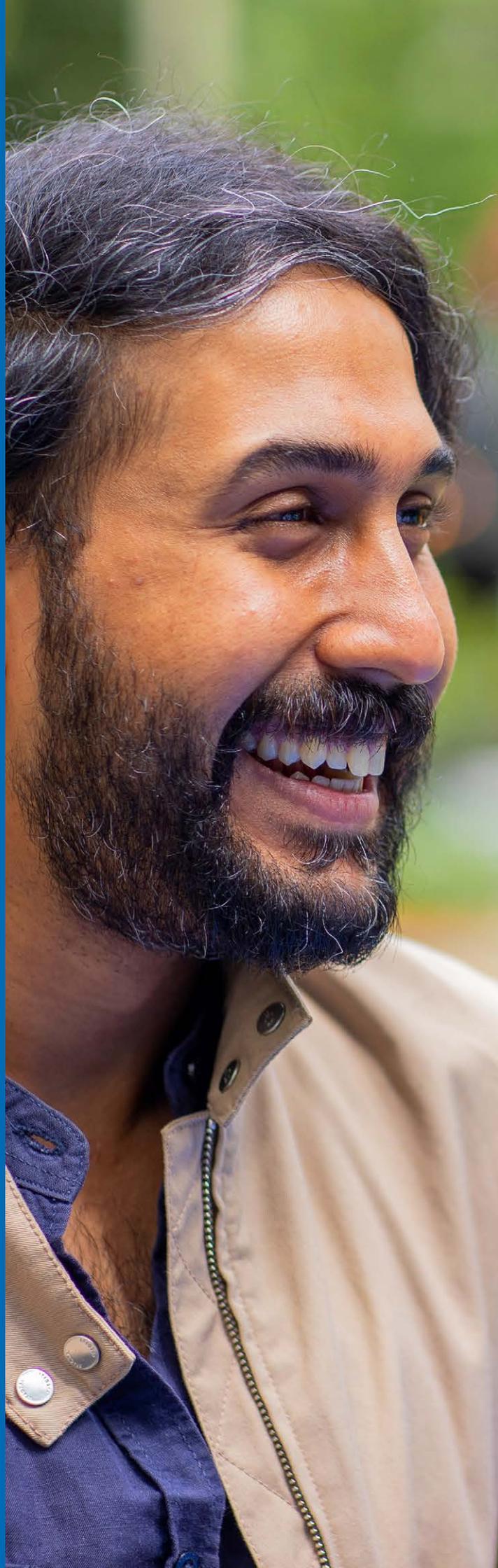
Linda Main

Chair of the Risk Committee

Section 3

People and culture in our Audit practice

Our culture in Audit is founded on Our Values, driving an environment of high challenge and high support; demonstrating open dialogue and constructive challenge with a focus on reducing risk, improving audit quality and providing rewarding careers.



People and culture in our Audit practice in numbers

Diversity



Women in Audit
47% (↑2%)



Audit colleagues from an ethnic minority background
35% (↑6%)

Recruitment & promotions



Student hires
837 (↑13%)



Promotions
895 (↑20%)

Culture



Favourable employee survey responses to the importance of professional scepticism
88%¹¹



Senior managers and managers to have completed coaching training to date
91% (↑3%)

Firm-wide external awards



Times Top 50 employers for women for the 11th consecutive year



Disability Confident Leader Status for a further 3 years from the Department of Work and Pensions



49th in Stonewall's Top 100 Employers 2020, for the best employers in the UK for lesbian, gay, bisexual and trans staff



National Undergraduate Employability Awards Top 100 Undergraduate Employers



10th in Universum's Most Attractive Employer Ranking for Business Students in the UK



Ranked 2nd in the Social Mobility Employer Index

11 No comparative data available for FY20.

People and culture in our Audit practice

There's a clear link between culture and audit quality: when auditors are confident to give and receive constructive challenge and show professional scepticism, they're more likely to speak up when they have concerns. Our aim is for all colleagues to feel they are in a safe, open and inclusive environment, where they have the support they need to do high-quality work.

We're working hard to instil a culture of high challenge and high support for our people, as we continue to drive our culture change programme that began in 2020.

We've made significant progress, with emerging evidence from feedback and workshops within the business that colleagues are thinking and acting differently. But we recognise that cultural change takes time. We know there is more to do in building ownership and accountability at a local level.

Our focus has been to continue to share and embed our culture ambition. We have developed significant supporting resources that we use for this purpose, demonstrating good practices and expected behaviours, and making it relevant and real for all colleagues.

Our culture ambition

To create a culture of high challenge and high support across Audit – one where we deliver high-quality work, fulfil our public interest role, and ensure the role of auditors is highly valued, giving us engaging and rewarding careers.

//

I am proud of how my team has fostered a collaborative, supportive working environment, not only to drive high quality, but also to promote knowledge-sharing, learning, growth and equal opportunity for all team members. //

Darren
Audit Director



In this section, we will cover:

Building an audit culture that supports high-quality audits
page 30



How we instil a culture of high challenge and high support for our people.

The recruitment and development of our people
page 34



Driving quality through people allocation and fair opportunity.

Measuring our progress
page 37



The sources of information we use to measure our progress.

Building an audit culture that supports high-quality audits

Our commitment to culture starts at the very top of our firm, with leadership demonstrating and communicating a commitment to quality, ethics and integrity. Our culture in our Audit practice is founded on Our Values, driving an environment of high challenge and high support; demonstrating open dialogue and constructive challenge with a focus on reducing risk and improving audit quality.

Culture underpinned by Our Values

Our Values define our culture. They are key to who we are and how we act. Following a global refresh of Our Values in 2020, we have continued to incorporate and integrate them into key aspects of everyday work including appraisals, performance development and training, and recognition and reward.

Our leadership communications echo the firm's Values and bring them to life for colleagues. Last year, we agreed additional emphasis on what Our Values mean with our Global Audit Steering Group, so that auditors are able to interpret and use them to demonstrate professional scepticism.

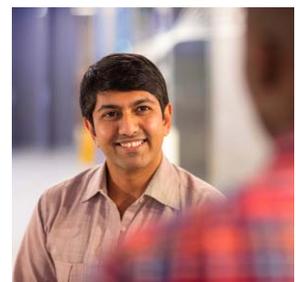
Leadership accessibility

We are committed to ensuring colleagues have the opportunity to share their views with our firm's leadership. As a continuation of a process started in 2020, some of our most senior leaders, including our Chief Executive, Chief Risk Officer, Chair of Audit and Head of Audit, have met regularly with colleagues at 'open forums'. These are hour-long, small group sessions with no set agenda: colleagues are free to ask our firm's leadership anything. In addition, we have created a programme of informal sessions with Catherine Burnet, Head of Audit – 'Chat with Cath'. These chats, which are open to all audit colleagues, have received positive feedback and covered a wide range of issues from talent retention and development to the use of technology and regulatory developments.

Engagement leaders are also held to account through a variety of measures including performance management, 360 degree feedback, and through our coaching survey. Our open feedback approach is helping us build a strong culture from the bottom up as well as the top down, enabling us to learn from collective views across the Audit practice.

Our Values

- **Integrity:** we do what is right.
- **Excellence:** we never stop learning and improving.
- **Courage:** we think and act boldly.
- **Together:** we respect each other and draw strength from our differences.
- **For Better:** we do what matters.



Building an audit culture that supports high-quality audits

(continued)

Bringing independent oversight

Our Audit Board provides oversight over our strategy and monitors our progress. In addition, our Public Interest Committee (PIC) brings independent oversight and has a close interest in our culture. Refer to Section 2 for more information on our PIC.

Members of the PIC receive quarterly updates from our Ethics Partner on the number of cases reported to our Speak Up hotline (whistleblowing), which is run by an external ombudsman, as well as matters that are reported to our Ethics Champions – colleagues based at each of our UK offices who are available should colleagues wish to discuss ethical concerns. In the year to 30 September 2021, there were over 120 Ethics Champions nationwide who helped colleagues with 193 concerns they wished to raise. We are pleased to see that our people also continue to use the Speak Up hotline where 48 separate matters were reported (FY20: 57).

In addition, the Audit Evolution Board acts as a sounding board for the wider business, leading on initiatives that contribute to improving audit quality, our culture of trust and professional scepticism. The Audit Evolution Board was formed in June 2020 and its members range from graduate trainees to senior managers. That variety of seniority brings diversity of thought and experience to the attention of senior leadership.

//

We are embedded in the culture change team and provided feedback on culture activities. We have identified specific barriers and researched how best to overcome them. The culture team has been very welcoming of our perspective and together we are working towards meaningful change. //

Dinah

Audit Evolution Board member

The Audit Evolution Board

- **Role:** Provide challenge, diversity of thought, new insight and recommendations to matters discussed by the Audit Board.
- **Membership:** 12 individuals from a range of Audit departments, locations and grades (from Graduate to Senior Manager) and one non-Audit member.
- **Primary focus:** Supporting transformation to improve audit quality.
- **Other areas of contribution:** the firm's Audit culture strategy, hybrid working, the ESG agenda and the Black Lives Action Plan.

Building an audit culture that supports high-quality audits

(continued)

Practical tools and resources to create culture change on the ground

We have placed a high emphasis on making our culture ambition 'real' through developing practical tools and providing resources and events that help our colleagues understand and apply it in practice.

Our progress in 2021:

- Identified our culture strengths and areas of focus through CultureScope, a culture measurement tool.
- Delivered training on Our Code of Conduct at an all-colleague event.
- Created a culture toolkit consisting of culture playbooks, challenge and support videos, iconography and branding that is consistently being used in our leadership communications and training materials.
- Continued to embed Our Values and culture ambition across firm-wide activities, policies and processes.
- Developed 'Think, Feel, Do' statements that make it real on what our culture ambition means for our people and how they can contribute to the strategy through everyday behaviours.
- Shared practical actions and insights to support personal wellbeing and build resilience in individuals and teams.

Our focus on coaching continues with coaching training now part of business as usual. 99% of Partners and Directors and 91% of Managers and Senior Managers have completed coaching training, and online training has also been developed for more junior team members.

We carried out a coaching survey in May 2021 and received 1,765 responses. 79% of respondents see the teams they work with demonstrate a strong culture of coaching on audit quality and 76% believe coaching is seen as an important part of their development by senior team members. Positive feedback confirmed that there is a good coaching culture demonstrated across grades and performance groups. The survey also tells us that we must continue to focus on coaching as a core competency.

Training and speaker programme

These activities have been reinforced through a wide range of training and speaker programmes, including:

- Auditor training now has a module specifically on a culture of challenge.
- Fraud Awareness Week was held in November 2020, and focused on professional scepticism and challenge of management. Over 6,500 people participated.
- Audit Support Week was held in March 2021, and culminated with a Wellbeing Day for colleagues to take time away from their desks. Almost 9,000 people from both Audit and the wider firm participated.

Building an audit culture that supports high-quality audits

(continued)

Maintaining quality and culture in a hybrid working model

Looking ahead, one of the key features of the working landscape – within the Audit practice and more broadly across KPMG – will be hybrid working.

No one expected the devastating effects of COVID-19. The pandemic made us realise that nothing is more important than our health, wellbeing and those close to us. It also helped us see that traditional offices could be radically changed to support more collaborative activities – allowing colleagues to deliver other types of work in different locations. We are positively embracing this once in a generation moment of change for greater flexible working. This is enabling us to break down geographical barriers, ensuring better allocation of relevant skills and experience to engagements, and to innovate through the use of virtual audit rooms.

Hybrid working will see us split our time across audited entity sites, third-party sites, KPMG offices and home. Time in the office will be focused on collaborating, learning, building communities and team working, and we are redesigning our offices to facilitate this.

Before we formally introduce our new hybrid ways of working, we have first embarked on a 'Reconnection Phase.' This is all about trialling activities and planned ways of working to gauge their suitability for individuals, teams and our audited entities before moving to a fully hybrid model.

//

Audit Support Week was a really useful and enjoyable week of sessions. I have taken so much from them that I can apply in every aspect of life. //

Feedback from our external speaker series



The recruitment and development of our people

Culture and Values are key to audit quality and the right degree of challenge. But we also know that it is critical to provide our people with relevant experience and the opportunities to develop their skills.

Personal development and performance evaluation

We continue to place a strong emphasis on the personal development, performance management and fair reward of all colleagues within the Audit practice.

Our Open Performance Development framework supports partners and colleagues when thinking about career aspirations, progression and personal development needs via regular performance conversations and ongoing feedback from those they work with.

There is a clear focus on setting stretching goals and investing in annual performance reviews to help identify high performers who have the potential to take on more senior or complex roles. High performers are further developed through coaching and mentoring on the job, rotation opportunities, internal and global secondments and talent programmes.

We have reward and promotion policies that are clear, simple, and linked to performance evaluation processes so that our people know what is expected of them and what they can expect to receive in return.

Audit Quality is a key element of our performance evaluation, reward and promotion processes.

Partner admissions

Our process for admission to partner is rigorous and thorough for both internal promotes and external hires. This includes a business and personal case for the individual candidate as well as an independent psychometric assessment. Our key criteria for admission to partner are consistent with a commitment to professionalism and integrity, delivering high-quality audits and being the best choice for the entities we audit and our people.

In our Audit practice, we recruited one partner from the external market and promoted 10 from within the firm. Females accounted for 20% of the partners promoted from within the firm.

Driving quality through people allocation and fair opportunity

One of the key drivers of quality is making sure we assign people with the right level of skills and experience to the right engagements. This requires a focus on recruitment, development, promotion and retention of our people and the development of robust capacity and resource management processes.

We have procedures in place to assign both engagement leaders and other professionals to a specific engagement based on their skills, relevant professional and industry experience and the nature of the assignment or engagement. Key considerations include experience, accreditation, training and capacity in view of the size, complexity, industry and risk profile of the engagements and the type of support to be provided. This may include involving local specialists or those from other KPMG member firms. We know that getting this right also has a huge impact on the opportunities and career development of our colleagues from historically under-represented groups. We ensure that engagements and projects are allocated fairly.

Recruitment

All candidates follow a thorough selection process which, depending on the role, includes:

- Application screening.
- Competency based interviews.
- Psychometric and ability testing.
- Fit and proper checks.
- Qualification and reference checks.

Upon joining the firm new joiners take part in an induction programme which includes training in areas such as: Ethics & Independence, Quality and Risk Management principles, engagement management and people management procedures.

The recruitment and development of our people

(continued)

Basis of partner remuneration

The remuneration model drives and rewards behaviour consistent with our strategy and values, reflects an individual's performance over time as well as current in-year performance against their goals.

During FY21, Partner Bands and a Unit Based remuneration model were introduced across the partnership. The bands outline the expected impact and scale of sustainable contribution to the firm by our partners. There are five Partner Bands and expectations and complexity increase with seniority. The Partner bands also promotes clarity and transparency amongst partners as members of the LLP, regarding the expectations of them and their remuneration and that of other members.

Each member's Unit allocation is determined with reference to the Partner Band descriptors:

- Quality (as the primary factor within the Audit practice).
- Sustained performance.
- Market value of skill set.
- Individual capability.
- Leadership qualities and overall contribution to the group.

The LLP Partnership Agreement requires that a minimum of 75% of the group profits, excluding the results of certain overseas subsidiaries (adjusted group), must be allocated to members. The Board's discretion in respect of amounts not allocated is subject to a maximum retention of 25% of the accounting profits of the group for the period. Any proposal of the Board to retain more than 25% of the accounting profits of the group for the period is subject to a member vote.

During the year members receive monthly drawings and, from time to time, additional profit distributions. The level and timing of the additional profit distributions are decided by the Executive Committee, taking into account the partnership's cash requirements for operating and investing activities. Both the monthly drawings and profit distributions are reclaimable from members until the date on which profits are allocated.

Putting quality at the core of performance evaluation and remuneration

Audit quality is the most important metric for measuring the performance – and by extension, the reward – of audit partners and audit professionals. The Quality and Performance Matrix we use to assess an individual's performance looks at quality and how it interacts with other factors. Their overall rating depends on the interaction of both.

We use a quality scorecard to collate objective evidence of an auditor's performance. Evidence includes indicators from reviews and inspections, and feedback on the auditor's engagement with the quality process.

The Head of Audit Quality, Chief Auditor and Audit Risk Management Partner contribute to the assessment of performance in respect of risk and quality matters and this assessment is factored into the remuneration discussions for audit partners. The governance of this process is overseen by the Audit Board.

Auditors must be independent to do their jobs effectively. As such, everyone in the Audit practice, and staff from other areas of the firm that contribute to audit, are not evaluated, promoted or remunerated for the selling of non-audit services to companies we audit. There are no incentives for auditors to do this.

In 2021, 91% of our partner-to-manager group were awarded a quality rating consistent with no or only limited performance improvements necessary. The remaining 9% of individuals where more significant performance improvements were identified were provided with targeted improvement plans and goals.

The recruitment and development of our people

(continued)

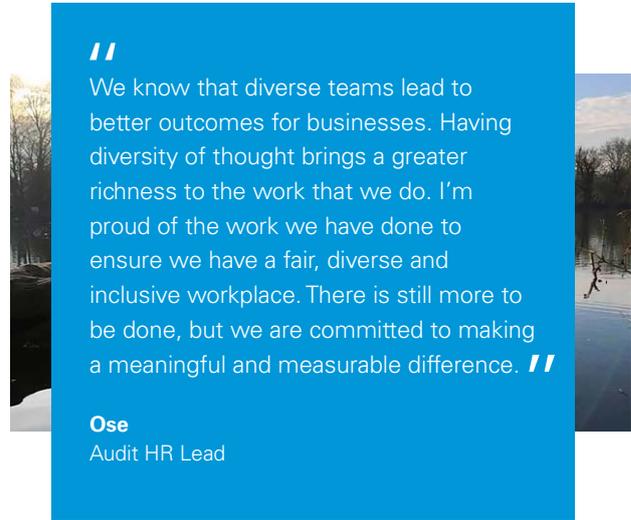
Inclusion, Diversity and Equity

Our trust and growth objectives are underpinned by an inclusive culture, which is critical to ensuring that we can thrive as a firm. We embrace and harness diversity of background, diversity of experience and diversity of perspective – as we recognise the value these bring to our organisation. We're committed to inclusion at every level and acknowledge the role of leaders in driving this from the top through their personal actions and behaviours.

Our Inclusion, Diversity and Equity strategy is underpinned by three clear objectives: Clear Accountability, Inclusive Leadership and Equality of Opportunity. As we work towards the four-year representation targets we set in 2018, we have already exhibited each of these objectives in our approach to making KPMG more inclusive. Our gender-balanced board, the publication of our Black Lives Action Plan, our Disability Confident Leader status, our top 50 ranking in the Stonewall Workplace Equality Index, and our long-standing commitment to improving social mobility are a testament to this. We are making good progress but we want to go further and faster, building on the important commitments we've already made.

Our Black Lives Action Plan has five key focus areas:

1. **Dedicated Resources** – Specific resource and sponsorship by a Senior Partner working in collaboration with our African & Caribbean Network and Black Heritage Working Group.
2. **Independent Expertise** – Market leading support and constructive challenge from external sources.
3. **Progression** – Supporting the development, engagement and progression of our black heritage colleagues.
4. **Education** – Expertly curated learning that translates into meaningful action.
5. **Leadership and Accountability** – Working together to live out our values and calling out behaviours that fall short.



“

We know that diverse teams lead to better outcomes for businesses. Having diversity of thought brings a greater richness to the work that we do. I'm proud of the work we have done to ensure we have a fair, diverse and inclusive workplace. There is still more to be done, but we are committed to making a meaningful and measurable difference. ”

Ose
Audit HR Lead

We promote a positive integration between work and life to encourage not only professional achievements but also to provide an environment that enables everyone, whatever their gender, ethnicity, sexual orientation, disability, socio-economic background, age or religion, to reach their full potential. We strive to be an employer of choice by ensuring that all our people are empowered to make decisions and feel proud and motivated to do their best. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and ways of working.

Our employee networks and calendar of events throughout the year help us engage all colleagues in conversation and drive action. We also recognise the importance of enabling people to work in the ways that best suit them so that high performance and increased engagement can lead to better service.

In 2020, we launched our Black Lives Action Plan and in 2021 launched our Black Heritage Talent Programme to support our colleagues in their career development.

We are a leader in pay gap reporting, having published our gender pay gap since 2015, our ethnicity pay gap since 2017, and publishing our 2020 sexual orientation, disability and Black heritage and 2021 socio-economic background pay gaps too¹².

¹² <https://home.kpmg/uk/en/home/about/our-impact/our-people/inclusion-diversity-and-equity/addressing-our-pay-gaps.html>

Measuring our progress

Measuring our progress is key to success. We continue to baseline and measure our culture on a holistic basis, using a variety of different sources of existing Management Information.

The sources of Management Information we use include:

- Our Global People Survey which gives colleagues from KPMG member firms an opportunity to express their views on a range of topics about life at KPMG. We use the responses to gather insight and identify issues that affect colleagues both locally and globally. We regularly update colleagues on the progress we are making against the focus areas in a newsletter called 'You Said, We Did'. You can read more about our results on page 52.
- Our Audit Listening Programme which gathers views from the entities we audit.
- 360 degree feedback where all colleagues are free to give feedback on managers and above which includes specific questions on our coaching and our 'high challenge, high support' culture.
- CultureScope, a culture measurement tool, to assess our current culture.
- Reports to our Speak Up hotline.
- Coaching surveys.
- Audit leaver feedback.
- Root Cause Analysis outcomes (to read more about this programme see page 45).

We also measure our culture through focus groups where we deep dive into the behaviours we need to focus on, to test the vision of what 'high challenge and high support' looks like and how we get there. During the year we held over 50 focus groups which were attended by nearly 400 audit colleagues

These inputs are helping us target our actions where they will have the greatest impact.

Listening to external feedback and challenge

An essential feature in both audit quality and culture change is gaining the perspective of external parties such as the entities we audit, and our regulator.

Through our Audit Listening programme, 81% of respondents at audited entities noted their satisfaction with the level of challenge KPMG provided in the execution of their audit on key estimates and judgements as a score of 4 or above out of 5.

Recognising our success

Through our Audit Quality Awards and also our People Awards, we have seen some excellent examples of individuals and teams living Our Values and setting the highest standards of professionalism and quality.

Our Audit Quality awards, which have been running for three years now, recognise and celebrate those individuals and teams who champion audit quality. We had approximately 500 good news stories linked to our culture goals. These stories are used across our Audit practice to continue to drive our culture ambition of 'high challenge, high support' and demonstrate expected behaviours. Audit Quality Award categories included audit team of the year, coach of the year and culture ambassador.

The People Awards are a firm-wide awards programme celebrating our people and what they've achieved. The awards were a chance for us to recognise the colleagues and teams who exemplified Our Values and the incredible impact they have. 27 individuals and teams in our Audit practice were recognised in the 2021 People Awards.

Quotes from the firm's People Awards about our colleagues in Audit

Courage: "Prepared to be brave"

Integrity: "Commitment to do the right thing"

Together: "Delivering excellence in a supportive way"



Measuring our progress

(continued)

Our plans for 2022

We're committed to delivering on our strategic plans and we will continue to focus on the following for FY22:

- Measuring culture success and delivering insights through existing Management Information such as CultureScope.
- Driving engagement locally to embed our 'high challenge, high support' culture.
- Bringing different perspectives to broaden horizons through our internal and external speaker series.
- Developing Career Pathways for our auditors so that they have a meaningful, varied and challenging career within the Audit practice.
- Continuing to deliver against our Inclusion, Diversity and Equity strategy as well as our Black Lives Action Plan, with clear and tangible actions to meet our targets.
- Keeping a focus on talent management and investing in our people so that they continue to grow, develop, coach and support others.

All the above are direct investments in driving audit quality through our culture and our people to ensure that we have auditors who are talented, have the confidence to challenge with the support to do so, lead varied careers and have diversity of thought.

Nominations from our Audit Quality Awards:

//

The team puts forward innovative ideas on ways to improve the culture and how teams can be supported in coaching and for wellbeing. //

//

My manager realises the value that comes from all team members voicing their questions and ideas, and this has helped to improve the work we deliver. //

//

My Audit Senior goes out of their way to make sure the team are supported through effective coaching to help teams develop solutions to deliver a high-quality audit. //



Section 4

Audit quality

Audit quality is our number one priority, and we are committed to delivering consistently high-quality audits.



Audit quality in numbers

External monitoring



Audit engagements rated 'good or limited improvement required' by the FRC's AQR

59% (↓2%)



FTSE 350 audit engagements rated 'good or limited improvement required' by the FRC's AQR

75% (↑17%)



Audit engagements rated 'good or limited improvement required' by the ICAEW's QAD

100% (↑10%)

Internal monitoring



Unsatisfactory rating in internal Quality Performance Reviews of audit engagements

13% (↓1%)



How the entities we audit rate the level of challenge by KPMG in the execution of their audit

4 out of 5¹³



Average number of mandatory training hours completed by our people

114 (↑93%)¹⁴

Employee survey



Respondents who say our commitment to quality is apparent in what we do on a day-to-day basis

81% (↓7%)



Respondents who say they have access to the tools and resources they need to do their job effectively

80% (↑32%)



Respondents who say they are satisfied with the learning and development available to improve their knowledge and skills

70% (↓3%)

¹³ No comparative data available for FY20.

¹⁴ The increase is largely driven by the timing of KPMG Audit University in 2020 which was delayed due to the pandemic, and the increased training in 2021 to roll out the new KPMG Clara workflow.

Quality remains our top priority

Audit quality is fundamental to maintaining public trust and is essential to the effective allocation of capital around the globe. We have an unwavering commitment to serve the public interest and have made significant investments to consistently deliver high-quality audits. However, we know we need to continue to do more to improve our external regulatory review outcomes. In particular, we are urgently addressing our banking audit regulatory review results through a comprehensive Banking Audit Quality Improvement Plan.

Our audit quality transformation journey

We have been transforming our Audit practice – to create a sustainable standalone business, built on innovation and technology, with high audit quality as standard.

From 2018 to 2021, we implemented a three-year Audit Quality Transformation Programme, backed by record investment from the firm. Almost every aspect of our business was re-engineered. We:

- Strengthened our governance.
- Embraced operational separation.
- Implemented more robust controls.
- Standardised the way we execute audits.
- Invested in leading technology.
- Led the way by discontinuing non-audit services to the entities we audit ahead of regulatory requirements.
- Initiated a cultural change programme.
- Refreshed our approach to training and established our annual KPMG Audit University.

Moving from a period of transformation to targeted improvement

Our continued drive and investment have resulted in improvements to our audit quality scores for FTSE 350 audits. But our audit quality results across the board have not been as consistently strong as they should be. We are committed to continuous improvement, to meet the needs of our stakeholders and society as a whole.

We are now moving from a period of audit quality Transformation to Targeted Improvement. Targeted Improvement means we are focusing change in key priority areas to maximise the incremental impact on audit quality through our annual Audit Quality Plan.

In 2021-22, our key areas of focus include the Banking Audit Quality Improvement Plan, the continued rollout of KPMG Clara, our modern global audit methodology and workflow, and continued investment in our 'high challenge, high support' culture which drives audit quality through our behaviours (which you can read more about in Section 3 of this document).

Our Audit Quality Framework in Appendix 5 describes how our commitment to integrity and quality lie at the heart of the way we do things at KPMG and provides a common framework across our global network.

In this section, we will explore:

Our Banking Audit Quality Improvement Plan

page 42



Our plans to ensure our banking audits meet the firm's high standards on quality, and address the issues raised by the AQR

Our technology-based audit tools

page 43



Our new KPMG Clara workflow and how we use technology to improve audit quality

Auditing through the pandemic

page 44



The continued impact of COVID-19 and how we have been supporting our teams to deliver high-quality audits

How we're measuring our progress

page 45



The holistic approach we take to monitor Audit Quality Indicators

Our Banking Audit Quality Improvement Plan

Our external inspection results for banking audits have indicated the need for urgent improvement. Addressing these quality issues and improving our external inspection results is one of the firm’s key audit quality objectives. We have made significant investments since 2018, and in 2020 established a Banking Audit Quality Improvement Plan (BAQIP) which is overseen by our Audit Board.

The objective of BAQIP is to ensure banking audits meet the firm’s high standards on quality, and in doing so address the issues raised by the AQR.

We have four projects within the programme:

- **Methodology and tools:** development of methodologies, guidance and workpapers to address inspection feedback, including past AQR findings; drive ongoing enhancements of tools to improve ease of execution for our people; and embed into our new Audit technology platform.
- **Delivery:** increasing the number of banking auditors relative to our portfolio; embedding delivery models for key areas of the audit to ensure consistent and effective execution; and rollout of additional training and support for audit teams.
- **Challenge, monitor and feedback:** a framework to support more robust challenge throughout our banking practice and our audit delivery, to effectively respond to findings in order to achieve continuous improvement on ongoing engagements.
- **Culture:** embed our ‘high challenge, high support’ mindset throughout all our banking audit engagement teams. See Section 3 for further details on how we are building an audit culture that supports high-quality audits.

Engaging with regulators and other stakeholders

We welcome continued dialogue with banking regulators. We regularly engage with the Financial Conduct Authority and the Prudential Regulation Authority on specific regulations that impact our audits of banks, including Client Asset Assurance Standard engagements and broader regulator areas of focus.

This interaction is important as it allows us to obtain views on macro issues and insights on risk matters or areas of concern which in turn feed into the planning and risk assessment of our audits.

We also have regular interaction with the Financial Reporting Council as our audit regulator. This has been important in keeping them sighted on the BAQIP and establishing periodic feedback mechanisms so as to be able to demonstrate our progress against the plan.

Key achievements

The steps we have taken to date through BAQIP, including an independent review of its progress and governance, have delivered some key achievements including:



Capacity management

We are right-sizing our book of work both through a managed portfolio review and also through a selective approach to new business. At the same time, we have increased the resource available to our banking practice such that we are able to devote more time to individual audit engagements.



Workpapers and guidance

We introduced a suite of standardised additional and banking-specific workpapers, including, but not restricted to, IFRS9 and IFRS13. As an example, we introduced a new suite of independent credit modelling procedures that address the risk profile of the particular models. As a result of these actions, we have delivered a step change in the extent of our procedures for our 2020 year end audits. More recently, changes have focused on those areas that will enhance the consistency of delivery.



Training

An increase in banking-specific training, including new mandatory IFRS9 training.

Our technology-based audit tools

We use technology to improve audit quality, create greater consistency in the performance of our audits and strengthen monitoring of engagement milestones by both engagement teams and leadership of our Audit practice. We believe that audit quality is best achieved when the power of smart technology is matched with inquiring minds and professional scepticism and our tools support exactly that.

We are replacing our core audit tool with the new KPMG Clara workflow application and embedding it in our 'smart' audit platform, KPMG Clara. KPMG Clara unites in a single sharing platform our new audit workflow, data and analytics capabilities, innovative new technologies and collaboration capabilities to enhance quality and efficiency.

KPMG Clara enhances our team's access to:

- Workflow and methodology providing our auditors with a standardised, compliant and industry tailored audit approach. Accessible on the go, it records every step of the audit process through a single digital platform.
- Predictive analytics and the ability to create multi-dimensional real-time sensitivity analysis of key assumptions, as well as use inputs from market and industry data. This provides greater capability to challenge management on key judgements.
- Powerful data analytics capabilities giving auditors the ability to analyse large volumes of transactions recorded by the entities we audit to help identify high risk and unusual transactions to focus our audit effort.
- The ability to monitor engagement milestones and collaborate securely and efficiently with the entities we audit, so teams can exchange information and manage projects in real time, in a single location.
- Automation and the ability to support the validation of the accuracy of a set of financial statements, ensuring all numbers add up and are internally consistent at the click of a button.

Our new KPMG Clara workflow is transforming the way we deliver our audits and is a key driver of our journey to improve audit quality. It is part of a global investment in excess of \$400 million in the audit toolkit we provide to our teams. Following the limited piloted deployment in 2019 and 2020, significant deployment has started in 2021 and will be complete by summer 2023.

What is KPMG Clara?

Future-proofed and built upon cutting-edge cloud technology and artificial intelligence, KPMG Clara is the foundation of our entire audit process. It embeds innovation throughout the audit, and is scalable for any environment or IT system.

The implementation of KPMG Clara workflow introduces a new way of working for our audit teams which delivers the refreshed global methodology and supports consistent performance of our audits across the global network.



Auditors are vital as experience and judgement count most, but combined with technology and artificial intelligence, key decisions are fully informed and backed up by the data. Auditors can work more accurately; partners can robustly challenge management teams, assess critical accounting judgements, and present their views in a coherent and meaningful way. //

Matthew Campbell

Chief Technology Officer, Audit

Auditing through the pandemic

The COVID-19 pandemic has resulted in significant changes in the way we have delivered our audits. Since the first lockdown our entire Audit practice switched to remote working, introducing a range of additional challenges for audit teams.

The response of our teams to the changes in the way we deliver audits has been phenomenal – they have shown resilience, determination and innovation and above all a huge focus on supporting each other.

At all times our guiding principles were the health, safety and wellbeing of our teams and audit quality. We supported engagement teams in potentially difficult discussions with management and audit committees where we concluded that more work and more time was needed to deliver high-quality audits responsive to the changed circumstances.

A focus on going concern

To ensure a consistent approach to our assessment of going concern and reflecting the economic turbulence resulting from the pandemic, we quickly introduced a consultation requirement over all opinions being issued. This was supplemented by baseline assumptions about the impact of the pandemic on all businesses which could be rebutted for less affected entities and enhanced for those more severely challenged by events.

We increased the use of advisory specialists recognising the heightened uncertainty faced by many organisations.

Assumptions were refreshed over time, as circumstances changed, and we refined our policies and procedures as the pandemic progressed and evolved.

We continue to require consultations on many of the opinions issued, with the exceptions relating to very low risk entities or certain entities within a wider group structure.



// Team coaching and oversight was critical for maintaining audit quality, ensuring continuous development of individuals and supporting wellbeing. //

Patrick
Audit Director

Communication

- Regular leadership calls.
- Frequent briefings.
- Engaged in profession-wide discussions.
- Engaged with investors, audit committees and management.

Response

- Frequently refreshed guidance and requirements.
- Moved training to a virtual environment.
- Developed virtual coaching and support mechanisms.

Looking ahead

As we progress towards the December 2021 reporting cycle, which will be delivered largely in a hybrid environment, and recognising the resourcing challenges associated with the pandemic, we have refreshed our COVID-19 response materials, including consultation and support arrangements, to ensure our teams have access to both best practices developed during the year and support mechanisms. In particular, we continue to enhance ways of working with overseas teams to access their working papers remotely, recognising the expected difficulties with performing overseas visits.

Importantly, we are also proactively engaging with management and audit committees on corporate governance and reporting with a focus on continuous improvement and enhanced disclosures. We are also actively debating reporting timelines where we believe the audited entity is not adequately reflecting the challenges of this new working environment.

How we're measuring our progress: Audit Quality Indicators

We adopt a holistic approach to support audit quality and monitor our progress. We have engaged with stakeholders, enhanced our governance and invested in our people, culture, controls and technology.

We are committed to achieving the highest levels of quality in our work. To do that, we not only follow auditing and ethical standards, we also monitor our progress and use feedback to continuously improve.

Continuous improvement and Root Cause Analysis

We employ a broad range of mechanisms to monitor our performance and identify opportunities for continuous improvement. We consider how to enhance our processes and embed best practices. Over the last twelve months, we have broadened the scope of our Root Cause Analysis (RCA) programme, introduced several new innovations to our approach and increased the number of trained and accredited individuals supporting the programme. These have enabled us to gain more insight into the key factors that drive quality findings and also those that contribute to high-quality audits. We will further enhance this insight by performing an external review of our RCA programme during FY22.

We take the results from our RCA programme and use them to focus action and target investments.

Regular monitoring of the impact of remedial actions is a key part of our RCA programme so that we can adapt our approach as new issues arise. We seek to apply a mix of remedial actions as knowledge based responses tend to have a quicker impact than those requiring behavioural change which take longer to embed but are more sustainable in the longer term.

The findings from our RCA are reported to internal and external stakeholders, including the Financial Reporting Council and the Institute of Chartered Accountants in England and Wales. In the 2020/21 cycle, the most frequent findings indicated¹⁵:

Key areas where improvement is needed

- Resourcing.
- Use of guidance and tools available.
- Consistency of coaching.
- Over-reliance on the review process.
- Clearer performance feedback.

Key positive messages from RCA

- Strong tone at the top.
- Good awareness of requirements.
- Early recognition of complex and changing scenarios including use of internal consultations and support available.
- Good project management and coaching.
- Confidence and willingness to challenge management and timetables.

Our RCA in numbers

During the year we spoke to more than 300 individuals. These findings are then analysed and categorised into themes including knowledge, resource allocation and behaviours.

23

RCA performed on external inspections

21

RCA performed on internal inspections

22

RCA performed on other findings*

* Includes prior year audit adjustments and independence breaches

¹⁵ The detailed results of RCA on inspection findings are discussed in the public report available on the FRC website: <https://www.frc.org.uk/getattachment/85abef0b-3621-46a1-9160-6d4a4a7bfe9/KPMG-FRC-Audit-Quality-Inspection-and-Supervision-report-Final-23-July-2021.pdf>

How we're measuring our progress: Audit Quality Indicators

(continued)

External monitoring

We are subject to external annual reviews, primarily by the Audit Quality Review (AQR) team of The Financial Reporting Council (FRC)¹⁶ and the Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW)¹⁷ and three-yearly inspections by the US Public Company Accounting and Oversight Board (PCAOB).

The QAD, under delegation from the FRC, reviews statutory audits of entities which are outside the FRC's retained scope. The assessment of the quality of statutory audits reviewed by the AQR, as well as the results of QAD reviews in their most recent report and the previous two annual cycles are set out below.

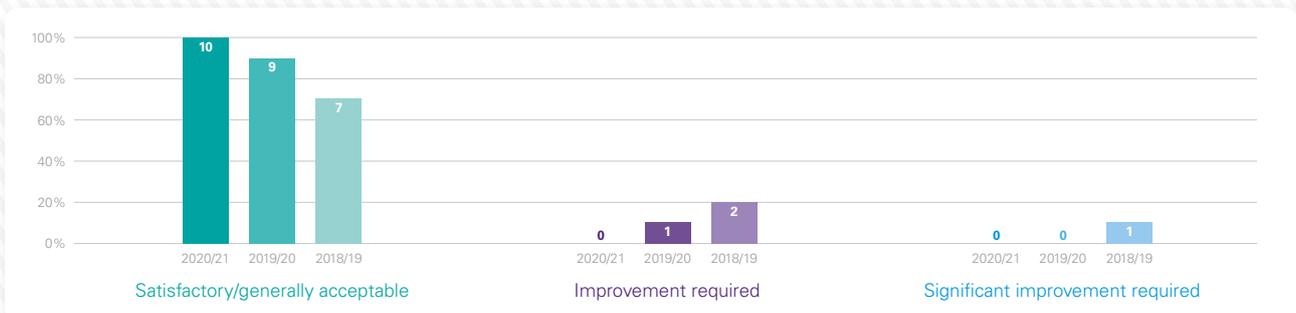
AQR / All reviewed statutory audits



AQR / Reviewed statutory audits of companies in the FTSE 350 Index



QAD / Standard-scope reviews of statutory audits



¹⁶ <https://www.frc.org.uk/auditors/audit-quality-review>

¹⁷ <https://www.icaew.com/regulation/working-in-the-regulated-area-of-audit/audit-monitoring-for-all-icaew-audit-registered-firms>

How we're measuring our progress: Audit Quality Indicators

(continued)

We have an unwavering commitment to serve the public interest and have made significant investments to consistently deliver high-quality audits. However, we know we need to continue to do more to improve our external regulatory review outcomes. In particular, we are urgently addressing our banking audit regulatory review results through a comprehensive Banking Audit Quality Improvement Plan. Our continued drive and investment have resulted in improvements to our audit quality scores for FTSE 350 audits and audits reviewed by the QAD.

For full details of the FRC's key findings relevant to the quality of our statutory audit work, and our responses, as well as a summary of the QAD's review findings, refer to the FRC's *Audit Quality Inspection and Supervision* report for KPMG LLP (July 2021), available from the FRC website¹⁸.

In October 2021, the FRC published its Audit Quality Inspection report relating to Major Local Audits, which is available from the FRC website¹⁹. Due to the proportions of in-scope audits at KPMG, the FRC only inspected one such audit whilst the QAD inspected four non-major local audits at KPMG with findings being Generally Acceptable.

KPMG in the UK is subject to inspection every three years by the PCAOB. In accordance with this cycle, the PCAOB was due to inspect during 2021. However, as a result of the COVID-19 pandemic, the PCAOB deferred its inspection.

Results of FRC AQR reviews on the firm

The FRC highlighted in its report good practices and areas for improvement as set out below.

Good practices identified on individual audits inspected:

- Going concern.
- Challenge of management.
- Group audit oversight.

Good practices identified within KPMG in the UK's firm-wide procedures:

- Audit quality initiatives: Governance over the Plan and individual projects within it, has remained strong, with clear accountabilities and regular reports and updates to the firm's audit oversight bodies.

- RCA process: RCA findings and actions may be challenged at various levels, including by the firm's audit oversight bodies.

- Audit methodology and training: The firm provides extensive training to experienced hires.

Areas identified for improvement from the inspection of individual audits:

- Urgently and comprehensively address the continuing deficiencies in the quality of audit work on banks and similar entities.
- Improve the quality of the firm's audit work on certain areas of revenue.
- Enhance the evaluation and challenge of management's impairment assessment for tangible and intangible non-current assets.

Areas identified for improvement within KPMG in the UK's firm-wide procedures:

The FRC identified room for improvement in relation to the prioritisation of audit quality initiatives, the extension of the Banking Audit Quality Improvement Plan, aspects of our RCA processes, and IFRS9 procedures and guidance.

We have introduced certain additional targeted improvement plans and have continued to develop existing initiatives. These include²⁰:

- A formal Banking Audit Quality Improvement Plan.
- The implementation of our new global KPMG Clara workflow.
- Our Culture Change Programme.
- The creation of case studies used in training and workshops.
- The development of good practice examples.
- The expansion of the scope of our Root Cause Analysis programme.
- Our new Compliance Monitoring Team.

¹⁸ <https://www.frc.org.uk/getattachment/85abef0b-3621-46a1-9160-6d4a4af7bfe9/KPMG-FRC-Audit-Quality-Inspection-and-Supervision-report-Final-23-July-2021.pdf>

¹⁹ https://www.frc.org.uk/getattachment/97b5a417-d9bf-4649-b3c3-3ae49a350fe7/FRC-AQR-Major-Local-Audits_October-2021.pdf

²⁰ More detail on individual actions is included in our responses in the FRC public report, which is available on the FRC website:

<https://www.frc.org.uk/getattachment/85abef0b-3621-46a1-9160-6d4a4af7bfe9/KPMG-FRC-Audit-Quality-Inspection-and-Supervision-report-Final-23-July-2021.pdf>

How we're measuring our progress: Audit Quality Indicators

(continued)

Internal monitoring

The Quality Performance Review (QPR) programme is the cornerstone of KPMG's efforts to monitor engagement quality. It is also how we make sure that member firms collectively and consistently meet both KPMG International's requirements and professional standards.

All engagement leaders of statutory and non-statutory audits are generally subject to selection for review at least once in a three-year cycle and we have extended the scope of the process to also capture Client Asset Assurance Standard engagements. Going forward, engagement leaders will be subject to selection for review at least once in a four-year cycle and these reviews will be supplemented by risk based selections. Reviews are overseen by a lead reviewer, from outside of KPMG in the UK, and are monitored globally. Prior to the finalisation of the review there is a rigorous moderation process to ensure consistency of grading. If the reviewer notes any significant deficiencies, a remedial action plan is created, applicable at an engagement and firm level. We share our findings from the QPR programme in writing, through internal training tools and in periodic partner, manager and team meetings. Any issues are also emphasised in subsequent inspection programmes to gauge the extent of continuous improvement and effectiveness of the implementation of remedial actions.

Our QPR programme is designed to hold audit teams to quality levels that assess not only compliance with auditing standards but also adherence to internal requirements such as the performance of specified procedures or completion of specific mandated consultations. As such, teams that perform audits that are very substantially compliant with auditing standards may receive a rating other than Satisfactory in our internal reviews. Accordingly, it is difficult to make direct comparisons between the results of our internal and external inspection processes.

We take the ratings from the annual QPR programme into account, together with the results of external reviews and other quality features when assessing the performance and remuneration of all engagement leaders and managers.

Our inspection results continue to show improvement year-on-year although we would like to see the rate of improvement accelerate.

The number of reviews performed in the 2021 cycle has reduced on the previous year largely as a result of the timing of completion of engagements by new engagement leaders. Where this is the case, reviews will be performed during the 2022 cycle.

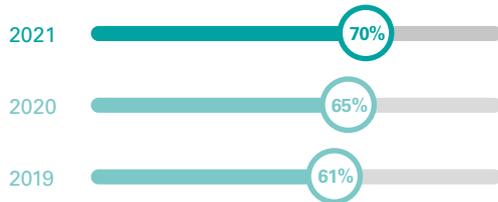


How we're measuring our progress: Audit Quality Indicators

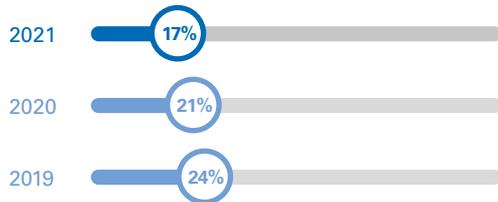
(continued)

Quality Performance Review scores

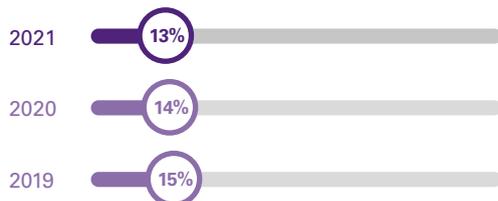
Rating / Satisfactory



Rating / Performance Improvement Necessary



Rating / Unsatisfactory



Number of engagements reviewed



Satisfactory

Relevant auditing, assurance, accounting, and professional standards have been complied with in all significant respects with no or only minor instance(s) of non-compliance.

Performance improvement necessary

Relevant auditing, assurance, accounting, and professional standards have been complied with in all significant respects, but more than minor instance(s) of non-compliance have been identified. However, the instance(s) of non-compliance are not significant, although improvements are needed in the next engagement and remediation should be considered for the engagement file subject to review.

In the context of an audit, it does not indicate concerns about the appropriateness of the audit opinion issued or the financial statements to which the opinion referred.

Unsatisfactory

Relevant auditing, assurance, accounting, and professional standards were not complied with in respect of a significant matter(s) and remediation of the engagement file subject to review related to the significant matter(s) is required.

We have assessed each audit engagement rated Unsatisfactory and are satisfied that the opinions issued were appropriate and the related financial statements were not materially misstated. We believe that the standards to which we are holding audit engagement teams through this process is in many areas stricter than those applied by our audit regulators: we assess 'how' evidence was obtained in addition to 'what' evidence was obtained. Where appropriate, in a limited number of cases we remediate engagement files to ensure the audit evidence obtained is adequately documented. Engagement teams undertake specific incremental or remedial training. In addition, engagement leaders receiving an Unsatisfactory rating are subject to a follow-up review.

How we're measuring our progress:

Audit Quality Indicators

(continued)

Regulatory investigations and sanctions

We're committed to working with our regulator on concluding and learning from a number of historic investigations.

Ongoing FRC matters

FRC investigations²¹ into five matters announced in previous years remained ongoing at the end of the year:

- The audit by KPMG Audit Plc of the financial statements of Rolls-Royce Group plc for the year ended 31 December 2010 and Rolls-Royce Holdings plc for the years ended 31 December 2011 to 31 December 2013 (announced May 2017).
- The audit by KPMG LLP of the financial statements of Carillion plc for the years ended 31 December 2014, 2015, and 2016, and additional audit work carried out during 2017 (announced January 2018), and the extension of this investigation to include certain matters relating to KPMG Audit Plc's audit of the financial statements of Carillion plc for the year ended 31 December 2013 (announced in February 2019).
- The audit by KPMG LLP of the financial statements of Conviviality plc for the 52 weeks ended 30 April 2017 (announced July 2018)²².
- Following matters self-reported by KPMG LLP, the provision of materials to the FRC by KPMG LLP in connection with the FRC's Audit Quality Review into aspects of the audit of the financial statements of Carillion plc for the year end 2016 (announced in November 2018).
- The audit by KPMG LLP of the financial statements of Eddie Stobart Logistics plc for the year ended 30 November 2017 (announced in May 2020).

New FRC matters or developments on ongoing FRC matters during the year

No new FRC investigations in respect of KPMG were announced during the year.

In March 2021, the FRC announced that it had delivered its Initial Investigation Report in connection with KPMG Audit Plc's audit of the financial statements of Carillion plc for the year ended 31 December 2013.

In respect of the matters previously self-reported by KPMG LLP, in September 2021, the FRC announced a Formal Complaint against KPMG LLP, a former partner and certain current and former employees in respect of alleged misconduct regarding the provision of allegedly false and misleading information and/or documents to the FRC in connection with the FRC's Audit Quality Review inspection of two audits carried out by KPMG, namely the audit of the financial statements of Carillion plc for the year ended 31 December 2016 and the audit of the financial statements of Regeneris plc for the period ended 30 June 2014. An FRC Tribunal to hear the complaints commenced on 10 January 2022.

FRC matters closed in the year

One matter was closed during the year:

- In August 2021, the FRC announced sanctions against KPMG LLP and a former partner relating to a restructuring engagement between January and April 2011 for companies trading under the name "Silentnight". Following a contested hearing, an FRC tribunal made findings of misconduct in respect of breaches by the former partner of the fundamental principle of objectivity and integrity arising from a conflict of interest. KPMG LLP is legally liable under the Accountancy Scheme for this conduct and accordingly the findings were made against KPMG LLP and the former partner. KPMG LLP was fined £13m, severely reprimanded and ordered to appoint an independent reviewer to conduct a root cause review. The former partner was fined £500,000, severely reprimanded, precluded from holding an insolvency license for 13 years and excluded from membership of the ICAEW for the same period. While this isn't an audit engagement, we have sought to learn from the findings and have made significant efforts in recent years to improve our broader controls and processes and strengthen our culture.

²¹ Where the FRC or other regulatory body has exercised discretion not to publicise a particular inquiry or investigation, the details of such matter are not disclosed in this report.

²² The closure of this matter was subsequently announced on 19 January 2022.

How we're measuring our progress: Audit Quality Indicators

(continued)

ICAEW matters

Three ICAEW investigation outcomes were announced during the year:

- In October 2020, KPMG LLP agreed to pay a fine of £5,600 following admissions in connection with the audit of a company's financial statements for the year ended 31 March 2018, which had not been conducted in accordance with relevant standards in respect of the accounting for intercompany transactions and balances.
- In February 2021, KPMG LLP agreed to pay a fine of £4,550 following admissions in connection with the audit of a company's financial statements for the year ended 31 July 2018, which had not been conducted in accordance with relevant standards in respect of the team's work on going concern.
- In February 2021, KPMG LLP agreed to pay a fine of £50,000 following admissions in connection with reports to the Financial Conduct Authority in 2010 and 2011 regarding an entity's compliance with the Client Asset Sourcebook. The team failed to gather sufficient evidence to support its decision not to qualify the audit opinion in respect of certain breaches of client money rules.

ICAEW Fit and Proper standards

Meeting both the firm's and stakeholders' expectations relating to conduct is both a core role that partners play in setting the right tone from the top for our firm and in being fit and proper in line with their personal regulatory obligations. During the year we introduced a new process to formally reconfirm that all partners remain fit and proper in accordance with these standards. It involved the collation of a series of metrics relating to conduct which were presented on a standardised dashboard which provided the necessary evidence to enable each partner's conduct to be assessed as to whether or not it met the required standards.

FRC Revised Ethical Standard

In December 2019, the FRC published the Revised Ethical Standard (2019 ES), effective for financial periods starting on or after 15 March 2020, with specific additional restrictions effective for a new category of audited entity, Other Entities of Public Interest (OEPI), for financial periods starting on or after 15 December 2020.

Following the publication of the 2019 ES, we conducted centrally driven reviews for all affected entities to ensure compliance, communicated the key changes widely to our partners and people and impacted entities, and put in place processes to monitor the services and relationships with respect to these entities.

Breaches of the FRC Ethical Standard

Our systems and processes help our people and our firm comply with the requirements of the FRC's 2019 ES.

Occasionally our compliance processes identify breaches of the FRC's 2019 ES requirements. Where we identify such breaches we take prompt action: we assess the significance of the breach and how it has impacted on our independence and objectivity as auditor of the entity concerned, and we report our conclusions to those charged with governance.

The Ethics Working Group considers the sanctions to be applied in respect of the breaches arising (including both financial sanctions and any additional remedial measures necessary). Every six months, we submit a report of breaches to the FRC. In the year ended 30 September 2021, we identified 16 breaches of the 2019 ES (2020: 27 breaches).

How we're measuring our progress: Audit Quality Indicators

(continued)

People Survey

We conduct regular surveys to find out how people feel about KPMG and their working environment. The 2021 People Survey results for our Audit practice are shown opposite.

Our results continue to show high favourable scores in relation to audit quality. While these results demonstrate that colleagues feel that quality is embedded in their everyday work and that our leaders clearly promote and role model their commitment to audit quality, the survey also tells us that we must continue to focus on promoting the importance of audit quality.

We have also received favourable results on the Learning and Development offerings at KPMG. This remains a key area of focus for us as we move to a smarter and collaborative way of learning in order to support colleagues' continual professional development and growth.

Our Audit colleagues really value the investment that KPMG have made in equipping them with the right tools and resources to undertake their jobs effectively. We are really proud of the investment we have made in supporting our colleagues with the right technology and we will continue to invest in this important area.



The culture and tone set by leadership promote the importance of audit quality

91% favourable response

(2020: 95% favourable response)



KPMG's commitment to quality is apparent in what we do on a day-to-day basis

81% favourable response

(2020: 88% favourable response)



I am satisfied with the learning and development available to improve my knowledge skills

70% favourable response

(2020: 73% favourable response)



I have access to the tools and resources I need to do my job effectively

80% favourable response

(2020: 48% favourable response)

How we're measuring our progress: Audit Quality Indicators

(continued)

Training delivered in audit

We maintained the same level of commitment to learning and optimised the pivot to a virtual world. Our formal audit training programme included mandatory audit technical training, industry-specific training and risk courses.

Our annual KPMG Audit University was used to deliver training for the new KPMG Clara workflow. This training covered the methodology, workflow and technology. It was delivered over six days of training, via a mix of large scale virtual plenary sessions, virtual breakout discussion sessions, self-study and assessments.

There are three releases of our "Building Trust" risk training each year covering a range of risk related topics. These include independence, information security and data privacy, our code, and legal and compliance matters.

To drive continued focus on audit quality, we deliver Audit Quality & Risk Workshops for engagement leaders (which is extended to all audit managers through live and recorded workshops). These cover key messages regarding quality, risk, and actions in respect of internal and external monitoring.

All of our audit professionals also complete quarterly technical training focusing on performing an effective, quality audit with different topic areas included as relevant.

On top of this, partners and audit professionals must complete additional training relevant to their grade and role. This includes sector specific training (such as additional courses for public sector, insurance and banking auditors) and mandatory training and accreditation for all partners, managers and in-charges providing services on US GAAP and/or US GAAS/PCAOB audits and industry-specific training.

Auditors also spend time on core skills programmes to support career and professional development such as our Coaching for Quality programme.

Our commitment to training in a virtual world

We have grasped the opportunity of virtual learning to continue to deliver core technical training and to tackle important topics facing our profession in innovative ways:

- We rolled out training around the theme of creating a culture of challenge and building trust.
- We held a fraud awareness week giving all auditors access to external, expert speakers highlighting risks of fraud and sharing real-life case studies.
- We trained all of our auditors, and the specialists supporting our audits, on challenging the impact of climate risk on the entities we audit as well as the accounting and reporting implications.
- Training on the new KPMG Clara workflow meant all auditors were trained in our new risk-based methodology using the latest technology.
- We rolled out additional training to our specialists supporting audit including a tailored version of the content on the KPMG Clara workflow.

Investment in training

While the total number of hours spent on training has decreased as a result of a lower graduate headcount, the average number of hours has increased significantly. This is due to the timing of KPMG Audit University in 2020 which was delayed due to the pandemic, and the increased training in 2021 to roll out the new KPMG Clara workflow.

114

(FY20: 59)

Average number of hours of mandatory training completed by audit partners and audit professionals

61

(FY20: 46)

Average learning hours for technology experts in audit

1,165,000

(FY20: 1,211,000)

Total number of hours of training completed by audit partners and audit professionals

How we're measuring our progress: Audit Quality Indicators

(continued)

Stakeholder engagement

Listening to the views of our stakeholders enables us to continue to play a full and active part in driving the future of our profession. It's vital that we and other affected stakeholders work closely together towards our common goals and we welcome the recent reviews on corporate governance and audit reform as a forum in which to do this.

Investor engagement

Our audit reports for companies are addressed to the shareholders, which makes them the ultimate 'client' of our audits. With this in mind, KPMG's investor engagement programme was set up to facilitate communication between auditors, who provide vital assurance over financial statements issued to the markets; and investing shareholders, who rely on that assurance.

The programme is sponsored by the Audit Board and Audit Executive, reported to (and challenged by) our Public Interest Committee, and delivered with the support of a number of our most experienced audit partners. In the current year, we have continued to extend our engagement with investors and investor organisations to better understand their needs and to inform how we can best respond.

Over the course of the 2021 financial year, we've held over 40 meetings and discussion sessions with institutional investors and their representative bodies that manage over £10 trillion of assets in total on a global basis. At these meetings, we focus on topics of interest to investors such as ESG factors, audit and corporate governance reform, and key trends and new requirements in financial reporting. We also discuss the measures we are taking to continue driving audit quality to the high standards expected of us by regulators and users of financial statements, and how the scope of audit might need to change to meet the evolving needs of users of corporate reporting.

Two of our Independent Non-Executives joined our Annual Audit Review where we discussed the future of our profession, and reforms to corporate governance and reporting with investors, audit committee chairs and finance directors.

At the core of our engagement with investors has been a consensus that high-quality audits are vital. They generate confidence in capital markets because of the independent assurance they provide over financial statements, which investors rely on to make investment decisions.

Looking ahead, the ongoing initiatives to reform corporate governance regulation, corporate reporting and audit have been important topics to explore in our conversations with investors, generating valuable insight into how audit might need to change to better meet investors' needs. We have incorporated that feedback into our responses to the various reviews of the profession.

We greatly value the insight and challenge provided by investors over the course of the year and encourage investors to continue to engage with us as we help shape the future of audit.

What investors tell us they want from auditors and how we have responded

Produce audits that better reflect investors' concerns. We have shared investors' areas of focus through our training for partners and audit professionals (on topics such as climate change risk) and sought investors' views on the companies we audit as an input into our audit planning.

Strengthen their culture of challenge and professional scepticism. Our Culture Change Programme has continued to develop and grow throughout the last 12 months. We have embedded 'high challenge and high support' into our processes, training, incentives and career progression pathways. We invested heavily in implementing new audit work papers and mandatory training for auditors focused on challenge and scepticism.

Provide greater assurance on information beyond the financial statements. We have a dedicated ESG Assurance team working closely with Audit teams and are offering to those that are ready additional assurance over those areas that are of most interest to investors (such as alternative profit measures, ESG metrics and other non-financial information).

How we're measuring our progress: Audit Quality Indicators

(continued)

Stakeholder engagement (continued)

Audit Committee Institute

Audit committees play an important and demanding role for capital markets. They also face challenges in meeting their responsibilities. In recognition of this, our Audit Committee Institute (ACI) helps audit committee members enhance their awareness, commitment and ability to implement effective processes – with a view to contributing positively to the long-term sustainability of UK PLC. Engaging through a multi-channel approach, the ACI provides audit committee members with thought leadership, impartial guidance and tools in the form of technical updates, peer-to-peer exchanges, bespoke briefings and topical deep dives.

During 2021, we provided over 80 hours of professional development through 38 seminars and peer-to-peer exchanges. Our sessions were attended by more than 550 individual non-executive directors. These sessions addressed issues facing audit committees, including the impact of COVID-19, financial crime, geopolitical risk, ESG, corporate reporting, cyber security, risk management and the audit reform agenda; as well as providing opportunities to interact with peers and the investor community.

In addition to this, we provided ACI members with around 40 individual written updates, surveys, pieces of thought leadership and tools – including assessment tools, best practices for audit committees, priorities arising out of COVID-19, guidance on accounting standards, surveys into audit committee priorities, and summaries of relevant legislation and the audit reforms. We also provided around 40 bespoke board-level briefings for FTSE 350 audit committees and/ or individual audit committee members.

The ACI in the UK has around 2,800 members across both the private and public sectors. Seventy-nine FTSE 100 companies have engaged with the programme through the active attendance of one or more board members.

Political engagement

As a leading professional services firm, we recognise the importance of engaging with politicians, policy makers and our regulators on issues of importance to business and society. We are committed to ensuring that our political engagement is based on principles of transparency, integrity and accountability, and we maintain a position of political neutrality at all times.

Further details of our approach to political engagement can be found on our website²³.

Interaction with regulators

At a global level KPMG International has regular two-way communications with the International Forum of Independent Audit Regulators to discuss issues identified and actions taken. In the UK, the Head of Audit and Head of Audit Quality participate in global meetings to ensure alignment across the network.

Following the restructure of the FRC's Supervisory Division in late 2020, we aligned our internal leaders to the FRC's three supervisory teams being Audit Firm Supervision, Audit Market Supervision and Audit Quality Review. We have regular meetings and ongoing dialogue with relevant personnel at the FRC, including KPMG's assigned supervisor.



//

Climate change is increasingly front of mind for shareholders, businesses, and society. The audit profession has a crucial role to play in providing relevant information on this topic. Climate change affects companies in a multitude of ways, and I was brought in to support audit teams in their identification and assessment of climate related risks on financial statements. I conducted sector specific workshops for audit teams and created a new team of Climate Risk Specialists to enable the delivery of high-quality audits and respond to increasing challenge from various stakeholders. //

Dr Julia Skene, Climate Risk Specialist

23 <https://assets.kpmg/content/dam/kpmg/uk/pdf/2020/12/statement-of-transparent-political-engagement-dec-2020.pdf>

Section 5

Quality control and risk management

We have many policies and procedures in place to manage risk and we share best practice with other member firms in the KPMG network.



Quality control and risk management

There are numerous policies and procedures in place to help the UK firm, and members of KPMG International, comply with professional standards. Employees are responsible for complying with these policies, and there are controls and processes in place to help them.

The Board assesses the effectiveness of internal controls and independence and the confirmation of the firm's compliance with the Audit Firm Governance Code. The Board confirms that the firm has complied with the provisions of the Audit Firm Governance Code in the year ended 30 September 2021.

The Board has overall responsibility for risk management and internal control:

- Assessment and management of risk is supported by the Risk Committee.
- Monitoring of internal controls is supported by the Audit Committee.

We have adopted the KPMG Global Independence Policies:

- All partners and partner equivalents are compliance audited in a five year period, and those partners in a Chain of Command role are audited every three years.
- We provide all relevant personnel with independence training twice a year.
- Training on compliance with laws, regulations, professional standards and our Code of Conduct is issued to all partners and employees on joining the firm and annually thereafter.

The Internal Audit plan is reviewed and approved by the Audit Committee

- Internal Audit provides independent and objective assurance on the adequacy and effectiveness of our governance, risk management and internal control processes.
- The Internal Audit function was subject to an external quality assessment and received a "Generally Conforms" status against the professional standards for internal audit.



In this section, we will cover:

Our quality control and risk management systems

page 58



The processes in place to manage risk, the principal risks and uncertainties facing our firm and the mitigating actions in place

Maintaining an objective, independent and ethical mindset

page 69



The policies and processes such as firm independence, personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services

Statement by the Board on the effectiveness of internal controls and independence

page 71



The Board's assessment and confirmation of compliance

Our quality control and risk management systems

Policies and procedures

KPMG International has policies of quality control based on the International Standard on Quality Control 1 (ISQC1) issued by the International Auditing and Assurance Standards Board (IAASB) and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, relevant to firms that perform statutory audits and other assurance and related services engagements.

These policies and associated procedures enable member firms to comply with relevant professional standards, regulatory and legal requirements, to help our personnel act with integrity and objectivity, and perform their work with diligence.

KPMG in the UK supplements KPMG International policies and procedures with additional policies and procedures that address rules and standards issued by the FRC, the ICAEW and other relevant regulators, such as the US Public Company Accounting Oversight Board.

We are implementing our programme to adopt the new International Standard on Quality Management (ISQM1), which was approved by the FRC in July 2021 and will be effective from December 2022. ISQM1 requires each KPMG member firm to design, implement and operate a system of quality management to consistently deliver quality audits, and to evaluate the effectiveness of the system on an annual basis.

Responsibility for risk

Quality control and risk management are the responsibility of all KPMG personnel, whether they are based in the UK or in one of our offshore locations. This responsibility includes the need to understand and adhere to policies and associated procedures in carrying out their day-to-day activities.

Our Chief Executive assumes ultimate responsibility for KPMG in the UK's system of quality control, in accordance with the principles in the revised ISQC1 issued by the FRC.

Operational responsibility for the system of quality control, risk management and compliance is delegated to the Chief Risk Officer who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for KPMG in the UK. The Chief Risk Officer has a direct reporting line to the Chief Executive and sits on the Executive Committee of KPMG in the UK, underlining the importance of the role.

The Chief Risk Officer is supported directly by a team of partners and professionals, covering each of the capabilities. During the year the heads of Capabilities oversaw the quality of service delivered in their respective areas of the business assisted by capability management teams and capability Risk Management partners.

While many of our quality control processes are cross-capability and apply equally to tax and advisory work, the primary focus of the Transparency Report requirements relates to audit. Our Audit Quality Framework described in Appendix 5 provides more detail on the way it helps ensure the delivery of quality statutory audits.

In the case of the Audit practice, the Head of Audit Quality chairs the Audit Quality Council which met on a monthly basis during the year. These meetings, together with the monthly Emerging Issues Meeting chaired by the Chief Auditor, addressed external regulatory matters (including progress on AQR and QAD reviews and actions to address their findings), our internal quality reviews, emerging audit quality issues and current matters from the central quality teams.

Our UK Audit practice is also a key contributor to our global thinking with representatives on all major global audit quality and development councils and teams. We use these forums to understand how other member firms have tackled similar issues, share our experiences, and facilitate common solutions.

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. We view the outcome of a quality audit as the delivery of an appropriate and independent opinion that complies with the auditing standards. This means, above all, being independent, objective and compliant with relevant legal and professional requirements.

The following statements articulate the principles through which we manage the risk we take, ensuring we act responsibly, in the public interest and in the interest of the entities we audit, our clients, our people, our regulators, and the markets and communities we work in.

Our quality control and risk management systems

(continued)

We will:

- Act in the public interest and be the most trusted professional services firm by the entities we audit, our clients, our people, our regulators, and the markets and communities we work in.
- Have high standards in leadership, accountability, ethics and governance.
- Act as stewards for the KPMG brand and take proactive steps to ensure that we support one another, both within the UK and across our member firms, in doing so.
- Set financial targets that are consistent with achieving both the trust and growth elements of our strategy.
- Manage financial performance and resilience effectively.
- Engage responsibly with a broad range of audit entities and clients in different sectors and industries.
- Deliver high-quality services – through experienced and appropriately resourced teams, integrated solutions and use of robust technology.
- Work with trusted partners and alliances, as well as engage in mergers and acquisitions to obtain capability, where it meets our trust and growth objectives.
- Comply with applicable laws, regulations and codes of conduct, including KPMG's global standards and KPMG's tax principles.
- Manage actual and perceived conflicts of interest.
- Protect confidential information and ensure business service continuity.
- Live Our Values through high standards of behaviour, and promote a culture of trust, empowerment, accountability and mastery that supports Our Values.
- Anticipate and respond to changes in the competitor landscape, macro-economy and clients' needs.
- Be courageous in undertaking work in the public interest and in support of our wider purpose.
- Be brave in working together, contributing to important issues in accordance with Our Values.
- Develop our diverse, talented and motivated people through inclusive leadership.



Our quality control and risk management systems

(continued)

Risk management

The identification, evaluation, management and monitoring of the most significant risks that face our firm and could threaten the achievement of our strategic objectives, or our business model, future performance or solvency, are the responsibility of our Board. The principal risks and uncertainties that the UK firm faces are set out in, and managed under, the firm's Enterprise Risk Management (ERM) Framework. This Framework is used by the Board throughout the year to ensure the timely identification of new and emerging risks and the development of appropriate action planning, in line with the firm's strategy.

During the year the Risk Committee, on behalf of the Board, oversaw a detailed review of the firm's ERM Framework and how the information provided under the Framework is used by the relevant governance bodies. This review took into account the good practice observed by the FRC during the year as part of their thematic review of the risk management arrangements of large audit firms, together with their observations and recommendations.

The work undertaken as part of this review included: robust challenge of the firm's risk taxonomy, reflecting developments in the firm's risk landscape (current and longer term) during the year and the results of a Dynamic Risk Assessment, which was developed with input from the Executive and Board; implementation of an automated Governance Risk and Compliance (GRC) tool to support specific aspects of our risk management; the development of a horizon scanning tool, using input from the firm's own experts in Political, Economic, Social, Technology, Legal and Environmental risks; and a review of the firm's regular risk reporting. The output of this work was approved by the Board in December 2021 and the analysis of the firm's principal risks set out on the following pages reflects changes made to the firm's ERM Framework as a result of the review. The principal risks are set out within the firm's four key risk 'families' of Strategic, Operational, Financial and Reputation, Regulation and Legal, and are not in order of priority.

As referenced elsewhere in this report, significant progress has been made during the year in strengthening the firm's governance, with the separation of the roles of Board Chair and Chief Executive, the establishment of an Audit Board, with an independent Chair, and further investment in the firm's second line of defence and regulatory compliance teams. These steps have all contributed to the mitigation of our principal risks, with additional mitigating actions in each area of risk outlined on the following pages.



Our quality control and risk management systems

(continued)

Risk	Current risk landscape	Mitigations
Reputation, Regulation and Legal risks		
<p>1. Trust (Trend: Increased)</p> <p>KPMG in the UK fails to maintain the trust of external stakeholders, due to a failure to embed trust into the firm's strategy, and failure to define and communicate the standards of conduct expected by the firm, resulting in negative impact on the firm's reputation at local, national and international levels.</p>	<ul style="list-style-type: none"> Continued public scrutiny of the role of professional service firms in the national response to COVID-19. Increasing importance of, and expectations surrounding, ESG. Public focus on failings in relation to Silentnight and a need to demonstrate improvement in our AQR results. Continued regulator and public scrutiny of the firm in the context of both audit quality and the outcome of historic regulatory investigations. 	<ul style="list-style-type: none"> A tone at the top which emphasises quality, ethics and integrity, with Ethics Champions embedded in the business and a refreshed approach to Code of Conduct and Values training. Embedded whistleblowing processes and promotion of a Speak Up hotline overseen by a third party ombudsman. Published diversity target zones, with regular progress reporting. The launch during 2020 of refreshed Global values. An IDE Policy and firm-wide training on IDE available to all KPMG Partners and employees. 15 employee networks which host a range of diversity focused learning events throughout the year. Continued focus on the environment, with all UK offices certified to ISO 14001:2015.
<p>2. Regulation (Trend: Increased)</p> <p>KPMG in the UK fails to meet the expectations of our regulators, due to poor relationships with regulators, regulatory non-compliance and lack of regulatory horizon scanning to prepare for incoming regulatory changes, resulting in regulatory sanctions and enforcement action.</p> <p>The UK firm fails to appropriately monitor and mitigate the impact of reputational damage arising from actions taken by other KPMG member firms.</p>	<ul style="list-style-type: none"> Continued enhanced supervisory approach as FRC transitions to ARGA. Incoming regulatory changes affecting multiple parts of the firm, including audit reform. FRC published updated principles and timeline for operational separation of the Audit business. 	<ul style="list-style-type: none"> Dedicated Regulatory Affairs functions established, with constructive and proactive arrangements to meet our regulatory commitments introduced. Regular engagement with regulators and relevant government bodies to understand and plan for the developing regulatory landscape. Monitoring of regulatory compliance by relevant regulatory affairs specialists and the firm's Public Interest Committee, including the impact and implementation of changes in regulatory requirements, such as operational separation. Maintenance of firm wide and personal independence policies and systems (Sentinel, KPMG Independence Compliance System, etc.) to ensure compliance. Ethics & Independence training and annual personal independence confirmation by all partners, colleagues and (where relevant) contractors. Money Laundering Risk Officer function to meet our obligations in relation to anti-money laundering and financial crime, and regular financial crime training provided on topics such as money laundering, bribery and corruption. Active participation in Global Governances and Committees to oversee network controls and potential reputational and other risks.

Our quality control and risk management systems

(continued)

Risk	Current risk landscape	Mitigations
Reputation, Regulation and Legal risks (continued)		
<p>3. Legal (Trend: No change)</p> <p>KPMG in the UK fails to comply with legal obligations, including contractual obligations with clients, audited entities, third parties and colleagues, due to a failure to identify and understand these obligations, or put in place appropriate controls and monitoring frameworks to ensure that these obligations are met, resulting in litigation, legal costs and reputational damage.</p>	<ul style="list-style-type: none"> Increasing complexity of contracting environment, in particular in relation to long term nature of large advisory engagements and increasingly complex legal and regulatory framework (e.g. in relation to liability caps and information security and data requirements). 	<ul style="list-style-type: none"> An in-house Office of General Counsel team to assist the business with contracting and compliance with regulation, including specialists in regulation, data privacy and employment law. Client and engagement acceptance procedures, including in relation to contracting with all stakeholders and recipients of our services/ deliverables. Deal Boards and the Client and Engagement Acceptance and Continuance Committee, with appropriate legal input, to ensure that the appropriate approvals are in place and risks are considered before pursuing new opportunities and agreeing scope and terms of engagement deliverables. Engagement Quality Control Reviewers and other 'first line' quality control processes. Annual 'second line' compliance processes (including Quality Performance Reviews (QPR) and Global Risk Compliance Programme (RCP)).
Strategic risks		
<p>4. Growth (Trend: No change)</p> <p>KPMG in the UK fails to define and execute a strategy that is supported by an appropriately resourced operational plan, that is underpinned by further development of relevant services and propositions and which can be measured objectively. In addition the UK firm fails to design its strategy to be able to adapt or respond to changes in the external economic and regulatory environment, or to maximise opportunities from the KPMG global network, resulting in a failure to achieve the desired levels of growth.</p>	<ul style="list-style-type: none"> Change in the firm's leadership. Continued levels of market uncertainty in relation to the external environment. This includes the impacts of COVID-19, the wider political and economic landscape, and the impact on specific end markets of regulatory action. Impact of operational separation of audit on our growth strategy. Increasing importance of, and stakeholders' expectations surrounding, ESG. 	<ul style="list-style-type: none"> Defined strategies approved by leadership with Board input and oversight. Executive Committee sponsorship of strategic growth initiatives. Board approved three year planning exercise, aligned to strategy of Trust and Growth. An investment allocation and governance process to prioritise and monitor investment. Improved governance for Audit, including the Audit Board, and likely impact of operational separation on strategy reflected in business planning. A comprehensive communications and engagement plan.

Our quality control and risk management systems

(continued)

Risk	Current risk landscape	Mitigations
Strategic risks (continued)		
<p>5. Clients and audited entities (Trend: No change)</p> <p>KPMG in the UK fails to work with the right clients and audited entities, maintain a balanced portfolio across sectors and industries, optimise its use of strategic alliances and build both a unique and innovative brand proposition and a holistic go-to-market strategy, resulting in declining market share or over-concentration in specific sectors and a failure to achieve its strategy and ESG commitments.</p>	<ul style="list-style-type: none"> — Audited entities and clients' changing business models and services needs, arising as a result of their responses to the current external environment, increasing digitalisation and growth in importance of the ESG agenda. — Requirement for a change in the firm's go-to-market approach due to the move towards hybrid working. 	<ul style="list-style-type: none"> — New product and services evaluation and approval process with ongoing investment in core capabilities. — Account planning strategy and Executive Committee oversight of account plans for major accounts. — Regular review of Client Insights programme feedback. — Monitoring period of audit tenure for audited Public Interest Entities in order to comply with mandatory tendering and rotation requirements. — Comprehensive acceptance procedures undertaken before engaging with clients and audited entities for the provision of services, including know your customer (KYC) checks and global conflict checking to support the management of independence when working with audited entities or potential audit targets. — Deal Boards and Client and Engagement Acceptance and Continuance Committee consideration for higher risk clients and engagements to ensure that risks are considered, and appropriate internal approvals obtained, before pursuing new opportunities. — Quality and Risk sub-committee of the Audit Executive which monitors public information relating to Public Interest Entities (PIE) and Other Entity of Public Interest (OEPI) audited entities to help ensure emerging audited entity risks are addressed. — Annual Risk Review which considers Responsible Individual's (RI) portfolio risk and gathers RI's views on the issues within audit.

Our quality control and risk management systems

(continued)

Risk	Current risk landscape	Mitigations
Operational risks		
<p>6. Execution – Quality (Trend: No change)</p> <p>KPMG in the UK fails to meet the expectations of clients, audited entities, regulators and other interested parties in relation to the quality of work delivered.</p>	<ul style="list-style-type: none"> — Sustained public and regulatory scrutiny of the firm’s ability, independence and qualification to deliver engagements to a high standard. — Impact of changing ways of working on the ability to deliver quality services. — Continued challenges presented by COVID-19 to audit quality and delivery, including potential corporate failures. 	<ul style="list-style-type: none"> — Quality Management System to monitor our performance which is closely based on the principles of the ISO 9000 standard, but has been modified to meet the exact requirements of our businesses. — A documented Audit Quality Framework, as well as the Audit Quality Plan and Banking Audit Quality Improvement Programme. — Engagement quality controls including the use of standardised methodologies and tools and targeted involvement of Engagement Quality Control Reviewers, Accounting and Auditing specialists, Risk Panels, Deal Boards and in-flight project reviews. Enhanced processes for complex, longer term engagements. — Root cause analysis to identify and respond to findings from both external and internal audit quality findings. Audit quality controls, encompassing global methodologies, mandatory training (including KPMG Audit University), accreditation requirements and audit quality review programmes. — Development and implementation of the KPMG Clara workflow. — Use of Audit Centres of Excellence and accreditation requirements for audit professionals and specialists working on audit engagements. — Continued consultation requirements in relation to the impact of COVID-19.
<p>7. Execution – Delivery (Trend: Increased)</p> <p>KPMG in the UK experiences failures in its delivery of services to clients and audited entities due to taking on inappropriate clients or engagements, ineffective engagement set-up, poorly managed projects, contracting and financials, lack of adequate resourcing or identification and management of third parties in its supply chain, resulting in preventable losses and missed opportunities.</p>	<ul style="list-style-type: none"> — Increasingly competitive market for recruitment of talent. — Increased reliance on reliable and appropriate technology and connectivity due to hybrid working. — Increased complexity of contracting in particular in relation to multi year framework services and work delivered for the public sector. — Introduction of ISQM1 as Global Quality Management Framework. — Impact of the firm’s ESG strategy on the acceptance and delivery of services to clients and audited entities. 	<ul style="list-style-type: none"> — Recruitment processes and standards and an engagement management training and accreditation programme. — Framework for onboarding of third parties against mandated standards and including information security, data privacy and financial crime risk training. — Board sponsorship of ISQM1 implementation with senior Steering Group leadership of dedicated programme team ensuring delivery against key milestones. — Comprehensive acceptance procedures undertaken before engaging with clients and audited entities for the provision of services, including KYC checks and global conflict checking to support the management of independence when working with audited entities or potential audit targets. — Inter-firm contracting protocols when working with other KPMG International member firms. — Compliance programmes including Quality Performance Reviews (QPR) and Global Risk Compliance Programme (RCP), with appropriate root cause analysis undertaken.

Our quality control and risk management systems

(continued)

Risk	Current risk landscape	Mitigations
Operational risks (continued)		
<p>8. People, Talent and Culture (Trend: Increased)</p> <p>KPMG in the UK fails to appropriately attract and recruit, engage, develop, retain and reward talent at all levels of seniority, resulting in a lack of expertise, capability and capacity (onshore and offshore) to meet the medium and long term demands of the business, loss of top talent and gaps in key leadership roles and succession plans. In addition, the UK firm fails to define and develop a culture in alignment with the its core values and strategy.</p>	<ul style="list-style-type: none"> — Intense competition for talent and skills shortage. — Reduced levels of disruption for colleagues in relation to COVID-19 and lockdown restrictions due to the availability of vaccines. — Management of expectations in relation to the medium-to-long term changing ways of working, including the move towards hybrid working. — Continued impact of COVID-19 on physical and mental wellbeing of colleagues. — Increased immigration complexity post-Brexit. — Continued complexity of onboarding, performance management, learning, coaching, and mentoring due to remote working. — Impact of hybrid working and levelling up agenda on recruitment plans. — Continued focus on developments in Inclusion, Diversity and Equity (IDE) and ability to meet IDE improvement objectives. — Evolving expectations of employees risks the attractiveness of the firm reducing over time. Evidence of poor employee and partner conduct has the potential to accelerate this risk. 	<ul style="list-style-type: none"> — Regular feedback sought through Annual People Survey and Regular Pulse Surveys, with action plans in place where required. — Regular review of recruitment needs/pipeline and investment in recruitment strategy and policies, including increased referral payments and additional recruitment resource/ sourcing specialists. — Processes in place to identify key skills and capabilities required and to ensure appropriate succession planning and talent development. — Significant investment in colleague reward, and an attractive employee value proposition, Our KPMG, against results of annual salary benchmarking. — Defined performance management cycle and processes which includes goal setting, feedback and performance appraisal. — Training delivered to Performance Managers and 360 feedback programme for leaders across the firm. — Increased focus on wellbeing, including mental wellbeing and bereavement support, a Domestic Violence and Abuse Policy statement, and continued encouragement of flexible working. — Black Lives action plan, Black Heritage reverse mentoring, Black Lives Allyship programme and Black Heritage Talent Programme. — Comprehensive wellbeing offering, including an Employee Assistance Programme, remote GP, private medical insurance and two wellbeing apps. — Counselling service available to all colleagues, as well as a remote GP. — Employee networks to support and engage with the various communities across the firm. — Employee Business Forum, which represents the views of the firm to leadership. — An IDE Policy and firm-wide training available to all KPMG Partners and employees. — A firm-wide Culture Steering Committee responsible for approving and steering the firm-wide culture strategy, plan and priorities – which include building trust through developing a speak-up culture and a psychologically safe environment and building out our leadership and management capability to support our magnet for talent agenda.

Our quality control and risk management systems

(continued)

Risk	Current risk landscape	Mitigations
Operational risks (continued)		
<p>9. Technology and information management (Trend: Increased)</p> <p>KPMG in the UK fails to provide the technology solutions required by the business to support its operations, reputation and growth, or to adequately protect existing technology solutions, resulting in a breach of the confidentiality, integrity and availability of these solutions. This may lead to an inability to provide key services to internal and external stakeholders, and reputational or financial loss.</p>	<ul style="list-style-type: none"> — Increased complexity of managing information risk as we move towards hybrid working. — Continued reliance on technology for hybrid working. — Increased importance of developing and investing in IT infrastructure for the future to support changing business needs. — Increasing technology and security requirements in contracts with clients and audited entities. — Impact of Brexit on the information lifecycle. 	<ul style="list-style-type: none"> — A three lines of defence model for management of information risk, including a central Information Assurance team and an Information Governance Oversight Committee. — An appointed Data Protection Officer and Chief Information Security Officer, each with specialist teams. — An information security management system, certified to ISO 27001, and Cyber Essentials Plus certification. — Ongoing mandatory training, covering information security, data protection and information management. — A programme of ongoing phishing resilience testing, security awareness focused on a range of themes including passwords, patching, phishing and social engineering. — Information Security, Information Governance and Data Protection policies and procedures. — Widespread use of Information Protection Plans in engagements and Introduction of Data Champions. — A multi-year Information Security Transformation Programme, introducing and embedding a new set of information security capabilities and services that can provide a more effective response to evolving cyber security threats and changes in regulations.
<p>10. Business operations, resilience and controls (Trend: No change)</p> <p>KPMG in the UK fails to define, implement and monitor the effectiveness of its policy, procedure and control framework, including in relation to its suppliers, and to ensure continuity in business operations. In addition, the UK firm fails to manage change effectively, resulting in control failure, and disruption to business operations and the services provided to clients and audited entities.</p>	<ul style="list-style-type: none"> — Importance of refining business processes and controls so that they are fit for purpose for hybrid working. — Impact of COVID-19 and Brexit on the ability of third party suppliers to continue to deliver goods and service to KPMG. — Planning for impact of operational separation of audit. — Importance of updating business processes and controls to align to the firm’s ESG strategy, as well as the expectations of external stakeholders. 	<ul style="list-style-type: none"> — A business continuity team which follows the business continuity best practice guidelines and complies with ISO22301 as confirmed by independent internal audit. — Defined business continuity and crisis management plans, and controls in place to support IT disaster recovery. — Three lines of defence model, including an internal audit team to review the design and operating effectiveness of key controls. — Board oversight of both internal and external audit quality reviews, recommendations and actions. — Compliance programmes including Quality Performance Reviews (QPR) and Global Risk Compliance Programme (RCP). — Focused preparation for both operational separation and the implementation of ISQM1, in close co-ordination with KPMG International. — ‘Hybrid working’ programme to oversee the impact of the firm’s move to hybrid working arrangements on colleague sentiment, wellbeing and development and ability to provide quality audit and non audit services.

Our quality control and risk management systems

(continued)

Risk	Current risk landscape	Mitigations
Financial risks		
<p>11. Financial management (Trend: Decreased)</p> <p>KPMG in the UK fails to execute against financial targets or manage medium to long term financial position and performance, for example due to delivering unprofitable services, poor investment decisions, and failure to ensure a resilient balance sheet, resulting in poor business performance, inability to achieve growth and negative impacts to the financial health of the firm.</p>	<ul style="list-style-type: none"> — Reduced levels of uncertainty in relation to the external environment due to more certainty around COVID-19, Brexit and the political landscape. — Continued importance of effective cost management. — Continued impact of COVID-19 on ability to collect payment for services delivered. — Disposals of the Pensions and Restructuring businesses. — Continued need to invest in our people, services and processes to ensure KPMG is fit for the future. 	<ul style="list-style-type: none"> — Budgets which are subject to various levels of approval through a thorough budgeting process. Board role in budget and performance oversight and Executive Board budgetary challenge. — Pricing panels, pipeline monitoring, WIP management processes and regular tracking of overdue invoices. Tools available across the firm. — Controls over investments and investment decisions. — Monthly financial analysis at firm and functional level, including challenge of headcount levels. — Finance policies, including the Spend Control Policy, Timesheet Policy and Expenses Policy. — Closely controlled procurement process and approvals, via technology platform.

Our quality control and risk management systems

(continued)

New compliance monitoring team

On 1 July 2021, the firm appointed a Head of Audit Regulatory Compliance. The firm's Audit Regulatory Compliance function's purpose is to deliver a dedicated compliance programme, testing outcomes to provide assurance that the processes, procedures and controls in place to meet regulatory requirements are operating effectively. They will critically measure and assess the success of the changes we undertake to address audit quality issues.

Internal Audit

Our Internal Audit function is led by a partner from the firm's Risk Consulting practice and provides independent and objective assurance on the adequacy and effectiveness of our governance, risk management and internal control processes. The Internal Audit plan was approved at the start of the year and was updated during the year to ensure that it remained appropriate and reflected changes to business and emerging risks including the heightened risks presented by the ongoing COVID-19 pandemic. The plan is devised by understanding the risk profile of the firm (whether strategic, operational, or change risks), considering other risk management, compliance and assurance activities and, therefore, agreeing what internal audit work is required.

In reviewing and approving the internal audit plan, the Audit Committee ensured a balance between coverage of the highest priority risks and maintaining appropriate coverage of the core business processes. The Internal Audit plan in place for 2021 included areas of focus such as information protection, recognising the importance of this area in the current environment.

During the year, the Internal Audit function was subject to an external quality assessment and received a "Generally Conforms" status against the professional standards for internal audit.

Risk Compliance Programme

The Risk Compliance Programme (RCP) is our annual self-assessment programme that monitors, assesses and documents firm-wide compliance with KPMG International's quality and risk management policies and applicable legal and regulatory requirements, including ISQC1.

Member firms are required to self-assess their overall levels of compliance as green, yellow or red. A green rating indicates that the firm is substantially compliant with KPMG's policies and procedures; yellow indicates that the firm is substantially compliant with KPMG policies and procedures and, although there may be several instances of non-compliance with policies or procedures, these do not indicate serious deficiencies within the firm as a whole; and red indicates that there are serious deficiencies. The firm's RCP evaluation also considers the results and status of action plans arising from other reviews assessing risk, quality and compliance, including QPRs and GCRs.

In 2021, our self-assessment found that our overall level of compliance is yellow (2020: yellow).

Global Compliance Review

The Global Compliance Review (GCR) is a triennial review focused on significant governance, risk management (including an assessment of the robustness of the firm's RCP), independence and financial processes. Representatives of KPMG International who are independent of the UK firm, undertake the review.

The UK firm was subject to GCR inspection during 2021 where a number of opportunities for improvement were identified, including areas which were generally identified by the UK firm's Audit Quality and Banking Audit Quality Improvement plans, RCP and other compliance and quality control processes.

Maintaining an objective, independent and ethical mindset

We have adopted the KPMG Global Independence Policies which are derived from the International Ethics Standards Board for Accountants Code of Ethics (the IESBA Code) and incorporate other applicable regulatory standards. For KPMG in the UK, we supplement these policies with other processes to ensure compliance with the FRC's 2019 Ethical Standard (FRC's 2019 ES).

These policies and processes cover areas such as firm independence, personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services. In the UK, the Ethics Partner is supported by a core team to help ensure that we apply robust and consistent independence policies, processes, and tools. Ethics and independence policies are set out in our intranet-hosted Quality & Risk Management Manual as well as various guidance materials on the internal UK Portal and reinforced through training which is delivered twice a year.

Failure to comply with the firm's independence policies, whether identified in the rolling compliance review, self-declared or otherwise, is factored into promotion and compensation decisions and, in the case of engagement leaders and managers, reflected in their individual ethics and compliance metrics. The Ethics Working Group oversees policies and procedures in relation to ethical matters and breaches of the requirements of the FRC's 2019 ES.

Personal independence

KPMG International policy extends the IESBA Code restrictions on ownership of audited entity securities to every member firm partner in respect of any audited entity of any member firm. KPMG in the UK has a policy whereby all staff who are involved in delivering professional services engagements are also prohibited from holding securities in companies audited by KPMG.

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 and we use a web-based independence compliance tracking system to assist our professionals in their compliance with personal independence investment policies.

We monitor partner and employee compliance with these requirements through undertaking a programme of independence compliance audits on a sample of professionals. In the year ended 30 September 2021, 497 (2020: 656) of our people were subject to these audits (this included approximately 20% of our partners) and in

accordance with KPMG International policy all partners and partner equivalents are compliance audited in a five year period, and those partners in a Chain of Command role are audited every three years.

In addition, all direct-entry partners are subject to a compliance audit as a condition of their admission to the Partnership and are subject to a further audit after 12 months in the firm.

The policy which we apply to members of the audit team being recruited by entities we audit goes beyond the requirements of the FRC's 2019 ES and requires any members of an audit team to inform the Ethics Partner of any potential employment with an entity we audit. We also prohibit all partners in our firm from accepting a director or key management position role at an entity that we audit within two years of retiring from the partnership.

Firm financial independence

KPMG in the UK maintains a record of its investments (made, for example, through pension and retirement plans and treasury activities) in our independence compliance system. This record is monitored through our compliance process.

Business relationships/suppliers

We have policies and procedures in place to ensure that business relationships are maintained in accordance with the FRC's 2019 ES and the IESBA Code. Consultation with our ethics and independence professionals is required in any case of uncertainty to ensure that no relationship is entered into with an entity we audit, or its management, which is not permitted for independence purposes and compliance with these policies and procedures is reviewed periodically.

Maintaining an objective, independent and ethical mindset

(continued)

Independence training and confirmations

We provide all relevant personnel (including all partners and staff who are involved in delivering professional services engagements) with independence training twice a year appropriate to their grade and business area and provide all new personnel with relevant training when they join the firm.

All personnel are required to sign an independence confirmation upon joining the firm. Thereafter, all personnel confirm annually they have remained in compliance with applicable ethics and independence policies throughout the period. In addition, partners and partner equivalents make an additional confirmation at the mid-year in respect of their personal investment compliance.

Audit engagement leader rotation

All audit engagement leaders are subject to periodic rotation of their responsibilities for entities we audit under applicable laws and regulations and independence rules which limit the number of years that engagement leaders may provide audit services to an audited entity. KPMG rotation policies comply with the requirements of the FRC's 2019 ES (and, where applicable for certain engagements, the rules of the PCAOB).

We monitor the rotation of audit engagement leaders and any other key roles where there is a rotation requirement, including the Engagement Quality Control reviewer, and have transition plans to enable us to allocate partners with the necessary competence and capability to deliver a consistent quality of service to audited entities.

Firm rotation

PIEs, as defined in the FRC's 2019 ES, are required to rotate their firm of auditors. Mandatory Firm Rotation (MFR) rules in the UK require that all PIEs must tender their audit contract at least every 10 years and change or rotate their auditor at least every 20 years. We have processes in place to track and manage MFR.

Non-audit services

We have policies regarding the scope of services that can be provided to companies for whom we are auditors which are consistent with the FRC's 2019 ES and the IESBA Code, and, where applicable, the rules of the SEC and PCAOB. KPMG policies require the audit engagement leader to evaluate the threats arising from the provision of non-audit services and the safeguards available to address those threats.

Every engagement intended to be entered into by a KPMG member firm is required to be included in our Sentinel™ tool, prior to starting work, enabling group lead audit engagement partners to review and approve, or deny, any proposed service for those entities worldwide.

Following the introduction in the FRC's 2019 ES of the narrow list of permissible non-audit services that may be provided to PIEs and OEPIs, we undertook service reviews for these entities to ensure compliance and timely communications with Audit Committees and those charged with governance about the changes.

To maintain auditor independence, no individual with the ability to influence the conduct and outcome of an audit can be rewarded for selling non-audit services to entities we audit.

Fee dependency

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

No entity to whom we provide audit services accounted for more than 10% of the total fees received by the firm in either of the last two years.

Conflicts of interest

Conflicts of interest may prevent our firm from accepting or continuing an engagement. Sentinel™ is also used to identify and manage potential conflicts of interest within and across member firms. Any potential conflict issues identified are resolved in consultation with other parties as applicable and the outcome is documented.

It may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise or be perceived to arise such as establishing formal dividers between engagement teams serving different audited entities. If a potential conflict issue cannot be resolved, the engagement is declined or terminated.

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

We provide training on compliance with laws (including those relating to anti-bribery and corruption), regulations, professional standards and our Code of Conduct to all partners and employees on joining the firm and annually thereafter. Other topics, including Fraud Risk Awareness, Anti-Money Laundering, Corporate Criminal Offences and Modern Slavery are run bi-annually for all partners and employees.

Statement by the Board on the effectiveness of internal controls and independence

Internal controls statement

The Board is responsible for the firm's system of internal controls and for reviewing its effectiveness. Such a system manages, rather than eliminates, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, loss, or non-compliance with relevant regulatory or legislative requirements. The day-to-day responsibility for managing our operations rests with the Executive Committee.

In accordance with the Audit Firm Governance Code, the Board has reviewed the effectiveness of its systems of internal control. In reviewing the systems of internal control and their effectiveness, it has adopted the approach prescribed within the UK Corporate Governance Code.

This monitoring covers risk management systems and all key controls, including those relating to finance, operations, quality, compliance and culture. It is based principally on the consideration and review of reports from relevant Executive Members and reports from the Audit, Risk and People Committees as well as from the Executive Committee and Audit Board to consider whether significant risks are identified, evaluated, managed and controlled.

During 2021, the Board has:

- Considered our risk assessment process (including the firm's Enterprise Risk Management Framework).
- Reviewed regular reports by the Chief Operating Officer on the firm's financial performance and on any emerging financial risks and issues, including COVID-19.
- Reviewed regular reports from the Chair of the Risk Committee on regulatory, risk and compliance matters, including the findings and associated action plans arising from the various compliance programmes operated by the firm and external regulatory inspections and reviews.
- The Chief Risk Officer is also a standing attendee at the Board meeting and can raise any other matters that require discussion with the Board.
- Considered reports to the Board made by the People, Audit, Risk Committees and the Audit Board on how each has discharged its duties in the year which included:
 - Results of Internal Audit work commissioned as part of the approved annual internal audit plan, and the progression on the resolution of weaknesses identified. In the reporting period, reviews have been completed covering key internal controls; and
 - Progress reports from the group's external auditors, Grant Thornton UK LLP on its annual audit and discussions with them on any control issues they have identified.
 - Updates relating to the Audit transformation programme and other quality improvement programmes relating to Audit quality.

Conclusions

The Board of KPMG LLP confirms that internal reviews of the effectiveness of internal controls and of independence practices within our firm have been undertaken. Our compliance and internal audit programmes identify deficiencies and opportunities for improvement, and in such instances, remediation activities are agreed with subsequent follow up to assess the extent to which the matters identified have been addressed satisfactorily.

However, matters arising from these activities are not considered, either individually or in aggregate, to undermine the overall system of internal control in place.

Compliance with requirements of Audit Firm Governance Code

The Board has reviewed the provisions of the Audit Firm Governance Code and confirms that the firm complied with these provisions throughout the year ended 30 September 2021.

Section 6

Financial information

**Financial information
in respect of audit and
directly related services.**



Financial information

Under Article 13.2 of the EU Audit Regulation (subsequently incorporated into UK law) we are required to disclose certain financial information in respect of statutory audit work. In addition, the Consultative Committee of Accountancy Bodies issued the Voluntary Code of Operative Practice on Disclosure of Audit Profitability in March 2009 requiring disclosures in respect of audit and directly related services, where audit and

directly related services meet the definition of 'reportable segment' as set out in the Voluntary Code. The disclosures below meet both requirements.

The information below showing the relative importance of statutory audit work is extracted from KPMG in the UK's financial reporting systems.

Relative importance of statutory audit work

	2021 £m	2020 £m
Statutory audits and directly related services for entities we audit:		
EU public interest entities and their subsidiaries (see Appendix 6)	225	213
Major Local Audits (see Appendix 6)	3	5
Other entities	418	421
Statutory audit and directly related services for audited entities	646	639
Non-audit services for audited entities	150	153
Non-audit services for non-audit clients	1,637	1,511
Total UK firm revenue	2,433	2,303
Statutory audit and directly related services for audited entities:		
Revenue	646	639
Operating profit	73	53

Revenue and operating profit have been recognised for the reportable period based on the firm's unaudited consolidated financial statements:

- Revenue represents amounts recovered or recoverable from clients and the entities we audited during the year, exclusive of Value Added Tax.
- Recoverable amounts reflect the fair value of the services provided to those entities based on the stage of completion of each engagement including expenses and disbursements, as at the balance sheet date.

Operating profit for the reportable segment is calculated based on an allocation of direct costs and an allocation of overheads (such as property and IT costs) on a pro rata basis. The basis of allocation is primarily on headcount or revenue as well as an allocation of costs directly attributable to the reported segment based on information in our internal management accounts.

No cost is included for the remuneration of members of KPMG LLP. This is consistent with the treatment of partners' remuneration in the firm's consolidated financial statements.

With the transition of the Audit practice to an operationally separated business and the implementation of the FRC's principles of operational separation, we expect there may be changes that could have an impact on reported revenues and profits generated from audit activities in future years.

Appendices

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Audit Firm Governance Code

Regulatory context

From 31 January 2020, the United Kingdom (UK) was no longer part of the European Union (EU). However, pursuant to an agreement between the UK and EU, the UK remained part of the EU customs union and single market, and continued to apply EU law, until the end of the transition period on 31 December 2020.

This Audit Transparency Report relates to KPMG in the UK's activities for the year ended 30 September 2021 and, therefore, spans the end of the transition period. For the purposes of transparency reporting and to aid consistency, we have continued to apply EU regulation throughout the year and have prepared this Report in accordance with Article 13 of Regulation No 537/2014 of the European Parliament and of the Council of 16 April 2014 (the EU Audit Regulation). While EU Audit Regulation 537/2014 is no longer directly applied in the UK, most of the content

of that Regulation has been transposed into UK law through The Statutory Auditors and Third Country Auditors (amendment)(EU Exit) Regulations 2019 (as amended) taking effect on 1 January 2021. This Report also includes disclosures required by the 2016 Audit Firm Governance Code, which sets a benchmark for good governance and applies to UK firms auditing 20 or more listed companies.

Under the Audit Firm Governance Code, the firm should give details of any additional provisions from the UK Corporate Governance Code which it has adopted within its own governance structure.

KPMG in the UK has adopted governance processes that comply with the following provisions of the UK Corporate Governance Code, above and beyond the requirements of the Audit Firm Governance Code:

Requirement

Response

A.1.1 The board should meet sufficiently regularly to discharge its duties effectively. There should be a formal schedule of matters specifically reserved for its decision. The annual report should include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management.

The Board had ten business-as-usual meetings, twenty-four ad-hoc meetings and seven extraordinary meetings. The firm's constitutional documents set out matters reserved for its decision. Details of the Board's operations are set out in Section 2.

B.2.2 The nomination committee should evaluate the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.

The role of a nomination committee is included in the People Committee's terms of reference. During the year, the People Committee formed an Extended Nominations Committee which oversaw the Chief Executive election process. The People Committee's role and activities are set out in Section 2.

B.2.3 Non-executive directors should be appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a director. Any term beyond six years for a non-executive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board.

Elected Members of the Board do not have Executive responsibilities and are appointed for terms of either two or three years, subject to an aggregate maximum of five years.

B.3.1 For the appointment of a chairman, the nomination committee should prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises.

The Extended Nominations Committee prepared a job description for the role of Chair as part of the Chief Executive election process in March 2021.

B.4.1 The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board.

New Members of the Board complete an induction programme upon appointment to the Board.

B.6.2 Evaluation of the board should be externally facilitated at least every three years.

External facilitators are appointed every three years to evaluate the Board's effectiveness. The 2021 Board Effectiveness Review has been initiated and any recommendations that are implemented as a result of that review will be reported on in next year's Transparency Report.

B.6.2 The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors.

The People Committee (comprising Elected Members of the Board) evaluate the Chair's performance. The INE who attends the Committee chairs the discussion while the Senior Elected Member (SEM) of the Board gathers feedback and data, and makes recommendations for consideration by the Committee. In the event the SEM is the Chair, the feedback and data is gathered by the Chair of the People Committee.

Key performance indicators for the governance system

Requirement	Response
The Board should meet at least six times each year with a minimum attendance target of 80% over a 12-month rolling period.	The Board had ten business as usual meetings, twenty four ad-hoc meetings and seven extraordinary meetings with members average attendance of 96%.
The gender diversity of the Board should be composed of a minimum one third women.	At 30 September 2021 the Board included 56% female members.
There should be a diverse range of skills represented in the composition of the Board (by reference to each triennial evaluation of Board effectiveness).	There is a diverse range of skills represented on the Board. The appointment of nominated Board members provides a mechanism for maintaining appropriate diversity of skills.
As part of the firm's culture assessment, the firm should hold an annual People Survey or Pulse Survey, with the Board acting upon the findings.	A Global People Survey was undertaken in autumn 2021. The UK findings (which provide data on engagement and other key metrics about partners' and employees' relationships with the firm) are scheduled to be tabled at the Board in the spring where results will be discussed and action taken where appropriate.
There should be at least three UK INEs, and the Public Interest Committee should meet at least four times each year. On an annual basis, the Board must satisfy itself that the INEs remain independent from the firm.	At 30 September 2021 there were four INEs. The Public Interest Committee had four formal meetings and two ad-hoc meetings during the year. The Board has considered and (based on compliance returns, disclosures and relevant independence checks) is satisfied that the INEs remain independent from the firm.
The Audit Board should meet at least six times each year to oversee the focus on audit quality.	The Audit Board had eight business-as-usual meetings and three special meetings.
The Board should review the annual Transparency Report to satisfy itself that it is fair, balanced and understandable, and complies with the Audit Firm Governance Code, or explains otherwise.	The Board has considered the disclosures within the Transparency Report and considers the report to be fair, balanced and understandable and in compliance with the Audit Firm Governance Code. The Board note that the Audit Firm Governance Code at 30 September 2021 is under consultation.
The terms of reference for all Board Committees are reviewed annually as a minimum.	The terms of reference for all Board Committees were reviewed during the year.
External Board evaluation conducted tri-annually.	The external review was initiated in the summer of 2021. Any recommendations that are implemented as a result of that review will be reported on in next year's Transparency Report.
There is an annual self-assessment of Board and Committees' effectiveness (unless external review is undertaken).	An external review of Board effectiveness was initiated during the year and any recommendations that are implemented as part of that review will be reported on in next year's Transparency Report.
Board comprises a minimum of two practising audit partners.	During the year the Board included Michelle Hinchliffe and Tony Cates (retired in September 2021) as practising auditors. In addition, Jon Holt was appointed to the Board in his role as Head of Audit (as a practising auditor) in February 2021 and subsequently as Chief Executive in April 2021.
Board comprises more than 50% members who are qualified auditors (per s.1219 of the Companies Act 2006 or equivalent).	During the year the Board comprised more than 50% members who are qualified auditors.
The Board should satisfy itself on at least an annual basis that a formal programme of investor dialogue is occurring.	The Board has assessed that an appropriate level of investor dialogue is in place as summarised on page 54.

Board and Committees of the Board membership

The Roles of Chief Executive and Chair were split in February 2021. Our UK Board as of 30 September 2021 comprised the Chair (also the Senior Elected Member), the Chief Executive, Chief Operating Officer, one Nominated Member and five other Elected Members.

UK Board

Bina Mehta

Chair

Bina has been a partner since 2015 and joined the UK Board as Senior Elected Member on 20 July 2021. Bina was appointed Chair of the Board on 22 February 2021.

Jonathan Holt

Chief Executive

Jon was appointed Chief Executive on 9 April 2021 following an election process. Jon was previously the Head of Audit and a member of the Executive Board (now called Executive Committee).

Linda Main

Elected member

Linda has been a partner since 2001 and joined the Board on 1 October 2019. She chairs the Risk Committee and is a member of the Audit Committee.

Melissa Geiger

Elected Member

Melissa has been a Partner since 2017 and joined the Board on 14 October 2019. Melissa chairs the People Committee and is a member of the Risk Committee.

Annette Barker

Elected Member

Annette has been a partner since 2016 and joined the Board on 22 October 2020. Annette is a member of the Risk Committee.

John Hallsworth

Elected Member

John has been a partner since 2010 and joined the Board on 8 September 2021. John is a member of the People Committee.

Anthony Lobo

Elected Member

Anthony has been a partner since 2007 and joined the Board on 18 November 2020. Anthony is Chair of the Audit Committee and a member of the Audit Board.

Michelle Hinchliffe

Nominated Member

Michelle has been a partner since 1997 and joined the Board on 1 May 2019. Michelle is a member of the Audit Committee and Audit Board.

Tim Jones

Chief Operating Officer

Tim has been a partner since 2005 and joined the Board on 1 June 2019.

Changes close to or after the year end

The following changes have occurred close to or subsequent to year end:

- John McCalla-Leacy was appointed to the Board in November 2020 and was succeeded by John Hallsworth on 8 September 2021. He was a member of the People Committee and was succeeded by John Hallsworth on 8 September 2021.
- Tony Cates retired as a Nominated Member of the Board, Chair of the Audit Committee and Chair of the Audit Board with effect from 7 September 2021.
- Claire Ighodaro succeeded Tony Cates as Chair of the Audit Board with effect from 30 September 2021²⁴.
- Anthony Lobo was appointed as a member of the Audit Committee on 17 December 2020 and succeeded Tony Cates as Chair of the Audit Committee with effect from 7 September 2021. He was also appointed as a member of the Audit Board on 19 February 2021.
- Melanie Hind was appointed as a member of the Audit Board with effect from 30 September 2021.
- Kathleen O'Donovan was appointed as a member of the Audit Board with effect from 30 September 2021.
- Michelle Hinchliffe was appointed as a member of the Audit Committee on 29 September 2021.

²⁴ There were no Audit Board meetings in the transition period from Tony Cates to Claire Ighodaro.

Board and Committees of the Board membership

(continued)

The Executive Committee (previously called Executive Board) was established on 1 June 2019 and reconstituted following the appointment of Jon Holt as Chief Executive.

Executive Committee

Jonathan Holt

Chief Executive and Chair

Jon has been a partner since 2006. He took up the position of Chief Executive following an election on 9 April 2021.

Chris Heard

Head of Regions

Chris has been a partner since 2004.

Catherine Burnet

Head of Audit

Cath has been a partner since 2009 and was appointed as Head of Audit in May 2021.*

Tim Jones

Chief Operating Officer

Tim has been a partner since 2005.

Lisa Heneghan

Chief Digital Officer

Lisa has been a partner since 2011.*

Suzanne Shenton

Head of KPMG Business Services

Suzanne has been a partner since 2017.*

Dan Thomas

Head of Corporates

Dan has been a partner since 2008.*

John Bennett

Chief Risk Officer

John has been a partner since 2013.

Rachel Hopcroft

Head of Corporate Affairs

Rachel has been a partner since 2018.

Kevin Hogarth

Chief People Officer

Kevin has been a partner since joining KPMG in 2020.

Victoria Heard

Head of Tax and Legal

Victoria has been a partner since 2014.*

David Rowlands

Head of Consulting

David has been a partner since 2009.*

Liz Claydon

Head of Deal Advisory

Liz has been a partner since 2007.*

Karim Haji

Head of Financial Services

Karim has been a partner since 2009.*

Changes made to our governance during the year

As noted in Section 2, during the course of the year we have implemented a number of important changes to our governance. These are driven by our ongoing desire to ensure that the firm's leadership structure supports our public interest objectives effectively, combined with early adoption of the FRC's published principles of operational separation of the Audit practice. As a result of the split of the roles of Chair and Chief Executive, the refreshed governance provides additional transparency and checks and balances with a focus on longer term sustainability and performance of the firm.

The most important changes are:

- Strengthening the governance of our Audit practice by appointing three independent Audit Non-Executives to our Audit Board, one of whom is the Audit Board Chair, to provide additional transparency and independence (effective 30 September 2021).
- Splitting the roles of Chair and Chief Executive.
- Updating the terms of reference of our Board and Committees to reflect the split of the roles of Chair and Chief Executive as well as to ensure effective liaison between the various governance bodies.
- Simplifying the governance at the Executive Committee level by discontinuing the Clients and Markets Executive and aligning the membership of the Executive Committee more closely to the business.

* Additional member appointed following reconstitution.

Board and Committees of the Board membership

(continued)

Non-Executives as at 30 September 2021

Lord Evans of Weardale

Chair of the Public Interest Committee
(Independent Non-Executive)

Jonathan Evans joined the Public Interest Committee on 23 March 2017 and became its Chair on 1 October 2019. Jonathan was Director General of MI5 from 2007 to his retirement in 2013, having spent his career in the UK Security Service. From 2013 to 2019 he was a Non-Executive Director of HSBC Holdings. Jonathan is currently Chair of the Committee on Standards in Public Life, a Non-Executive Director of Ark Data Centres Limited, an advisor to several small tech companies and Chairman of Kent Search and Rescue.

Claire Ighodaro CBE

Chair of the Audit Board
(Audit Non-Executive)

Claire Ighodaro CBE joined the Audit Board as its Chair on 30 September 2021. She is Board Chair of AXA XL – UK, Remuneration Committee Chair of Pennon Group PLC and a Leadership Council Member of TheCityUK. Her previous board roles include Audit Committee Chair of Lloyd's of London, Flood Re, UK Trade & Investment, and the Open University, Governance Committee Chair of Bank of America's Merrill Lynch International and Board Member of the International Ethics Standards Board for Accountants. She was a senior executive at BT PLC, working in the UK and Germany and was the first female President of CIMA (the Chartered Institute of Management Accountants).

Claire is a volunteer mentor on both executive and young people's development programmes and was awarded an honorary doctorate by the Open University and a CBE, by HM the Queen, for services to business.

Anne Bulford CBE OBE

Member of the Public Interest Committee
(Independent Non-Executive)

Anne joined the Public Interest Committee on 1 May 2019. She is a Chartered Accountant, a Non-Executive member of the Executive Committee of the Army Board, a Non-Executive Director of Reach plc, Chair of GOSH Children's Charity and a Royal Ballet Governor. Previous roles include Deputy Director General of the BBC, Channel 4's Chief Operating Officer, Director of Finance and Business Affairs at the Royal Opera House, Chair of Ofcom's Audit Committee and Finance Director at Carlton Productions.

Oonagh Harpur

Member of the Public Interest Committee
(Independent Non-Executive)

Oonagh Harpur joined the Public Interest Committee on 30 April 2018. Oonagh has over 30 years' experience in the boardroom including 14 years in CEO roles in the private, public and third sectors. Her experience spans partnerships and professional service firms, financial and health services.

Oonagh is also a member of the Civil Service Talent Advisory Group and the Culture Observatory Advisory Board, a trustee of the Scientific and Medical Network and senior board advisor to a number of professional service firms.

Melanie Hind

Member of the Audit Board
(Audit Non-Executive)

Melanie Hind joined the Audit Board on 30 September 2021. She is a former PwC audit and advisory partner, a former Chief Risk Officer and held the role of Executive Director at the FRC between 2012 and 2018. Since then, she has advised on accounting and audit regulation, and in 2020 acted as Head of Assurance Quality at BDO International.

Melanie has also held non-executive roles associated with her role at the FRC; she was a board member of the International Forum of Independent Audit Regulators, chairing its Global Audit Quality working group, and is a former member of the Advisory Council to the International Financial Reporting Standards Foundation.

Melanie has experience as an independent board member in the private and non-profit sectors in the UK and USA. She was a Board member and Chair of the Risk, Audit and Compliance Committee for the UK Municipal Bonds Agency and is currently a Board Member of My Sister's Place.

Kathleen O'Donovan

Member of the Public Interest Committee and Audit Board
(Audit Non-Executive and Independent Non-Executive)

Kathleen O'Donovan joined the Public Interest Committee on 1 July 2019 and the Audit Board on 30 September 2021. She is currently the Chair of the Invensys Pension Scheme and Founder Partner of Bird & Co Board & Executive Mentoring Ltd.

Formerly she has held Non-Executive Director roles at ARM Holdings Plc, DS Smith plc, Prudential plc, O2 Plc, Great Portland Estates plc, EMI Group plc and the Bank of England. Kathleen was also co-Chair of International Rescue Committee UK, a charity supporting conflict zone refugees. She trained as a Chartered Accountant and her previous roles include CFO of BTR plc/Invensys plc and Partner at Ernst & Young.

Board and Committees of the Board membership

(continued)

Meeting attendance records for the year ended 30 September 2021

(Meetings eligible to attend in brackets)²⁵

	Board	Public Interest Committee	Audit Board	Audit Committee	People Committee	Risk Committee	Executive Board ²⁶	Executive Committee ²⁶
Bina Mehta	10 (10)	4 (4)	-	-	11 (11)	7 (10)	-	-
Jonathan Holt	5 (6)	-	8 (10)	-	-	-	6 (6)	5 (5)
Annette Barker	9 (9)	-	-	-	-	8 (9)	-	-
Jeremy Barton	10 (10)	4 (4)	8 (11)	-	-	10 (10)	6 (6)	5 (5)
John Bennett	6 (6)	3 (3)	6 (6)	-	-	9 (10)	6 (6)	5 (5)
Sue Bonney	1 (1)	-	-	-	1 (1)	-	-	-
Larry Bradley	-	-	11 (11)	-	-	-	-	-
Anne Bulford	9 (10)	4 (4)	-	7 (7)	-	-	-	-
Catherine Burnet	-	-	10 (11)	-	-	-	-	4 (4)
Tony Cates	10 (10)	-	10 (10)	6 (6)	-	8 (9)	-	-
Liz Claydon	-	-	-	-	-	-	-	4 (4)
Jonathan Evans	9 (10)	4 (4)	-	-	-	10 (10)	-	-
Melissa Geiger	9 (10)	-	3 (4)	-	11 (11)	1 (10)	-	-
Karim Haji	-	-	-	-	-	-	-	4 (4)
John Hallsworth	-	-	-	-	1 (1)	-	-	-
Oonagh Harpur	10 (10)	4 (4)	3 (3)	-	11 (11)	-	-	-
Chris Hearld	-	-	-	-	-	-	6 (6)	5 (5)
Victoria Heard	-	-	-	-	-	-	-	4 (4)
Lisa Heneghan	-	-	-	-	-	-	-	3 (4)
Michelle Hinchliffe	10 (10)	3 (3)	10 (11)	1 (1)	-	-	-	-
Melanie Hind	-	-	1 (1)	-	-	-	-	-
Kevin Hogarth	-	-	-	-	10 (10)	-	5 (5)	5 (5)
Rachel Hopcroft	3 (3)	-	-	-	-	0 (4)	-	2 (2)
Claire Ighodaro	-	-	1 (1)	-	-	-	-	-
Tim Jones	10 (10)	-	-	1 (1)	3 (11)	-	6 (6)	4 (5)
Paul Korolkiewicz	2 (2)	-	-	3 (3)	-	0 (2)	-	-
William Lambe	-	-	-	3 (3)	-	-	-	4 (4)
Anthony Lobo	8 (8)	-	8 (8)	4 (5)	-	1 (1)	-	-
Linda Main	10 (10)	-	1 (1)	7 (7)	-	10 (10)	-	-
John McCalla-Leacy	9 (9)	-	-	-	9 (9)	-	-	-
Bill Michael	4 (4)	1 (1)	-	-	0 (5)	0 (5)	5 (5)	-
Mary O'Connor	5 (6)	1 (2)	-	-	-	-	6 (6)	-
Kathleen O'Donovan	9 (10)	4 (4)	10 (11)	-	-	-	-	-
David Rowlands	-	-	-	-	-	-	-	4 (4)
Suzanne Shenton	-	-	-	-	-	-	-	3 (3)
James Stewart	5 (5)	2 (2)	6 (6)	-	-	5 (5)	-	-
Dan Thomas	-	-	-	-	-	-	-	4 (4)
Steve Wardell	-	-	11 (11)	-	-	-	-	-
Matthew Young	6 (9)	-	-	-	-	3 (6)	4 (6)	1 (3)

²⁵ Numbers in italics relate to standing invitees of the Committees only and as such attendance is optional.

²⁶ The Executive Board was reestablished as the Executive Committee with effect from April 2021 with new members joining from May 2021.

Network arrangements

Legal structure

On 1 October 2020, KPMG in the UK and all other KPMG firms entered into new membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organisation became members in, or have other legal connections to, KPMG International Limited ("KPMG International"), an English private company limited by guarantee.

Since 1 October 2020, KPMG International has been the co-ordinating entity for the overall benefit of the KPMG member firms. It does not provide professional services to audited entities or clients. Professional services to audited entities or clients are exclusively provided by member firms.

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

Pursuant to their membership agreements with KPMG International, member firms are required to comply with KPMG International's policies, including quality standards governing how they operate and how they provide services to compete effectively. This includes being professionally and financially stable; having an ownership, governance and management structure that ensures continuity and stability and long-term success; and being able to comply with policies issued by KPMG International, adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools.

KPMG International and the KPMG member firms are not a global partnership, single firm, multinational corporation, joint venture, or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International, any of its related entities or any other member firm vis-à-vis third parties, nor does KPMG International or any of its related entities have any such authority to obligate or bind any member firm.

Further detail on the revised legal and governance arrangements for the KPMG global organisation from 1 October 2020 can be found in the 'Governance and leadership' section of the 2021 KPMG International Transparency Report²⁷.

Insurance cover is maintained in respect of professional negligence claims. The cover provides a territorial coverage on a worldwide basis.

Governance

The key governance and management bodies of KPMG International are the Global Council, the Global Board, and the Global Management Team. Further details on KPMG International's governance structure can be found in the 2021 KPMG International Transparency Report²⁷.

Total turnover achieved by EU/EEA audit firms resulting from the statutory audit of annual and consolidated financial statements²⁸

Aggregated revenues generated by KPMG firms²⁹, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was 2.05 billion euros during the year ended 30 September 2021. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent currently calculable and translated at the average exchange rate prevailing in the 12 months ended 30 September 2021.

The name of each audit firm that is a member of the organisation and the EU/EEA countries in which each firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available on our website³⁰.

²⁷ <https://home.kpmg/xx/en/home/about/kpmg-international-transparency-report.html>.

²⁸ The financial information set forth represents combined information of the separate KPMG firms from EU and EEA Member States that perform professional services for clients. The information is combined here solely for presentation purposes. KPMG International performs no services for clients nor, concomitantly, generates any client revenue.

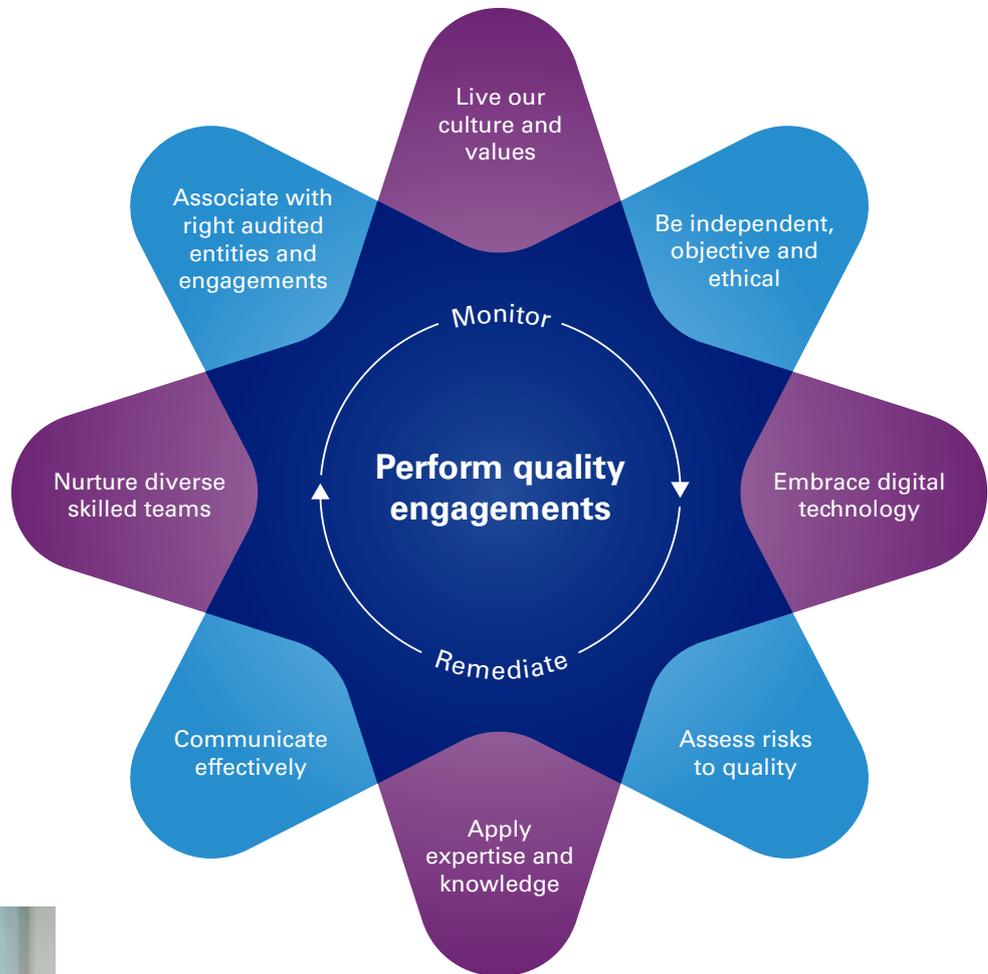
²⁹ Does not include revenues from UK.

³⁰ <https://assets.kpmg/content/dam/kpmg/xx/pdf/2021/12/list-of-audit-firms-located-in-eu-and-eea-countries-30-sep.pdf>

Our Audit Quality Framework

Our Quality Framework describes how our commitment to integrity and quality lie at the heart of the way we do things at KPMG, serving the public interest. KPMG’s refreshed Quality Framework provides a common language across our global network to describe what we believe drives quality.

The commitment to ‘Perform quality engagements’ sits at the core of our audit quality drivers. Our approach to audit quality relies on exceptional people having access to the right knowledge at the right time, and harnessing industry leading technology on every engagement. Our global commitment to continually monitor and remediate to fulfil these drivers is central to our approach to quality.



Our Audit Quality Framework

(continued)

1. Perform quality engagements



- Critically assess audit evidence, using professional judgement and scepticism.
- Direct, coach, supervise and review, including Second Line of Defence and EOQR.
- Appropriately support and document conclusions.
- Monitor engagement milestones.
- Consult when necessary.

Critical assessment of audit evidence, exercise of professional judgement and professional scepticism

We consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence. The analysis of the audit evidence requires each of our team members to exercise professional judgement, maintain professional scepticism and demonstrate appropriate challenge to obtain sufficient appropriate audit evidence.

Professional judgement and scepticism training are embedded in our core audit technical training programme for junior staff and ongoing training for more experienced staff.

Timely senior involvement and monitoring of milestones

The engagement leader is responsible for the overall quality of the audit engagement and therefore for the direction, supervision and performance of the audit. Involvement and leadership from the engagement leader early in the audit process helps set the appropriate scope and tone for the audit. To reinforce this, we mandate the completion and review of audit planning activities within specified timeframes to evidence completion of the relevant planning activities.

The engagement leader reviews key audit documentation – in particular documentation relating to significant matters arising during the audit and conclusions reached. The engagement manager assists the engagement leader in meeting these responsibilities as well as in the day-to-day liaison with the audited entity and monitoring of engagement milestones.

Involvement of our Second Line of Defence

Our Second Line of Defence team is a group made up of senior auditors which supports our higher risk engagements with a focus on public interest and listed entities. The team performs in-flight reviews of audits to improve the quality of audit execution and documentation, including effective challenge of management in judgemental areas. These senior auditors also help throughout the audit cycle, to identify issues before they impact audit quality. This has a dual purpose, firstly to enable coaching of teams and secondly to act as another level of review and challenge to help engagement teams in the delivery of high-quality audits.

Appropriate and timely involvement of specialists

Our engagement teams have access to a network of specialists, and this may include involving UK specialists or those from other KPMG member firms. Our audit methodology requires the involvement of relevant specialists in the core audit engagement team when certain criteria are met or where the audit team considers it appropriate or necessary.

Our Audit Quality Framework

(continued)

Appropriate involvement of the Engagement Quality Control Reviewer

Our Engagement Quality Control Reviewers (EQCRs) are independent of the engagement team and have appropriate experience and knowledge to perform an objective review and challenge of the more critical and judgemental elements of the audit. The audit report can only be released when the EQCR is satisfied that all significant questions raised have been resolved.

An EQCR is 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 EQCR under applicable laws or regulations, and other engagements as designated by the Audit Risk Management Partner or the UK Head of Audit.

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

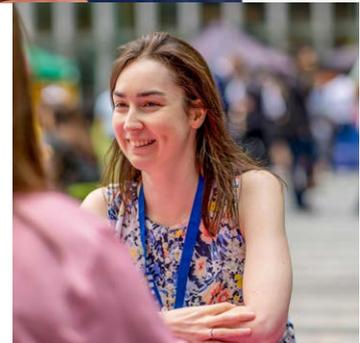
To invest in building the skills and capabilities of our professionals we use a continuous learning environment. We support a coaching culture throughout KPMG as part of enabling personnel to achieve their full potential.

Our Coaching for Quality programme was developed with the support of external behavioural psychologists and gives colleagues the tools they need to have productive coaching conversations.

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.

Standardised approaches and workpapers assist our audit teams with appropriately supported and documented conclusions.



Our Audit Quality Framework

(continued)

2. Associate with the right audited entities and engagements



- Follow acceptance and continuance policies.
- Accept appropriate engagements.
- Manage portfolio of engagements.

Rigorous engagement acceptance and continuance policies and processes are vitally important to our ability to provide quality audits and to protect KPMG’s reputation and support its brand.

We evaluate all prospective audited entities before accepting them. These include a review of any non-audit services provided to the entity and of other relevant relationships and matters which may have a bearing on our independence. We also perform background checks on the prospective audited entity, its key management and beneficial owners. A key focus is on the integrity of management.

A second partner, as well as the evaluating partner, approves the prospective audited entity evaluation. Where the audited entity is considered to be ‘high risk’ the Risk Management Partner is involved in approving the evaluation. Each prospective engagement is also evaluated. The engagement leader evaluates this in consultation with other senior personnel and Risk Management leadership as required.

A range of factors are considered as part of this evaluation including potential independence and conflict of interest issues as well as factors specific to the type of engagement. Controls are built into our engagement management system to ensure we complete the audited entity and engagement acceptance process appropriately.

Additional safeguards may be introduced to help mitigate any identified risks and potential independence or conflict of interest issues are documented and resolved prior to acceptance. We will decline a prospective audit engagement if a potential independence or conflict issue cannot be resolved satisfactorily.

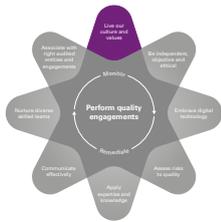
Audit services are reviewed at least annually. Audited entities are re-evaluated earlier if there is an indication that there may be a change in their risk profile. Recurring or long-running engagements are also subject to periodic re-evaluation.



Our Audit Quality Framework

(continued)

3. Live our culture and values



- Foster the right culture, starting with tone at the top.
- Clearly articulate strategy focused on quality, consistency, trust and growth.
- Define accountabilities, roles and responsibilities, including for leadership.
- Oversee using robust governance structures.

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

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

You can read more about our people and culture strategy in Section 3.



Our Audit Quality Framework

(continued)

4. Be independent, objective and ethical



- Act with integrity and live our values.
- Maintain an objective, independent and ethical mindset, in line with our code of conduct and policies.
- Have zero tolerance of bribery and corruption.

Auditor independence is a cornerstone of international professional standards and regulatory requirements.

We have adopted the KPMG Global Independence Policies which are derived from the International Ethics Standards Board for Accountants Code of Ethics (the IESBA Code) and incorporate other applicable regulatory standards. For KPMG in the UK, we supplement these policies with other processes to ensure compliance with the FRC’s 2019 Ethical Standard.

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

Compliance with laws, regulations and standards is a key aspect for everyone at KPMG. In particular, we have zero tolerance of bribery and corruption.

We prohibit involvement in any type of bribery – even if such conduct is legal or permitted under applicable law or local practice. We also do not tolerate bribery by third parties, including by the entities we audit, our suppliers or public officials.

Further information on KPMG International anti-bribery and corruption policies can be found on the [anti-bribery and corruption site](#).

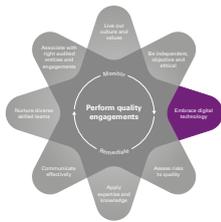
To read more about quality control and risk management see Section 5.



Our Audit Quality Framework

(continued)

5. Embrace digital technology



- KPMG Clara.
- Intelligent, standards-driven audit workflow.
- Digital data and emerging technologies.

We recognise that in order to deliver quality audits, we need to continually evolve and develop our technology solutions to keep pace with today’s digital world. That is why we have embarked on a process of reimagining our audit technology platform and methodology to provide enhanced consistency and support to our audit teams, deliver more detailed insights, and future-proof our systems for the expected continued development of new technologies such as robotic process automation and machine learning. The continuation of this process has seen a new workflow and revised audit methodology embedded into our new smart audit platform, KPMG Clara.

Limited deployment of the new KPMG Clara workflow took place in the UK during 2019 and 2020. Full deployment started in 2021 and is expected to be completed by the Summer of 2023. The release of the KPMG Clara workflow and the new and enhanced audit methodology is an important milestone in KPMG’s journey to innovate, digitalise and transform the audit experience for our people. It is a significant investment that underlines our commitment to audit quality, consistency and innovation.

The implementation of KPMG Clara workflow introduces a new way of working for our audit teams which delivers the refreshed global methodology and supports consistent performance of our audits across the global network.

The refreshed methodology is easy to understand and is aligned to the language of the International Standards on Auditing (ISA), delivering the requirements of these standards. Improved risk identification and assessment is at the core of the audit approach, embedding the principles of ISA 315 (Revised) in the approach. This enables improved tailoring of our audit response to the risks identified. Incremental UK Standards requirements, and UK policy requirements are delivered alongside the KPMG Clara workflow to support consistent and effective execution of quality audits.

The KPMG Clara workflow gives a foundation for use of existing data and analytics capabilities on our audits today and facilitates the continued transformation of the way we execute audits.

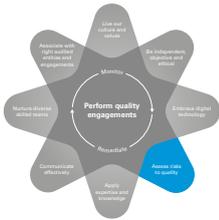
To learn more about KPMG Clara and our other technology based tools, see Section 4.

Our Audit Quality Framework

(continued)

6. Assess risks to quality

- Identify and understand risks to delivering quality engagements and implement effective mitigating controls.



KPMG in the UK have a number of quality processes and controls that are designed to identify and understand the risks to delivering quality engagements at both the practice level and the individual engagement level. With the issue of the new quality management standard (ISQM 1), which was approved by the FRC in July 2021 and is effective as of 15 December 2022, a number of the quality control processes have been refined.

The key quality control processes include:

- Annual portfolio reviews: individual partner and director portfolios are monitored and reviewed on an annual basis.
- Accreditation process: only partners and employees with the appropriate training and experience are assigned to engagements and are appropriately licensed where necessary.
- Audit Risk Panels: high risk audit engagements have two panels (one at planning and one at completion) that challenge the audit team on the key audit judgements.
- Second Line of Defence: a dedicated team that review the audit documentation of the significant audit areas on the majority of our listed audits prior to the audit report being signed.

- Pre-issuance Review of financial statements: the independent review by DPP Accounting & Reporting of all listed financial statements prior to the audit report being signed.
- Mandatory Consultations: the requirement for audit teams to consult on key judgement areas such as going concern.
- The ‘Emerging Issues’ process: this identifies, in real time, recurring themes arising from our external inspections, internal Quality Performance Reviews and other quality processes and recommends actions that are ratified by our Audit Quality Council.
- Root Cause Analysis: an independent root cause analysis is undertaken on all key findings raised by external inspections together with the findings from our internal monitoring processes.



Our Audit Quality Framework

(continued)

7. Apply expertise and knowledge



- Methodology aligned with professional standards, laws and regulations.
- Deep technical expertise and knowledge.
- Quality and risk management manual.
- Standardised workpapers and guidance.

A UK lens on our global methodology and standardising our approach

The transition to KPMG Clara workflow brings with it an opportunity to introduce our global new methodology which is delivered to teams in KPMG’s Audit Execution Guide. It is based on the requirements of the International Standards on Auditing (ISAs) and all member firms are required to follow this global methodology. This includes additional requirements that go beyond the ISAs and which KPMG believes enhance the quality and value of our audits. KPMG in the UK also adds local requirements and guidance to comply with additional professional, legal or regulatory requirements specific to the UK and our own internal policies.

Our new methodology is clear and easy to understand with a real focus on the risk continuum so our audit teams can execute consistently against our quality standards. Our increased focus on audit quality in the UK means we welcome these enhancements which are being introduced globally. As ever, in the UK we will continue to develop our audit methodology to remain in step with changes in laws and regulations.

Standardised workpapers and guidance assist our audit teams in bringing greater consistency to our audits.

Ensuring our people have the right technical expertise and knowledge

We are committed to ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge, experience and training. Our accreditation process enables us to ensure the right partners and employees are assigned to engagements and are licensed where necessary.

Our technical learning curriculum provides a core training programme for all colleagues and differs by grade, role and experience level. To read more about the training for our audit professionals, refer to Section 4.

Developing business understanding and industry knowledge

A key part of engagement quality is having a detailed understanding of the audited entity’s business and industry. For significant industries global audit sector leads are appointed to support the development of relevant industry information, which is made available to audit professionals. This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes).

KPMG Clara provides our audit teams with access to industry knowledge with libraries embedded within the tool. This will allow for a consistent approach, tailored by industry, and focused on key industry audit risks.

Risk management and consultation requirements

Internal consultation, both formal and informal, is a fundamental contributor to quality; it is always encouraged and mandated in certain circumstances. We provide appropriate consultation support to audit engagement professionals through professional practice resources – this includes our Chief Auditor, DPP Accounting & Reporting, DPP Audit Support and Audit Risk Management.

Our policies include mandatory consultation requirements on certain matters such as audited entity integrity. We have also established Risk Panels led by an audit quality or audit risk management partner to enable direct challenge of the approach to the key audit issues on our highest risk audits. In light of the continuing COVID-19 pandemic and the impact on the UK and global economies, we continue to require going concern consultations on the majority of opinions issued.

Further technical support is also available through our International Standards Group as well as the US Capital Markets Group based in New York, for work on SEC registrants, or our US Accounting and Reporting group based in London.

Our Audit Quality Framework

(continued)

8. Communicate effectively



- Provide insights, and maintain open and honest two-way communication.
- Actively manage information flows within firms and between firms, regions and global.
- Conduct and follow-up on the Global people survey.
- Issue external communications, including transparency reports.

Clear and insightful audit reports

In preparing audit reports, engagement leaders have access to extensive reporting guidance and technical support especially where there are significant matters to be reported to users of the audit report.

Auditing standards and the Companies Act 2006 or similar legislative requirements largely dictate the format and content of the audit report that includes an opinion on the fair presentation of the entity’s financial statements in all material respects. The existing requirement to include key audit matters in the auditor’s report for entities that are required, or choose voluntarily, to report on how they have applied the UK Corporate Governance Code also includes PIEs and listed entities.

In response to the reviews on our profession and the feedback from investors, we continue to take action ahead of legislation and offer ‘graduated findings’ in our audit reports – where the auditor provides an independent view of the relative caution or optimism of management’s key judgements, rather than presenting merely a binary conclusion on the acceptability of those judgements.

Insightful, open and honest two-way 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 providing robust challenge. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings and ongoing discussions with members of the audit committee.

We deliver insights such as the appropriateness of accounting policies, the design and operation of financial reporting systems and controls, key accounting judgements and matters where we may disagree with management’s view and any uncorrected audit misstatements. We ensure the content of these reports meets the requirements of auditing standards and we share our industry experience to encourage discussion and debate with those charged with governance.

Effectiveness of group audits and managing information flows

Our audit methodology stresses the importance of effective two-way communication between the group engagement team and the component auditors, which is key to audit quality. The group audit engagement leader evaluates the competence of component auditors, whether or not they are KPMG member firms, as part of the engagement acceptance process.

Our guidance and training focus on the quality of group audit instructions, the oversight of component auditor team structures, the evaluation of their work, communication between group and component audit teams, scoping of components, review and evaluation of the components work and clearly evidencing this, the involvement of the EQCR with group and component auditors and the conclusions reached by the group team on the group file.

We have provided engagement teams with support on how to deal with practical and logistical matters resulting from the travel restrictions arising from the COVID-19 pandemic that impact how we deliver group audits.

Our Audit Quality Framework

(continued)

Confidentiality, information security and data privacy

We are committed to providing a secure and safe environment for the personal data and confidential information we hold, as well as protecting the privacy of our audited entities, service providers and other third parties. The importance of maintaining audited entity confidentiality is emphasised through a variety of mechanisms including through regular communications on the topic, the Code of Conduct, training and the annual independence/confirmation process, which all staff who are involved in delivering professional services engagements are required to complete.

Our information protection requirements are set out in the Global Information Security Policy published by KPMG International. Compliance monitoring against these standards and policies is carried out through our internal information security audit programme and is supplemented by annual checks by the Global Information Protection Group.

In addition, KPMG LLP is certified to ISO27001, the international standard for Information Security Management. The scope of our certification includes our IT processes, IT business assets, audited entity data in core systems, offices and physical locations. The Information Governance Oversight Committee oversees and steers all aspects of information governance within the UK firm including the setting of policies and procedures, monitoring the effectiveness of key information protection controls, and providing strategic direction on the information protection programme.

People survey

We conduct regular surveys to find out how people feel about KPMG and their working environment. The 2021 People Survey results for UK Audit are shown on page 52.

External communications

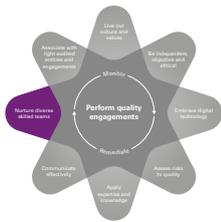
We undertake regular external communications with our stakeholders, such as investors. Further details of the programmes can be found on page 54.



Our Audit Quality Framework

(continued)

9. Nurture diverse skilled teams



- Recruit appropriately qualified and skilled people, including specialists, with diversity of perspective and experience.
- Invest in data centric skills – including data mining, analysis and visualisation.
- Focus learning and development on technical expertise, professional acumen and leadership skills.
- Assign appropriately qualified team.
- Recognise quality.

We are committed to equipping our people with the skills and tools they need to deliver high-quality work for our stakeholders and for the entities that we audit.

One of the key drivers of quality is making sure we assign people with the right level of skills and experience to the right engagements. This requires a focus on recruitment, development, promotion and retention of our personnel and the development of robust capacity, accreditation, and resource management processes.

You can read more about our People strategy in Section 3.



Our Audit Quality Framework

(continued)

10. Monitor and remediate



- Rigorously monitor and measure quality at the local and global level – e.g. QPR.
- Obtain, evaluate and act on stakeholder feedback.
- Anticipate opportunities to improve quality.
- Perform root cause analysis.

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

Monitoring our performance and responding to feedback

We use a broad range of mechanisms to monitor our performance and respond to issues and feedback:

- Internal monitoring which includes the Quality Performance Review and Root Cause analysis processes.
- Quality Control Reviews which are performed after planning and completion to cover all managers.
- External monitoring which includes the findings from the Audit Quality Reviews, the Quality Assurance Department and the PCAOB.
- Regulatory investigations and sanctions.
- Audited entity feedback to better understand expectations and where we can do better. Senior leadership has visibility of all feedback to identify trends and ensure appropriate response.
- Monitoring of complaints received relating to the quality of our work. These procedures are detailed on our website³¹ and are also included in our general terms of business. All formal complaints are investigated under the authority of the Chief Risk Officer.

Milestone monitoring and Audit Quality Indicators

During the year we have commenced a project to monitor a suite of engagement level Audit Quality Indicators across a number of audit engagements. The indicators cover a range of factors, both internal and external, in areas such as personnel measures, standards and tools, technical excellence and delivery, efficiency and effectiveness and continuous improvement. As we move forward our new audit technology platform, KPMG Clara, will facilitate more effective milestone monitoring and this will be the subject of a pilot during FY22.

FRC Thematic Reviews

The FRC Supervisory division also undertakes thematic reviews to supplement their annual programme of audit inspections of individual firms. In a thematic review, firms' policies and procedures in respect of a specific aspect of auditing, and their application in practice, are reviewed. We find these thematic review reports helpful in identifying areas of good practice as well as opportunities to improve.

During the year, the FRC undertook a thematic review of climate related considerations by boards, companies, auditors, professional bodies and investors. The FRC published a letter and thematic review on going concern and COVID-19. The FRC also performed a thematic review on the auditors' approach to fraud during the year. In addition to these, the FRC undertakes thematic reviews of financial statements – these have covered topics such as Alternative Profit Measures and cash flow statements.

We have considered the findings and examples of best practice within each of these reports and determined actions where appropriate. Further details on our approach to climate considerations and how we have addressed the challenges that arose from COVID-19 are included in Section 4.

31 <https://home.kpmg/uk/en/home/misc/complaints.html>

Our Audit Quality Framework

(continued)

Interaction with regulators

At a global level KPMG International has regular two-way communications with the International Forum of Independent Audit Regulators (IFIAR) to discuss issues identified and actions taken. In the UK, the Head of Audit and Head of Audit Quality participate in global meetings to ensure alignment across the network.

Following the restructure of the FRC's Supervisory Division in late 2021, we developed a stakeholder management map, aligning our internal leaders to the FRC's three supervisory teams being Audit Firm Supervision, Audit Market Supervision and Audit Quality Review. We have regular meetings and ongoing dialogue with relevant personnel at the FRC, including KPMG's assigned Supervisor.

We are also required to be registered with the Jersey, Guernsey and Isle of Man Financial Services Commissions in respect of Crown Dependency registered Market Traded Companies. As part of this registration the AQR is required to include in its annual inspection one or more of the audit engagements meeting these criteria. We were notified that our re-registration with the Jersey, Guernsey and Isle of Man Financial Services Commissions were successful during 2021.

Our firm is also registered with the US PCAOB, the Japanese Financial Services Authority, the Canadian Public Accountability Board (CPAB), the Hong Kong FRC, the Irish Auditing and Accounting Supervisory Authority (IAASA), the Luxembourg Commission de Surveillance du Secteur Financier (CSSF), the Dutch Authority for the Financial Markets (AFM), the Italian Commissione Nazionale per le Società e la Borsa (CONSOB), the Swedish Inspectorate of Auditors (SIA), the Norwegian Finanstilsynet and the French Haut Conseil du Commissariat aux Comptes (H3C). We will seek further registrations as required.



Public Interest Entities and Major Local Audits listing

Disclosures in accordance with (1) Article 13.2 (f) of the EU Audit Regulation and (2) the schedule of The Local Auditors (Transparency) Regulations 2020

1. Article 13.2 (f) of the EU Audit Regulation

The list below has been prepared in accordance with Article 13 of the EU Audit Regulation and is in respect of the year ended 30 September 2021. The list includes the entities which meet all of the following conditions:

- The entity is incorporated/established in the United Kingdom or Ireland.
- KPMG LLP signed an audit report on the entity's annual financial statements during the year ended 30 September 2021.
- On the date the audit report was signed the entity was an EU PIE.
- The audit was a statutory audit within the meaning of section 1210 of the Companies Act 2006.

Pursuant to the EU Audit Regulation, the definition of a PIE includes:

- Companies with transferable securities listed on EU regulated markets (as opposed to all markets in the EU) and governed by the law of an EU member state.
- Credit institutions authorised by EU member states authorities.
- Insurance undertakings authorised by EU member state.
- Other entities a member state may choose to designate as a PIE.

As set out in the regulatory context in Appendix 1, while the period covered by this Report spans the end of the transition period for the UK leaving the EU, for the purposes of transparency reporting and to aid consistency, we have continued to apply EU regulation throughout the year. While EU Audit Regulation 537/2014 is no longer directly applied in the UK, most of the content of that Regulation has been transposed into UK law through The Statutory Auditors and Third Country Auditors (amendment)(EU Exit) Regulations 2019 (as amended) taking effect on 1 January 2021.

Now the UK is no longer part of the EU, the PIE definition has changed to include companies with transferable securities listed on a UK regulated market rather than on EU regulated markets. This change will be reflected in our 2022 Transparency Report.

Entity name

3i Group plc	B.A.T. International Finance Plc
Aberdeen City Council	Baillie Gifford Shin Nippon PLC
Aberdeen Japan Investment Trust PLC	Baillie Gifford US Growth Trust Plc
Aberdeen New India Investment Trust Plc	Balfour Beatty Plc
Aberdeen Standard Equity Income Trust Plc	Bank Leumi (UK) PLC
Aberdeen Standard European Logistics Income PLC	Bank of Ireland (UK) PLC
Aberdeen Standard Investments Life and Pensions Limited	Barclays Bank PLC
abrdn plc	Barclays Bank UK Plc
AEW UK REIT plc	Barclays PLC
Affinity Sutton Capital Markets PLC	Baronsmead Second Venture Trust Plc
Aioi Nissay Dowa Insurance UK Limited	Baronsmead Venture Trust Plc
Alba 2005 - 1 plc*	Bazalgette Finance PLC
Alba 2006 - 2 plc*	Big Yellow Group PLC
Alba 2007 - 1 plc*	Bloomsbury Publishing Plc
AMBAC Assurance UK Limited	BMO Managed Portfolio Trust PLC
Amigo Holdings PLC	Bowbell No.2 PLC
AMT Mortgage Insurance Limited	BPHA Finance PLC
AmTrust Europe Limited	Bristol & West plc
Annes Gate Property Plc	British American Tobacco PLC
AO World PLC	British Arab Commercial Bank plc
Arrow Global Group PLC	British Telecommunications Plc
Ascential Plc	BT Group plc
Ashmore Group plc	Buckinghamshire Building Society
Aspen Insurance UK Limited	Bumper UK 2019-1 Finance PLC*
Aspire Defence Finance plc	BUPA Finance plc
Aster Treasury Plc	BUPA Insurance Limited
Auto Trader Group plc	Business Mortgage Finance No 4 plc*
AVI Global Trust PLC	Business Mortgage Finance No 5 plc*
Avon Protection Plc	Business Mortgage Finance No 6 plc*
B & C E Insurance Limited	Business Mortgage Finance No 7 plc*
	Caledonia Investments PLC

* Denotes the entity is listed on an EU-regulated market only, not in the UK, and will not be included as a PIE in our 2022 Transparency Report

Public Interest Entities and Major Local Audits listing

(continued)

Cambridge and Counties Bank Limited	ERB Hellas PLC*	Holyrood Student Accommodation plc	Marston's Issuer plc
Cambridgeshire Housing Capital PLC	esure Insurance Limited	Hybrid Software Group Plc*	Marston's PLC
Campus Living Villages (Bond Issuer) UK PLC*	Eurohome UK Mortgages 2007-1 plc*	ICBC (London) PLC	Masthaven Bank Limited
Campus Living Villages (Goldsmiths) Issuer Plc*	Eurohome UK Mortgages 2007-2 plc*	ICBC Standard Bank Plc	Mercantile Indemnity Co Ltd
Capita PLC	Eurosail 2006-1 Plc*	ICICI Bank UK PLC	Micro Focus International Plc
Card Factory plc	Eurosail 2006-2BL Plc*	Income Contingent Student Loans 1 (2002-2006) Plc	Midland Heart Capital plc
Carr's Group plc	Eurosail 2006-3NC Plc*	Income Contingent Student Loans 2 (2007-2009) Plc	Mitsui Sumitomo Insurance Company (Europe), Limited
Cathedral Capital Holdings Limited*	Eurosail 2006-4NP Plc*	Invesco Asia Trust PLC	Moneysupermarket.com Group plc
Charles Stanley Group PLC	Eurosail Prime-UK 2007-A plc*	IP Group plc	Mortgage Funding 2008-1 Plc*
Chemring Group PLC	Eurosail-UK 2007-1NC Plc*	ITV PLC	Motability Operations Group plc
Chetwood Financial Limited	Eurosail-UK 2007-2NP Plc*	James Fisher and Sons Plc	Motors Insurance Company Limited
China Taiping Insurance (UK) Co Ltd	Eurosail-UK 2007-3BL Plc*	JD Sports Fashion plc	Myriad Capital plc
Circle Anglia Social Housing PLC*	Eurosail-UK 2007-4BL Plc*	JN Bank UK Limited	National Casualty Company Of America LTD
Citibank UK Limited	Eurosail-UK 2007-5NP Plc*	John Lewis PLC	National Counties Building Society
Clarion Funding plc	Eurosail-UK 2007-6NC Plc*	John Wood Group plc	NCC Group Plc
Compass Group plc	Family Assurance Friendly Society Ltd	Karta II plc*	Network International Holdings plc
Computacenter Plc	Feldspar 2016 - 1 plc*	Kensington Mortgage Securities Plc*	Newday Funding 2017-1 PLC
Connect M77/GSO Plc	Fidelis Underwriting Limited	Ladbrokes Group Finance Plc	Newday Funding 2018-1 PLC
Connect Plus (M25) Issuer PLC	Finsbury Square 2018-1 Plc*	Lancashire Insurance Company (UK) Limited	NewDay Funding 2018-2 plc
Consort Healthcare (Birmingham) Funding PLC	Finsbury Square 2018-2 Plc*	Landmark Mortgage Securities No. 1 Plc*	NewDay Funding 2019-1 plc
Consort Healthcare (Blackburn) Funding PLC	First Flexible No 6 PLC	Landmark Mortgage Securities No.2 Plc*	NewDay Partnership Funding 2017-1 Plc
Consort Healthcare (Mid Yorkshire) Funding Plc	Forester Life Limited	Landmark Mortgage Securities No.3 Plc*	Ninety One plc
Consort Healthcare (Salford) plc	Gemgarto 2018-1 Plc*	Leek United Building Society	North of England Protecting and Indemnity Association Limited
Consort Healthcare (Tameside) plc	GLH Hotels Ltd	Legal & General Assurance (Pensions Management) Ltd	Odyssean Investment Trust plc
Croda International plc	Global Ports Holding plc	Legal & General Finance PLC	Orbit Capital plc
Dashwood Bond Issuer PLC*	Gracechurch Card Programme Funding PLC	Legal & General Group PLC	Oxford BioMedica plc
Devro PLC	Grainger plc	Legal and General Assurance Society Limited	Paragon Bank Plc
DFS Furniture plc	Greggs PLC	Liontrust Asset Management plc	Paragon Banking Group plc
Dialight Plc	Gwynt Y Mor Ofto PLC	London & Quadrant Housing Trust	Paragon Mortgages (No.10) PLC
Dukinfield II PLC*	Hampshire Trust Bank PLC	Luceco Plc	Paragon Mortgages (No.11) PLC
Dukinfield Plc*	Harben Finance 2017-1 PLC*	M&G plc	Paragon Mortgages (No.12) PLC
Dwr Cymru (Financing) Limited*	Hawksmoor Mortgage Funding 2019-1 plc*	Manchester Airport Group Funding Plc	Paragon Mortgages (No.13) Plc
Dwr Cymru (Financing) UK PLC*	Healthcare Support (Newcastle) Finance plc	Markel International Insurance Company Limited	Paragon Mortgages (No.14) PLC
East Slope Residencies PLC	HICL Infrastructure plc		Paragon Mortgages (No.15) PLC
EMF-UK 2008-1 Plc*	Hinckley & Rugby Building Society		Paragon Mortgages (No.24) Plc
EMH Treasury PLC	Hollywood Bowl Group plc		Paragon Mortgages (No.25) Plc
			Paragon Mortgages (No.26) Plc
			Paragon Mortgages (No.9) PLC

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Public Interest Entities and Major Local Audits listing

(continued)

Paragon Treasury plc	Ricardo plc	Southern Pacific Securities 05-3 Plc*	Travelers Insurance Company Limited
PayPoint plc	Rightmove Plc	Southern Pacific Securities 06-1 Plc*	Travis Perkins PLC
Peabody Capital No 2 plc	Rio Tinto plc	Sovereign Housing Capital Plc	Trinidad Mortgage Securities 2018-1 PLC*
Peabody Capital plc	Ripon Mortgages plc*	SP Distribution Plc	Trinity Square 2015-1 Plc*
Pendragon Plc	River Thames Insurance Company Limited	SP Manweb plc	Trinity Square 2016-1 Plc*
Pension Insurance Corporation plc	Riverside Finance PLC	SP Transmission PLC	Tritax Eurobox Plc
Pets at Home Group Plc	RM plc	Speedy Hire Plc	TSB Bank plc
PGIT Securities 2020 plc	Road Management Services (A13) plc	SSP Group PLC	TSB Banking Group plc
Places for People Capital Markets plc	Rochester Financing No.2 PLC*	Standard Life UK Smaller Companies Trust plc	Unilever PLC
Places for People Finance plc	Rombalds Run-off Limited	Starling Bank Limited	United Utilities Group PLC
Places for People Homes Limited	Rothschild & Co Continuation Finance PLC	Stock Spirits Group PLC	United Utilities PLC
Places for People Treasury plc	Royal & Sun Alliance Insurance Limited	Strategic Equity Capital PLC	United Utilities Water Finance plc
Polar Capital Technology Trust PLC	Royal & Sun Alliance Reinsurance Ltd	Stratton Mortgage Funding plc*	United Utilities Water Limited
Preferred Residential Securities 05-2 Plc*	Royal Mail PLC	Sunderland Marine Insurance Company Limited	UPP Bond 1 Issuer plc*
Preferred Residential Securities 06-1 Plc*	RSA Insurance Group Limited	TCHG Capital plc	Utilico Emerging Markets Trust plc
Premier Foods Plc	SAGA PLC	Telecom Plus PLC	Vectura Group plc
Premier Miton Global Renewables Trust PLC	Samsung Fire & Marine Insurance Company of Europe Limited	The Baillie Gifford Japan Trust PLC	Wheatley Group Capital plc
Prudential Pensions Limited	Sanctuary Capital plc	The Bank Of New York Mellon (International) Limited	Wickes Group plc
Prudential Plc	Sanctuary Housing Association	The Berkeley Group Holdings Plc	Workspace Group Plc
PureTech Health plc	Schroder UK Mid Cap Fund Plc	The Excelsior Insurance Company Limited	Zegona Communications PLC
Quadrant Housing Finance Limited	Scotiabank Europe plc	The Marine Insurance Company Limited	
Reckitt Benckiser Group Plc	Scottish Power UK plc	The Prudential Assurance Company Limited	
Reckitt Benckiser Treasury Services PLC	Senior PLC	The Scottish American Investment Co PLC	
Redrow plc	Serco Group plc	The University Of Oxford	
Redwood Bank Limited	Severfield PLC	Theworks.co.uk plc	
Rentokil Initial (1896) Limited	Shawbrook Bank Limited	Towd Point Mortgage Funding 2018 - Auburn 12 PLC*	
Rentokil Initial plc	Shawbrook Mortgage Funding 2019-1 PLC*	Towd Point Mortgage Funding 2019 - Auburn 13 PLC*	
Rentokil Insurance Ltd	Sheffield City Trust*	Towd Point Mortgage Funding 2019 - Granite 5 PLC*	
Residential Mortgage Securities 23 Plc	SMBC Bank International plc	Towd Point Mortgage Funding 2019 - Granite4 Plc*	
Residential Mortgage Securities 28 Plc*	Smith & Nephew plc	Towd Point Mortgage Funding 2019-Vantage2 plc*	
Residential Mortgage Securities 29 Plc*	Smiths Group plc	Towd Point Mortgage Funding 2020 - Auburn 14 PLC*	
Residential Mortgage Securities 30 Plc*	Southern Pacific Financing 04-B Plc*	TR Property Investment Trust plc	
Residential Mortgage Securities 31 Plc*	Southern Pacific Financing 05-A Plc*		
	Southern Pacific Financing 05-B Plc*		
	Southern Pacific Financing 06-A Plc*		

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Public Interest Entities and Major Local Audits listing

(continued)

2) Local Auditors (Transparency) Regulations 2020

(as defined in The Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014)

The organisations below are those which a) constitutes a 'major local audit' for the purposes of Regulation 12 of The Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014 (SI 2014/1627); and b) for which KPMG LLP signed an audit report on its annual financial statements during year ended 30 September 2021.

In accordance with the Local Auditors (Transparency) Regulations 2020, we confirm that all engagement leads are competent to undertake local audit work and staff working on such assignments are public sector specialists. All our engagement leaders for local audit work have been accredited as 'Key Audit Partners' by the ICAEW. Further information on training delivered in audit, and our training accreditation and assignment process are included in Section 4 (Audit quality) and Appendix 5 (Our Audit Quality Framework).

In addition, we are subject to external inspection by the AQR (for major local audits) and the QAD (for other local audits). See Section 4 for our AQR results which include a minimum of one Local Audit each year and our QAD results which include a selection. Local Audits are also included within the scope of our QPR process described in Section 4.

Entity name

Epsom and St Helier University Hospitals NHS Trust	NHS Derby & Derbyshire CCG	NHS Nottingham And Nottinghamshire CCG	Nottingham University Hospitals NHS Trust
George Eliot Hospital NHS Trust	NHS Doncaster CCG	NHS Redbridge CCG	The Royal Wolverhampton Hospital NHS Trust
Lincolnshire Community Health Services NHS Trust	NHS Dorset CCG	NHS Sandwell and West Birmingham CCG	University Hospitals Coventry & Warwickshire NHS Trust
London North West University Healthcare NHS Trust	NHS East Berkshire CCG	NHS Sheffield CCG	
NHS Barking and Dagenham CCG	NHS Greater Huddersfield CCG	NHS South East London CCG	
NHS Barnsley CCG	NHS Havering CCG	NHS Stockport CCG	
NHS Bolton CCG	NHS Leeds CCG	NHS Surrey Heartlands CCG	
NHS Bradford District and Craven CCG	NHS Morecambe Bay CCG	NHS Surrey Heath CCG	
NHS City & Hackney CCG	NHS Newham CCG	NHS Tower Hamlets CCG	
	NHS North Central London CCG	NHS Wakefield CCG	
	NHS North East Essex CCG	NHS Waltham Forest CCG	
	NHS North Kirklees CCG		

Our tax strategy and contribution

As a major UK business – whose activities include providing tax advice to companies large and small, at a time when transparency over tax affairs is the subject of such intense public scrutiny – we think it is very important to spell out our tax strategy and the tax we pay.

This demonstrates the way we manage our own tax affairs.

Tax strategy and governance

KPMG in the UK is committed to full compliance with all statutory obligations and full disclosure to tax authorities. The firm's tax affairs are managed in a way which takes into account the firm's wider corporate reputation in line with KPMG in the UK's overall high standards of governance.

KPMG in the UK has published its Tax Strategy on its website³² in accordance with the requirements of Schedule 19, Finance Act 2016.

Ultimate responsibility for the tax strategy and tax compliance rests with the UK Board with the Chief Operating Officer assuming executive responsibility for tax matters.

KPMG in the UK manages all of its tax affairs in a way which seeks to ensure compliance with legal requirements in a manner which ensures payment of the right amount of tax.

KPMG in the UK expects its members to adopt a corresponding approach in relation to their individual tax obligations and liabilities. It is a condition of membership of the firm that members provide KPMG in the UK with full visibility of their personal tax affairs. By requiring this transparency KPMG in the UK seeks to ensure that members comply fully with their obligations in respect of UK taxation.

Summary of cash taxes paid in the years to 30 September 2021 and 2020

	2021			2020		
	Cost to firm £m	Collecting agent £m	Total £m	Cost to firm £m	Collecting agent £m	Total £m
Employment items	107.0	275.1	382.1	115.7	288.7	404.4
Partners	0.9	136.8	137.7	1.0	172.3	172.4
Corporation tax	18.3	0.0	18.3	15.3	0.0	15.3
VAT	1.0	357.3	358.3	0.6	220.4	221.0
Property taxes	14.8	0.0	14.8	16.0	0.0	16.0
Other items	5.6	0.9	6.5	4.5	0.5	5.0
	147.6	770.1	917.7	152.2	682.0	834.1

Notes: All figures represent cash taxes paid during the relevant year by KPMG and subsidiaries. All figures in £ millions

³² <https://home.kpmg/uk/en/home/misc/regulatory-information.html#slavery>

Our tax strategy and contribution

(continued)

Our taxes paid and collected

As a limited liability partnership, KPMG in the UK does not pay corporation tax on the majority of its profits. Those profits are instead subject to income tax in the hands of the individual partners.

Total partner income tax and national insurance paid during the year totalled £137.7 million compared with £172.4 million in the preceding year. In accordance with tax legislation, the tax we pay on behalf of the partners in the year is payable on 31 January and 31 July and is based on prior year profits. The tax is payable by reference to the statutory rates of 20% and 40% on the first £150,000 of profit, and then at 45% thereafter (these rates also applied in 2020) together with national insurance contributions. Tax rates for Scottish partners are 1% higher. Capital Gains Tax is paid in a year on gains realised in the previous year. Tax paid in respect of partners during 2021 was lower than that paid in 2020; this is due to taxable profits in 2020 being lower than those in 2019 as well as the timing of a dividend payable from the Corporate group. Capital gains tax was paid on the 2020 sale of the Pensions business.

VAT payments collected and paid over to HMRC increased from £221 million in 2020 to £358.3 million in 2021. This is due to the payment of the deferred VAT which was permitted by HMRC as a result of the COVID pandemic. This deferred VAT was voluntarily paid to HMRC more than three months in advance of the extended payment date.

KPMG in the UK makes a significant contribution each year to the public finances through the taxes paid by our partners on our profit, the taxes we bear as an organisation such as employers' national insurance, corporation tax (which is paid on the small proportion of profit earned in subsidiary companies), business rates and property and environmental taxes, and those we collect on behalf of the exchequer, such as employees' national insurance, employment tax and VAT.

Taken together the total paid and collected by us in 2021 was £917.7 million (2020: £834.1 million). The table above shows the split between taxes borne by us directly, and those we collect for the public purse in the course of our day-to-day business.

It shows that our largest contribution comes through the tax paid in respect of and on behalf of our employees. We are proud of the contribution this level of employment makes to the overall economy.

Taken together, the tax borne by us and collected on behalf of the Government gives a clear picture of our economic activity, the contribution we make to the UK economy and the value we add to society at large.





kpmg.com/uk

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