KPMG

UK Transparency Report 2022

Meeting our reporting requirements

January 2023 | kpmg.com/uk/ourimpact

Contents

Leadership statements

Whilst KPMG is a multi-disciplinary firm, this report is primarily focused on our Audit practice and the policies and programmes we have in place to support audit quality. The information disclosed relates to KPMG in the UK's activities as at 30 September 2022, and demonstrates compliance with various regulatory reporting requirements.

Jon Holt / Chief Executive, KPMG in the UK
31 January 2023

Jon Holt /
Chief Executive,
KPMG in the UK

Bina Mehta /
Chair, KPMG in the UK

Cath Burnet /
Head of Audit,
KPMG in the UK

For more information about the leadership and governance of the firm, including the UK Board's members, committees and their reports on activities during the year visit the Our Leadership page.

Statement by the Independent Non-Executives and Audit Non-Executives

The imporant role of independent oversight

Jonathan Evans /
Chair of the Public Interest Committee

Claire Ighodaro /
Chair of the Audit Board

Overview

KPMG has six Non-Executives. Four are Independent Non-Executives (INEs) and three are Audit Non-Executives (ANEs); one of the Non-Executives is both an INE and ANE.

The Public Interest Committee (PIC) comprises the four INEs and is chaired by Jonathan Evans. The Audit Board comprises the three ANEs, and two partners, and is chaired by Claire Ighodaro. More details of these bodies and individual bios can be seen here.

Promoting audit quality

Audit quality is at the centre of the Audit business strategy; and it is high on both the PIC's and the Audit Board's agenda.

When the Audit Board was established in its current form in 2021 (as part of the firm's transitional arrangements for the implementation of the FRC's Principles for Operational Separation) the business was part way through its audit quality transformation journey; and there were areas where progress needed to be made. The Audit Board has focused on high audit quality and how the business delivers that consistently and sustainably. Particularly, the Audit Board has provided independent oversight of the commitments made to the FRC in respect of the firm's Banking Audit Quality Improvement Plan.

The Head of Audit and the Chair of the Audit Board are invited to present at the PIC. This ensures the INEs are aware of the latest results and developments within the Audit practice and provides opportunity for them to challenge the approach.

People, Ethics and Culture

Culture remains a high priority for the firm and the Non-Executives are very supportive of the High Challenge, High Support culture in Audit and across the entire firm.

The Chief People Officer regularly attends the PIC to ensure they are kept abreast of key developments. One of the INEs attends the People Committee and Culture SteerCo to provide expert advice and participated in the firm's 'Building Confidence' podcast series to explore culture – how it can be measured, what it means for boards and the implications for corporate reporting and assurance.

An INE and an ANE meet with the Audit Head of People and Audit Head of Culture on a monthly basis. One of the INEs also joins the Audit Board for the People and Culture updates.

The Ethics Partner attends every PIC and the external independent Ombudsman attends periodically to provide assurance that the handling of whistleblowing cases is effective and efficient. The Committees have kept abreast of, and provided challenge on, the ESG agenda, remuneration and the People and IDE (Inclusion, Diversity and Equity) strategy.

The Chair of the PIC attends the Nominations Committee which oversees the appointment of Elected Board Members, and formed part of the judging panel for the internal People Awards.

Both the PIC and the Audit Board participated in an external Board Effectiveness Review during FY22, the recommendations of which will continue to shape dynamic and valuable committees.

"Claire and I have been working closely together and one of our priorities has been to ensure there are no gaps or overlaps in the coverage of our two committees. From my perspective the relationship has developed very well and we are in a stronger position today than we were 12 months ago."

Jonathan Evans /
Chair of the Public Interest Committee

Engagement activities

Throughout the year the Non-Executives have delivered a robust programme of engagement both virtually and in person with the leadership, Partners and employees of the firm. This has been achieved via:

Attendance at the Board, Board Risk Committee, Audit Committee, People Committee, Audit Board and the Audit Evolution Board, in order to have greater visibility into the operations of the Firm. All of the Non-Executives (except our doubly independent Non-Executive) attend the Board.

165 meetings with Board and Executive Committee members and key management to monitor and contribute to matters of public interest and audit quality.

Site visits to the Manchester and Reading office, engaging with Partners, the Shadow Board, Ethics Champions, Network Groups and staff from both the Audit and non-Audit businesses.

Virtual roundtable events with Partners from the Audit and non-Audit businesses to understand their views and challenges they face.

To further develop relationships between the UK and overseas member firms, the Chair of the PIC and the Chair of the Audit Board met with the Non-Executives in the KPMG US firm to share best practice. The Global Head of Audit attends every Audit Board meeting, and the Global Chairman and CEO and the Incoming Global Head of Quality, Risk & Regulatory attended a PIC meeting. The global perspectives they share have been invaluable, providing insights into how global supports the delivery of high-quality audits and firm-wide activities, such as risk management and engagement with global audit regulators.

The Chair of the PIC and the Chair of the Audit Board presented at the Annual Audit Review, sharing perspectives with audit committee chairs and investors. The PIC and the Audit Board also receive periodic updates from KPMG's stakeholder engagement programme to understand the challenges and concerns from stakeholders such as investors and audit committee chairs.

One of the INEs has continued to attend the Future of Audit Steering Committee, which focuses on audit and corporate governance reform and measures the firm can take now ahead of legislation.

The Non-Executives also regularly engage with the FRC, either in firm-specific meetings or at roundtable events hosted by the FRC. The FRC has also observed an Audit Board during the year.

Regulation, risk management and internal controls

An INE and an ANE attend the Board Risk Committee, and an INE attends the Audit Committee. Specifically, they have been kept abreast of key legal and regulatory matters as well as updates on legacy issues including oversight into the actions arising from the Cabinet Office.

The PIC and the Audit Board have monitored the firm's implementation of operational separation, with both committees receiving updates from the firm's Chief Financial Officer throughout the year. They have particularly challenged how the firm allocates costs between business and the definition of "persistent, material, structural cross-subsidy".

The PIC and the Audit Board have taken a keen interest in the firm's implementation of the International Standard of Quality Management (ISQM1), as well as receiving regular updates on the firms internal control environment.

The Non-Executives also oversaw the firm's response to the new Audit Firm Governance Code.

> "It's pleasing that this year the firm's Audit Quality Review scores have improved – although we are certainly not complacent – and the Audit Board will maintain that focus on audit quality going forward. That improvement demonstrates that the programmes we've put in place are beginning to give benefits."
>
> **Claire Ighodaro / Chair of the Audit Board**

Contact

The statement above does not contain an exhaustive list of activities performed by the non-executives. More detail on the PIC and Audit Board, including their priorities for the next 12 months can be seen here. If you would like to get in touch with questions or concerns, please contact any of us at: ukfmkpmgnonexe@kpmg.co.uk

Support

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

- An Executive Lead and an assistant 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.

Appointment of Non-Executives

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 and Independent Audit Non-Executives (ANEs) – see Audit Board.

Whilst our INEs and ANEs are not considered to be part of the chain of command for the purposes of auditor independence requirements, they are required to comply with certain criteria which have been developed to reflect the need for INEs and ANEs to maintain appropriate independence from the firm and its Partners and to be free from actual or perceived conflicts of interest. These criteria include considering the impact of any financial, business, employment or family relationships they have with the firm's audited entities or KPMG itself. None of the ANEs or INEs are permitted to hold a director or key management position role at any entity where KPMG UK (or any KPMG network firm) is the statutory auditor. They are not permitted to be the beneficial owner of a financial interest in an entity where KPMG is the auditor if they have significant influence over that entity. In addition, they are required to notify the firm if (i) a member of their immediate or close family is a director, holds a key management position or is in a financial reporting oversight role at an entity where KPMG is the auditor, (ii) if they intend to enter into any business relationship (including providing services) with an entity where KPMG is the auditor or (iii) if they hold any financial interests in any entity that is material to them. This notification is required to enable the firm to consider if any of these relationships could give rise to an actual or perceived conflict of interest that requires safeguarding. With respect to relationships with KPMG itself, if an immediate or close family member of an ANE or INE became a Partner (or equivalent) of KPMG UK then they would no longer be eligible to hold their role. Finally, the ANEs and INEs are required to notify KPMG if an immediate or close family member became one of our employees, again this is to enable the firm to consider the scope for conflicts with their role.

All INEs and ANEs are checked prior to their appointment to ensure that they meet these criteria. As a condition of their appointment, they are under a continuing obligation to disclose to KPMG any matters which may constitute a change to their roles or relationships as soon as they become aware of them. They are also required to make an annual declaration of their compliance with the independence criteria.

The Chair, upon recommendation of the Nominations Committee and approval by the Board, appoints the INEs and ANEs. They are chosen to provide specific insights considered to be relevant to the activities of the PIC and/or the Audit Board and the development of the firm, including expertise in financial and corporate matters, governance, culture 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.

Remuneration

The annual remuneration of each Non-Executive is £100,000. The Chair of the PIC and the Chair of the Audit Board receives an additional amount of £25,000 in respect of chairing duties.

Audit quality

Audit quality is fundamental to the effective functioning of the capital markets and is key to investor and public trust. That is why sustainable, high-quality audits sit at the heart of our strategy as we strive to serve the public interest.

Putting audit quality first

Quality is at the heart of our Audit strategy and every action we take is with the motivation of continually improving it.

We have made significant investment in audit quality over the past five years. This year we have introduced a Single Quality Plan, building on our previous Audit Quality Plan. This plan incorporating our Banking Audit Quality Improvement Plan as a top priority, brings together our key focus areas to drive sustainable improvements to audit quality across our business.

We are seeing the positive impact of this with the FRC's external measure of audit quality placing us at the top of the Big Four professional services firms this year. We are pleased to see the benefit of our investment, but we are not complacent and continue to challenge ourselves on how the programmes in our Single Quality Plan will help us sustain and improve our performance.

Our investments in quality have re-engineered every aspect of our Audit practice. We have strengthened our governance and controls, standardised the way we execute audits, invested in market-leading technology which is central to audit delivery, and transformed the training and guidance we give to all auditors including in emerging areas such as ESG, cyber and cryptocurrencies. In this way, we are ensuring that we are preparing for the future of Audit as technology develops and regulations, requirements and stakeholder expectations change.

We also believe this stands us in good stead as external conditions continue to be volatile, unpredictable and, potentially, recessionary. These conditions will make some aspects of audit analysis and judgement more complex – but the investments we have been making, particularly in technology, people and processes - will strengthen our ability to perform high-quality audits that take account of all the data and performance indicators available.

Since 2018, our investment has brought additional people into our Audit practice, while at the same time ensuring we have the right number of audit engagements to remain focused on the delivery of high-quality audits. We have continued to look carefully at the shape and size of our audit portfolio, reflecting on Sir John Thompson's remarks in the FRC's 'What makes a good audit?' publication:

> "
>
> …we also recognise the important contribution that the management of the audited entity and those charged with governance can make to a robust and comprehensive audit. A well governed company, which reports transparently, and has clear and robust evidence that underpins that reporting, as well as effective internal controls are all important in underpinning a high-quality audit."
>
> **Sir Jonathan Thompson / Chief Executive Officer, FRC**
>
> As quoted in the FRC's "What Makes a Good Audit?" paper, November 2021.

Our decisions in relation to our portfolio are always guided by our public interest responsibilities to deliver safely on our book of work.

Each year we consider all of the data we have on audit quality successes and challenges by looking internally and externally and delving into the results of our detailed work on root cause. This analysis allows us to assess which programmes and actions we must focus on in our annual quality plan to respond to current challenges or sustain improvements. This means we stay laser-focused on the things which will bring rigour, consistency and efficiency.

Audit quality in numbers

Our 2022 FRC Audit Quality inspection results:

% of individual audits assessed requiring no more than limited improvements / **84%**

July 2022
(July 2023: 59%)

% of FTSE 350 audits assessed requiring no more than limited improvements / **91%**

July 2022
(July 2023: 75%)

Number of individual audits assessed requiring significant improvements / **0**

July 2022
(July 2023: 1)

FRC Audit Quality Inspection and Supervision Report of KPMG LLP, July 2022

"

I am confident that the significant improvement we have seen in our external FRC inspections, which is aligned to our internal audit quality assessments, demonstrates the positive impact of the continued investment in our audit quality transformation – in particular the commitment and efforts of everyone in our Audit practice. But we are not complacent and our priorities for 2023 demonstrate our ongoing commitment to placing sustainable quality at the heart of our Audit strategy."

Cath Burnet / Head of Audit, KPMG in the UK

Looking ahead: Delivering sustainable audit quality

We are focused on sustaining our improvements with some clear priorities for the year ahead.

— Our Banking Audit Quality Improvement Plan remains a top priority. We now need to embed the new policies, processes and way of executing into business as usual.

— 2023 will see completion of the full deployment of KPMG Clara, across all of our audits.

— We will maintain the progress seen through our 'SSS' (Scalability, Standardisation and Support) programme which guides teams to focus on risk assessment to better focus their audits, particularly important as we face into a period of economic uncertainty with far-reaching impacts for our audited entities.

— We also plan to reap the benefits from investments in technology to give us information about engagements and those executing them in real time so our central teams can provide proactive support.

We will continue to embed our high challenge, high support culture, as well as embed and operate the requirements of the International Standard on Quality Management (ISQM1) which became effective from December 2022.

We embraced the FRC's vision for a Single Quality Plan (SQP) for all Tier 1 firms and have developed our SQP, aligning it with our programmes in the Audit Quality Plan.

Specific measures we're taking to drive audit quality

Banking Audit Quality Improvement Plan

Over recent years we have made the quality of execution on banking audits and the methodology and guidance which underpins them, a top priority. This focus resulted in our root and branch Banking Audit Quality Improvement Plan (BAQIP), which was first created in 2020. Through this Plan we have benefited from helpful engagement with the FRC, underpinning iterative improvements each year. This has meant that over the past two years we have:

— Made significant changes and enhancements to our UK banking methodology and the work papers and guidance that support it, using our new KPMG Clara workflows (see below) to better support our Banking Audit teams.

— Established a clearer feedback loop to ensure we are proactively looking for ways to improve and address concerns and emerging issues.

— Created a strong connection and level of engagement between our Banking Audit and central technical teams to improve the challenge and support our Banking Audit teams receive from the centre.

— Taken strong actions on culture which have had an immediate impact.

— Reshaped our portfolio to align to the capacity of people within Banking Audit while providing the space for us to focus on the improvements we needed to make.

We were pleased to see a significant improvement in our banking inspection results this year, showing that our investment, strategy and commitment is making a difference. BAQIP will continue through the next year as a continued area of focus to ensure we sustain the improvements and embed the positive changes into business as usual.

"Technology is fundamental to the successful delivery of our audit strategy. It underpins delivery of a quality audit, it drives joined-up execution, it helps us grow and it empowers our auditors. With the right technology in their hands 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, KPMG in the UK

Delivering digital audits

Technology is at the heart of our efforts to enhance audit quality, create greater consistency and strengthen the monitoring of engagement milestones. It's why we are making smart technology our business-as-usual mode of audit delivery – simply the way that modern audit work is carried out. We have been investing significantly in leading technology solutions to empower our Audit colleagues to deliver exceptional quality and enable smart, efficient working. KPMG is investing $5bn globally in innovations from 2020 to 2024.

The core platform behind a KPMG audit is KPMG Clara; our cloud-based, digital audit platform. Our deployment of KPMG Clara marks a step-change in how we are innovating, digitalising, and transforming the audit experience. The forthcoming year will see every audit engagement using KPMG Clara as standard.

KPMG Clara embeds the best new tools, processes and technologies that:

— Simplify, standardise and streamline our audit approach.

— Create a cutting-edge user experience.

— Enhance the quality, consistency and efficiency of our audit delivery.

— Deliver the requirements from new auditing standards to every team.

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.

The implementation of KPMG Clara workflows introduce 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 latest analytics, automation and artificial intelligence tools are integrated into the KPMG Clara platform. We perform data analytics to support thousands of audits, processing over 1.3 trillion rows of data in the last year in the UK alone. We are committed to continually investing to enhance our data analytics capabilities – both in proprietary tools and solutions with major technology providers (such as through our Microsoft alliance) and smaller specialist analytics companies.

By utilising machine learning, predictive analytics and cognitive technology we equip our expert auditors with solutions that look forward, detect hidden anomalies and test scenarios – all of which support robust challenge and informed decision-making.

We are also investing in people in this space. We are training auditors in new advanced techniques, such as data science and modelling as well as expanding our central Clara team of 200+ colleagues (grown from 45 in 2017) which brings together data analytic specialists to support our audit teams and drive higher standards of quality.

Pathways into technology

There are many routes into a career in Audit at KPMG – including our increasingly popular degree apprenticeship scheme. Bella is now in her fourth year with the firm, working within the Clara Analytics and Technology team at the same time as studying one day a week for a university degree in Digital & Technology Solutions, with all fees paid by KPMG. Bella provides technical support to auditing teams on the tools available in KPMG Clara. "It's an important job because KPMG Clara is central to how auditing teams perform their work," Bella says. "I'm really enjoying acting as a first line of support and working within the wider analytics and technology team."

But Bella is getting involved in other aspects too, including the development of marketing tools and videos. "I'm really interested in marketing. It's a route I may try to go down as my career progresses," Bella says.

She is also passionate about wellbeing and is part of the Clara Analytics and Technology wellbeing team. Bella helps write a monthly wellness email and gets involved in related events and sessions. Not only that, but she launched her own 'Meditation Mondays' initiative that over 500 colleagues from across KPMG globally have participated in.

Aged just 23, Bella is making quite an impact. In her own words: "I love my job. It's varied and challenging. It excites me to think where I may be in my career with KPMG when I'm 30!"

Bella

Applying data science to the audit

With an audit involving huge quantities of data, there is enormous potential to bring data science techniques to bear. That is why KPMG has established a team of data scientists within Audit, who are working to increasingly embed data analytics and smart technology such as AI and machine learning (ML) into audit processes. This will further deepen the robustness of KPMG's analyses and strengthen audit quality.

Jack, Lead Data Scientist, KPMG Clara Analytics and Technology team, explains: "We have a team of dedicated data scientists working very closely with others in the Analytics and Technology team, and with audit teams, to develop new approaches. Areas like anomaly detection, asset valuation and debt provisioning, to name just a few, can be hugely enhanced through technology. We're coding and building tools that can be embedded directly into the KPMG Clara platform. Our work also helps us keep across the AI and ML techniques that audited entities are using, so that KPMG can audit them effectively."

KPMG is bringing significant rigour to the development of these techniques, including putting a cohort of auditors onto an MSc in data science each year. Jack says: "This allows auditors to take proof of concepts and iterate them in real academic research. It's leading to exciting developments already – such as a voice assistance tool which is in development to help auditors find specific pieces of data. Audit is a great field for data science, and we're keeping KPMG at the leading edge of it."

Jack

Training delivered in Audit

Our training this year has reflected a mix of virtual and face-to-face delivery as COVID-19 restrictions eased.

The formal audit training programme continues to include mandatory audit technical training, industry-specific training and risk courses. This is supported by centrally-run fortnightly technical briefings, lunch and learns, drop-in clinics and locally run sessions using centrally-developed content.

We run an annual KPMG Audit University (KAU), which was delivered face-to-face in 2022 for the first time in three years and was attended by both Audit and IT Audit colleagues. The training covered content on ISA 315 Revised (Identifying and Assessing the Risks of Material Misstatement), fraud, estimates, the audit of IT, and updates on the workflows and functionality of KPMG Clara. It was delivered in a mix of plenary and breakout sessions and, for the first time, included live link-ups across multiple locations, supporting our ESG agenda by minimising attendees' travel and optimising the use of our subject matter experts.

The mandatory curriculum also includes quarterly updates focusing on performing an effective audit with different topic areas included as relevant. An Audit Quality and Risk Workshop is delivered twice a year for engagement leaders and focuses on key messages driven by internal and external monitoring. This is extended to audit managers through live and recorded workshops.

To support our strategy of being the most trusted firm, there are three releases of 'Building Trust' risk training each year, covering a range of risk-related topics. This year it included a new ICAEW film "All Too Familiar" about Anti Money Laundering.

In addition, partners and audit professionals must complete training relevant to their grade and role. This includes sector specific training and training to support technical overlays, such as working on US engagements.

As well as the technical curriculum, auditors also spend time on skills programmes to support their career and professional development such as performance management, and leadership skills.

Average number of hours of mandatory training completed by audit partners and audit professionals / **81**

FY22
(FY22: 114)

Average learning hours for technology experts in audit / **32**

FY22
(FY22: 61)

Monitoring our audit quality progress

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, but monitor our progress and use feedback to continuously improve.

Continuous improvement and Root Cause Analysis

Our Root Cause Analysis (RCA) process is our most impactful way of identifying opportunities for continuous improvement. We use the results of this analysis to consider how to enhance our processes and embed best practices. During the year we commissioned an independent review of our RCA process and have implemented the majority of the enhancement recommendations with substantially all actions to be completed this year.

Over this year, we have continued to broaden the depth and scope of our RCA programme, introduced further innovations to our approach and refreshed our pool of trained and accredited individuals supporting the programme. These steps 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 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 apply a mix of remedial actions including those focused on driving a sustainable high challenge, high support culture with supporting behaviours alongside technology and training enhancements. This is now led by a dedicated experienced individual.

The findings from our RCA are reported to internal and external stakeholders, including the FRC and the ICAEW. In the 2021/22 cycle, the most frequent findings indicated:

Key positive messages from RCA

- Strong tone at the top.
- Awareness of requirements.
- Robust responses to complex and changing scenarios including use of internal consultations and support available.
- Good project management and team collaboration.
- Confidence and willingness to challenge management and timetables.

Key areas where improvement is needed

- Consistency of coaching.
- Use of guidance and tools available.
- Critical self-review of work performed.
- Over-reliance on the review process.
- Workload management.

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.

- 29 – RCA performed on external inspections
- 46 – RCA performed on internal inspections
- 4 – RCA performed on other projects

External monitoring and engagement

Engaging with regulators

KPMG has a number of regulators due to the types of services we provide. This includes the Financial Reporting Council (FRC)[1], the Institute of Chartered Accountants in England and Wales (ICAEW)[2], the Financial Conduct Authority (FCA), the Solicitors Regulation Authority (SRA), audit third country regulators, and other regulatory and oversight bodies (including HM Government). We're committed to meeting the expectations of our regulators and ensuring our regulatory engagement is based on the principles of openness, transparency, integrity and accountability.

From a regulatory change perspective, the environment remains challenging, and we continue to scan and prepare the firm for incoming regulatory changes. In particular, we continue to engage and work with the FRC to help shape the future for a profession that produces high-quality audits and acts in the public interest. Audit quality is our number one priority, and we value the constructive input and challenge from the FRC through their audit quality inspection and supervision process. We continue to work closely with the FRC to understand their identified areas of good practice, and importantly where we need to continue to focus to ensure that we build trust and confidence in our profession and the markets.

We are subject to external annual reviews, primarily by:

FRC

The Financial Reporting Council (FRC) Audit Firm Supervision (AFS), Audit Market Supervision (AMS) and Audit Quality Review (AQR) teams in the FRC's Supervision Division work closely together to develop an overall view of the key issues for each firm to improve audit quality.

Find out more information below

ICAEW

The Quality Assurance Department (QAD) of the ICAEW.

For a summary of the QAD's review findings, refer to the FRC's Audit Quality Inspection and Supervision report for KPMG LLP (July 2022).

In October 2022, the FRC published its Audit Quality Inspection report relating to Major Local Audits. The FRC inspected two in-scope audits whilst the QAD inspected none at KPMG in this cycle due to the proportion of in-scope audits at KPMG.

PCAOB

KPMG in the UK is subject to inspection every three years by the US Public Company Accounting and Oversight Board (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 to 2022. The inspection is in the final stages and we look forward to receiving the report in 2023.

Uplift in AQR inspection results

The combined impacts of our investments in quality, governance and technology are starting to become clear. There were notable improvements in our 2022 AQR inspection results – giving us the best results, and the most significant improvement in results, amongst the Big Four professional services firms.

These results are particularly pleasing given that these audits were conducted largely remotely due to the COVID-19 pandemic, when our teams and audited entities had to adapt to significant changes to how our audits were delivered.

We recognise that there is more to do and will remain focused on driving further, continuous enhancements as we pursue our vision of being the most trusted audit firm: by our regulators, the organisations we audit, investors, the public and our people.

1 https://www.frc.org.uk/auditors/audit-quality-review

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

FRC Audit Quality Inspection and Supervision Report findings for KPMG LLP, July 2022

In its July 2022 report, the FRC highlighted good practices and areas for improvement, in respect of its review of individual audits and its review of the firm's quality control procedures. Below we set out a summary of the FRC's findings (as previously noted, full details are available on the FRC's website).

Section 2 of FRC's AQR report – Review of individual audits

Good practices identified in individual audits inspected:

- Risk assessment and planning, including climate risk and fraud.
- Robust and well-evidenced challenge of management.
- Oversight and involvement with component auditors.
- Effective use of data analytics, including a bespoke, robust audit approach to test general IT controls and to recalculate fee income.
- Expected credit losses data testing - data elements.
- Contract accounting – engagement of KPMG infrastructure specialists.
- Engagement Quality Control Review, including strong evidence across all areas with particularly robust evidence and challenge of goodwill impairment.

Areas of improvement from the inspection of individual audits:

- Expected credit losses – model testing and monitoring and assessment and challenge of post-model adjustment relating to covid and other uncertainties.
- Certain areas of Journal testing.
- Procedures performed over settlement and clearing accounts and assessment of conduct-related provisions.
- Impairment assessments for tangible and intangible non-current assets.
- Interim testing of accrued revenue.

Section 3 of FRC's AQR report - Review of the firm's quality control procedures

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

- Use of the KPMG global finance system by the UK firm's Ethics function to inform assessment of non-audit fee requirements for UK PIEs.
- Requirement for group audit teams discuss with component audit teams how their systems and processes support them in complying with the Revised Ethical Standard requirements.
- Providing detailed guidance for group audit teams, including examples of the conditions that could compromise the independence.
- Design and implementation of a thorough audit accreditation framework.
- Shortening the period for audit teams to assemble the audit file to a maximum of two days after the audit report is signed.

Areas identified for improvement within KPMG in the UK'S firm-wide procedures[3]:

- Improve guidance on how to more consistently consider the perspective of an Objective Reasonable and Informed Third Party when taking decisions relating to ethics and independence.
- Embed the new Gifts and Entertainment system to ensure pre-approvals are sought before offers/acceptance.
- Issue methodology and improve the quality and extent of IFRS 13 guidance in relation to auditing fair value of financial instruments for banks and similar entities.
- Ensure professional judgements made by internal reviewers are recorded to support the depth of their review and conclusions reached in key areas where no findings have been raised.
- Increase the number of focus areas scoped into each review for large and complex audits with more significant risks or key audit matters.

In response to the FRC's findings in its AQR report, the firm confirmed that, Audit quality is our number one priority, and we are committed to consistently delivering high quality audits. We value the constructive input and challenge from the FRC throughout this year's audit quality inspection and supervision process. We continue to work closely with the FRC and thanks to their input, we are clear on areas of good practice, and importantly where we need to continue to focus to ensure that we build trust and confidence in our profession and the markets.

Regulatory investigations and sanctions

We are committed to continuing to work with our regulators on concluding and learning from a number of historical investigations.

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

Find out more

Ongoing FRC matters

FRC investigations4 into two matters announced in previous years remained ongoing at the end of the year:

— In respect of the financial statements of Carillion plc, the audit by KPMG Audit Plc for the year ended 31 December 2013, the audits of KPMG LLP for the years ended 31 December 2014, 2015, and 2016, and additional audit work carried out during 2017.

— The audit by KPMG LLP of the financial statements of Eddie Stobart Logistics plc for the year ended 30 November 2017.

New FRC matters or developments on ongoing matters during the year

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

FRC matters closed during the year

Four matters[4] relating to periods between 2010 and 2018 were closed during the year:

— In January 2022, the FRC announced sanctions against KPMG LLP and a former partner relating to the audit of the financial statements of Conviviality plc for the financial years ended 30 April 2017 and 29 April 2018. KPMG LLP was fined £3 million, severely reprimanded, and ordered to report to the FRC on the causes of the deficiencies in the 2017 audit and the steps taken to avoid recurrence. The former partner was fined £80,850 and severely reprimanded.

— In March 2022, the FRC announced sanctions against KPMG LLP and a former director relating to the audit of the financial statements of Revolution Bars Group plc for the financial years ended 30 June 2015 and 2 July 2016. KPMG LLP was fined £875,000, severely reprimanded and ordered to analyse the underlying causes of the breaches of relevant standards and report on the steps taken to avoid recurrence. The former director was fined £35,000, severely reprimanded, and ordered to identify and implement any necessary remedial measures as part of his appraisal and personal development arrangements at his current firm, and to report to the FRC at each stage of the process, to avoid recurrence.

— In May 2022, the FRC announced sanctions against KPMG Audit Plc and a partner relating to the audit of the financial statements of Rolls-Royce Group plc for the financial year ended 31 December 2010. KPMG LLP was fined £3,375,000, severely reprimanded, and ordered to commission an external expert review of the effectiveness of the firm's approach to audit work in the area of an audited entity's compliance with laws and regulations. The partner was fined £112,500 and severely reprimanded.

— In July 2022, following an FRC tribunal, the FRC announced sanctions against KPMG LLP, a former KPMG partner and four former KPMG employees, following an investigation undertaken pursuant to the Accountancy Scheme. The investigation related to the provision of false and misleading information and documents to the FRC in connection with the FRC's Audit Quality Reviews of two audits carried out by KPMG: the audit of the financial statements of Regenersis plc for the period ended 30 June 2014, and the audit of the financial statements of Carillion plc for the period ended 31 December 2016. KPMG LLP was fined £14.4 million, severely reprimanded, and ordered to appoint an independent reviewer to conduct a review to consider the effectiveness of KPMG's current AQR policies and procedures in supporting high-quality engagement with the AQR inspectors. The former KPMG partner and three of the individuals were fined, severely reprimanded, and excluded from membership of the ICAEW; the other individual was severely reprimanded. In January 2022, another former KPMG employee admitted misconduct in relation to this matter and was fined, severely reprimanded, and excluded from membership of the ICAEW.

ICAEW matters

Three ICAEW investigation outcomes were announced during the year. Two related to audits of financial statements of entities and the third related to a KPMG partner who was not registered to sign an Irish audit report.

PCAOB matters

In November 2022, the PCAOB announced disciplinary orders in respect of two matters:

— The PCAOB announced sanctions against KPMG LLP arising from failures to detect or prevent improper answer sharing on tests for mandatory internal training courses in the audit practice from 2018 until March 2021. KPMG LLP was censured, agreed to pay a civil money penalty of $2m and was ordered to review and improve as necessary its quality control policies and procedures to prevent recurrence.

— The PCAOB announced sanctions against KPMG LLP relating to the use of another KPMG network firm in the audits of the financial statements of Endava plc for the financial years ended 2017 to 2020 and inaccuracies in the firm's reporting of the participation of other KPMG network accounting firms in a small number of other audits. KPMG LLP was censured, agreed to pay a $600,000 civil money penalty and was ordered to review and improve as necessary its quality control policies and procedures in respect of the supervision and reporting of the participation of other firms in its PCAOB audits.

FRC Ethics Breach Reporting Policy

In February 2022, the FRC published a new policy for ethics breach reporting for auditors of public interest entities (PIEs) which sets out a standardised format and timeline of reporting in addition to requiring approval of the reporting by the firm's Ethics Partner (or equivalent).

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

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 Ethical Standard (ES). Where we identify 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). In line with the regulator's requirements, we submit a report of breaches to the FRC every six months. Reporting occurs outside of this cycle if the nature of the breach is such that the FRC would expect to be made aware. In the year ended 30 September 2022, we identified 24 breaches of the FRC's Ethical Standard (2021: 16 breaches).

Internal monitoring

Internal monitoring programs are created by KPMG International and applied across KPMG firms. The programs evaluate both:

— engagement performance in compliance with the applicable professional standards, applicable laws and regulations and KPMG International key policies and procedures; and

— our compliance with KPMG International key policies and procedures and the relevance, adequacy and effective operation of key quality control policies and procedures.

Our internal monitoring programs also contribute to the assessment of whether our system of quality management has been appropriately designed, effectively implemented, and operates effectively.

There are three components to our internal monitoring:

— Quality Performance Reviews (QPR) programme

— KPMG Quality and Compliance Evaluation (KQCE) programme – formerly known as the Risk Compliance Programme (RCP)

— Global Quality and Compliance Review (GQ&CR) programme

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

Quality Performance Review (QPR) programme

The QPR programme is the cornerstone of KPMG's efforts to monitor engagement quality. It assesses engagement level performance and identifies opportunities to improve engagement quality. It is also how we make sure that member firms collectively and consistently meet both KPMG International's requirements and professional standards.

Risk-based approach

All engagement leaders of statutory and non-statutory audits and other assurance engagements are generally subject to selection for review at least once in a three-year cycle. A risk-based approach is used to select engagements.

Our firm conducts the annual QPR programme in accordance with KPMG International QPR instructions. The reviews are performed at a UK level and are monitored regionally and globally.

Reviewer selection, preparation and process

There are robust criteria for selection of reviewers. Reviews are overseen by a senior experienced lead reviewer who is independent of KPMG in the UK.

Training is provided to review teams and others overseeing the process, with a focus on topics of concern identified by audit oversight regulators and the need to be as rigorous as external reviewers.

Evaluations from Audit QPR programme

Consistent criteria are used to determine engagement ratings and member firm Audit practice evaluations. During the year our rating structure for QPR findings was refined to align more closely with market practice. These changed from S (Satisfactory), PIN (Performance Improvement Necessary) and U (Unsatisfactory) to the new ratings explained below:

Compliant

When the audit work performed, the evidence obtained and the documentation compiled fully comply with internal policies, auditing standards and legal and regulatory requirements; and key judgements concerning significant matters in the audit and audit opinion are appropriate.

Compliant – improvements needed

When the auditor's report is supported by evidence and is not incorrect in any material respects, but the independent reviewer required additional information to reach the same conclusion as the auditor; or where supplementary information obtained as part of the audit was not sufficiently documented in the audit; or where specific requirements of our audit methodology were not embedded. A 'CIN'-rated engagement is not considered an adverse quality outcome.

Not Compliant

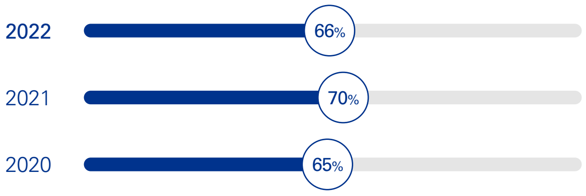
When the auditor did not perform the engagement in line with KPMG's professional standards and policies in a more significant area, or where there are deficiencies in the related financial statements. Where appropriate, in a limited number of cases we remediate engagement files to ensure the audit evidence obtained is adequately documented. Engagement teams undertake specific incremental or remedial training. In addition, engagement leaders receiving a Not Compliant rating are subject to at least one follow-up review. 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.

Reporting

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, 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 Compliant in our internal reviews. Accordingly, it is difficult to make direct comparisons between the results of our internal and external inspection processes.

Rating / Compliant



Rating / Compliant – improvements needed

Rating / Not Compliant

Number of engagements reviewed

KPMG Quality and Compliance Evaluation (KQCE) programme

KPMG International develops and maintains quality management policies and processes that apply to all KPMG firms. These policies and processes, and their related procedures, include the requirements of the Global Quality & Risk Management (GQ&RM) Manual, ISQC 1 and the implementation requirements of ISQM 1 for this transition period.

The objectives of the KQCE programme are to:

— document, assess and evidence the extent of compliance of KPMG in the UK's implementation of ISQM 1 and the extent of compliance of their system of quality control with the GQ&RM Manual policies and key legal and regulatory requirements; and

— provide the basis for KPMG in the UK to evaluate that the firm and its personnel comply with relevant professional standards and applicable legal and regulatory requirements.

For FY22 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's policies and procedures and, although there may be several instances of non-compliance, these do not indicate serious deficiencies within the firm as a whole; while red indicates there are serious deficiencies.

The firm's evaluation also considers the results and status of action plans arising from other reviews assessing risk, quality and compliance, including QPRs and GQ&CRs. Where exceptions are identified, we are required to develop appropriate action plans and then monitor the status of each action item.

In 2022 our self-assessment found that our overall level of compliance is yellow (2021: yellow).

Global Quality and Compliance Review (GQ&CR) programme

Each KPMG member firm is subject to a GQ&CR conducted by KPMG International's GQ&CR team, independent of the member firm, at various intervals based on identified risk criteria.

The GQ&CR team performing the review is independent of the firm and is objective and knowledgeable of GQ&RM policies. GQ&CRs assess compliance with selected KPMG International policies and procedures and share best practices among member firms.

The GQ&CR provides an independent assessment of:

— a firm's commitment to quality and risk management (tone at the top) and the extent to which its overall structure, governance and financing support and reinforce this commitment;

— a firm's compliance with KPMG International policies and procedures; and

— the robustness with which the member firm performs its own quality and compliance program (former RCP and, current, KQCE programme).

KPMG in the UK develop action plans to respond to all GQ&CR findings that indicate improvement is required and agree these with the GQ&CR team. Our progress on action plans is monitored by the GQ&CR central team. Results are reported to the GQ&RM Steering Group and where necessary, to appropriate KPMG International and regional leadership.

The UK firm was subject to a GQ&CR inspection during 2021 when a number of opportunities for improvement were identified, including areas which were also generally identified by the UK firm's Audit Quality and Banking Audit Quality Improvement Plans, RCP/KQCE and other compliance and quality control processes.

Audit quality engagement

Investor engagement

We have an investor engagement programme which is sponsored by the Board and Audit Executive, reported to (and challenged by) our Audit Board and Public Interest Committee, and delivered with the support of some 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.

At these meetings, we focus on topics of interest to investors, such as ESG factors, the government's response to the Department for Business, Energy and Industrial Strategy (BEIS) consultation "Restoring Trust in Audit and Corporate Governance", and key trends and new requirements in financial reporting. We also discuss the measures we are taking to continue to drive 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.

In addition, we make investors aware of the governance structures and reporting processes that corporates need in place themselves in order to facilitate a robust audit (and meet the likely requirements arising from the Restoring Trust consultation).

A selection of our events is attended by our INEs. This year, this included our Annual Audit Review where we discussed the future of Audit with investors, audit committee chairs and finance directors.

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 audit profession.

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

Investors tell us they want auditors to:

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

— Provide greater assurance on information beyond the financial statements, such as alternative profit measures, ESG metrics and other non-financial information. In response, we are exploring how best we can provide assurance on those areas that are of most interest to investors and have incorporated that feedback into our responses to the various reviews of the audit profession.

— Give more insight into management judgements than a binary audit opinion can give them. In response we continue to offer 'graduated findings' in 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.

— Share their insights sooner. In response we have reminded the companies we audit of the requirements concerning timely publication of annual reports and introduced a report containing extracts of our signed audit report that companies can publish with their preliminary announcements.

— Strengthen their culture of management challenge and professional scepticism, embedding such thinking into their processes, training, incentives and career progression pathways. In response, we have invested in reengineering our entire audit process with a standardised response to most area and we have transformed mandatory training for auditors with a constant focus on professional scepticism and challenge of management

— Safeguard their independence from the companies that they audit – both in fact and appearance. In response, we were the first audit firm to voluntarily restrict the provision of non-audit services (other than those services closely related to the audit) to FTSE 350 companies that we audit, well before the FRC's new Ethical Standard required it. We also welcome the FRC's intention to seek operational separation of Audit from the rest of the firm across our profession. Our business is already substantially organised to achieve the operational separation envisaged by the FRC in its recently published principles, having introduced a range of measures to enhance our governance and partner performance management, all focused on audit quality.

Audit Committee Institute

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.

The ACI in the UK now has around 3,100 (2021: 2,800) members across both the private and public sectors. 67 FTSE 100 companies (2021: 79) have engaged with the programme through the active attendance of one or more board members and the audit committee chairs of 74 FTSE 100 companies (2021: 72) are members – receiving our thought leadership, guidance, updates and surveys.

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. We have recently refreshed our political relationships and activity policy for all colleagues to ensure we demonstrate best practice in conducting political engagement at all levels of government.

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

People and culture

Continuing to strengthen and evolve our culture is key to building a stronger and more sustainable firm for the future.

Our firm's Culture Ambition

"At KPMG we are guided by Our Values and doing great work that matters. We're building a culture that is open, safe and inclusive, and operates to the highest ethical and quality standards. A culture and environment that is continually listening, learning and evolving."

Jon Holt / Chief Executive, KPMG in the UK

Our values

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

Working closely with the Board, the Executive Committee looked into determining how we should evolve our culture as we grow our business and embed hybrid working. The outcome is our culture ambition, which Jon Holt set out to our Partners and colleagues and how he, and the Executive Committee, will be held accountable to deliver against that ambition.

There are five important components of the firm's Culture Ambition:

- Using our values to guide everything we do
- Creating an open, safe and inclusive environment
- Demonstrating the highest ethical and quality standards
- Listening, learning and evolving
- Doing work that matters

We've already taken some leading steps, for example our network of Ethics Champions and enhancing our Speak Up processes. In April, Jon Holt also announced some new actions, focused on:

— Embedding our values.

— Creating a stronger link between Partner pay and behaviour.

— Enhancing the governance of our culture ambition and plan.

— Increasing the independent oversight of the actions we're taking.

Read more on our Culture Ambition and the steps we're taking.

We listen to feedback and continually monitor our progress against key areas to identify what's working and where we need to take further steps to improve. Our Culture Steering Group, comprised of Board, Public Interest Committee, Executive Committee members and our Ethics Partner, meet on a quarterly basis to discuss culture metrics aligned to our ambition. We're also getting independent insight into the actions we're taking, including from the Institute of Business Ethics and also our Public Interest Committee.

Investing in our culture is part of our strategy to build a stronger and more sustainable firm for the future. This includes ensuring that all our people uphold the highest possible professional, ethical and quality standards, and that we learn from instances where behaviour falls short. We continue to work 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, and we've shared our culture ambition and plans with them. While this engagement took place we took the decision to temporarily stop bidding for government contracts. In June 2022, we were pleased to return as a strategic supplier to support the work of Government. We will continue to engage with the Cabinet Office closely and transparently on the implementation of our ongoing improvement plans and the commitments we've made as part of our culture ambition.

These commitments apply right across the firm, regardless of which function, department or team an individual belongs to. This report focuses on our Audit practice, in line with the regulatory requirement behind producing a Transparency Report. But it is important to note that numerous issues discussed in the following pages – our commitment to Inclusion, Diversity and Equity (IDE), our adoption of hybrid working to support both work/life balance and valuable collaboration with colleagues, our determination to uphold the highest standards of conduct and integrity, the guiding principle and aspiration of Quality that informs every piece of work we carry out – apply universally to every part of KPMG.

"It's important to me that, as a Board, we show leadership when it comes to culture, but also that we have the humility to listen to our people about where we can go further. We will be actively monitoring progress and holding our executive – who I know are equally committed – to account."

Bina Mehta / Chair, KPMG in the UK

People and Culture in our Audit practice

Number of people (onshore) in Audit / **5,118**

1 Oct 22
(1 Oct 21: 5,328)

Number of people (offshore) in Audit / **2,220**

1 Oct 22
(1 Oct 21: 1,585)

% of women in Audit / **47%**

1 Oct 22
(1 Oct 21: 47%)

% of ethnic minority colleagues in Audit / **37%**

1 Oct 22
(1 Oct 21: 35%)

% of black heritage colleagues in Audit / **7%**

1 Oct 22
(1 Oct 21: 6%)

% of disabled colleagues in Audit / **7%**

1 Oct 22
(1 Oct 21: 7%)

% of lesbian, gay & bi colleagues in Audit / **4%**

1 Oct 22
(1 Oct 21: 4%)

% of lower socio-economic background colleagues in Audit / **18%**

1 Oct 22
(1 Oct 21: 18%)

Building a culture of 'High Challenge, High Support' in Audit

In Audit, we're building a culture of 'High Challenge, High Support', which is part of the firm's Culture Ambition. It's where our people embrace Our Values and demonstrate a mindset of professional scepticism. This is key in delivering high quality audits. To nurture this mindset, we are focused on empowering our people. This means providing them with the right support, as well as opportunities to develop their skills and gain relevant experience.

We recognise that having the right culture will help us deliver our People Strategy: to Empower our People to build purposeful, fulfilling careers in an environment where they can thrive. Having the right culture also drives audit quality, delivery and growth.

The Culture Change Programme in Audit is now in its third year. We have matured our programme of work, building relevant resources, local networks and mechanisms to embed the firm's Culture Ambition within the business. We have been highly encouraged by the extent to which this is resonating with colleagues – they welcome the opportunity to co-create impactful culture resources that build a vibrant workplace and support in the delivery of our Audit strategy. We have had positive and regular engagement with the FRC since we commenced our Culture Change Programme in 2020 and more recently over the course of the last year as part of the FRC Thematic Review in respect of Scepticism and Challenge. We have received positive feedback from the FRC on our Culture Change Programme. They have highlighted many areas of good practice we have implemented, whilst noting our focus is now on further embedding change. The FRC's Thematic Review has also highlighted recommendations which we have taken into account as part of our plan for the year ahead.

> "…significant progress has been made in delivering the Culture Change Programme, which we consider to be well-designed, with the focus now on embedding the cultural collateral in individual practice groups."
>
> **Audit Quality Inspection and Supervision Report, FRC (July 2022)**

Audited entities somewhat satisfied or very satisfied with level of challenge on key estimates and judgements / **84%**

FY22
(FY21: 76%)

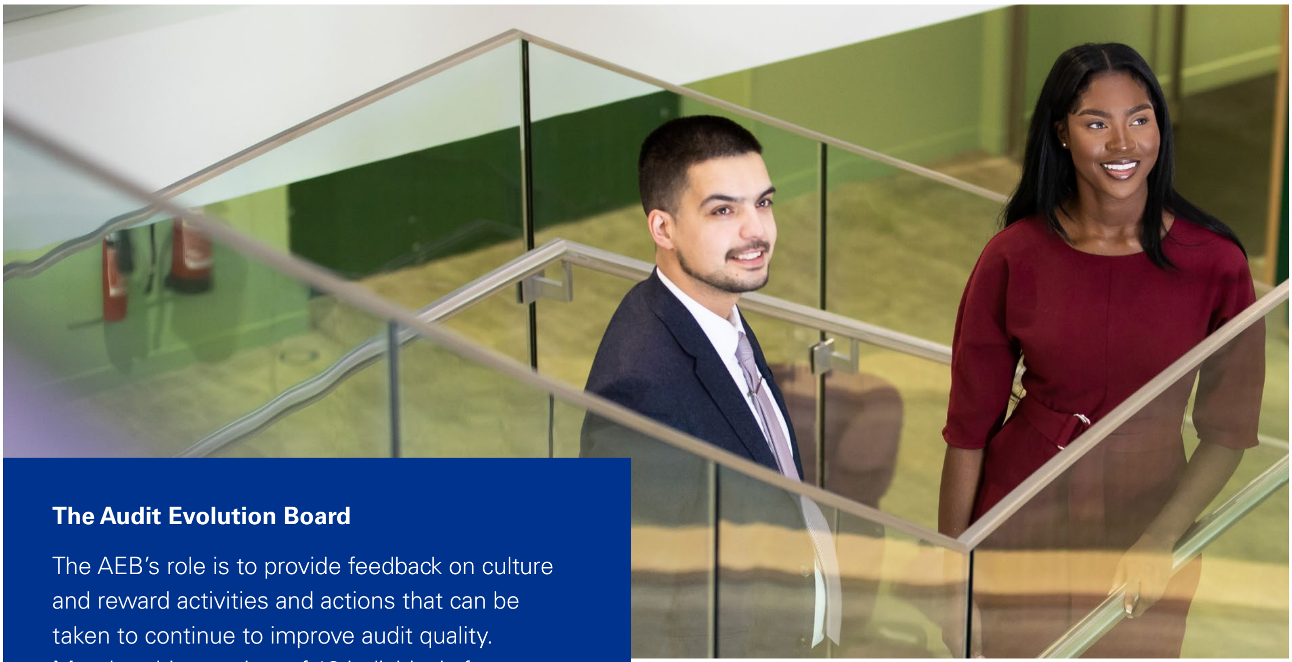
94% / of Audit colleagues feel the culture and tone set by leadership promotes the importance of audit quality

2022 Global People Survey[5]
(2021 Global People Survey: 91%)

89% / of Audit colleagues eel our commitment to quality is apparent in what we do on a day-to-day basis

2022 Global People Survey[5]
(2021 Global People Survey: 81%)

5 2022 Global People Survey data is based on 3,371 Audit colleague responses. 2021 Global People Survey data is based on 2,206 Audit colleague responses.



The Audit Evolution Board

The AEB's role is to provide feedback on culture and reward activities and actions that can be taken to continue to improve audit quality. Membership consists of 12 individuals from a range of Audit departments, locations and grades (from trainees to Senior Manager) together with one non-Audit member to provide an additional perspective. This diverse group bring a wide range of opinions and experiences through the monthly meetings. Their primary focus is to support the transformation to improve audit quality.

Alongside the AEB's focus on audit quality, other areas of contribution include the firm's Audit culture strategy, hybrid working, the ESG agenda and the Black Lives Action Plan. They consider the people and culture activities and actions that can be taken and bring them to the attention of senior leadership, helping us continue to embed our culture and improve audit quality.

"This year the Audit Evolution Board has provided feedback on audit reward changes, taken part in Audit Quality and Culture Awards judging, and acted as a sounding board for leadership proposals. The members are committed to ensuring that people feel rewarded and receive recognition for the hard work they do and will continue to work alongside the Audit Executive to achieve this."

Katie Henry / Audit Evolution Board Deputy Chair, KPMG In the UK

"

We are proud to have worked together with the Culture Change team to script, film and produce 'challenge and support' training resources for auditors, by auditors. We are releasing additional resources this autumn to demonstrate how to effectively work with our specialists and offshore colleagues."

Rich Pinks, Audit Director

Leading from the top, ensuring consistency

To be effective, our culture programme must be consistent, both across Audit itself and with all the other areas of our firm. To that end, we continue to ensure that Our Values and cultural mindset are driven from the top, with leadership demonstrating and communicating a commitment to quality, ethics and integrity which can cascade down through the organisation.

We have aligned the cultural change activities in Audit to firm-wide activity whilst recognising the Audit programme is wider in remit and may require additional areas of focus. What is clear is that our culture ambition of high challenge, high support is understood by our people and is driving the right behaviours and outcomes.

Our Audit culture change team (a small group of dedicated specialists) is aligned and integrated with teams across Audit and the firm to bring consistency in ambition and messaging, with a joined-up approach. Our culture change professionals bring value to teams across Audit by guiding and supporting their culture activity focus - sharing insights and lessons learnt.

Leadership accessibility

Leaders are key in setting the tone and embodying the Values we aspire to – and they also need to be accessible and available to colleagues. That is why we have continued to give colleagues the opportunity to share their views with leadership, through a variety of mechanisms such as open forums and informal events. Examples include sessions with Cath Burnet, Head of Audit, through visits to our offices up and down the country, getting to know Audit colleagues better and listen to their feedback and ideas on a wide range of topics including career development, KPMG Clara workflows, use of technology and the future of Audit. Both Cath Burnet and Mick Davies, Head of Audit Quality (until 30 September 2022, when he took up his new role of Chief Operating Officer, Audit) also spent a week visiting KGS colleagues and leadership in KGS's Indian offices in Gurgaon and Bangalore to speak to the 2,200 Audit colleagues there and hear what has been going on locally. Feedback received shows that those colleagues welcomed the opportunity to discuss issues that matter to them and hear directly from the UK Audit practice leadership. Our open feedback philosophy is helping us build a strong culture from the bottom up as well as top down.

Another significant event was the launch in March of "Talking Audit", an internal hub for sharing, listening and connecting, with a monthly video featuring leadership and colleagues updating Audit team members on what is going on in the practice and in the profession.

On a more operational and day-to-day level, there are a number of opportunities for leaders to ensure they can engage with their teams and support our culture ambition in their management approach. Measures include quarterly performance management conversations (as a minimum), coaching, culture surveys and 'Town Halls'.

Ethics and reporting

Where colleagues have any concerns about any ethical or conduct issue, they are encouraged to speak to their manager in the first instance if they feel comfortable to do so – but a number of other routes are available. This includes our whistleblowing hotline, Speak Up, which is overseen by an external ombudsman and is completely confidential. We also have a network of Ethics Champions – colleagues based at each of our UK offices who are available should colleagues wish to discuss any ethical concerns. In the year to 30 September 2022, there were over 100 Ethics Champions (2021: over 120) nationwide who helped colleagues with 214 concerns they wished to raise (2021: 193). We are pleased to see that our colleagues also continue to use the Speak Up hotline where 45 separate matters were reported (FY21: 48). Members of our Audit Board also meet with people around the business several times a year as an important part of taking a temperature check on culture.

> "
>
> …the firm's investment in initiatives to improve audit quality, including a Culture Change Programme, is having an impact."
>
> **Audit Quality Inspection and Supervision Report, FRC (July 2022)**

Practical tools and resources continue to create culture change on the ground

We are embedding our culture ambition by developing practical tools, resources and events that help our colleagues understand and apply it in practice. Our progress in 2022:

Centrally-led activities and resources:

— Audit Quality and Culture Awards (AQCAs). These awards now run three times a year, giving our colleagues more opportunity to be recognised 'in the moment'. This recognition really matters to our people – we know because the winners have told us. The Spring and Summer AQCAs have been a huge success with over 1,000 individual winners. We use the results and stories to measure the impact our culture change programme is having across Audit.

— CultureScope. We have continued to use this culture measurement tool in a targeted way to help identify our culture strengths and areas of focus.

— We continue to embed Our Values and culture ambition across firm-wide activities, policies and processes.

— Our bi-annual speaker series brings our culture ambition and expected behaviours to life through a diverse range of speakers from across industry. The series stimulates thinking and supports colleagues with practical actions, hints and tips that they can apply every day to live our culture and behaviours. This year our speaker series focused on Curiosity which supports the right mindset for challenge and professional scepticism. To date we have had over 13,000 colleague views, live and on-demand for this content.

Driving cultural change locally:

— Our Culture Ambassador network has grown to 140 colleagues supporting the business. Their passion in delivering tangible culture change has resulted in over 300 value-adding activities, aligned to our culture plan, being carried out locally.

— Coaching materials continue to be used locally and training is delivered to newly promoted managers and experienced hires. All of our Partners and Directors, and 75% of our Senior Managers and Managers, have attended this training. Newly promoted Managers attend the training on an ongoing basis.

Supporting our people:

Our work on cultural change has put a spotlight on colleague wellbeing:

— We delivered an impactful campaign during Mental Health Awareness Week, with Partners and Directors setting the tone from the top through personal videos and conversations with colleagues at all levels.

— We delivered our first Wellbeing Innovation Challenge (WIC), where we asked our Audit practice to submit innovative ideas to improve wellbeing for all in Audit. We launched the winning idea – Focus Time – from the WIC in December 2022.

— We also launched an informative Audit Culture portal, a one-stop shop for Audit colleagues to access all culture resources, including wellbeing support.

— We announced a new five-year partnership on the 'Future of Work' between KPMG and the University of Cambridge. It will reimagine the world of work, examine the big issues affecting the modern workforce and offer practical, research-backed solutions to employers – starting with mental wellbeing.

We returned to running our successful KPMG Audit University (KAU) in person this year where our Culture Ambition and expected behaviours was one of the core themes.

The Wellbeing Innovation Challenge winning idea: Focus Time

The concept is about having 'focus time' in the diary and removing distractions to allow people to get their work done more efficiently. Achieving more, in less time, gives a sense of achievement, removes the anxiety of workloads building up, and allows us to work smarter and fewer hours.

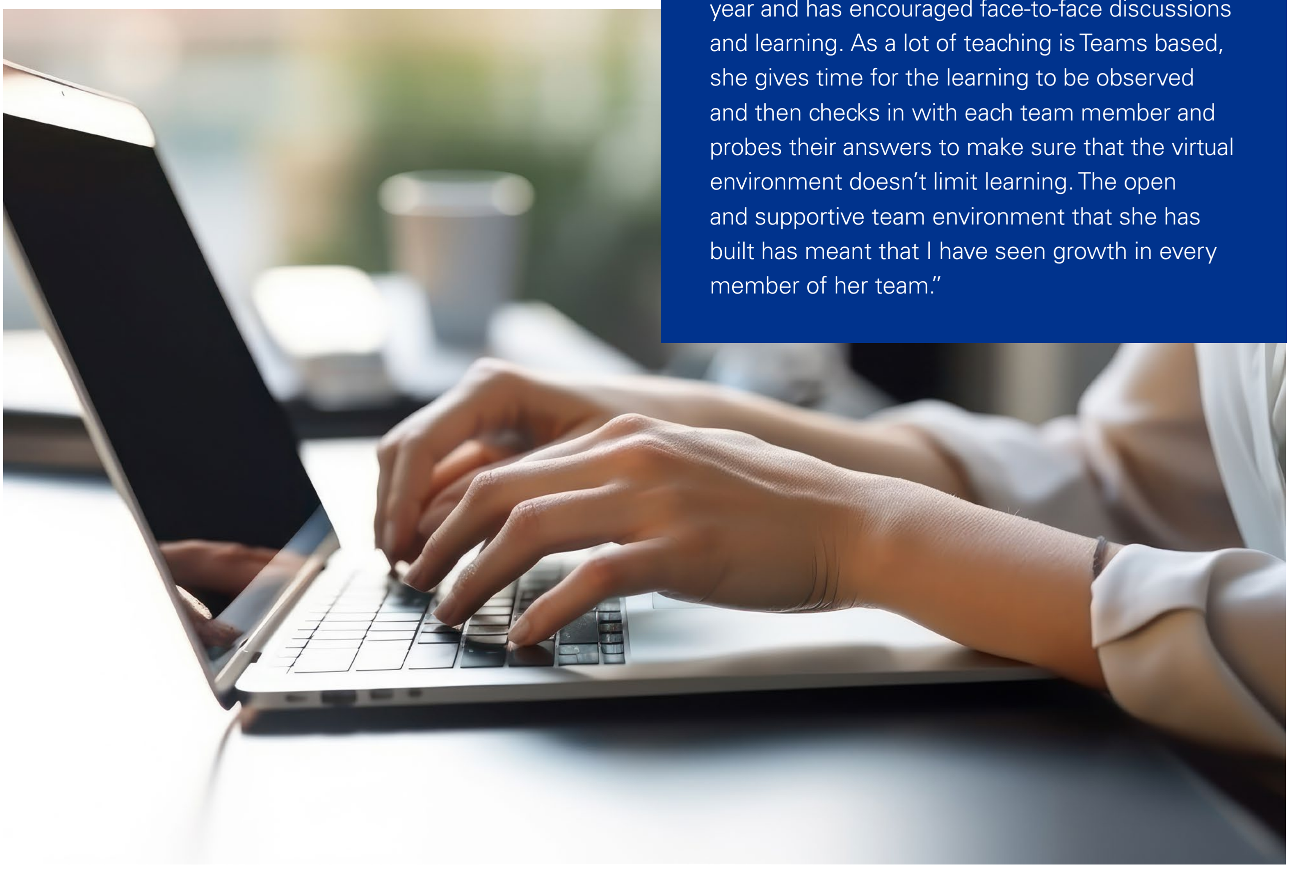
Hybrid working model

We believe that hybrid working is important in empowering our people and building the culture of the firm. Since November 2021, as part of the 'Reconnection' phase of KPMG's workplace strategy, we have been encouraging colleagues in Audit (and in the firm as a whole) to make the shift to hybrid working by spending a minimum of two days a week working together, in the office or at an audited entity site. This helps ensure we continue to deliver high-quality audits and support the wellbeing of our colleagues by giving them the best of both worlds – the flexibility to be at home, and time in the office or at an audited entity where they can catch up, work with each other in person and learn new skills together. It is clear that our people have really felt the benefit of being back in the office with their teams, particularly in terms of coaching and team engagement. We will continue to embed hybrid working in Audit, investing in technology and infrastructure to support it, listening to feedback, and evolving our approach when required, to ensure our colleagues are engaged, supported and learning in their roles.

Hybrid working excellence

Jennifer Wilmoth, Audit Manager, was recognised in the Summer 2022 Audit Quality and Culture Awards for the way she has managed her audit team whilst also embracing hybrid working. The director, Michelle Smarsh who put Jennifer forward for the award wrote in her nomination:

"…a stellar example of adapting and excelling as a manager in a hybrid environment". She is Glasgow based but is leading the Aberdeen-based team. Focused on transferring audit entity knowledge to the Aberdeen team members this year and has encouraged face-to-face discussions and learning. As a lot of teaching is Teams based, she gives time for the learning to be observed and then checks in with each team member and probes their answers to make sure that the virtual environment doesn't limit learning. The open and supportive team environment that she has built has meant that I have seen growth in every member of her team."



The recruitment and development of our people

Driving quality through 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.

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.
- Fit and proper checks.
- Psychometric and ability testing.
- Qualification and reference checks.

Upon joining the firm, new joiners take part in an induction programme which includes training in areas such as: ethics and independence, quality and risk management, engagement management and people management procedures.

Recognising our success

Through our revamped Audit Quality and Culture 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.

The Audit Quality and Culture Awards recognise and celebrate those individuals and teams who champion audit quality and demonstrate our expected behaviours. In FY22, we had over 1,000 winners and good news stories linked to our culture goals. These stories are used across our Audit practice to continue to embed our culture ambition and drive good practices.

The People Awards are a firm-wide awards programme celebrating our people and what they've achieved. The awards are a chance for us to recognise the colleagues and teams who have exemplified Our Values and the incredible impact they have. 21 individuals and teams in Audit were recognised in the 2022 People Awards.

Delivering audit quality

One of the winners in the Audit Quality and Culture Awards this year was Nicole, a manager in Banking Audit. Nicole achieved the rare distinction of having her contribution recognised externally in the Audit Quality Inspection and Supervision Report, FRC (July 2022), where her personal initiative to improve data testing for expected credit losses was highlighted amongst good practices observed.

Nicole had mapped out each data element to the expected credit loss testing, showing how the risk had been addressed and linking that consistently through the controls and substantive work performed. This allowed the external reviewer to clearly follow KPMG's thinking and testing, leaving a positive impression on the inspector.

More broadly, Nicole has performed excellently through the year. The partner nominating her in the awards said: "Nicole is a special talent. She has shown great ability to work independently, excellent attention to detail, impressive technical ability, and outstanding flexibility in her approach. Her perseverance and depth is excellent: her challenge of management's accounting led in a number of cases to restatement in the accounts. She is becoming a real role model and has taken a keen interest in coaching and supporting colleagues in the team around her.

"Based on her exceptional performance and her wider impact on firm-wide quality, including her expected credit losses work, she fully deserves this award."

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. In FY22, we developed a Career Pathways Tool to support colleagues' understanding of what different teams in Audit do and the opportunity to build their career.

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 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. More information on how we do this can be found here.

Total number of promotions in Audit this year / **970**

2 Oct 21 to 1 Oct 22
(2 Oct 20 to 1 Oct 21: 895)

81% / of Audit colleagues feel the review of their performance places a significant emphasis on their contribution to audit quality

2022 Global People Survey[6]
(2021 Global People Survey: 91%)

Number of Partner promotions in Audit this year / **38**

2 Oct 21 to 1 Oct 22
(2 Oct 20 to 1 Oct 21: 895)

% of Audit Partner promotions that were female / **36.8%**

2 Oct 21 to 1 Oct 22
(2 Oct 20 to 1 Oct 21: 20%)

% of ethnic minority Audit Partner promotions / **15.8%**

2 Oct 21 to 1 Oct 22
(2 Oct 20 to 1 Oct 21: 19.6%)

6 2022 Global People Survey data is based on 3,371 Audit colleague responses. 2021 Global People Survey data is based on 2,206 Audit colleague responses.

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 professionals. The Quality and Performance Matrix we use to assess an individual's performance looks at quality and how it interacts with other factors. An individual's overall rating depends on the interaction of both.

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

The 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 audits, are not evaluated, promoted or remunerated for the selling of non-audit services to entities we audit. There are no incentives for auditors to do this.

In 2022, 98% of colleagues between partner and manager level were awarded a quality rating consistent with no, or only limited, performance improvements necessary. The remaining 2% of individuals where more significant performance improvements were identified were provided with targeted improvement plans and goals.

Partner admissions

Our process for admission to the partnership 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 reflect our commitment to professionalism and integrity, delivering high-quality audits and being the best choice for the entities we audit and our people. In FY22 we also introduced Non-Equity Partners who go through the same admissions process as our Equity Partners. In our Audit practice, of the partners we promoted from within the firm this year, 36.8% were female.

Basis of equity partner remuneration

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

Having introduced Partner Bands and a Unit Based remuneration model during FY21, this is now fully embedded across the partnership. The five bands outline the expected impact and scale of sustainable contribution to the firm at different levels of partner, with expectations and complexity increasing with seniority.

- Each member's Unit allocation, including those who are on the Executive Committee, 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 further profit distributions. The level and timing of the additional profit distributions are decided by the Executive Committee, considering 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.

As noted earlier, we also introduced Non-Equity Partners during FY22 who are remunerated in the same way as colleagues. As at 30 September 2022, there were 283 Non-Equity Partners and 503 Equity Partners in the UK firm.

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. This applies across KPMG, whether in Audit, Consulting, Tax or Advisory. Our new Inclusion, Diversity and Equity strategy 'Our KPMG: A Fairer Future for All' launched in February 2022 and is focused on leadership accountability, attracting and retaining talent, ensuring fairness in our systems and processes and using our collective voice for the better.

Our leaders are committed to driving change and are held accountable with set targets and action plans which they're measured against regularly. As part of the strategy, we have set targets to 2030 to mark our long-standing commitment to change. We also remain committed to being transparent about our remuneration and pay gaps. In 2021 we became one of the first UK businesses to publish our socio-economic background pay gaps, and we continue to report on our pay gaps against each under-represented characteristic[7].

Examples of our commitment to date include: our Inclusive Leadership Board; a Black Lives Action Plan which has been in place for over two years; IDE training which was launched in 2022 to all colleagues; and our 15 very active employee networks. We are proud to have been recognised externally as a Times Top 50 Employer for Women, a Disability Confident Leader; a top 20 ranking in the 2022 Stonewall Workplace Equality Index; and to be the only firm to have ranked in the top three in the Social Mobility Employer Index every year since 2017.

When considering our talent, we strive to attract people from all backgrounds at every stage of their career and empower them to reach their full potential. We're setting targets for experienced hires across under-represented characteristics and are investing in insights and market mapping to help us reach these groups. We also continue to invest in programmes such as Access Accountancy where all our KPMG Discovery work experience places are for candidates from low socio-economic backgrounds. In 2021, the Audit practice also launched a Black Heritage Talent programme which has explored numerous themes with internal and external speakers to support colleagues in their career development and maximise their potential.

In our bid to build an inclusive culture, we have 15 Employee Networks open to all, providing a sense of community and learning experiences for those who want to increase their own diversity awareness or become an ally. They deliver a calendar of events throughout the year to celebrate key moments, where colleagues can voice their own lived experiences and provide vital feedback and insight to leadership.

"Being part of the Black Heritage Talent Programme (BHTP) has developed my leadership and time management skills, created new career opportunities and helped to expand my network. It was the perfect programme to build my confidence in identifying my stakeholders and being my authentic self at work. The lessons learnt have been life-changing and I am happy to have participated in the programme."

Esther Owusu-Ansah / Manager, Audit, KPMG in the UK

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

Measuring our progress

Continuing to measure our progress is key to success. We baseline and measure our culture on a holistic basis, using a variety of different sources of existing Management Information using our Firm-wide Culture Dashboard.

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 Audit colleagues on the progress we are making against the focus areas in a newsletter called 'You Said, We Did'.
- Our Audit Listening Programme which gathers views from the entities we audit.
- 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 (read more about this here).

Working with the Root Cause Analysis team we also continue to 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, high support' looks like and how we get there. We held over 130 focus groups in 2022 which were attended by approximately 750 Audit colleagues. These inputs are helping us target our actions where they will have the greatest impact.

Our People and Culture in Audit priorities for 2023

We're committed to delivering on our strategic plans and will continue to focus on the following for FY23:

- Continue to drive engagement locally through our Culture Ambassador network to embed our High Challenge, High Support culture and make it real for colleagues through a variety of activities as listed below
- Implement our winning Wellbeing Innovation Challenge idea – Focus Time.
- Create further resources to build trust and psychological safety in teams, supporting a culture where people feel able to speak up if necessary.
- Focus on building continuous improvement to drive sustainable growth and develop our people to adopt a commercial mindset.
- Measure culture success and deliver insights through existing Management Information and the use of CultureScope.
- Continue to embed culture learning into the 2023 KAU and our Auditor Update training programme.
- Bring different perspectives to broaden horizons and stimulate innovation through our internal and external speaker series.
- Continue our work on Career Pathways for our auditors so that they have a meaningful, varied and challenging career within the Audit practice.
- Continue to focus on our Inclusion, Diversity and Equity action plan with a focus on achieving our targets and ensuring we have clear and tangible actions to meet these.
- Develop a robust people strategy focusing on attraction, retention, and the development of our auditors.
- Transition our culture change programme to 'business as usual' where it is fully embedded in the business.

Quality control and risk management

KPMG is committed to quality and service excellence in all that we do, helping to bring our best to clients and earning the public's trust through our actions and behaviours both professionally and personally.

Quality control and risk management

The UK firm has numerous policies and procedures in place to enable its compliance with professional standards. Partners and employees are responsible for complying with these policies and procedures, and there are internal controls and processes in place to help them do so.

The Board annually assesses both the effectiveness of the firm's internal controls and its compliance with independence policies and confirms the firm's compliance with the Audit Firm Governance Code.

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

— The assessment and management of risk is supported by the Risk Committee.

— Monitoring of internal controls is supported by the Audit Committee.

The firm has adopted KPMG's Global Independence Policies:

— All partners and partner equivalents are subject to a compliance audit at least once every five-year period, and those partners in a Chain of Command role are audited at least once every three years.

— We provide all relevant personnel with annual firm independence, personal independence and conflicts of interest training.

— Training on compliance with laws, regulations, professional standards and our Code of Conduct (Our Code) is issued to all partners and employees on joining the firm and annually thereafter.

The firm's Internal Audit plan is reviewed and approved by the Audit Committee:

— Internal Audit provides the Audit Committee with independent and objective assurance on the adequacy and effectiveness of our governance, risk management and internal control processes.

— The firm's Internal Audit function was subject to an external quality assessment in FY21 and received a 'Generally Conforms' report against the professional standards for internal audit.

Our quality control and risk management systems

Policies and procedures

KPMG International has established a quality framework across its network of member firms based on the International Standard on Quality Control 1 (ISQC1) issued by the International Auditing and Assurance Standards Board (IAASB) and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which apply to professional services firms that perform statutory audits and other assurance and related services engagements.

The policies and associated procedures within this framework enable member firms to comply with relevant professional standards, and with regulatory and legal requirements, and help our partners and employees act with integrity and objectivity, performing their work with diligence.

KPMG in the UK supplements KPMG International's quality framework with additional policies and procedures that address its specific business risks as well as rules and standards issued by the FRC, the ICAEW and other relevant regulators, such as the US Public Company Accounting Oversight Board.

ISQM1

We have continued working during the year, in collaboration with KPMG International ("KPMGI"), to implement the new International Standard on Quality Management (ISQM1), which supersedes ISQC1.

ISQM1 was issued by the International Auditing and Assurance Standards Board (IAASB) and became effective on 15 December 2022, together with the UK version of the standard issued by the Financial Reporting Council ("FRC"). For each component in the standard, KPMGI has established globally consistent quality objectives, quality risks and responses. The objective of this centralised approach is to drive consistency, robustness, and accountability of responses for processes implemented across our global organisation. Where necessary, we have supplemented the KPMGI requirements with additional quality objectives, quality risks and responses identified through a UK risk assessment process.

Our Audit Quality Framework (see here) outlines how we deliver quality at KPMG. The principle of 'Perform quality engagements' sits at its core along with our commitment to continually monitor and remediate our processes as necessary.

Under ISQM1 we are required to evaluate the effectiveness of our system of quality management on an annual basis. Our first evaluation will be performed as at 30 September 2023.

Responsibility for quality and risk management

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 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 for 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, including a Risk Management Partner in each of the Capabilities.

The Ethics Partner is supported by a core team to help ensure that we apply robust and consistent ethics and independence policies, processes and tools.

The Head of Audit, Head of Tax and Legal, Head of Deal Advisory and Head of Consulting are accountable to the Chief Executive for the quality of service delivered in their respective capability areas. 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 (see here) 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.

The Audit Leadership Team Risk & Quality sub-committee meets monthly to consider risk within the audited entity portfolio and to ensure there are sufficient and appropriate controls and mitigations in place to support engagement leaders in performing a quality audit and in managing risk. Other focus areas of the sub-committee include monitoring of regulatory matters, assessment of the risk watchlist and consideration of other emerging risk areas.

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 auditing standards. This means, above all, being independent, objective and compliant with relevant legal and professional requirements.

Risk management principles

The following statements articulate the principles through which we manage the risk we take across the firm, 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.

We will:

- Establish and maintain 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.
- Work with trusted partners and alliances, as well as engaging in mergers and acquisitions to obtain capability, where it meets our trust and growth objectives.
- Carefully consider the clients, audited entities and the engagements we choose to accept, within the context of our 'ACCEPT' framework, a refreshed set of client and engagement acceptance guidance embedding our values, risk appetite and ESG commitments.
- Comply with applicable laws, regulations and codes of conduct, including KPMG's global standards and policies 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.
- Deliver high-quality services – through experienced and appropriately resourced teams, integrated solutions and the use of robust technology.
- Set financial targets that are consistent with achieving both the trust and growth elements of our strategy.
- 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.

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, is 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-Wide 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 mitigations and action planning, in line with the firm's strategy.

The current framework was put in place at the beginning of FY22 following a comprehensive review in the prior year of how the information provided under it is used by the relevant governance bodies. 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), changes made to KPMG International's Risk Framework during the year and the results of a Dynamic Risk Assessment undertaken through facilitated workshops with the Board.
- Setting of risk appetite, at firm-wide and Capability level.
- 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.
- A review of the firm's regular risk reporting to various governance groups.

The framework established and in place throughout FY22 was further reviewed by the Board Risk Committee in September 2022 to reflect the impact of external events during the year on the firm's risk landscape, changes to our Markets structure, additional guidance issued by KPMG International and emerging best practice. A small number of changes to the firm's risk appetite were approved to reflect the current political, economic and regulatory environment and specific risks within the FY23 Business Plan.

The firm's Assurance Map, developed during the year to document the relationship between the firm's risks, its controls and compliance and assurance activities across the first, second and third line of defence, was also approved in September 2022 and objectives were set for further improvement of the framework in FY23, including the extension of the firm's risk analysis within the GRC tool and further enhancements to our ESG risk reporting.

Principal risks

The firm's principal risks are set out within the firm's four key risk 'families' of: Reputation, Regulation and Legal; Strategic; Operational; and Financial. For the year ending 30 September 2022, KPMG in the UK identified 11 principal risks across these four key risk 'families':

Reputation, Regulation and Legal
- Trust
- Regulation
- Legal

Strategic
- Growth
- Clients and audited entities

Operational
- Execution – Quality
- Execution – Delivery
- People, Talent and Culture
- Technology and information management
- Business operation, resilience and controls

Financial
- Financial management

The risks are not shown in order of priority.

During the year, further progress has been made in strengthening the firm's governance, with additional 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.

Our assessment of how these risks have moved over time (trend), the current risk landscape and the mitigating actions we have put in place to address each risk can be found here.

Risk	Current risk landscape	Mitigations
Reputation, Regulation and Legal risks		
1. Trust (Trend: No change) KPMG in the UK fails to maintain the trust of external stakeholders, due to a failure to embed trust into the firm's strategy, failure to define and communicate the standards of conduct expected by the firm, and failure to develop a culture aligned to the firm's core values, resulting in negative impact on the firm's reputation at local, national and international levels.	— Continued regulator, public and colleague scrutiny of the firm in the context of both audit quality and the outcome of historic regulatory investigations. — A culture ambition centred on being Values-led, operating to the highest ethical and quality standards. — Increasing importance of, and expectations surrounding, ESG. — A need to embed and sustain improvement in our AQR results.	— A tone at the top which emphasises quality, ethics and integrity, with Ethics Champions embedded in the business. — A culture ambition guided by Our Values, Our KPMG, Our Impact, a Culture Steering Committee and Conflicts of Interest Working Group. Measurement of progress using culture metrics (incl. regular colleague surveys) and oversight from a Culture Steering Committee. — Global ethical health survey to identify successes and areas for continued focus. — Implementation of a 'Trust index' to aid with monitoring of external reputation. — A refreshed code of conduct (**Our Code**) (reviewed by the Institute of Business Ethics) and set of Values, on which all colleagues receive annual mandatory training. — Appointment of a Head of Professional & Ethical Standards with appropriate scope and resources and a Partner Conduct Verification Dashboard process to support performance management of partners, ensuring an appropriate link between conduct and partner remuneration. — Embedded whistleblowing processes and promotion of a Speak Up hotline overseen by a third-party ombudsman. — An Inclusion, Diversity and Equity Policy, employee networks which host a range of diversity focused learning events throughout the year and published diversity target zones, with regular progress reporting. Firmwide training on inclusion, diversity and social equality provided to all KPMG partners and employees. — A Global and UK Impact plan which set out our environmental, social and governance (ESG) commitments — holding us accountable for progress toward a more sustainable future. — Continued focus on the environment, with all UK offices certified to ISO 14001:2015. — A mandated Audit Quality Framework, encompassing global methodologies, mandatory training (including KPMG Audit University), accreditation requirements (including for specialists) and audit quality review programmes (see further detail in Principal Risk 6).

Risk	Current risk landscape	Mitigations
Reputation, Regulation and Legal risks (continued)		
2. Regulation (Trend: No change) 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.	— 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 practice.	— A dedicated Regulatory Affairs function, 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. — Active participation in Global Governance and Committees to oversee network controls and potential reputational and other risks. — Regulatory horizon scanning introduced with regular reporting to relevant governance groups. — 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. — Maintenance of firm-wide and personal independence policies and systems (Sentinel™), KPMG Independence Compliance System, etc.) to ensure compliance, and additional approvals required for PIEs (Public Interest Entities) and OEPIs (Other Entity of Public Interest). — Annual mandatory firm and personal independence training and annual personal independence confirmation by all partners, colleagues and (where relevant) contractors. — Rolling programme of personal compliance audits and compliance monitoring of certain key areas by the firm-wide independence team. — ESG Corporate Reporting team, focused on ensuring timely adoption and compliance with developing ESG regulatory and reporting requirements.

Risk	Current risk landscape	Mitigations
3. Legal (Trend: No change) KPMG in the UK fails to comply with legal obligations, including contractual obligations with clients, audited entities, third parties and colleagues etc., 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. The UK firm fails to appropriately monitor and mitigate the impact of reputational damage arising from actions taken by other KPMG member firms.	— Increasing complexity of contracting environment, in particular in relation to long-term nature of large advisory engagements and increasingly complex legal and regulatory frameworks (e.g., in relation to liability caps and information security and data requirements). — Increased complexity of global sanctions framework post Russia Ukraine conflict.	— 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. — Close liaison with KPMG Global through International Office of General Counsel and liaison with other network firms' offices of General Counsel. — Legal input to both Deal Boards, Client and Engagement Acceptance and Continuance Committee and Conflicts Working Group, to ensure that the appropriate approvals are in place and legal/contracting risks are considered before pursuing new opportunities and agreeing scope and terms of engagement deliverables. — Comprehensive client and engagement acceptance procedures, including in relation to contracting with all stakeholders and recipients of our services/deliverables. — Framework of policies, underpinned by regular training, in relation to compliance with external regulation and legal requirements (including in relation to financial crime and fraud management). — Engagement Quality Control Reviewers (EQCRs) and other 'first line' quality control processes, including in relation to legal and contracting matters. — Annual 'second line' compliance processes (including QPR and Global RCP/KQCE) in relation to contracting and legal compliance. — Specific policies, procedures and controls related to complying with sanctions.
Strategic risks		
4. Growth (Trend: No change) 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.	— Continued levels of market uncertainty in relation to the external environment: including the impacts of ongoing global conflicts, the wider political landscape, growing economic uncertainty, economic recession in the UK and the impact on specific markets of regulatory action. — Impact of operational separation of audit on our growth strategy. — Increasing importance of, and stakeholders' expectations surrounding, ESG.	— Board approved three-year planning exercise with yearly refreshers and regular review. — Defined strategies (at Firm and Capability/Market level) approved by leadership with Board input and oversight and aligned with Global strategy and Our Impact plan (see below). — Executive Committee sponsorship of strategic growth initiatives with an investment allocation and governance process to prioritise and monitor investment. — Enterprise-Wide Risk Management Framework with matrix reporting across Capability, Market and Firm-wide risks to support Board and Committee governance and Executive decision-making. Capability, Market and Regional risk officers in place to support second line management/oversight of risk policies, practices and decision-making. — Separate governance for Audit, including Audit Board, with impact of operational separation on delivery of the firm's strategy reflected in both Audit and firm-wide business planning. — 'Our Impact' ESG strategy and plan, with Head of ESG supported by dedicated ESG Centre of Excellence.

Risk	Current risk landscape	Mitigations
5. Clients and audited entities (Trend: No change) 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.	— Audited entities and clients' changing business models and service needs, arising as a result of their responses to the current external and economic environment, increasing digitalisation and growth in importance of the ESG agenda. — Impact of the firm's ESG strategy on the acceptance and delivery of services to clients and audited entities.	— 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. — 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. — Conflicts Working Group established (as sub-committee of the Risk Executive) and mandatory annual firm-wide Conflicts of Interest training rolled out to support adherence to conflicts of interest policy. — Continued challenge of audited entities where improvements to systems, controls and governance are required and careful management of transition where we decide to resign from audited entities, with reference to our public interest responsibilities. — Introduction of the ACCEPT framework to further support colleagues in making decisions about who we work with and what work we do in line with Our Impact plan, supported by firm-wide and engagement leader training and communications. — Monitoring period of audit tenure for audited PIEs in order to comply with mandatory tendering and rotation requirements. — Extensive independence policies, guidance and processes supported by annual mandatory firm-wide training on Personal and Firm independence and regular compliance monitoring (see further details in Principal Risk 2). — Regular portfolio strategy and account planning, with Executive Committee oversight of plans for major accounts. — Investment programme to oversee the development of new service lines and propositions, in line with Our Impact plan and reflecting market and client need developments. — Regular review of Client Insights programme feedback, including to inform development of future service propositions. — Investment in technology and specialists e.g., climate, IT audit and data scientists to ensure our audit approach is responsive to changes in the external environment and new markets.

Risk	Current risk landscape	Mitigations
Operational risks		
6. Execution – Quality (Trend: No change) 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.	— 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.	— Programme to implement ISQM1 as part of the firm's System of Quality Management, in advance of mandatory adoption date in December 2022, including close liaison with KPMG International's ISQM1 Programme team and creation of newly established System of Quality Management team to support the annual ISQM1 risk assessment and oversee our compliance post implementation. — Continued investment in our Audit Quality Plan which prioritises actions with the biggest impact on audit quality, and the Banking Audit Quality Improvement Plan, supported by the development and implementation of the KPMG Clara Audit workflows. — Mandated Audit Quality Framework, encompassing global methodologies, mandatory training (including KPMG Audit University), accreditation requirements (including for specialists) and audit quality review programmes. — Mandated engagement quality controls including the use of standardised methodologies and tools, accreditation requirements, targeted involvement of Engagement Quality Control reviewers, Accounting and Auditing specialists, Risk Panels and Deal Boards. Enhanced processes for complex, longer-term engagements. — Newly established Audit Regulatory Compliance function, with remit to deliver a dedicated audit compliance programme, testing outcomes to provide assurance that the processes, procedures and controls in place to meet regulatory requirements are operating effectively. — Regular review of Client Insights programme and requests for feedback in relation to quality of delivery. — Engagement watchlists maintained at Capability and Risk Executive Committee level, with escalation of issues as appropriate. — Firm-wide quality compliance programmes including QPR and Annual Root Cause Analysis programme. Established quality function in Consulting, with appointed quality leads for each performance group.

Risk	Current risk landscape	Mitigations
7. Execution – Delivery (Trend: No change) 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 setup, 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.	— 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. — Increased use of third parties in engagement delivery in particular of long-term compliance projects.	— Global Quality & Risk Management Manual supplemented by UK requirements set out in Capability-specific risk management manuals, policies and guidance. — Comprehensive client and engagement acceptance procedures, including ACCEPT framework for decision-making, Client and Engagement Acceptance and Continuance Committee and Conflicts Working Group as described under Principal Risk 5: Clients and Audited Entities. — Template engagement letters and OGC/risk review requirements for contracting. — Inter-firm contracting protocols when working with other KPMG International member firms. — Input from Commercial teams on pricing and terms, as well as Deal Boards for non-audit engagements, and controls in place when working with sub-contractors and alliance partners. — Significant investment in our colleague proposition, Our KPMG, and recruitment, performance management and wellbeing support, to ensure we can continue to attract and retain the talent we need to meet demand now and in the future (see further detail in Principal Risk 8). — Compliance programmes including Global GCR, QPR and Compliance Assurance Programme, with appropriate root cause analysis undertaken and action plans implemented and monitored.

Risk	Current risk landscape	Mitigations
Operational risks (continued)		
8. People, Talent and Culture (Trend: No change) 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 its core values and strategy.	— Intense competition for talent and skills shortage, impacting on ability to recruit at all colleague levels. Evolving expectations of employees risks the attractiveness of the firm reducing over time. — Increased immigration complexity. — Management of, and ability to meet, expectations in relation to the medium-to-long-term changing ways of working, including the move towards hybrid working. — Downturn in economic environment and impact of increased cost of living on employee wellbeing and morale. — Continued focus on developments in Inclusion, Diversity and Equity (IDE) and ability to meet IDE improvement objectives. — Increasing importance of reaching our culture ambition and maintaining an environment where poor employee or partner conduct is identified and addressed.	— Significant investment in colleague reward, and an attractive employee value proposition, Our KPMG, against results of annual salary benchmarking. Range of projects ongoing to ensure we are able to recruit and retain the skills we need in the current environment, including in relation to improving our people systems and addressing complexities in immigration and onboarding. — Defined performance management cycle and processes which includes goal setting, feedback and performance appraisal. Regular training delivered to Performance Managers and 360 feedback programme for leaders across the firm. — Inclusion, Diversity and Equity Policy and firm-wide mandatory training for all KPMG partners and employees. Black Lives Action Plan, Black Heritage reverse mentoring, Black Lives Allyship programme and IDE Talent programme. — Comprehensive wellbeing offering including mental wellbeing, bereavement support, a Domestic Violence and Abuse Policy statement, an employee assistance programme, remote GP, private medical insurance (for relevant colleagues), counselling service and number of wellbeing apps. — Employee networks to support and engage with the various communities across the firm and an Employee Business Forum, which represents the views of the firm to leadership. — Regular feedback on People strategy and practices sought through annual Global People Survey and regular Pulse Surveys, with action plans in place where required. — Culture Ambition guided by Our Values, and a refreshed code of conduct (**Our Code**) (reviewed by Institute of Business Ethics). Firm-wide Culture Steering Committee responsible for approving and steering the firm-wide culture strategy, plan and priorities – which include a firm-wide Values Week and People Awards, 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. — Succession plans in place for members of Executive leadership. Board succession monitored and managed through Nominations Committee.

Risk	Current risk landscape	Mitigations
Operational risks (continued)		
9. Technology and information management (Trend: No change) 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.	— Increased risk of cyber-attacks as a result of global political conflicts. — Increasing complexity of technology solutions provided to clients. — Increased importance of developing and investing in IT infrastructure for the future to support changing business needs. — Continued reliance on technology and increased complexity of managing information risk in hybrid working environment. — Increasing technology and security requirements. — in contractual arrangements with clients and audited entities.	— Governance/approval requirements in place for technology investment and changes: Technology Assurance Group, DMTAP (Demand Management and Technology Assurance Process) and CTO Forum. — Appointed Data Protection Officer and Chief Information Security Officer, each with specialist teams. — Range of projects ongoing to improve technology inventory and protections (Backup & Restore, Data Centre Exit, Smart Networks, etc.). — Ongoing programme of training and awareness of the end-to-end Technology Assurance process and refreshed Technology Assurance Policy. — 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. — Three lines of defence model for management of information risk, including a central Information assurance team and an Information Governance Oversight Committee. — Ongoing mandatory training, covering information security, data protection and information management. — Widespread use of Information Protection Plans in engagements and introduction of Data Champions. — Programme of ongoing phishing resilience testing, security awareness focused on a range of themes including passwords, patching, phishing and social engineering. — Rolling compliance programme (as part of second line assurance activities) in relation to Information Protection Controls and Policy Compliance.

Risk	Current risk landscape	Mitigations
Operational risks (continued)		
10. Business operations, resilience and controls (Trend: No change) 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.	— Importance of maintaining robust business processes and controls and adapting where appropriate so that they remain fit for purpose in the current environment. — Conclusion of ISQM1 implementation programme and transition to 'business as usual' System of Quality Management. — Impact of rising global costs, Brexit and increasing global political conflicts on the ability of third party suppliers to deliver goods and service to KPMG. — Planning for impact of operational separation of Audit. — Importance of ensuring business processes and controls align to the firm's ESG strategy, as well as the expectations of external stakeholders. — Ability to successfully manage multiple and significant transformation programmes, with appropriate governance and investment controls.	— Three lines of defence model, including internal audit, to review the design and operating effectiveness of key controls. — Enterprise-Wide Risk Management Framework with matrix reporting across Capability, Market and Firm-wide risks to support Board and Committee governance and Executive decision-making. Capability, Market and Regional risk officers in place to support second line management/oversight of risk policies, practices and decision-making. — Regular updates to the Board on operational performance based on extensive MI; three-year business planning with yearly refreshers and regular review by Operations Executive and COOs. — Operations Executive oversight of both internal and external audit quality reviews, recommendations and actions. — Defined business continuity and crisis management plans, and controls in place to support IT, Third Party, People, Facilities & Data disaster recovery. — Specialist Operational Resilience team which follows business continuity best practice guidelines and complies with ISO22301 (as confirmed by independent internal audit). — EPMO (Enterprise Project Management Office) to manage investment and transformational change programmes. — Supplier management centre of excellence. — Focused preparation for the implementation of ISQM1, in close coordination with KPMG International. Newly established System of Quality Management team to support the annual ISQM1 risk assessment and oversee our compliance post implementation. — Compliance programmes including Global GCR and Global RCP/KQCE, with appropriate root cause analysis undertaken and action plans implemented and monitored.

Risk	Current risk landscape	Mitigations
Financial risks		
11. Financial management (Trend: No change) The UK firm 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.	— Need to continually invest in our services, people and processes to ensure that the business model is fit for the future. — Expected deterioration in external economic environment with potential impact on demand for KPMG services, increasing cost base and ability to collect payment for the services delivered to clients and audited entities. — Inherent uncertainty with respect to any outstanding regulatory investigations and civil litigation matters.	— Budgets which are subject to various levels of approval, through a thorough budgeting process, with appropriate sensitivity analysis and planning based on emerging economic landscape. — Board role in budget and performance oversight and Executive Committee budgetary challenge. — Monthly financial analysis at firm and functional level, including regular refresh of downside scenario planning based on early warning indicators. — Pricing panels, pipeline monitoring, WIP management processes and regular tracking of overdue invoices. Tools available across the firm. — Approval and monitoring controls over investments, investment decisions and capital retention strategy. — Closely controlled procurement process and approvals, via technology platform. — Finance policies, including the Spend Control Policy, Timesheet Policy and Expenses Policy. — Professional Indemnity Insurance in place.

Audit Regulatory Compliance

Our partner-led Audit Regulatory Compliance (ARC) function, established during FY21, is the main point of contact with the firm's primary regulator, the FRC, maintaining an overview of all interactions with Audit Market Supervision and Audit Firm-wide Supervision and ensuring that all commitments, requirements and actions are fulfilled.

ARC incorporates a Compliance Monitoring function whose purpose is to deliver a dedicated compliance programme, providing independent assurance that the processes, procedures and controls in place to meet audit regulatory requirements are operating effectively. A monitoring plan is developed and presented for approval to the Audit Executive at the start of the year and updated where necessary during the year to ensure it remains focused on appropriate risk areas.

Internal Audit

On 1 July 2022 the firm appointed a dedicated Head of Internal Audit to this role. Internal Audit 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 risks including the heightened risks presented by the current external environment and the continuing risks presented by COVID-19 pandemic. The plan is devised by understanding the risk profile of the firm (whether strategic, operational or in relation to change risks), considering other risk management, compliance and assurance activities and based on this, 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.

Maintaining an objective and independent mindset

We have adopted the KPMG Global Independence Policies which are derived from the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (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.

Failure to comply with the firm's independence policies, whether identified in the rolling compliance review, self-declared, or otherwise, is 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 a programme of audits on a sample of professionals. In the year ended 30 September 2022, we enhanced our programme with 984 (2021: 497) of our people subject to checks. This included approximately 20% of our partners as well as an increase in the number of non-partner individuals selected for review. 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 we apply to members of the audit team who are recruited by entities we audit goes beyond the requirements of the FRC's 2019 ES. It requires any member of an audit team to inform the Ethics & Independence team of any situation involving their potential employment with an entity where they are part of the audit engagement team. 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.

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 for any proposed business relationship with an entity we audit, or its management, to ensure compliance with the relevant independence regulations. Compliance with these policies and procedures is reviewed periodically.

Independence training and confirmations

We provide all relevant colleagues (including all partners and staff who are involved in delivering professional services engagements) with independence training 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. 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). For example, under the FRC's 2019 ES the audit engagement leader for a public interest entity cannot serve in that role for more than five years and once they have rotated off of the audit cannot participate in the audit again for a further five years.

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 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 entities 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, including whether an objective, reasonable and informed third party would consider it appropriate for the auditor to provide the non-audit service.

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.

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

To perform a professional services engagement both KPMG and all members of the engagement team need to be objective in both fact and in appearance. This means that before accepting any engagement it is necessary to identify if there are any conflicts of interest (or any other threats to objectivity) associated with taking on that work and to determine if these can be safeguarded to an acceptable level such that the conflict can be managed, and the engagement accepted. Our Conflicts of Interest Policy and procedures are designed to ensure that we meet these requirements. During 2022 we refreshed our Conflicts of Interest Policy and procedures. As part of the refresh process, we took input from an external law firm and their recommendations are reflected in the Policy and procedures which we now operate across our firm.

Our Conflicts of Interest Policy sets out how to identify, assess and safeguard threats to objectivity as well as setting out situations where conflicts would always be unmanageable, the escalation requirements for specific conflict situations and what the special considerations are with respect to conflicts involving audited entities. Where a conflict of interest involves an audited entity, our policy requires consideration of how accepting that service might give rise to a condition or relationship (or conflict) that would (or would be perceived to) impact on KPMG's independence as auditors. The overarching principle is that we would not accept an engagement where it was clear at acceptance that it would involve the client or KPMG (on behalf of or to support the client) taking an adversarial position against a statutory audited entity of KPMG on a matter that was material to its financial statements or involved challenging the accounting for any matters that were material to the audited financial statements.

Sentinel™ is 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. Where conflicts of interest are identified it is necessary to consider how they can be safeguarded for example through establishing formal dividers between engagement teams serving different entities and/or seeking consent. If a potential conflict issue cannot be safeguarded though, the engagement is declined or terminated.

More complex conflicts require escalation, and the most complex conflicts are considered by our firm's Conflicts Working Group, which is chaired by our Ethics Partner and is one of the enhancements to our processes that we introduced this year.

All partners and client-facing personnel received mandatory training during the year on the refreshed conflicts policy and processes.

Compliance with laws and regulations

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

All partners and employees are asked to confirm annually, in our Ethics and Independence Confirmation, that: "I understand that at KPMG we are all committed to behaving ethically, to demonstrate that we are trustworthy – which I do by pro-actively living Our Values – and adhering to Our Code which includes upholding our firm's commitments to comply with our professional, ethical and quality standards at all times."

Statement by the Board on the effectiveness of internal controls

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 2022, the Board has:

— Considered risk reporting under the firm's Enterprise Risk Management Framework.

— Reviewed regular reports by the Chief Operating Officer and Chief Financial 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.

— 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 resolving weaknesses identified. In the reporting period, reviews have been completed covering key internal controls.
  - 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; and
  - 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 2016 Audit Firm Governance Code and confirms that the firm complied with these provisions throughout the year ended 30 September 2022.

Meeting our current reporting requirements

Introduction

KPMG in the UK's 2022 Transparency Report provides information about our firm's governance, culture, relentless focus on quality and processes for risk management. Whilst KPMG is a multi-disciplinary firm, the report is primarily focused on our Audit practice and the policies and programmes we have in place to support audit quality.

The information disclosed relates to KPMG in the UK's activities as at 30 September 2022, and demonstrates compliance with the following reporting requirements:

- Audit Firm Governance Code (Revised 2016)
- Article 13 (Transparency Report) of Regulation (EU) No 537/2014 of the European Parliament and of the Council – as amended by The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019
- The Local Auditors (Transparency) Regulations 2020
- Consultative Committee of Accountancy Bodies Voluntary Code of Operative Practice on Disclosure of Audit Profitability (March 2009)

The pages that follow provide an overview of where information in response to each requirement can be found.

Audit Firm Governance Code (Revised 2016)

The Audit Firm Governance Code (Revised 2016) (the Code) is intended to enhance trust and confidence in the value of audit amongst the public and particularly investors. The Code applies to firms auditing 20 or more listed companies.

This version of the Code was issued in July 2016 and is applicable for financial years beginning on or after 1 September 2016. For the purposes of KPMG in the UK's 2022 Transparency Report, the 2016 Code has been applied. KPMG in the UK's response to the Provisions that require specific disclosure in a firm's Transparency Report is shown below.

Compliance with requirements of Audit Firm Governance Code

The Board of KPMG LLP is responsible for the firm's system of internal controls and for reviewing its effectiveness. The Board has reviewed the provisions of the 2016 Audit Firm Governance Code (which span beyond the Transparency Report related provisions below) and confirms that the firm complied with these provisions throughout the year ended 30 September 2022.

Audit Firm Governance Code (2022)

In 2022, the FRC published an updated version of the Code, which supersedes the 2016 Code and is applicable for financial years beginning on or after 1 January 2023. The 2022 Code will therefore be applied to KPMG in the UK's 2024 Transparency Report.*

Principles and Provisions		Where information in response to each Provision can be found
A	**Leadership**	
A.1	**Owner accountability principle** The management of a firm should be accountable to the firm's owners and no individual should have unfettered powers of decision.	
A.1.2	The firm should state in its transparency report how its governance structures and management operate, their duties and the types of decisions they take. In doing so the firm should explain how its governance structure provides oversight of both the Audit practice and the firm as a whole with a focus on ensuring the Code's purpose, is achieved. If the management and/or governance of the firm rests at an international level it should specifically set out how management and oversight of Audit, is undertaken and the Code's purpose achieved in the UK.	For information about the governance structure of KPMG in the UK, visit: **Our leadership** For information about the KPMG global organisation, refer to: **Appendix 1: Legal structure**
A.1.3	The firm should state in its transparency report the names and job titles of all members of the firm's governance structures and its management, how they are elected or appointed and their terms, length of service, meeting attendance in the year, and relevant biographical details.	For information about the members of KPMG in the UK's governance structure, visit: **Our leadership** For more information on individuals, refer to: **Appendix 4: Board and Committees of the Board membership** For information about KPMG in the UK's governance structure meeting attendance for the year ended 30 September 2022, refer to: **Appendix 2: Meeting attendance records for the year ended 30 September 2022**
B	**Values**	
B.1	**Professionalism principle** A firm should perform quality work by exercising judgement and upholding values of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour in a way that properly takes the public interest into consideration and meets auditing and ethical standards.	
B.1.2	Firms should introduce KPIs on the performance of their governance system, and report on performance against these in their transparency reports.	Refer to: **Appendix 3: Key performance indicators for our governance system**

* This date was updated in July 2023 to correct a misprint which originally stated "2023", replacing it with "2024".

Audit Firm Governance Code (Revised 2016)

Continued

Principles and Provisions	Where information in response to each Provision can be found
C Independent Non-Executives	
C.1 Involvement of independent non-executives principle A firm should appoint independent non-executives to the governance structure who through their involvement collectively enhance the firm's performance in meeting the purpose of the Code.	
C.1.1 Independent non-executives should number at least three and be in the majority on a body that oversees public interest matters; and/or be members of other relevant governance structures within the firm. They should also meet as a separate group to discuss matters relating to their remit. They should have full visibility of the entirety of the business but should pay particular attention to and report on risks to audit quality and how they are addressed. If a firm considers that having three INEs is inappropriate given its size or number of public company clients, it should explain this in its transparency report and ensure a minimum of two at all times. Where the firm adopts an international approach to its management it should have at least three INEs with specific responsibility and relevant experience to focus on the UK business and to take part in governance arrangements for this market; or explain why it regards a smaller number to be more appropriate, in which event there should be a minimum of two.	KPMG has six independent non-executives. Four are Independent Non-Executives as contemplated in the Audit Firm Governance Code (2016) and three are Audit Non-Executives (as contemplated in the Audit Firm Governance Code (2022); one of the independent non-executives is both an INE and ANE. For information about independent oversight at KPMG in the UK: — visit: **Our leadership**; — refer to: **Statement by the Independent Non-Executives and Audit Non-Executives**; and — refer to: **Appendix 4: Board and Committees of the Board membership**
C.1.2 The firm should disclose on its website and in its transparency report information about the appointment, retirement and resignation of independent non-executives; their remuneration; their duties and the arrangements by which they discharge those duties; and the obligations of the firm to support them. The firm should report on why it has chosen to position its independent non-executives in the way it has (for example, as members of the main Board or on a public interest committee). The firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes independent non-executives.	For information about independent oversight at KPMG in the UK: — visit **Our leadership**; — refer to: **Statement by the Independent Non-Executives and Audit Non-Executives**; and — refer to: **Appendix 4: Board and Committees of the Board membership**
C.1.3 The independent non-executives should report in the firm's transparency report on how they have worked to meet the purpose of the Code defined as: — Promoting audit quality. — Helping the firm secure its reputation more broadly, including in its non-audit businesses. — Reducing the risk of firm failure.	For information about independent oversight at KPMG in the UK: — visit **Our leadership**; and — refer to: **Statement by the Independent Non-Executives and Audit Non-Executives**
C.2 Characteristics of independent non-executives principle The independent non-executives' duty of care is to the firm. They should command the respect of the firm's owners and collectively enhance shareholder confidence by virtue of their independence, number, stature, experience and expertise. They should have a balance of relevant skills and experience including of audit and a regulated sector. At least one independent non-executive should have competence in accounting and/or auditing, gained for example from a role on an audit committee, in a company's finance function, as an investor or at an audit firm.	
C.2.1 The firm should state in its transparency report its criteria for assessing the impact of independent non-executives on the firm's independence as auditors and their independence from the firm and its owners.	Refer to: **Statement by the Independent Non-Executives and Audit Non-Executives**

Audit Firm Governance Code (Revised 2016)

Continued

Principles and Provisions		Where information in response to each Provision can be found
D	**Operations**	
D.1	**Compliance principle** A firm should comply with professional standards and applicable legal and regulatory requirements. Operations should be conducted in a way that promotes audit quality and the reputation of the firm. The independent non-executives should be involved in the oversight of operations.	
D.1.3	The firm should state in its transparency report how it applies policies and procedures for managing potential and actual conflicts of interest.	Refer to: **Quality control and risk management** (page 35)
D.2	**Risk management principle** A firm should maintain a sound system of internal control and risk management over the operations of the firm as a whole to safeguard the firm and reassure stakeholders.	
D.2.2	The firm should state in its transparency report that it has performed a review of the effectiveness of the system of internal control, summarise the process it has applied and confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in its financial statements or management commentary.	Refer to: **Quality control and risk management** (page 35)
E	**Reporting**	
E.2	**Governance reporting principle** A firm should publicly report how it has applied in practice each of the principles of the Audit Firm Governance Code and make a statement on its compliance with the Code's provisions or give a considered explanation for any non-compliance.	
E.2.1	The firm should publish on its website an annual transparency report containing the disclosures required by Code Provisions A.1.2, A.1.3, B1.2, C.2.1, D.1.3, D.2.2, E.2.2 and E.3.1.	Refer to the rows above and below within this table
E.2.2	In its transparency report the firm should give details of any additional provisions from the UK Corporate Governance Code which it has adopted within its own governance structure.	Refer to: **Appendix 5: UK Corporate Governance Code (2018)**
E.3	**Transparency principle** A firm should publish on an annual basis in its transparency report a commentary on the firm's performance, position and prospects.	
E.3.1	The firm should confirm that it has carried out a robust assessment of the principal risks facing the audit firm, including those that would threaten its business model, future performance, solvency or liquidity. The firm should describe those risks and explain how they are being managed or mitigated.	Refer to: **Quality control and risk management** (page 35)
E.3.2	The transparency report should be fair, balanced and understandable in its entirety.	The Board has considered the disclosures within the 2022 Transparency Report and considers the report to be fair, balanced and understandable and in compliance with the 2016 Audit Firm Governance Code. The Board notes that the 2022 version of the Code will apply to the 2023 Transparency Report.

Article 13 (Transparency Report) of Regulation (EU) No 537/2014 of the European Parliament and of the Council – as amended by The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019

Article 13 (Transparency Report) of Regulation (EU) No 537/2014 of the European Parliament and of the Council – as amended by The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 – requires a statutory auditor that carries out the statutory audit of a public interest entity, to publish a signed, annual transparency report (see KPMG in the UK's Transparency Report 2022 here).

The Regulation requires that the Report is published at the latest four months after the end of each financial year, on the website of the statutory auditor, and shall remain available on that website for at least five years from the day of its publication on the website (KPMG in the UK's historical Reports can be found in our Report hub).

The Regulation requires the Report to comprise specific disclosures. KPMG in the UK's response to these requirements is shown below.

Paragraph	Requirement	Where information in response to each Paragraph can be found
2 (a)	A description of the legal structure and ownership of the statutory auditor, if it is a firm;	Refer to: **Appendix 1: Legal structure**
2 (b)	Where the statutory auditor is a member of a network: i. a description of the network and the legal and structural arrangements in the network; ii. the name of each member of the network that is eligible for appointment as a statutory auditor, or is eligible for appointment as an auditor in an EEA state or Gibraltar; iii. for each member of the network identified under paragraph (ii), the countries in which they are eligible for appointment as auditors or in which they have a registered office, central administration or principal place of business; iv. the total turnover of the members of the network identified under (ii) resulting from statutory audit work or equivalent work in EEA states or Gibraltar;	Refer to: **Appendix 1: Legal structure** KPMG also operates in Gibraltar through KPMG LLP's wholly owned subsidiary, KPMG Limited, a company registered in Gibraltar. KPMG Limited is approved as a statutory auditor by the Gibraltar Financial Services Commission under the Gibraltar Financial Services Act 2019. Refer to: **2022 Gibraltar Transparency Report**
2 (c)	A description of the governance structure of the statutory auditor, if it is a firm;	Visit: **Our leadership**
2 (d)	A description of the internal quality control system of the statutory auditor and a statement by the management body on the effectiveness of its functioning;	Refer to: **Quality control and risk management** (page 35)
2 (e)	An indication of when the last quality assurance review referred to in Article 26 was carried out;	Refer to: **Audit quality** (page 7)
2 (f)	A list of public-interest entities for which the statutory auditor carried out statutory audits during the preceding financial year;	Refer to: **Appendix 6: UK Public Interest Entities**
2 (g)	A statement concerning the statutory auditor's independence practices which also confirms that an internal review of independence compliance has been conducted;	Refer to: **Quality control and risk management** (page 35)

Article 13 (Transparency Report) of Regulation (EU) No 537/2014 of the European Parliament and of the Council – as amended by The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019

Continued

Paragraph	Requirement	Where information in response to each Paragraph can be found
2 (h)	A statement on the policy followed by the statutory auditor concerning the continuing education of statutory auditors referred to in paragraph 11 of Schedule 10 to the Companies Act 2006;	Refer to: **Audit quality** (page 7)
2 (i)	Information concerning the basis for the remuneration of members of the management body of the statutory auditor, where that statutory auditor is a firm;	Refer to: **People and culture** (page 21)
2 (j)	A description of the statutory auditor's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7);	Refer to: **Quality control and risk management** (page 35)
2 (k)	Where not disclosed in accounts, information about the total turnover of the statutory auditor or the audit firm, divided into the following categories: i. revenues from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity; ii. revenues from the statutory audit of accounts of other entities; iii. revenues from permitted non-audit services to entities that are audited by the statutory auditor; and iv. revenues from non-audit services to other entities.	Refer to: **Appendix 7: Financial information**
3	The transparency report shall be signed by the statutory auditor	

The Local Auditors (Transparency) Regulations 2020

The Local Auditors (Transparency) Regulations 2020 requires a "transparency reporting local auditor" (a local auditor that has issued an audit report in relation to one or more major local audits at any time during the financial year of that local auditor) to publish a signed, annual transparency report (see KPMG in the UK's Transparency Report 2022 here).

The Regulation requires that the Report is published at the latest four months after the end of each financial year, on the website of the statutory auditor, and shall remain available on that website for at least five years from the day of its publication on the website (KPMG in the UK's historical Reports can be found in our Report hub).

The Regulation requires the Report to comprise specific disclosures. KPMG in the UK's response to these requirements is shown below.

Paragraph	Requirement	Where information in response to each Paragraph can be found
(a)	A description of the legal structure, governance and ownership of the transparency reporting local auditor;	For information about the governance structure of KPMG in the UK, visit: **Our leadership** For information about the legal structure of KPMG in the UK, refer to: **Appendix 1: Legal structure**
(b)	Where the transparency reporting local auditor belongs to a network, a description of the network and the legal, governance and structural arrangements of the network;	Refer to: **Appendix 1: Legal structure**
(c)	A description of the internal quality control system of the transparency reporting local auditor and a statement by the administrative or management body on the effectiveness of its functioning in relation to local audit work;	Refer to: **Quality control and risk management** (page 35)
(d)	A description of the transparency reporting local auditor's independence procedures and practices including a confirmation that an internal review of independence practices has been conducted;	Refer to: **Quality control and risk management** (page 35)
(e)	Confirmation that all engagement leads are competent to undertake local audit work and staff working on such assignments are suitably trained;	Refer to: **Appendix 8: UK Major Local Audits listing**
(f)	A statement of when the last monitoring of the performance by the transparency reporting local auditor of local audit functions, within the meaning of paragraph 23 of Schedule 10 to the 2006 Act, as applied in relation to local audits by Section 18 and paragraphs 1, 2 and 28(7) of Schedule 5 to the 2014 Act, took place;	Refer to: **Audit quality** (page 7)
(g)	A list of major local audits in respect of which an audit report has been made by the transparency reporting local auditor in the financial year of the auditor; and any such list may be made available elsewhere on the website specified in regulation 4 provided that a clear link is established between the transparency report and such a list;	Refer to: **Appendix 8: UK Major Local Audits listing**
(h)	A statement on the policies and practices of the transparency reporting local auditor designed to ensure that persons eligible for appointment as a local auditor continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level;	Refer to: **Appendix 8: UK Major Local Audits listing**
(i)	Turnover for the financial year of the transparency reporting local auditor to which the report relates, including the showing of the importance of the transparency reporting local auditor's local audit work; and	Refer to: **Appendix 7: Financial information**
(j)	Information about the basis for the remuneration of partners.	Refer to: **People and culture** (page 21)

Consultative Committee of Accountancy Bodies Voluntary Code of Operative Practice on Disclosure of Audit Profitability (March 2009)

Following the recommendation from the Market Participants Group in 2007 that "audit firms should disclose the financial results of their work on statutory audits and directly related services on a comparable basis", the Consultative Committee of Accountancy Bodies developed guidance (the Code) for audit firms on the voluntary disclosure of this information.

The Code establishes a basis for comparable reporting of audit profitability by defining the audit segment (the 'reportable segment') and suggesting principles designed to achieve more comparable and consistent treatment of costs relating to that segment.

KPMG in the UK's voluntary disclosure of this information can be found in **Appendix 7: Financial information**.

Appendices

Appendix 1: Legal structure

Legal structure

KPMG LLP[8] 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 part of the KPMG global organisation of professional services firms providing Audit, Tax, and Advisory services to a wide variety of public and private sector organisations. The KPMG organisation structure is designed to support consistency of service quality and adherence to agreed Values wherever its member firms operate.

KPMG International Limited, an English private company limited by guarantee, and the KPMG member firms are not a global partnership, single firm, multi-national 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 Limited, any of its related entities or any other member firm vis-à-vis third parties, nor does KPMG International Limited or any of its related entities have any such authority to obligate or bind any member firm.

Member firms are generally locally owned and managed. Each member firm is responsible for its own obligations and liabilities, and for taking responsibility for its management and the quality of its work. KPMG International and other member firms are not responsible for a member firm's obligations or liabilities. Member firms may consist of more than one separate legal entity. If this is the case, each separate legal entity will be responsible only for its own obligations and liabilities, unless it has expressly agreed otherwise.

KPMG LLP and all other KPMG firms are party to membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organisation are members in, or have other legal connections to, KPMG International Limited.

KPMG International Limited acts as the coordinating entity for the overall benefit of the KPMG member firms. It's activities are funded by an annual payment paid to it by member firms. KPMG International does not provide professional services to clients. Professional services to 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 clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools.

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

Further detail on the legal and governance arrangements for the KPMG global organisation can be found in section 'Governance and leadership' of the 2022 KPMG International Transparency Report.

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 2022 KPMG International Transparency Report.

Total turnover achieved by EU/EEA audit firms resulting from the statutory audit of annual and consolidated financial statements[9]

Aggregated revenues generated by KPMG firms[10], from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.2 billion during the year ending 30 September 2022. 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 2022.

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 here.

8 KPMG LLP has a number of direct and indirect subsidiaries, including KPMG UK Limited, which is the primary vehicle for employing staff for use of KPMG LLP and KPMG Audit Plc, which historically provided some audit services.

9 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.

10 Does not include revenues from UK.

Appendix 2: Meeting attendance records for the year ended 30 September 2022

Key information

— The number of meetings included are regularly scheduled meetings.

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

	Board	Public Interest Committee	Audit Board	Audit Committee	People Committee	Risk Committee	Nomination Committee	Executive Committee
Bina Mehta[11]	8 (8)	-	-	-	3 (3)	2 (2)	5 (5)	-
Jonathan Holt	8 (8)	-	-	-	-	-		11(11)
Annette Barker	6 (8)	-	-	-	3 (3)	5 (6)	5 (5)	-
John Bennett	-	-	-	-	-	-	-	11 (11)
Anne Bulford	*7 (8)*	4 (4)	-	*5 (6)*	-	-	-	-
Cath Burnet	-	-	-	-	-	-	-	10 (11)
Liz Claydon	-	-	-	-	-	-	-	10 (11)
Jonathan Evans	*7 (8)*	4 (4)	-	-	-	*4 (6)*	*3 (5)*	-
Jonathan Downer[12]	4 (4)	-	6 (6)	3 (3)	-	-	-	-
Melissa Geiger[13]	7 (8)	-	-	-	5 (6)	*0 (2)*	5 (5)	-
Karim Haji	-	-	-	-	-	-	-	9 (11)
John Hallsworth	6 (8)	-	-	-	6 (6)	-	4 (5)	-
Oonagh Harpur	*8 (8)*	4 (4)	*3 (3)*	-	6 (6)	-	-	-
Chris Hearld	-	-	-	-	-	-	-	10 (11)
Victoria Heard	-	-	-	-	-	-	-	10 (11)
Lisa Heneghan	-	-	-	-	-	-	-	10 (11)
Michelle Hinchliffe[14]	4 (4)	-	4 (4)	3(3)	-	-	-	-
Melanie Hind	-	1 (1)	10 (10)	-	-	-	-	-
Kevin Hogarth	-	-	-	-	-	-	-	10 (11)
Rachel Hopcroft	-	-	-	-	-	-	-	9 (11)
Claire Ighodaro	*8 (8)*	2 (2)	*10 (10)*	-	-	-	-	-
Tim Jones	8 (8)	-	-	-	-	-	-	10 (11)
Anthony Lobo	8 (8)	-	7 (10)	6 (6)	-	*6 (6)*	-	-
Linda Main	8 (8)	-	-	5 (6)	-	6 (6)	-	-
Kathleen O'Donovan	*8 (8)*	3 (4)	*10 (10)*	-	-	-	-	-
David Rowlands	-	-	-	-	-	-	-	11 (11)
Suzanne Shenton	-	-	-	-	-	-	-	11 (11)
Dan Thomas	-	-	-	-	-	-		8 (11)

11 Bina Mehta stepped down as a member of the People Committee and Risk Committee on 1 February 2022.

12 Jonathan Downer joined the Audit Committee as a member on 1 May 2022.

13 Melissa Geiger stepped down as a member of the Risk Committee on 1 February 2022.

14 Michelle Hinchliffe retired from the firm on 28 February 2022.

Appendix 3: Key performance indicators for our 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 eight business as usual meetings with members average attendance of 93%.
The gender diversity of the Board should be composed of a minimum one third women.	As at 30 September 2022 the Board included 44% female members.
There should be a diverse range of skills represented in the composition of the Board (by reference to each 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. The Nominations Committee is responsible for board appointments with reference to the Board skills matrix.
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 2022. The UK findings (which provide data on engagement and other key metrics about partners' and employees' relationships with the firm) were tabled at the Board in November where results were 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.	As at 30 September 2022 there were four INEs. The Public Interest Committee had four formal 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 ten business as usual meetings and one special meeting.
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 explain otherwise.	The Board has considered the disclosures within the 2022 Transparency Report and considers the report to be fair, balanced and understandable and in compliance with the 2016 Audit Firm Governance Code. The Board notes that the 2022 version of the Code will apply to the 2023 Transparency Report.
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.	The Board evaluation was conducted in 2021 and the recommendations from that have been implemented. A follow up was conducted in 2022 and the recommendations will be implemented in the first quarter of 2023. The external review was initiated in the summer of 2022. 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 from the 2021 review have been implemented. Part of that review will be reported on in next year's Transparency Report.
Board comprises a minimum of one practising Audit Partner.	During the year the Board membership included at least one practising auditor.
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 in the Audit quality section of this Report.

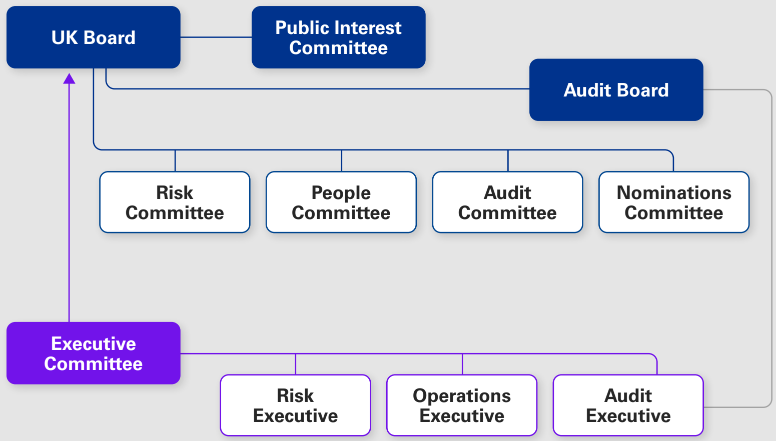
Appendix 4: Board and Committees of the Board membership

UK Board

Our UK Board as of 30 September 2022 comprised the Chair, the Chief Executive, the Senior Elected Member, four other Elected Members, one Nominated Member and one other Executive Member.

Governance structure at 30 September 2022

Board Committees



Executive Committees

Bina Mehta
Chair
Bina has been a partner since 2015. Bina became Chair of the Board in February 2021 (as at the year-end, this equates to one year of service as Chair).

Tim Jones
Chief Operating Officer*
Tim has been a partner since 2005 and joined the Board in June 2019 (as at the year-end, this equates to approximately three years of service as a member of the Board).

Jon Holt
Chief Executive
Jon has been a partner since 2005. Jon became a member of the Board in April 2021 (as at the year-end, this equates to one year of service as a member of the Board).

Linda Main
Elected member*
Linda has been a partner since 2001 and joined the Board in October 2019 (as at the year-end, this equates to three years of service as a member of the Board). She chairs the Risk Committee and is a member of the Audit Committee.

Melissa Geiger
Senior Elected Member
Melissa has been a partner since 2008 and joined the Board in October 2019 (as at the year-end, this equates to approximately three years of service as a member of the Board). Melissa is a member of the People Committee.

Annette Barker
Elected Member
Annette has been a partner since 2016 and joined the Board in October 2020 (as at the year-end, this equates to approximately two years of service as a member of the Board). Annette is a member of the Risk Committee and People Committee.

John Hallsworth
Elected Member*
John has been a partner since 2010 and joined the Board in September 2021 (as at the year-end, this equates to approximately one year of service as a member of the Board). He is Chair of the People Committee.

Anthony Lobo
Elected Member
Anthony has been a partner since 2007 and joined the Board in November 2020 (as at the year-end, this equates to approximately two years of service as a member of the Board). Anthony is Chair of the Audit Committee and a member of the Audit Board and Risk Committee.

Jonathan Downer
Nominated Member
Jonathan has been a partner since 2006 and joined the Board in March 2022 (as at the year-end, this equates to seven months of service as a member of the Board). Jonathan is a member of the Audit Committee and Audit Board and practicing auditor.

Changes close to, or after, the year end

* Tim Jones stepped down as an Executive Member of the Board with effect from 30 September 2022.

* Linda Main became a member of the People Committee on 9 November 2022.

* John Hallsworth became a member of the Risk Committee on 9 November 2022.

Chris Heard was appointed as an Executive Member of the Board in his capacity as Chief Operating and Financial Officer with effect from 1 October 2022.

Appendix 4: Board and Committees of the Board membership

Continued

The Executive Committee

Jon Holt
Chief Executive

Jon has been a partner since 2005. Jon became Chair of the Executive Committee in April 2021 (as at the year-end, this equates to over one year of service as Chair).

Chris Hearld
Chief Financial Officer and Head of Regions

Chris has been a partner since 2004. Chris has been a member of the Executive Committee since June 2019 (as at the year-end, this equates to over three years of service as a member of the Executive Committee).

Cath Burnet
Head of Audit

Cath has been a partner since 2011. Cath has been a member of the Executive Committee since June 2021 (as at the year-end, this equates to over one year of service as a member of the Executive Committee).

Tim Jones
Chief Operating Officer*

Tim has been a partner since 2005. Tim has been a member of the Executive Committee since June 2019 (as at the year-end, this equates to over three years of service as a member of the Executive Committee).

Lisa Heneghan
Chief Digital Officer*

Lisa has been a partner since 2011. Lisa has been a member of the Executive Committee since June 2021 (as at the year-end, this equates to over one year of service as a member of the Executive Committee).

Suzanne Shenton
Head of KBS*

Suzanne has been a partner since 2017. Suzanne has been a member of the Executive Committee since June 2021 (as at the year-end, this equates to over one year of service as a member of the Executive Committee).

Dan Thomas
Head of Corporates*

Dan has been a partner since 2008. Dan has been a member of the Executive Committee since June 2021 (as at the year-end, this equates to over one year of service as a member of the Executive Committee).

John Bennett
Chief Risk Officer

John has been a partner since 2013. John has been a member of the Executive Committee since June 2021 (as at the year-end, this equates to over one year of service as a member of the Executive Committee).

Rachel Hopcroft
Head of Corporate Affairs

Rachel has been a partner since 2018. Rachel has been a member of the Executive Committee since June 2021 (as at the year-end, this equates to over one year of service as a member of the Executive Committee).

Kevin Hogarth
Chief People Officer*

Kevin has been a partner since 2020. Kevin has been a member of the Executive Committee since June 2021 (as at the year-end, this equates to over one year of service as a member of the Executive Committee).

Victoria Heard
Head of Tax and Legal

Victoria has been a partner since 2014. Victoria has been a member of the Executive Committee since June 2021 (as at the year-end, this equates to over one year of service as a member of the Executive Committee).

David Rowlands
Head of Consulting

David has been a partner since 2009. David has been a member of the Executive Committee since June 2021 (as at the year-end, this equates to over one year of service as a member of the Executive Committee).

Liz Claydon
Head of Deal Advisory

Liz has been a partner since 2007. Liz has been a member of the Executive Committee since June 2021 (as at the year-end, this equates to over one year of service as a member of the Executive Committee).

Karim Haji
Head of Financial Services*

Karim has been a partner since 2009. Karim has been a member of the Executive Committee since June 2021 (as at the year-end, this equates to over one year of service as a member of the Executive Committee).

Appendix 4: Board and Committees of the Board membership

Continued

The Executive Committee Continued

Changes close to, or after, the year end

* The Head of Regions position stopped being on the Executive Committee from 1 October 2022, principally due to the rationalisation of the Markets organisation and the Operations function. The Chief Operating Officer became Chief Operating and Financial Officer, with effect from 1 October 2022. Chris Hearld was appointed Chief Operating and Financial Officer with effect from 1 October 2022.
* Tim Jones was appointed Interim Chief People Officer with effect from 1 October 2022. Lisa Fernihough became Chief People Officer with effect from 1 January 2023.
* Lisa Heneghan stepped down from the Executive Committee with effect from 1 October 2022. The Chief Digital Officer position stopped being on the Executive Committee from 1 October 2022, principally due to the rationalisation of the Markets organisation and the Operations function.
* Suzanne Shenton, the Head of KPMG Business Services (KBS), became Head of KPMG Business Services and Transformation, with effect from 1 October 2022.
* The Head of Corporates position stopped being on the Executive Committee from 1 October 2022, principally due to the rationalisation of the Markets organisation and the Operations function. Dan Thomas was appointed Head of Markets with effect from 1 October 2022. The Head of Markets position commenced being on the Executive Committee from 1 October 2022, due to the rationalisation of the Markets organisation.
* Kevin Hogarth stepped down from the Executive Committee on 30 September 2022 upon his retirement from the Partnership.
* Karim Haji stepped down from the Executive Committee with effect from 1 October 2022. The Head of Financial Services position stopped being on the Executive Committee from 1 October 2022, principally due to the rationalisation of the Markets organisation and the Operations function.

Appendix 4: Board and Committees of the Board membership

Continued

Independent Non-Executives as at 30 September 2022

There were no new appointments, retirements or resignations of independent non-executives during the year.

Lord Evans of Weardale

Chair of the Public Interest Committee

Jonathan Evans joined the Public Interest Committee in March 2017 and became its Chair in October 2019. As at the year-end, this equates to over five years of service as a member of the Public Interest Committee. 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 was appointed as Chair of the Audit Board in September 2021. As at the year-end, this equates to one year of service as Chair.

Claire Ighodaro CBE is Remuneration Committee Chair of Pennon Group PLC and a Leadership Council Member of TheCityUK. Her previous board roles include Board Chair of AXA XL – UK Entities, 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

Anne joined the Public Interest Committee in May 2019. As at the year-end, this equates to over three years of service as a member of the Public Interest Committee. She is a Chartered Accountant, a Non- Executive Director of Reach plc, Chair of GOSH Children's Charity and a Royal Ballet Governor. Previous roles include Non-Executive member of the Executive Committee of the Army Board, 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

Oonagh Harpur joined the Public Interest Committee in April 2018. As at the year-end, this equates to over four years of service as a member of the Public Interest Committee. 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 in September 2021. As at the year-end, this equates to one year of service as a member of the Audit Board.

Melanie Hind 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 is a board member and audit committee chair of Talbot Underwriting Limited (a Lloyd's managing agent that is part of the AIG group), a board member and risk sub-committee chair at OneFamily (a mutual insurer and asset manager), and is an independent trustee and Honorary Treasurer of the Disasters Emergency Committee which raises funds in the UK to provide overseas humanitarian aid in emergency situations.

Kathleen O'Donovan

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

Kathleen O'Donovan joined the Public Interest Committee in July 2019. As at the year-end, this equates to over three years of service as a member of the Public Interest Committee. Kathleen joined the Audit Board in September 2021. As at the year-end, this equates to one year of service as a member of the Audit Board. Kathleen 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. Kathleen trained as a Chartered Accountant and her previous roles include CFO of BTR plc/ Invensys plc and Partner at Ernst & Young.

Find out more about our leadership on our UK website here.

Appendix 5: UK Corporate Governance Code (2018)

The UK Corporate Governance Code, published by the FRC, is applicable to all companies with a Premium Listing of equity shares in the UK. These companies are required under the Listing Rules to report in their annual report and accounts on how they have applied the Code.

Although the application of the Code is not mandatory for KPMG in the UK and the Code is designed to be applied in a company rather than in a partnership, the provisions set out below are ones that KPMG in the UK has sought to adopt or reflect insofar as relevant within our own LLP governance arrangements.

Para.	Provision	Application
5.	For engagement with the workforce, one or a combination of the following methods should be used: — a director appointed from the workforce; — a formal workforce advisory panel; — a designated non-executive director	The Board benefits from engagement with the workforce through KPMG's Employee Business Forum.
9.	The roles of chair and chief executive should not be exercised by the same individual	The roles of Chair and Chief Executive of KPMG are not held by the same individual.
13.	Non-executive directors have a prime role in appointing and removing executive directors. Non-executive directors should scrutinise and hold to account the performance of management and individual executive directors against agreed performance objectives. The chair should hold meetings with the non-executive directors without the executive directors present.	Non-executive members of the Board comprise the Nominations Committee which was formed during the year and reviewed and advises the Board on the appointment of executive members of the Board. The composition and activities of the Nominations Committee are detailed in the report.
17.	The board should establish a nomination committee to lead the process for appointments, ensure plans are in place for orderly succession to both the board and senior management positions, and oversee the development of a diverse pipeline for succession. A majority of members of the committee should be independent non-executive directors. The chair of the board should not chair the committee when it is dealing with the appointment of their successor.	A Nominations Committee was formed during the year which oversaw the process of an election of the non-executive elected members of the Board. The composition and activities of the Nominations Committee are detailed in the report. The Independent Non-Executive chair of our Public Interest Committee attends the Nominations Committee which is comprised of non-executive members of the Board.
21.	There should be a formal and rigorous annual evaluation of the performance of the board, its committees, the chair and individual directors. The chair should consider having a regular externally facilitated board evaluation. In FTSE 350 companies this should happen at least every three years.	External consultants are appointed every three years to evaluate the Board's effectiveness.
22.	The chair should act on the results of the evaluation by recognising the strengths and addressing any weaknesses of the board. Each director should engage with the process and take appropriate action when development needs have been identified.	The 2021 Board Effectiveness recommendations have been implemented and the 2022 Board Committee Effectiveness Review recommendations are currently being implemented and will be reported on in next year's Transparency Report.
32.	The board should establish a remuneration committee of independent non-executive directors, with a minimum membership of three, or in the case of smaller companies, two.	The People Committee (comprising a minimum of three Elected Members of the Board) fulfils these functions, with attendance by one Independent Non-Executive.
33.	The remuneration committee should have delegated responsibility for determining the policy for executive director remuneration and setting remuneration for the chair, executive directors and senior management.	The People Committee (comprising Elected Members of the Board) oversees the policy for remuneration of all Partners, which includes the executive members of the Board. It also evaluates and determines the remuneration of the Chair and Chief Executive, as well as approving the remuneration of members of the Executive Committee. The INE who attends the Committee chairs these discussions while the Senior Elected Member (SEM) of the Board gathers feedback and data with respect to the performance of the Chair and Chief Executive and makes recommendations for consideration by the Committee.

Appendix 6: UK Public Interest Entities

In compliance with Article 13 (f) of EU Regulation 537/2014 as amended by The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019, we have included the list of UK Public Interest Entities (as defined by the FRC Ethical Standard) for which we carried out statutory audits in the financial year ended 30 September 2022.

Entity name

3i Group Plc
ABC International Bank plc
Aberdeen City Council
Aberdeen New India Investment Trust Plc
abrdn Life and Pensions Limited
abrdn Equity Income Trust Plc
abrdn European Logistics Income Plc
abrdn Japan Investment Trust Plc
abrdn Plc
abrdn UK Smaller Companies Growth Trust Plc
Affinity Sutton Capital Markets PLC
Aioi Nissay Dowa Insurance UK Limited
Alphawave IP Group Plc
AMBAC Assurance UK Limited*
Amigo Holdings Plc*
Amtrust Europe Limited
AO World Plc
Ascential Plc
Ashmore Group Plc
Aspen Insurance UK Limited*
Aspire Defence Finance Plc
Aster Treasury Plc
Auto Trader Group PLC
AVI Global Trust plc
Avon Protection Plc
B & C E Insurance Limited
B.A.T. International Finance p.l.c.
Baillie Gifford Shin Nippon Plc
Baillie Gifford US Growth Trust Plc
Balfour Beatty plc
Baltic Classifieds Group Plc
Bank Of Ireland (UK) PLC
Barclays Bank PLC
Barclays Bank UK Plc
Barclays PLC
Bazalgette Finance plc
Big Yellow Group Plc
Bloomsbury Publishing PLC*
BPHA Finance plc
BRISTOL & WEST PLC
British American Tobacco Plc
British Telecommunications plc
BT Group plc
Buckinghamshire Building Society*
Cambridge and Counties Bank Limited*
Cambridgeshire Housing Capital Plc
Capita Plc
Card Factory Plc
Cardiff University
Carr's Group PLC*
Charles Stanley Group PLC*
Chemring Group Plc
Chetwood Financial Limited
China Taiping Insurance (UK) Co Ltd
Citibank UK Limited
Clarion Funding Plc
Compass Group Plc
Computacenter plc
Connect M77/GSO Plc
Connect Plus (M25) Issuer Plc
Consort Healthcare (Birmingham) Funding Plc
Croda International Plc
CT Global Managed Portfolio Trust
Currys Plc
Devro Plc
DFS Furniture Plc
Dialight Plc
EMH Treasury Plc
Esure Insurance Limited*
Family Assurance Friendly Society Ltd*
Fidelis Underwriting Limited
Forester Life Ltd.
Games Workshop Group Plc
GLH Hotels Ltd*
Gracechurch Card Programme Funding PLC
Grainger Plc
Hampshire Trust Bank Plc
HICL Infrastructure Plc
Hollywood Bowl Group Plc
Howden Joinery Group Plc
Income Contingent Student Loans 1 (2002-2006) Plc
Income Contingent Student Loans 2 (2007-2009) Plc
Invesco Asia Trust plc
IP Group Plc
James Fisher and Sons Plc
JD Sports Fashion Plc
John Lewis Plc
John Wood Group PLC
Ladbrokes Group Finance plc
Lancashire Insurance Company (UK) Limited
Leek United Building Society
Legal & General Assurance (Pensions Management) Ltd
Legal & General Finance Plc
Legal & General Group Plc
Legal And General Assurance Society Limited
Liontrust Asset Management Plc
London & Quadrant Housing Trust
Luceco PLC
M&G Plc*
Manchester Airport Group Funding Plc*
Markel International Insurance Company Limited
Marston's Issuer plc
Marston's PLC
Masthaven Bank Limited
Mercantile Indemnity Co Ltd*
Micro Focus International Plc
Midland Heart Capital plc
Mitchells & Butlers plc
Moneysupermarket.com Group PLC
Motability Operations Group Plc
Motors Insurance Company Limited
Myriad Capital PLC
National Casualty Company of America Ltd
National Counties Building Society
NCC Group PLC
Network International Holdings Plc
NewDay Partnership Funding 2017-1 Plc
Ninety One plc*

* UK PIEs we have resigned from but the last year-end and signing date falls with KPMG's FY 2022.

Appendix 6: UK Public Interest Entities

Continued

- North of England Protecting and Indemnity Association Limited*
- Odyssean Investment Trust plc
- Orbit Capital plc
- Oxford BioMedica Plc
- Paragon Bank PLC
- Paragon Banking Group Plc
- Paragon Mortgages (No.12) Plc
- Paragon Mortgages (No.25) Plc
- Paragon Mortgages (No.26) Plc
- Paragon Treasury Plc
- PayPoint plc
- Peabody Capital No 2 Plc
- Peabody Capital Plc
- Pendragon Plc
- Pension Insurance Corporation plc
- Pets at Home Group PLC
- Places for People Capital Markets plc*
- Places for People Finance plc*
- Places for People Homes Limited*
- Places for People Treasury plc*
- PMGR Securities 2025 Plc
- Polar Capital Technology Trust Plc
- Premier Foods Plc*
- PREMIER MITON GLOBAL RENEWABLES TRUST PLC
- Prudential plc
- Prudential Pensions Limited*
- PureTech Health plc
- Quadrant Housing Finance Limited
- Reckitt Benckiser Group plc
- Reckitt Benckiser Treasury Services Plc
- Redrow PLC
- Redwood Bank Limited*
- Ricardo PLC
- Rightmove Plc*
- Rio Tinto plc
- Road Management Services (A13) plc
- Rombalds Run-off Limited*
- Rothschild & Co Continuation Finance PLC
- Royal & Sun Alliance Insurance Limited
- Royal & Sun Alliance Reinsurance Ltd
- Royal Mail PLC
- RSA Insurance Group Limited
- Saga Plc
- Samsung Fire & Marine Insurance Company of Europe Limited
- Sanctuary Capital Plc
- Sanctuary Housing Association
- Sanlam Life & Pensions UK Ltd*
- Schroder UK Mid Cap Fund Plc
- Scottish Power UK Plc
- Senior PLC
- Serco Group plc
- Severfield Plc
- Shawbrook Bank Limited
- SMBC Bank International PLC
- Smith & Nephew plc
- Smiths Group plc
- Sovereign Housing Capital plc
- SP Distribution PLC
- SP Manweb plc
- SP Transmission PLC
- SPEEDY HIRE PLC*
- SSP Group Plc
- Starling Bank Limited
- Strategic Equity Capital Plc
- TCHG Capital Plc
- Telecom Plus Plc
- The Baillie Gifford Japan Trust PLC
- The Bank of New York Mellon (International) Limited
- The Berkeley Group Holdings plc
- The Excelsior Insurance Company Limited
- The Marine Insurance Company Limited
- The Prudential Assurance Company Limited*
- The Scottish American Investment Co PLC*
- The University Of Oxford*
- TheWorks.co.uk Plc
- TR Property Investment Trust Plc
- Travis Perkins plc
- Tritax Eurobox Plc
- TSB Bank Plc
- TSB Banking Group Plc
- Unilever PLC
- United Utilities Group plc
- United Utilities PLC
- United Utilities Water Finance Plc
- United Utilities Water Limited
- Utilico Emerging Markets Trust Plc
- Vitality Health Limited
- Wheatley Group Capital plc
- Wickes Group Plc
- Workspace Group plc
- Zegona Communications PLC

* UK PIEs we have resigned from but the last year-end and signing date falls with KPMG's FY 2022.

Appendix 7: 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 UK's financial reporting systems.

	2022 £m	2021 £m
Statutory audits and directly related services for entities we audit:		
UK public interest entities and their subsidiaries (see Appendix 6)*	221	225
Major local audits (see Appendix 8)	3	3
Other entities	485	418
Statutory audit and directly related services for audit clients	709	646
Non-audit services for audit clients	98	150
Non-audit services for non-audit clients	1,916	1,637
Total UK Firm Revenue	**2,723**	**2,433**

	2022 £m	2021 £m
Statutory audit and directly related services for audit clients:		
Revenue	709	646
Operating profit	98	73

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 statement of financial position 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 periods.

Appendix 8: UK Major Local Audits listing

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 2022.

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. As a national Public Sector team, we will roll out a series of specific, tailored and targeted technical accounting training sessions to all our team members to ensure that they are all sufficiently trained in undertaking these audits. In addition, all our audit teams on these audits have an individual RI appointed from our national pool of KAP accredited RIs. Further information on training delivered in Audit, and our training accreditation and assignment process are included on page 7 (Audit quality) and Appendix 9 (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 on page 7 – Audit quality.

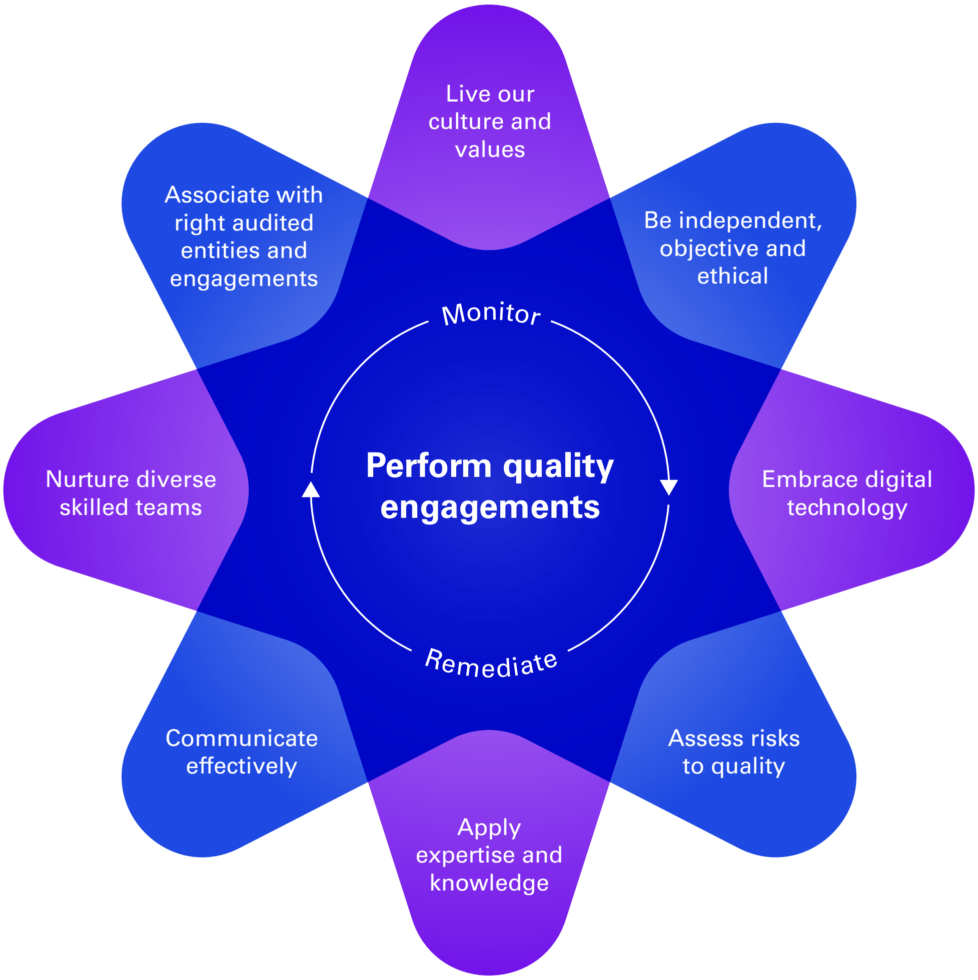
Entity name

- Epsom & St Helier Hospitals NHS Trust
- London North West Healthcare NHS Trust
- Nottingham University Hospitals NHS Trust
- The Royal Wolverhampton Hospitals NHS Trust
- University Hospitals Coventry and Warwickshire NHS Trust
- Shrewsbury and Telford Hospital NHS Trust
- NHS Surrey Heartlands CCG
- NHS North East London CCG
- NHS Frimley CCG
- NHS Mid Essex CCG
- NHS West Essex CCG
- NHS North Central London CCG
- NHS South East London CCG
- NHS Kirklees CCG
- NHS Wakefield CCG
- NHS Stockport CCG
- NHS Bolton CCG
- NHS Morecambe Bay CCG
- NHS Blackpool CCG
- NHS Bradford District and Craven CCG
- NHS Leeds CCG
- NHS Barnsley CCG
- NHS Rotherham CCG
- NHS Sheffield CCG
- NHS Dorset CCG
- NHS Derby and Derbyshire CCG
- NHS Nottingham Clinical Commissioning Group
- NHS Doncaster CCG

Appendix 9: Our Audit Quality Framework

Our Audit 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.

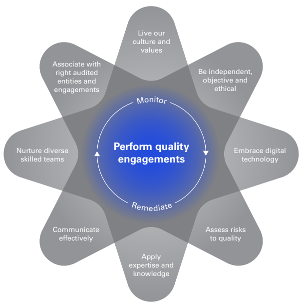
The commitment to 'perform quality engagements' sits at the core of our audit quality drivers. Our approach to audit quality relies on exceptional people having access to the right knowledge at the right time, and harnessing industry leading technology on every engagement. Our global commitment to continually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



Appendix 9: 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 EQCR.
- 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 anything that is contradictory or inconsistent. This analysis requires each of our team members to exercise professional judgement, maintain professional scepticism and demonstrate appropriate challenge to obtain sufficient and appropriate audit evidence.

Professional judgement and scepticism training is embedded in our core audit technical training programme for junior staff and ongoing training and workshops 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 its direction, supervision and performance. Involvement and leadership from the engagement leader early in the 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. In addition, it informs our ongoing horizon scanning for emerging issues that may require broader responses.

Appropriate and timely involvement of specialists

Our engagement teams have access to a network of specialists, which 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.

Appendix 9: 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 Chief Auditor.

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

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

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

New engagement leaders are also provided with an experienced mentor to support their transition into this critical role.

Appropriately supported and documented conclusions

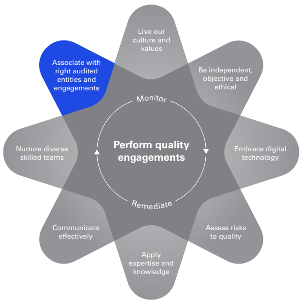
Audit documentation records the audit procedures performed, evidence obtained, and conclusions reached on significant matters on each audit engagement. Our policies require review of documentation by more experienced engagement team members.

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

Appendix 9: 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, as well as to protect KPMG's reputation and support our brand.

We evaluate all prospective audited entities before accepting them. This includes 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.

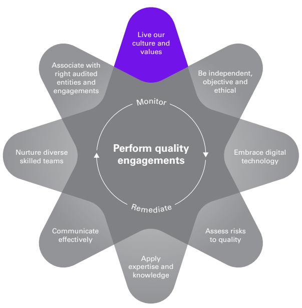
A second partner, as well as the evaluating partner, approves the prospective audited entity evaluation. Where the audited entity is considered to be 'high risk', the Risk Management Partner is involved in approving it. Each prospective engagement is also evaluated. The engagement leader evaluates this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

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. Ongoing monitoring means that 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.

3. Live our culture and values



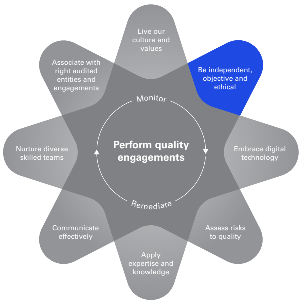
- Foster the right culture, starting with tone at the top.
- Clearly articulate strategy focused on quality, consistency, trust and growth.
- Define accountabilities, roles and responsibilities, including for leadership.
- Oversee using robust governance structures.

Page 21, People and culture sets out in detail how we are embedding these factors to help drive audit quality and create an environment of continuous improvement.

Appendix 9: 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.

As described in Quality control and risk management (page 35), we have adopted the KPMG Global Independence Policies which are derived from the IESBA Code, and, in the UK, supplement them with other policies 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.

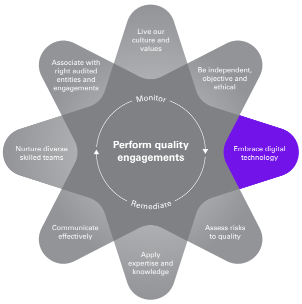
Further information on KPMG International anti-bribery and corruption policies can be found on the anti-bribery and corruption site.

Refer to: Quality control and risk management on page 35.

Appendix 9: Our Audit Quality Framework

Continued

5. Embrace digital technology



- Audits delivered through KPMG Clara.
- Intelligent, standards-driven audit workflows.
- 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 embed digital working into business-as-usual, 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 new workflows and revised audit methodologies embedded into our smart audit platform, KPMG Clara.

Limited deployment of the KPMG Clara workflows 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 workflows 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.

Our 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 at the core of the audit approach, embedding the principles of ISA 315 (Revised). This enables improved tailoring of our audit response to the risks identified. Incremental UK standards and policy requirements are delivered alongside the KPMG Clara workflows to support consistent and effective execution of quality audits.

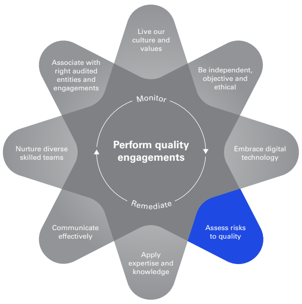
The KPMG Clara workflows give a foundation for use of existing data and analytics capabilities on our audits today and facilitates the continued transformation of the way we execute our audit work.

To learn more about KPMG Clara and our other technology-based tools, refer to Audit quality (page 7).

Appendix 9: 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 has a number of quality processes and controls that are designed to identify and understand the risks to delivering quality engagements at both the practice and individual engagement level. With the issue of the new quality management standard (ISQM 1), which was approved by the FRC in July 2021 and became effective as of 15 December 2022, a number of the quality control processes have been refined.

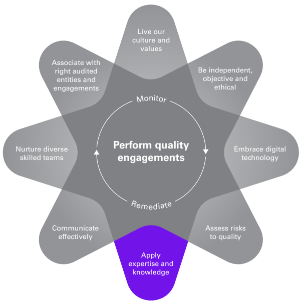
Key quality control processes include:

- 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 reviews 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: An independent review is carried out by DPP Accounting & Reporting of all listed financial statements prior to the audit report being signed.
- 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. This informs the remedial actions we take to respond to these findings.

Appendix 9: 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 workflows bring with it an opportunity to introduce our new global methodology which is delivered to teams through KPMG's Audit Execution Guide. The methodology is based on the requirements of the International Standards on Auditing (ISAs) and all member firms are required to follow it. 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 that 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 Audit quality (page 7).

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 allows 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 is 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 and Audit Risk Management.

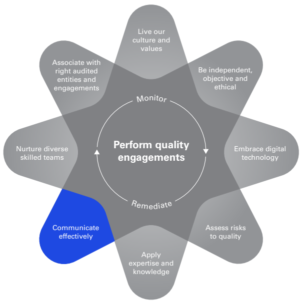
Our policies include mandatory consultation requirements on certain matters such as audited entity integrity. We have also established Risk Panels led by an audit quality or audit risk management partner to enable direct challenge of the approach to the key audit issues on our highest risk audits. In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

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.

Appendix 9: 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 our global headquarters.
- 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.

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 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 them.

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 a range of aspects, including: the quality of group audit instructions; the oversight of component auditor team structures; communication between group and component audit teams; the scoping of component audit teams' work; review and evaluation of the component audit teams' 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.

Appendix 9: 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 regular communications on the topic, our Code of Conduct, ongoing 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 2022 People Survey results for UK Audit are shown within the People and culture page.

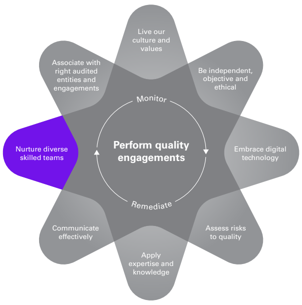
External communications

We undertake regular external communications with our stakeholders, such as investors. Further details of the programmes can be found within: Audit quality.

Appendix 9: 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 teams.
- 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.

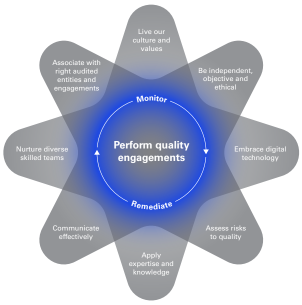
One of the key drivers of quality is making sure we assign people with the right level of skills and experience to the right engagements. This requires a focus on recruitment, development, promotion and retention of our people and the development of robust capacity, accreditation and resource management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

You can read more about our People strategy on page 21 – People and culture.

Appendix 9: 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:

— 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 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 website 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

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 audit technology platform, KPMG Clara, will facilitate more effective milestone monitoring.

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.

Following thematic reviews performed during the year, the FRC issued a publication entitled 'What Makes a Good Environment for Auditor Scepticism and Challenge' and a public letter to Heads of Audit on the 'Role of the auditor in considering climate related risk'. Other thematic reviews have resulted in private reports to audit firms. We have considered the findings and examples of best practice within each of these reports and determined actions where appropriate.

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 individuals 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 performs periodic inspections of the audit engagements meeting these criteria.

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

Appendix 10: 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 Partners in the UK. They use different channels to do this, including face-to-face meetings and roundtables, emails as required on internal, external and operational matters, and calls/webinars. The Chair also writes formally twice a year to Partners to update them on the focus of the Board and its Committees (Audit, People and Risk).

There are bi-monthly calls held with the firm's Partners, ensuring a timely briefing on key issues and providing the opportunity for two-way feedback. Where there is an immediate need to communicate matters, an all-partner email is used or, exceptionally, conference calls are convened.

In addition, all members are invited to an annual Partner conference and annual Partner meeting to discuss a range of topics including the firm's results and business planning. There is also a Partner intranet portal containing resources and communications.

kpmg.com/uk

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