



# Our relentless focus on quality

**2016 Transparency Report —  
Supplementary Report**

KPMG International

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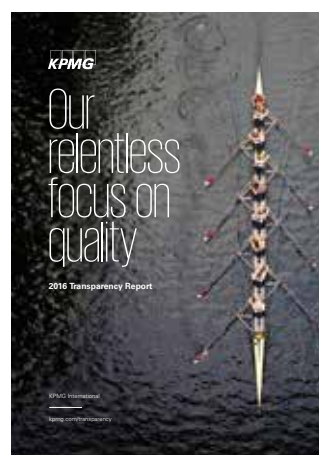
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## 1

# Introduction to the Supplementary Report

This document is a supplement to KPMG<sup>1</sup> International's Transparency Report — **'Our relentless focus on quality'** — for the year to 30 September 2016.

This Supplementary Report includes additional information to assist in understanding the KPMG global network — governance and structure along with KPMG's system of quality control that is consistent with the requirements of the International Standard on Quality Control 1 (ISQC 1).



<sup>1</sup> Unless the context otherwise requires, throughout this document "KPMG," "we," "our," and "us" refer to KPMG International Cooperative ("KPMG International"), a Swiss entity, and/or to any one or more of the member firms of the KPMG network of independent firms affiliated with KPMG International. KPMG International provides no client services.

# 2

# KPMG's legal structure and governance

## KPMG International

KPMG International Cooperative ("KPMG International") is a Swiss cooperative which is a legal entity formed under Swiss law. It is the entity with which all the member firms of the KPMG network are affiliated.

KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

One of the main purposes of KPMG International is to facilitate the provision by member firms of high quality Audit, Tax, and Advisory services to their clients. For example, KPMG International establishes and facilitates the implementation and maintenance of uniform policies, standards of work and conduct by member firms, and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity that is legally separate from each member firm. KPMG International and the member firms are not a global partnership, 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 or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

## Legal structure of the KPMG network

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services to a wide variety of public and private sector organizations.

KPMG's structure is designed to support consistency of service quality and adherence to agreed values wherever the member firms operate.

Unless otherwise stated, the words "member firm" or "KPMG member firm" when used in this transparency report include the following:

- Those entities that are members of KPMG International as a matter of Swiss law because KPMG International is a Swiss cooperative (i.e. similar to shareholders, albeit KPMG International has no share capital and, therefore, only has members not shareholders).
- Those entities ("sublicensees") that are not members of KPMG International as a matter of Swiss law but have still entered into legal agreements with KPMG International and also an entity that is a "member." Such agreements mean that sublicensees are member firms of the KPMG network. Generally, the rights and obligations of a sublicensee as a KPMG member firm are exactly the same as if it had been a member. In particular, all rights and obligations of member firms that are described in this document are rights and obligations of sublicensees unless otherwise specifically stated. In addition, the member that is party to the sublicensee's agreement with KPMG International is also responsible to KPMG International (but not to any other person or entity) for the sublicensee's compliance with its obligations as a KPMG member firm.
- Those entities that are owned, managed, and controlled by an entity that is a member or a sublicensee. The respective member or sublicensee is responsible to KPMG International for such controlled entity's compliance with obligations to KPMG International as if it were a member or sublicensee.

# Legal relationship between KPMG International and each member firm

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

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

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

## Responsibilities and obligations of member firms

Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk and deploy global methodologies and tools.

Each member firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG values (see [section 4: Tone at the top](#)).

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

## KPMG International governance bodies

### Global Council

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms.

It performs functions equivalent to a shareholders' meeting (albeit KPMG International has no share capital and, therefore, only has members, not shareholders).

Among other things, the Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 58 member firms that are "members" of KPMG International as a matter of Swiss law. Sublicensees are generally indirectly represented by a member.

### Global Board

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

The Global Board includes the Global Chairman, the Global Deputy Chairman, the Chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)) and a number of senior partners of member firms.

It is led by the Global Chairman, who is supported by the Executive Committee, consisting of the Global Chairman, the Global Deputy Chairman, the Chairman of each of the regions and currently four other senior partners of member firms. The list of Global Board members, as at 1 October 2016 is available in the *KPMG International Annual Review*.

One of the other Global Board members is elected as the lead director by those Global Board members who are not also members of the Executive Committee of the Global Board ("non-executive" members). A key role of the lead director is to act as liaison between the Global Chairman and the "non-executive" Global Board members.

## KPMG International Committees

The Global Board is supported in its oversight and governance responsibilities by several other committees. The lead director nominates the chairs and members of certain Global Board committees for approval by the Global Board. The roles of a number of these committees are summarized below.

### Executive Committee

The Executive Committee's role includes recommending global strategy and priorities to the Global Board for its approval, including in relation to:

- KPMG's Vision and Purpose
- the KPMG Brand

- strategy and strategic alignment
- coordinated go-to-market and service delivery programs.

It also supports and holds accountable the Global Management Team in driving and promoting the execution of the global strategy and priorities.

## Governance Committee

The Governance Committee's role is:

- assessing, and making recommendations to improve, the governance and management structure of KPMG International
- recommending policies and regulations in respect of member firm governance to the Global Board for approval
- developing and implementing biennial Global Board evaluation process
- overseeing succession planning, recommending Global Board nominees and the process for the appointment of a Global Chairman
- approving the remuneration of the Global Chairman, the Global Deputy Chairman and members of the Global Management Team, and overseeing their annual performance reviews.

## Investment Committee

The Investment Committee's role is:

- overseeing strategic investments
- promoting and overseeing the coordination of external alliances which are anticipated to have an impact in more than one country.

## Operations Committee

The Operations Committee's role is:

- overseeing KPMG International's financial reporting, budget and business planning process
- recommending and overseeing operational investments
- promoting the implementation of high growth markets strategy.

## Quality & Risk Management Committee

The Quality & Risk Management Committee's role is:

- reviewing and evaluating KPMG International's quality, risk and compliance policies, processes, and activities

- promoting a culture that is committed to the highest standard of ethics and compliance.

## Professional Indemnity Insurance (PII) Committee

The Professional Indemnity Insurance Committee recommends the professional indemnity insurance program, in which member firms are obliged to participate, to the Global Board for approval.

## Global Management Team

The Global Board has delegated certain responsibilities to the Global Management Team. These responsibilities include developing global strategy by working together with the Executive Committee. The Global Management Team also supports the member firms in their execution of the global strategy and is responsible for holding them accountable for commitments.

It is led by the Global Deputy Chairman and includes the Global Chairman, the Global Chief Operating Officer, global function and infrastructure heads, and the General Counsel.

The list of Global Management Team members is available in the *KPMG International Annual Review*.

## Global Steering Groups

The Global Steering Groups work closely with regional and member firm leadership to:

- establish and communicate appropriate audit and quality/risk management policies
- enable effective and efficient risk processes to promote audit quality
- proactively identify and mitigate critical risks to the network.

The Global Steering Groups act under the oversight of the Global Management Team. The roles of the Global Audit Steering Group (GASG) and the Global Quality & Risk Management Steering Group (GORMSG) are described within section 4: *Leadership responsibilities for quality and risk management*.

# 3

## Overall system of quality control

A robust and consistent system of quality control is an essential requirement in delivering high quality services. Accordingly, KPMG International has quality control policies that apply to all member firms. These are included in KPMG's Global Quality & Risk Management Manual that all member firms and their personnel must comply with.

### How policies are applied

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

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

Individual member firms are required to implement KPMG International policies and procedures and adopt additional policies and procedures that are designed to address rules and standards applicable to their own jurisdictions as well as applicable legal and other requirements.

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

Amendments to KPMG International risk and quality policies, including ethics and independence policies, are communicated by email alerts and included in quality and risk

communications. Member firms are required to implement changes specified in the email alerts and this is checked through internal monitoring.

Quality control and risk management are the responsibility of all KPMG personnel. This responsibility includes the need to understand and adhere to policies and associated procedures in carrying out their day-to-day activities. The system of quality control applies to all KPMG personnel. While many of KPMG's quality control processes are cross-functional and apply equally to tax and advisory work, the primary focus of the Transparency Report requirements relates to audit; the remainder of this report focuses on the delivery of quality audits.

### Audit quality framework

At KPMG audit quality is not just about reaching the right opinion, but how to reach that opinion. It is about the processes, thought and integrity behind the audit report. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. This means, above all, being independent and compliant with relevant legal and professional requirements.

To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver an appropriate and independent opinion, KPMG has developed the Audit Quality

Framework. The framework introduces a common language that is used by all KPMG member firms to describe what we believe drives audit quality and to highlight how every audit professional at KPMG contributes to the delivery of audit quality.

The Audit Quality Framework identifies seven drivers of audit quality:

1. tone at the top
2. association with the right clients
3. clear standards and robust audit tools
4. recruitment, development and assignment of appropriately qualified personnel

5. commitment to technical excellence and quality service delivery

6. performance of effective and efficient audits

7. commitment to continuous improvement.

'Tone at the top' sits at the core of the Audit Quality Framework's seven drivers of audit quality and helps ensure that the right behaviors permeate across the entire KPMG network. All of the other drivers are presented within a virtuous circle because each driver is intended to reinforce the others. Each of the seven drivers is described in more detail in the sections 4 to 10 of this report.



# 4

## Tone at the top

The culture of KPMG International and the member firms is underpinned by a strong set of values and supporting policies and processes and enables the right attitudes and behaviors to permeate throughout the KPMG network, starting from the very top. We promote a culture in which consultation is encouraged and recognized as a strength.

### Our Values

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG Value: “Above all, we act with integrity.” Integrity means constantly striving to uphold the highest professional standards, providing sound good-quality advice to clients and rigorously maintaining independence. Our Values, which have been explicitly codified for a number of years, are embedded into working practices at KPMG member firms. For example, they are considered in the performance appraisal process that our people follow and adherence to these Values is also reviewed when our people are considered for more senior promotions, including to partner. Our Values are set out in more detail in the core report.

### Global Code of Conduct

KPMG International’s Global Code of Conduct incorporates our Values and defines the standards of ethical conduct that is required from all KPMG people. It sets out KPMG’s ethical principles and helps member firm partners and employees to understand and uphold those principles. In addition, the Global Code of Conduct emphasizes that each partner and employee is personally responsible for following the legal, professional and ethical standards that apply to his or her

job function and level of responsibility. It has provisions that require KPMG people to:

- comply with all applicable laws, regulations and KPMG policies
- report any illegal acts, whether committed by KPMG personnel, clients or other third parties
- report breaches of risk management policies by KPMG firms or people
- uphold the highest levels of client confidentiality
- not offer, promise, make, solicit or accept bribes (whether directly or through an intermediary).

The commitments in the Global Code of Conduct underlie our values-based compliance culture where individuals are encouraged to raise their concerns when they see behaviors or actions that are inconsistent with our Values or professional responsibilities. Each member firm is required to have procedures and established channels of communication so that personnel can report ethical and quality issues without fear of retaliation. In addition, the KPMG International hotline is a vehicle for KPMG partners, employees, clients and other parties to confidentially report concerns they have relating to certain areas of activity by KPMG International itself, its employees or the senior leadership of a KPMG member firm.

# Leadership responsibilities for quality and risk management

KPMG International leadership and member firms' leadership teams demonstrate commitment to quality, ethics and integrity, and communicate their focus on quality to clients, stakeholders and society. It is essential that everyone involved in performing audits recognizes that audit quality is his or her responsibility. However, KPMG leadership plays a critical role in setting the right tone and leading by example.

Leadership teams at both global and member firm levels are committed to building a culture based on quality, integrity and ethics, demonstrated through their actions — written and video communications, presentations to teams and one-to-one discussions.

## Global leadership responsibilities for quality and risk management

The following have global leadership responsibilities for quality and risk management.

### Global Chairman — KPMG International

Details of some of the measures that the Global Chairman and the rest of the Global Board have taken to ensure that a culture of quality prevails within KPMG are set out in this report.

### Global Audit Steering Group (GASG)

The GASG is responsible for driving the implementation by member firms of the strategy in the Audit function, including standards of audit quality. The GASG works closely with the Global Quality & Risk Management Steering Group (GQRMSG) in relation to quality and risk matters related to audit.

The GASG is chaired by the Global Head of Audit and includes the heads of audit from the 10 larger member firms, the Chief Operating Officer for Global Audit and the Global Audit Quality & Risk Management Partner.

### Global Audit Quality Issues Council (GAQIC)

The GAQIC is chaired by the Global Audit Quality and Risk Management Partner and includes the Chief Operating Officer for Global Audit and Global Quality & Risk Management; the heads of audit or their designees from the 10 larger member firms; the Global Head of Audit Methodology; Global International Standards on Auditing Leader; Global International Financial Reporting Standards (IFRS) Leader; and Partner-in-Charge, Global Independence Group.

It is responsible for considering audit quality trends on a network-wide basis (including issues arising through quality

performance and regulatory reviews) with a specific focus on those issues arising from the 10 larger member firms. It shares results of actions implemented locally to improve audit quality, with focus on best practices that reduce audit quality findings. It makes recommendations to the GASG on policy changes related to audit quality issues.

### Global Quality & Risk Management Steering Group (GQRMSG)

The GQRMSG is chaired by the Global Head of Quality, Risk and Regulatory and includes the Deputy Head of Global Quality and Risk Management; Chief Operating Officer for Global Quality & Risk Management; Global Heads of Audit, Tax and Advisory; the Global Quality & Risk Management Partners for Audit, Tax, and Advisory; and the Risk Management Partners for each of the three regions and for the larger member firms. The GQRMSG is responsible for setting quality and risk management policies and procedures for the network and for providing associated guidance. These are documented in the Global Quality & Risk Management Manual (Global Q&RM Manual) available to all member firms and their personnel on a web-based platform. The GQRMSG is responsible — through Quality Performance Review (QPR), Risk Compliance Program (RCP), Global Compliance Reviews (GCR) and Area Quality and Risk Management Leaders (ARLs) — for monitoring:

- member firm compliance with global quality and risk management policies and processes and ISQC 1
- proactive identification and mitigation of significant professional services risks faced by member firms
- performance of member firm professional services to drive and help ensure consistent high quality work globally.

### Area Quality & Risk Management Leaders

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders who:

- assess the effectiveness of a member firm's quality and risk management efforts to identify and mitigate significant risks to the member firm and network, and actively monitor alignment with global quality and risk management strategies and priorities
- share leading best practices in quality and risk management
- report to Global Head of Quality, Risk and Regulatory.

### Global Services Center (GSC)

The GSC develops, maintains and deploys KPMG's global audit methodology and technology-based tools used by KPMG audit professionals to facilitate effective and efficient audits. It also provides auditing support, with emphasis on global quality and consistency.

## International Standards Group (ISG)

The ISG:

- monitors emerging practice issues identified through QPR and by regulators
- develops guidance on interpretation and application of international standards and, where appropriate, in response to quality issues emerging from review, to drive consistency across the network
- provides feedback to international standard setters on proposed changes to standards and consultations
- consults on technical matters with KPMG member firms in connection with client-specific issues.

The ISG also supports the Global ISA and IFRS panels and Global Topic Teams to facilitate sharing of information between the DPP network and to ensure sector-specific issues are dealt with proactively (see section 9: *Performance of effective and efficient audits*).

## Member firm responsibility for audit quality

Member firm leadership is responsible for quality and for the system of quality control. Within each member firm there is a Head of Audit who has primary responsibility for audit quality and is assisted by the member firm Risk Management Partner in maintaining the member firm's system of quality control. Part of the selection criteria for these individuals is that they have sufficient and appropriate experience and ability and have the necessary authority to properly discharge their roles.

## Member firm Heads of Audit

Member firm Heads of Audit are responsible for leading a sustainable high-quality Audit practice that is attractive to KPMG people. This includes:

- setting the right 'tone at the top' by demonstrating an unwavering commitment to KPMG's highest standards of professional excellence, including skepticism, objectivity, and independence
- developing and implementing strategies to monitor and maintain knowledge and skills required of partners and employees to fulfill their professional responsibilities
- working with the Risk Management Partner to monitor and address audit quality and risk matters as they relate to the Audit practice, including an annual evaluation of activities considered to be key to audit quality.

## Member firm Risk Management Partners

Each member firm has a designated Risk Management Partner who is an experienced partner with primary responsibility for the direction and execution of risk compliance and monitoring of quality control in the member firm, who reports to member firm senior leadership and consults with Area Quality and Risk Management Leaders.

However, we stress that risk management and quality matters are not solely the responsibility of leadership or specialist groups but a fundamental responsibility of all KPMG people.



# Association with the right clients

Rigorous client and engagement acceptance and continuance policies and processes help protect KPMG's reputation, support our brand and are an important part of our ability to provide quality professional services. Accordingly, KPMG International has established policies and procedures which all member firms are required to implement in order to decide whether to accept or continue a client relationship, and whether to perform a specific engagement for that client.

## Prospective client and engagement evaluation process

Before accepting a client, each member firm undertakes an evaluation of a prospective client.

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

The prospective engagement partner evaluates each prospective engagement. The evaluation identifies potential risks in relation to the engagement. A range of factors are considered as part of this evaluation, including potential independence and conflict of interest issues (using

Sentinel™, KPMG's global conflicts and independence checking system) as well as factors specific to the type of engagement, including for audit services, the competence of the client's financial management team and the skills and experience of personnel assigned to staff the engagement.

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

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

Specific procedures must be followed by member firms to identify and evaluate threats to independence for prospective audit clients that are public interest entities. These procedures, also referred to as 'the independence clearance process,' must be completed prior to accepting audit engagements for these entities.

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

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

## Continuance process

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

This re-evaluation serves two purposes. Firstly, the member firm will decline to continue to act for any client the member firm considers it would not be appropriate to continue to be associated with. Secondly, and more commonly, the member firm uses the re-evaluation process to consider whether or not any additional risk management or quality control procedures need to be put in place for the subsequent engagement it performs for that client (this may include the assignment of additional professionals such as an EQC reviewer or the need to involve additional specialists on the audit).

## Withdrawal

Where a member firm obtains information that indicates that it should withdraw from an engagement or from a client relationship, it consults internally and identifies any required legal and regulatory steps. It also communicates as required with those charged with governance and any other appropriate authority.



# 6

# Clear standards and robust tools

All KPMG professionals are expected to adhere to KPMG’s policies and procedures (including ethics and independence policies) and are provided with a range of tools and guidance to support them in meeting these expectations. The policies and procedures set for audit engagements incorporate the relevant requirements of accounting, auditing, ethical and quality control standards, and other relevant laws and regulations.

## Audit methodology and tools

Significant resources are dedicated to keeping standards and tools complete and up to date. KPMG International’s global audit methodology, developed by the GSC, is based on the requirements of the ISAs. The methodology is set out in KPMG International’s Audit Manual (KAM) and includes additional requirements that go beyond the ISAs, which KPMG believes enhance the quality of audit. KPMG member firms may add local requirements and/or guidance in KAM to comply with additional professional, legal or regulatory requirements.

This global audit methodology is supported by eAudit, KPMG International’s electronic audit tool, which provides KPMG member firm auditors with the methodology, guidance, and industry knowledge needed to perform high-quality audits.

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

The key activities within the eAudit workflow are:

### Engagement setup

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

### Risk assessment

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

### Testing

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

### Completion

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

KAM contains examples and guidance for, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks. KPMG methodology encourages engagement teams to exercise professional skepticism in all aspects of planning and performing an audit.

The KPMG methodology (see section 9: *Performance of effective and efficient audits*) encourages use of specialists when appropriate, and also requires 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.

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

The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the Global Q&RM Manual that is applicable to all KPMG member firms, functions and personnel.

## Data and analytics (D&A)

KPMG member firms are rolling out D&A tools to assist engagement teams with identification and evaluation of key audit risks and substantive testing. D&A innovations enable engagement teams, where appropriate, to dig deeper into financial data and to analyze it in different ways, revealing more about a client's business and its risks, thereby transforming the KPMG audit by helping to deliver high-quality, innovative audits with actionable insights for clients.

# Ethics and independence

We have detailed independence policies and procedures, incorporating the requirements of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics. These are set out in KPMG's Global Q&RM Manual. Automated tools facilitate compliance with these requirements. A member firm and its personnel may also be subject to more stringent requirements of a local regulator or have clients that subject them to the more stringent requirements of a foreign jurisdiction when those requirements apply extraterritorially; compliance with these additional provisions is also required.

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

KPMG International has a Partner-in-Charge of the Global Independence Group, who is supported by a core team of

specialists to help ensure that we have robust and consistent independence policies and procedures, as well as tools to help member firms and personnel comply with these requirements. Each member firm has a designated Ethics and Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence policies and procedures in that member firm.

Amendments to KPMG's ethics and independence policies in the course of the year are communicated by email alerts and included in regular quality and risk communications. Member firms are required to implement changes as specified in the email alerts, and this is checked through internal monitoring programs described in section 10.

KPMG personnel are required to consult with their member firm's EIP on certain matters as defined in the Global Q&RM Manual. Depending upon the facts and circumstances, additional consultation may be required with the Global Independence Group and others within the KPMG network. Guidance and tools are available to facilitate the documentation of these consultations.

## Ethics and Independence — training and confirmations

Member firms are required to provide all relevant personnel (including all partners and client service professionals) with independence training that is appropriate to their grade and function on an annual basis. New personnel who are required to complete this training must do so by the earlier of (a) thirty days after joining their member firm or (b) before providing any services to an SEC audit client or its affiliates.

KPMG member firms must also provide all personnel with training on the Global Code of Conduct and ethical behavior, including KPMG's anti-bribery policies, compliance with laws, regulations, and professional standards, and reporting suspected or actual non-compliance with laws, regulations, professional standards, and KPMG's policies on a biennial basis. New personnel are required to complete this training within 3 months of joining their member firm.

KPMG International develops, and makes available to member firms, training courses to help them meet both of these training requirements. Member firms may tailor these courses or develop their own to meet local requirements, however the Global Q&RM Manual sets out the requirements for tailored or locally-developed training.

Upon acceptance of employment, all KPMG personnel are required to confirm that they are in compliance with, and will abide by applicable ethics and independence rules and policies. Thereafter, all KPMG personnel are required to sign an annual confirmation stating that they have remained in compliance with applicable ethics and independence policies throughout the year covered by the confirmation.

In addition, all KPMG personnel are required to confirm their understanding of, and compliance with, the applicable Code of Conduct upon joining their member firm and on an annual basis thereafter.

KPMG's ethics and independence policies and procedures in key areas are described in more detail below.

## Personal financial independence

KPMG's policies go beyond those of the IESBA Code of Ethics by prohibiting all partners — irrespective of their member firm and function — from owning securities of any audit client of any member firm.

KPMG professionals are responsible for making appropriate inquiries and taking other appropriate actions on an ongoing basis to ensure that they do not have any personal financial, business or family interests that are restricted for independence purposes.

Member firms use a web-based independence compliance system (KICS) that assists our professionals in complying with personal independence investment policies. This system contains an inventory of publicly available investment products.

Partners and all client-facing staff who are manager grade or above are required to use the KICS system prior to entering into an investment to identify whether they are permitted to do so. They are also required to maintain an up-to-date record of all of their investments in KICS, which automatically notifies them if their investments subsequently become restricted. They must dispose of that investment within 5 business days of the notification. Member firms monitor partner and manager compliance with this requirement as part of a program of independence compliance audits of a sample of professionals.

## Employment relationships

Any professional providing services to an audit client, irrespective of function, is required to notify the member firm's EIP if they intend to enter into employment negotiations with that audit client. For partners, this requirement extends to any audit client of any KPMG member firm that is a public interest entity.

Former members of the audit team or former partners of a member firm are prohibited from joining an audit client in certain roles unless they have disassociated from the member firm financially and have ceased participating in the member firm's business or professional activities.

Any former partner who has a financial relationship with a member firm must notify the EIP if they intend to enter into employment negotiations with any listed audit client of any KPMG member firm. In all cases, threats to independence are evaluated and appropriate safeguards are put in place to eliminate the threats or reduce them to an acceptable level.

Key audit partners and members of the chain of command for an audit client that is a public interest entity are subject to time restrictions (referred to as 'cooling-off' periods) that preclude them from joining that client in certain roles until a defined period of time has passed.

Member firms are required to communicate and monitor requirements in relation to employment of KPMG professionals by audit clients.

## Firm financial independence

Member firms must also use KICS to record their own investments in SEC entities and affiliates (including funds), locally listed companies and funds, direct and material indirect investments held in pension, and employee benefit plans (including non-public entities and funds).

Additionally, member firms are required to record in the system all borrowing and capital financing relationships, and custodial, trust and brokerage accounts that hold member firm assets. On an annual basis, member firms confirm they have complied with independence requirements as part of the Risk Compliance Program (see section 10: *Commitment to continuous improvement*).

## Partner and firm rotation

### Partner rotation

KPMG International rotation policies are consistent with the IESBA Code of Ethics and require compliance with any stricter applicable rotation requirements. Member firm partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG policy. These requirements generally place limits on the number of consecutive years that partners in certain roles may provide statutory audit services to a client, followed by a 'time-out' period during which time these partners may not participate in the audit or in any way influence the outcome of the audit. Member firms monitor the rotation of audit engagement leaders (and any other key roles where there is a rotation requirement) and develop transition plans to enable allocation of partners with the necessary competence and capability to

deliver a consistent quality of service to clients. The rotation monitoring is subject to compliance testing.

## Firm rotation

In certain jurisdictions member firms are required to act for a specific audit client for a maximum period and not to act as auditor for that client for a specified period thereafter — referred to as the ‘cooling off period’. Member firms have processes in place to track and manage audit firm rotation.

## Fee dependency

KPMG International’s policies recognize that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the member firm expressing the audit opinion. In the event that the total fees from a public interest entity audit client and its related entities represent more than 10 percent of the total fees received by a particular member firm for 2 consecutive years:

- disclosure is required to those charged with governance at the audit client
- a senior partner from another KPMG member firm is appointed as the engagement quality control reviewer.

## Non-audit services

KPMG member firms are required to be consistent with IESBA principles and applicable laws and regulations, which address the scope of services that can be provided to audit clients.

Each KPMG member firm is required to establish and maintain a process to review and approve all new and modified services that are developed by that firm or adopted from another member firm that are expected to be provided to audit clients. The EIP should be involved in the review of potential independence issues, and the Global Independence Group is involved in the case of services developed for global adoption.

In addition to identifying potential conflicts of interest, KPMG International’s proprietary system, Sentinel™, facilitates compliance with auditor independence requirements. Certain information on all prospective engagements that includes service descriptions and fees must be entered into Sentinel™ as part of the engagement acceptance process. Using Sentinel™, lead audit engagement partners are required to: maintain group structures for their publicly traded and certain other audit clients as well as their affiliates, and identify and evaluate any independence threats that may arise from the provision of a proposed non-audit service and the safeguards

available to address those threats. Sentinel™ enables lead audit engagement partners for entities for which group structures are maintained, to review and approve, or deny, any proposed service for those entities worldwide.

## Business relationships

KPMG member firms have policies and procedures in place that are designed to ensure their business relationships are maintained in accordance with the IESBA Code of Ethics and other applicable independence requirements. Examples of these relationships include business alliances, use of third-party service providers to assist in the performance of client engagements, and procurement relationships.

All prospective business relationships are evaluated to assess association risks and to identify potential auditor independence and conflicts of interest issues. A relationship involving a third-party service provider — that a member firm will use to assist with client engagements or other purposes — is also evaluated to determine whether the third party has the competence to provide the relevant services. The individuals providing the services are required to confirm they understand and will comply with applicable ethics and independence requirements, and they are also required to complete ethics training. Certain third parties are required to complete independence training.

## Business acquisitions, admissions and investments

KPMG member firms considering the acquisition of, or investment in, a business are required to perform sufficient due diligence procedures on the prospective target to identify and address any potential independence and risk management issues prior to closing the transaction. Specific consultation requirements are applied to enable independence and other issues to be addressed when integrating the business into the member firm and the network.

## Conflicts of interest

All KPMG member firms and personnel are responsible for identifying and managing conflicts of interest, which are circumstances or situations that have, or may be perceived by a fully informed, reasonable observer, to have an impact on a member firm or its personnel in their ability to be objective or otherwise act without bias.

Sentinel™, KPMG's web-based application, is the tool all KPMG member firms must use for potential conflict identification so that these can be addressed in accordance with legal and professional requirements.

Each member firm has one or more risk management resources ('Resolvers') who are responsible for reviewing an identified potential conflict and working with the affected member firms to resolve the conflict; the outcome must be documented. Additional safeguards may be necessary, for example establishing formal dividers between engagement teams serving different clients so that the confidentiality of all clients' affairs is maintained.

Escalation and dispute resolution procedures are in place for situations in which agreement cannot be reached on how to manage a conflict. If a potential conflict issue cannot be appropriately mitigated, the engagement is declined or terminated.

Conflicts of interest can arise in situations where KPMG personnel have a personal connection with the client which may interfere, or be perceived to interfere, with their ability to remain objective, or where they are personally in possession of confidential information relating to another party to a transaction. Consultation with the RMP or the EIP is required in these situations.

## Breaches and disciplinary policy

All KPMG personnel are required to report an independence breach as soon as they become aware of it.

In the event of failure to comply with KPMG's independence policies, whether identified in a compliance review, self-declared or otherwise, professionals are subject to disciplinary policy. Each member firm is required to have a documented disciplinary policy in relation to breaches of independence policies. The disciplinary policy should be communicated to all professionals and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations. Any breaches of auditor independence regulations are reported to those charged with governance at the audit client, on the basis agreed with them.

Matters arising are factored into promotion and compensation decisions and, in the case of engagement leaders, are reflected in their individual quality and risk metrics.





# 7

# Recruitment, development and assignment of appropriately qualified people

One of the key drivers of quality is ensuring that KPMG professionals have the skills and experience to deliver on our vision. This requires recruitment, promotion and retention of professionals and a robust capacity and resource management processes. KPMG global behaviors, which are linked to our Values, are designed to help articulate what is required for success — both individually and collectively. One of KPMG’s global behaviors is ‘Delivering Quality’.

## Recruitment

All candidates submit an application and are employed following a variety of selection processes, which may include application screening, competency-based interviews, psychometric and ability testing and qualification/reference checks.

Member firm recruiting strategies are focused on drawing entry-level talent from a broad talent base, including working with established universities, colleges and business schools in respective countries, but also working alongside secondary schools, helping build relationships with a younger, diverse talent pool at an early age. Member firms also recruit significant numbers at an experienced hire and partner level.

## Personal development

It is important that all KPMG professionals have the necessary business and leadership skills to be able to perform quality work in addition to technical skills.

In relation to audit, opportunities for professionals are provided to develop the skills, behaviors, and personal qualities that form the foundations of a successful career in auditing. Courses are available to enhance personal effectiveness and develop technical, leadership and business skills. KPMG professionals are developed further for high performance through coaching and mentoring on the job, stretch assignments, and country rotational and global mobility opportunities.

## Inclusion and Diversity programs

At KPMG, we work hard to foster an inclusive culture. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and perspectives.

Leadership and management teams at both Global and member firm level also need to reflect the diversity of our organization and the diversity of member firms' clients. Our Global Inclusion and Diversity strategy provides the framework to drive the actions we believe are necessary to promote inclusive leadership across the KPMG network.

Member firms also support a number of innovative programs which research, promote and sustain a more inclusive culture and work environment.

## Evaluation, compensation and promotion

All professionals, including partners, have annual goal setting and performance reviews. Each professional is evaluated on their agreed-upon goals, demonstration of the KPMG global behaviors, technical capabilities and market knowledge. Partners and certain professionals are also evaluated on key quality and compliance metrics. These evaluations are conducted by performance managers and partners who are in a position to assess their performance.

All member firms are encouraged to have compensation and promotion policies that are clear, simple, and linked to the performance review process. This helps our people know what is expected of them, and what they can expect to receive in return.

Going beyond performance reviews and compensation, the KPMG global behaviors are designed to extend across all our people processes, including recruitment methodologies, recognition approaches and development planning. The behaviors are a constant reference point, articulating to our people what is required for success individually and collectively.

Member firms monitor quality and compliance incidents and maintain quality metrics for the purposes of partner assignments and also for the purposes of partner evaluation, promotion and remuneration.

Each member firm has a process for admission to the partnership that is rigorous, thorough and involves appropriate representatives of the member firm's leadership. Member firms are required to use criteria for admission to the partnership that are consistent with a commitment to

professionalism and integrity, quality, and being an employer of choice. These are strongly aligned to KPMG's behavioral capabilities and are based on consistent principles.

KPMG International's policy prohibits member firm audit partners from being evaluated on or compensated based on their success in selling non-assurance services to audit clients.

## Assignment of professionals

Member firms have procedures in place to assign both the engagement partners and other professionals to a specific engagement on the basis of their skill sets, relevant professional and industry experience, and the nature of the assignment or engagement.

Function heads are responsible for the partner assignment process. Key considerations include partner experience, accreditation, and capacity — based on an annual partner portfolio review — to perform the engagement in view of the size, complexity and risk profile of the engagement and the type of support to be provided (i.e. the engagement team composition and specialist involvement).

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

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

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

## Employee engagement

Biennially (and annually for Global Board countries via either a full Global People Survey or a short firm mini survey — the Pulse), all our people from KPMG International and member firms are invited to participate in an independent Global People Survey (GPS) which measures our people's attitudes and provides an overall Employee Engagement Index (EEI) and Performance Excellence Index (PEI) as well as insights about what drives engagement across different demographic groups and how we are faring in selected categories.

The results of GPS, including those by country and function, provide Global Leadership with information about employee/partner perceptions about audit quality, tone at the top, and employee engagement and motivation; helping track progress against strategic priorities as well as providing warning indicators if there are areas of concern. In alternate years, it is at the discretion of non-global Board member firms as to whether or not they also want to complete the short-form Pulse survey.

All member firms are required to participate in the GPS, monitor results and to take appropriate actions to communicate and respond to the findings of the survey. This includes monitoring GPS results against agreed targets relevant to:

- audit quality and tone at the top — referred to in the GPS as 'leadership behavior'
- employee engagement through the EEI
- employee performance through the PEI.

The results of the GPS are presented to the Global Board each year and appropriate follow-up actions agreed.





## 8

# Commitment to technical excellence and quality service delivery

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

At the same time, audit accreditation and licensing policies require professionals to have the appropriate knowledge and experience for their assigned engagements.

## Professional training

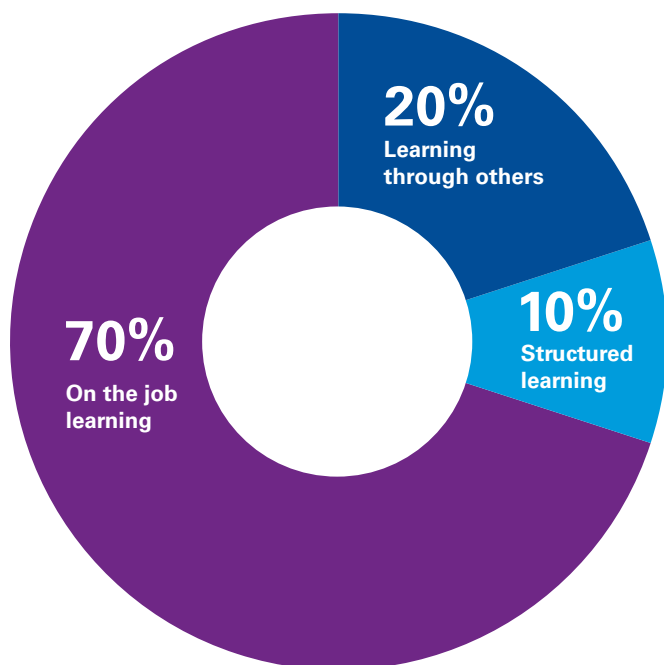
In addition to personal development, KPMG policies require all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

We test a sample of member firm audit professionals' compliance with the continuing professional development (CPD) requirements in KPMG's annual monitoring program (see section 10: *Commitment to continuous improvement*).

## Formal training

Audit Learning and Development steering groups at the global, regional and, where applicable, member firm level identify annual training priorities for development and delivery using a blend of classroom, e-learning, and virtual classroom methods. Audit Learning and Development teams work with subject matter experts and leaders from GSC, ISG and DPPs, as appropriate, to ensure the training is of the highest quality, is relevant to performance on the job and is delivered on a timely basis.

Audit learning at KPMG uses a 70:20:10 learning model:



In relation to audit, KPMG member firms:

- deploy a variety of learning solutions that are designed to reinforce our values and ensure our professionals get the fundamentals right, and develop the necessary skills and attitudes to make judgments and apply professional skepticism to enhance audit quality and the value of audit
- provide instructor-led and virtual classroom training, performance support tools, coaching guides and just-in-time learning, available at the click of a mouse and aligned with job specific role profiles and learning paths. Coaching guides are available on judgmental audit topics — these are used by audit teams and their content is embedded across audit learning solutions
- have also developed professional judgment tools, designed to reinforce the importance of independence and objectivity, and to assist engagement teams in demonstrating professional skepticism
- provide courses to enhance personal effectiveness and develop leadership and business skills. Our personnel are developed further for high performance through coaching and mentoring on the job, stretch assignments and country rotational and global mobility opportunities.

## Mentoring and on the job training

Learning is not confined to the classroom — rich learning experiences are available at the moment of need through coaching and just-in-time learning, available at the click of a mouse and aligned with job specific role profiles and learning paths.

All classroom courses are reinforced with appropriate performance support to assist auditors on the job.

Coaching guides are available on judgmental audit topics — these are used by audit teams and are embedded within audit learning solutions. We support a coaching culture throughout KPMG's global network as part of enabling personnel to achieve their full potential, where every team member is responsible for building the capacity of the team, coaching and sharing experiences.

Since the initial release of the structured coaching program and coaching network in August 2013, we continue to train additional coaches and expand the program's deployment across additional member firms. Coaches are trained — across 15 methodology topics — to challenge and mentor individual engagement teams on the job and to effectively drive behavioral change throughout the coaching process.

## Accreditation and licensing

All KPMG professionals are required to comply with applicable professional license rules and satisfy the CPD requirements in the jurisdiction where they practice. Policies and procedures are designed to ensure that those individuals that require a license to undertake their work are appropriately licensed.

Each member firm is responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge, and experience in the local predominant financial reporting framework.

In addition, within the network, specific requirements apply for partners and managers working on IFRS engagements in countries where IFRS is not the predominant financial reporting framework. Similar policies apply for US Generally Accepted Accounting Principles (GAAP), US Generally Accepted Auditing Standards, and the Standards (GAAS) of the Public Company Accounting Oversight Board (PCAOB) for SEC engagements performed outside the US. These require that the partner, manager, and EQC reviewer have completed relevant training and that the engagement team, collectively, has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

## Access to specialist networks

Engagement teams have access to a network of local KPMG specialists or specialists in other KPMG member firms. Engagement partners are responsible for ensuring that their engagement teams have the appropriate resources and skills. The need for specialists (e.g. Information Technology, Tax, Treasury, Actuarial, Forensic, Valuation) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process. Specialists who are members of an audit team are provided with training on audit concepts.

## Consultation

We promote a culture in which consultation is recognized as a strength and that encourages personnel to consult on difficult or contentious matters. To assist audit engagement professionals in addressing such matters, protocols have been established for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues.

Appropriate consultation support is provided to audit engagement professionals through professional practice resources that include a Department of Professional Practice (DPP) or equivalent.

Technical accounting and auditing support is available to member firms through the GSC and the ISG as well as the US Capital Markets Group for SEC foreign registrants.

### International Standards Group

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

ISG also supports the following groups to facilitate information sharing between the DPP network, and to ensure sector-specific issues are dealt with proactively.

- The Global ISA Panel, chaired by the Global Audit Quality and Risk Management Partner includes senior DPP partners from key member firms and is responsible for monitoring the development of ISA guidance, and the development of response letters to the International Auditing and Assurance Standards Board (IAASB) and/or regulators.
- Global Topic Teams, which formulate guidance on IFRS, accounting and reporting practice on sector specific or specific technical areas, and act as central contact points for their regions/home practices in identifying and addressing issues related to relevant topics.
- The Global IFRS Panel is responsible for monitoring the development of IFRS guidance and response letters to the International Accounting Standards Board and/or regulators by the ISG and the Topic Teams. The panel is chaired by the Global IFRS Leader and includes global IFRS topic leaders.

### Global Services Center

The GSC maintains and updates KPMG's global audit platform and methodology, enabling audit professionals to perform high-quality audits that comply with the auditing standards.

## Developing business understanding and industry knowledge

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



# Performance of effective and efficient audits

How an audit is conducted is as important as the final result. KPMG people are expected to demonstrate certain key behaviors and follow certain policies and procedures in the performance of effective and efficient audits.

## KPMG audit process

Our audit workflow is enabled through eAudit, KPMG International's activity based workflow and electronic audit file. eAudit integrates our audit methodology, guidance and industry knowledge, and the tools needed for member firms to manage audits consistently. KPMG's high-quality audit process includes:

- timely partner and manager involvement
- timely access to the right knowledge — specialists, accredited individuals and relevant industry expertise (see section 8: *Commitment to technical excellence and quality service delivery*)
- critical assessment of audit evidence — exercise of professional judgment and professional skepticism
- ongoing mentoring, supervision and review
- appropriately supported and documented conclusions
- robust challenge and review, including EQC review.

## Timely partner and manager involvement

To help identify and respond to the significant audit risks applicable to each audit, the engagement team requires an understanding of the client's business, its financial position and the environment in which it operates. The engagement partner is responsible for the overall quality of the audit engagement and therefore for the direction, supervision and performance of the engagement.

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

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

business understanding that helps the partner and team deliver valued insights.

**Critical assessment of audit evidence with emphasis on professional skepticism**

Engagement teams consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence. The nature and extent of the audit evidence they gather is responsive to the assessed risks. The engagement team critically assesses audit evidence obtained from all sources. For the purpose of obtaining sufficient appropriate audit evidence each of the team members is required to exercise professional judgment and maintain professional skepticism throughout the audit engagement.

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

KPMG’s professional judgment process facilitates good judgment by introducing a structured approach to auditing areas that require significant judgment. It also reinforces the importance of independence and objectivity and emphasizes the importance of having the right mindset — the need to apply professional skepticism.



Our professional judgment process recognizes the need to be aware of, and alert to, biases which may pose threats to good judgment. The structured approach to auditing areas that require significant judgment involves:

- considering alternatives
- critically assessing audit evidence by challenging management's assumptions and following up contradictory or inconsistent information
- documenting the rationale for conclusions reached on a timely basis as a means of evaluating their completeness and appropriateness.

The use of the professional judgment process and the application of professional skepticism is reinforced through coaching and training, acknowledging that judgment is a skill developed over time and with different experiences.

## Ongoing mentoring, supervision and review

We understand that skills build over time and through exposure to different experiences. To invest in the building of skills and capabilities of KPMG professionals, without compromising on quality, member firms promote a continuous learning environment and support a coaching culture (see section 8: *Commitment to technical excellence and quality service delivery*).

Ongoing mentoring and supervision during an audit involves:

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

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

## Appropriately supported and documented conclusions

Member firms use the KPMG Audit Methodology (KAM) and KPMG International's electronic audit tool, eAuditIT, to

provide guidance, mechanisms for and documentation of, the supervision and control of the audit engagement. Audit documentation records the audit procedures performed, evidence obtained, and conclusions reached on each audit engagement. KPMG policies require review of documentation by more experienced engagement team members.

KAM recognizes that documentation prepared on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before our report is finalized.

Teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period, which is ordinarily not more than 60 calendar days from the date of the auditors' report but may be more restrictive under certain applicable regulations.

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

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

## Appropriate involvement of the EQCR

Engagement Quality Control Reviewers (EQC reviewers) are independent of the engagement team and have appropriate experience and knowledge to perform an objective review of the more critical decisions and judgments made by the engagement team and the appropriateness of the financial statements.

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

of audit. The EQC review takes place before the date of the auditors' report and includes, among other matters:

- review of selected audit documentation relating to significant judgments the engagement team made and the conclusions it reached
- review of the financial statements and proposed auditor's report
- evaluation of the conclusions reached in formulating the auditors' report and consideration of whether the proposed report is appropriate.

Although the engagement partner is ultimately responsible for the resolution of financial reporting and auditing matters, the EQC reviewer must be satisfied that all significant questions raised have been resolved before an audit can be considered to be completed.

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

- issuing leading practices guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EQC reviewers
- incorporating specific procedures into eAudit to facilitate effective reviews.

Implementing policies relating to member firm recognition, nomination and development of EQC reviewers, as well as monitoring and assessing the nature, timing and extent of their involvement.

## Focus on effectiveness of group audits

Our audit methodology, KAM, covers the conduct of group audits in detail. We stress the importance of effective two-way communication between the group engagement team and the component auditors. The group audit engagement partner is required to evaluate the competence of component auditors, irrespective of whether they are KPMG member firms, as part of the engagement acceptance process.

Consistent methodology and tools are used across the KPMG network. Lead audit engagement partners are provided with information on component auditors within the KPMG network to help evaluate their competence and capabilities. In addition, for PCAOB engagements,

the results of relevant inspections related to the KPMG component member firms are made available to the lead audit engagement partner. Lead audit engagement partners may review component auditor engagement documentation in person or obtain electronic access.

## Client confidentiality, information security and data privacy

The importance of maintaining client confidentiality is emphasized through a variety of mechanisms including the Global Code of Conduct, training, and the annual affidavit/confirmation process, that all professionals are required to complete.

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

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

## Effective communication Reporting

Auditing standards, applicable legislation and regulation largely dictate the format and content of the auditors' report that includes an opinion on the fair presentation of the client's financial statements in all material respects. Experienced engagement partners form all audit opinions based on the audit performed.

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

Effective for December 2016 year ends onward in compliance with the new IAASB requirements, we are enhancing auditor reporting for those auditors' reports prepared under the ISAs. The changes in auditors' reporting will give users more insight into the audit and improve transparency. For further information [\[click here\]](#).

## Insightful, open and honest communication

Two-way communication with those charged with governance, often identified as the audit committee, is key to audit quality and a key aspect of reporting and service delivery. At KPMG we stress the importance of keeping those charged with governance informed of issues arising throughout the audit, the need to listen and understand their views. Member firms/KPMG professionals achieve this through a combination of reports and presentations, attendance at audit committee or board meetings and, when appropriate, ongoing informal discussions with management and members of the audit committee.

Communications with audit committees include:

- an overview of the planned scope and timing of the audit, which includes communicating significant risks identified
- significant findings from the audit which may include control deficiencies and audit misstatements
- an annual written communication that states the engagement team and KPMG have complied with relevant independence requirements; describes all relationships and other matters between KPMG and the audit client that, in our professional judgment, may reasonably be thought to bear on independence; and states related safeguards we have applied to eliminate (or reduce to an acceptable level) identified threats to independence.

We ensure such deliverables meet the requirements of professional standards.

## Audit Committee Institute

In recognition of the demanding and important role that audit committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, KPMG's Audit Committee Institute (ACI) aims to help audit committee members enhance their commitment and ability to implement effective audit committee processes. The ACI operates in 35 countries across the globe and provides audit committee members with authoritative guidance on matters of interest to audit committees as well as the opportunity to network with their peers during an extensive program of technical updates and awareness seminars. The ACI's offerings cover the array of challenges facing audit committees and businesses today — from risk management and emerging technologies to strategy and global compliance.





# Commitment to continuous improvement

## Internal monitoring and compliance programs

We commit to continually improve the quality, consistency and efficiency of our audits. Integrated quality monitoring and compliance programs enable member firms to identify quality deficiencies, to perform root cause analysis and develop, implement and report remedial action plans both in respect of individual audit engagements and the member firm's system of quality control. KPMG's integrated quality and monitoring programs include the Quality Performance Review (QPR) program, the Risk Compliance Program (RCP) and the Global Compliance Review (GCR) program.

The quality monitoring and compliance programs are globally administered and consistent in their approach across member firms, including the nature and extent of testing and reporting. Member firms are required to compare the results of internal monitoring programs with the results of those of any external inspection programs and take appropriate action.

Our monitoring programs evaluate both:

- engagement performance in compliance with the applicable standards, applicable laws and regulation and KPMG International policies and procedures
- member firm compliance with KPMG International policies and procedures and the relevance, adequacy and effective operation of key quality control policies and procedures.

The results and lessons from the integrated monitoring programs are communicated within each member firm, and the overall results and lessons from the programs are considered and appropriate action is taken at local, regional and global levels. The internal monitoring program also

contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively at a member firm level.

Two KPMG International developed and administered inspection programs are conducted annually across the Audit, Tax, and Advisory functions: QPR and RCP. Additionally all member firms are covered at least every 3 years by the cross functional GCR program. Participation in QPR, RCP and GCR is a condition of ongoing membership of the KPMG network.

### Audit Quality Performance Reviews (QPR)

The QPR program assesses engagement level performance and identifies opportunities to improve engagement quality.

#### Risk-based approach

Each engagement leader is reviewed at least once in a 3 year cycle. A risk-based approach is used to select engagements.

Member firms conduct the annual QPR program in accordance with global QPR instructions. The reviews are performed at the member firm level and are monitored regionally and globally. Member firm Audit QPR reviews are overseen by a senior experienced lead reviewer independent from the member firm.

#### Reviewer selection, preparation and process

There are robust criteria for selection of reviewers. Review teams include senior experienced lead reviewers that are independent of the member firm under review.

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

Consistent criteria are used to determine engagement ratings and member firm Audit practice evaluations.

Audit engagements selected for review are rated as 'Satisfactory', 'Performance Improvement Needed' or 'Unsatisfactory'.

## Reporting

Findings from the QPR program are disseminated to member firm professionals through written communications, internal training tools, and periodic partner, manager and staff meetings.

These areas are also emphasized in subsequent QP reviews to gauge the extent of continuous improvement.

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

## Risk Compliance Program (RCP)

KPMG International develops and maintains quality control policies and processes that apply to all member firms. These policies and processes, and their related procedures, include the requirements of ISQC 1. During the annual RCP, member firms perform a robust assessment program consisting of documentation of quality controls and procedures, related compliance testing and reporting of exceptions, action plans and conclusions. The objectives of the RCP are to:

- monitor, document and assess the extent of compliance of the member firm's system of quality control with Global Quality & Risk Management policies and key legal and regulatory requirements relating to the delivery of professional services
- provide the basis for member firms to evaluate that the member firm and its personnel comply with relevant KPMG professional standards and applicable legal and regulatory requirements.

Where deficiencies are identified, the member firm is required to develop appropriate action plans.

## Global Compliance Review (GCR)

Each member firm is subject to a GCR conducted by the global GCR team, independent of the member firm, at least once in a 3 year cycle. The GCR provides independent oversight of a member firm's assessment of its system of quality control, including:

- the member 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
- the completeness and robustness of the member firm's RCP, by evaluating whether there was:
  - appropriate documentation of policies, processes and related controls in place
  - adequate testing of the effectiveness of controls
  - proper conclusions in relation to issues and corrective action necessary as reported in the RCP action plan.

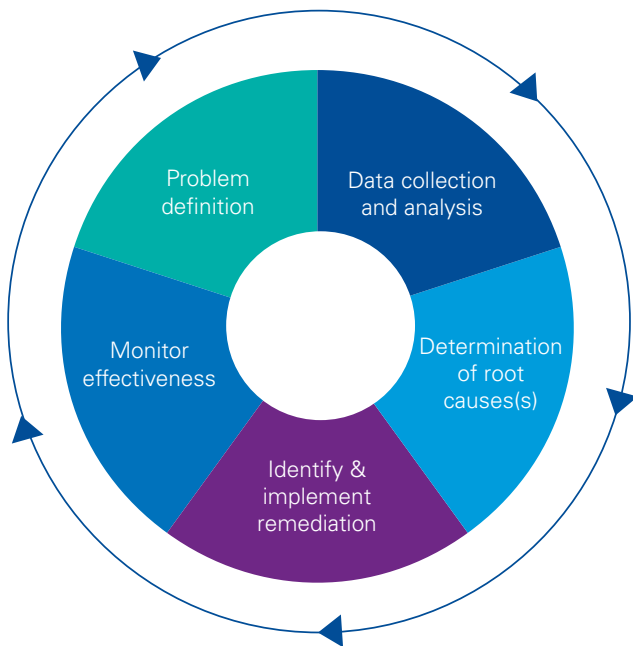
The GCR team performing the reviews is independent of the member firm, objective and knowledgeable of Global Quality and Risk Management policies.

The member firm is required to develop action plans to respond to all GCR findings and agree these with the GCR team. The member firm's progress on action plans is monitored by a global GCR central team. Results are reported to the GQRMSG, and where necessary to appropriate KPMG International and regional leadership, to ensure timely remedial actions.

## Root Cause Analysis (RCA)

Member firms perform root cause analysis (RCA) to identify and address audit quality issues in order to prevent them from recurring and help identify good practices as part of continuous improvement. In 2016, RCA training based on the Global RCA 5 Step Principles was developed and delivered. The training was targeted at those individuals at member firm level who will be performing RCA or directing those performing RCA. The training provides a common platform for advancing the practices and skills associated with resourcing, planning and conducting RCA.

## The Global RCA 5 Step Principles are as follows:



It is the responsibility of member firms to perform RCA and thereby identify and subsequently develop appropriate remediation plans for the audit quality issues identified.

Heads of Audit are responsible for the development and implementation of action plans including identification of solution owners. Risk Management Partners monitor their implementation.

## Recommendations for improvements

At a global level through the GAQIC and the GORMSG, KPMG International reviews the results of the quality monitoring programs, analyzes member firm root causes and action plans and develops additional global actions as required.

The GAQIC considers network-wide issues arising from internal quality control reviews and external inspections, monitors progress being made in addressing audit quality issues and makes recommendations to the GASG on audit quality issues.

Global remediation plans to date include holistic actions aimed at culture and behavior and at driving consistent engagement team performance. The global actions also include training, tools and guidance to drive consistency, ensure we have the fundamentals right and that best practice is shared across the network.

## External feedback and dialogue

### Regulators

At international level, KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss audit quality findings and actions taken to address such issues at a network level. At a regional level, we also have regular dialogue with representatives of the Committee of European Auditing Oversight Bodies (CEAOB) — formerly known as the European Audit Inspection Group (EAIG) — as well as the ASEAN Audit Regulators Group (AARG).

### Client feedback

KPMG member firms proactively seek feedback from clients through in-person conversations and third-party surveys to monitor their satisfaction with the services delivered. We endeavor to take this feedback and make dynamic changes at both the engagement level and member firm level to meet clients' needs.

# Our relentless focus on quality

**Read the Transparency Report,  
available at [kpmg.com/transparency](http://kpmg.com/transparency).**



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