



Embracing change and rebuilding trust

KPMG South Africa
Baseline Report 2018



“Having public interest at the centre of everything we do will be embedded into the culture of the firm, the conversations we have, how we define success and how we measure and reward performance.”

— *Nhlamulo Dlomo*



A climber in a blue shirt and white helmet is seen from behind, climbing a large, textured rock face. The rock is reddish-brown with prominent vertical streaks of lighter color. The climber is using their hands and feet to find holds on the rock surface. The sky is clear and blue.

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Message from our Independent Non-Executive Chairman

It is with great pleasure that I present to you this KPMG South Africa Baseline Report 2018, which reflects the firm's commitment to transparency and accountability and shows our stakeholders that our words and intentions are being backed up by meaningful action. Given the recent high level of interest in KPMG South Africa, we also want to give our stakeholders timely insight into our response as the new leadership team — our strategic goals and approach to governance, the actions we have already taken, our priorities and our next steps — rather than wait until the end of our financial year.

In December we will publish our first full integrated report. Consistent with the International Integrated Reporting Framework, the full integrated report will include an objective review of our performance and progress towards achieving our goals.

A DEFINING TIME

This is a defining time for us at KPMG South Africa and indeed for South Africa. Over the past few years, our country became entangled in a web of corruption, with certain role-players intent on 'capturing' our state. As a firm, we made serious mistakes and errors of judgement and we have learnt some important and painful lessons. The most significant was that we allowed a disconnect



between the way we were functioning as a firm and the expectations of the society within which we were operating.

We should have applied our own standards of objectivity, professionalism and ethical behavior without fail. We should have appreciated the position of trust in which we were placed by the public and the weight of expectations that come with this.

“We should have appreciated the position of trust in which we were placed by the public and the weight of expectations that come with this.”

OWNING UP TO OUR MISTAKES

We have previously acknowledged and accepted that mistakes were made by those directly responsible for the South African Revenue Service (SARS) investigation, those auditing the Gupta entities and those in leadership positions at the time whose job it was to protect the reputation of the firm.

Clearly at that time, KPMG South Africa was very slow to appreciate the rising tide of corruption in the country, not to mention how the firm’s lack of professional scepticism and performing work up to our very high standards had brought it into harm’s way. It was equally slow to understand the growing mood of public anger that rose in parallel with the ever-growing evidence of corruption in our country.

In relation to the Gupta family, it is true that KPMG South Africa had no reason at the outset of our relationship in 2003 to question their intentions. It was only much later that the full scope of the Gupta’s influence over government became clear. Even so, the firm was very slow to respond when some very visible flags started to be raised. I repeat the apology previously made that certain audit work done, for entities including Linkway Trading (Pty) Ltd, fell well short of the quality expected, the requisite level of professional scepticism and auditing standards to which we were expected to comply, but the bigger failure was not to disassociate from the Guptas far earlier.

With regards to the SARS report, we have explained in detail in the past, and most recently at the Ntsebeza inquiry, the genesis of the SARS report, the nature of the work done, sources of information used, key decisions taken, timing of drafts and the final report, as well as quality control procedures and processes. We have elaborated on the limitations of the work the firm performed, the withdrawal of the conclusions, recommendations and legal opinions, as well as cautioned that the report cannot be used to support allegations against SARS employees or former employees without first affording them an opportunity to provide their side of the story.

But no more detail is required to understand the simple fact that the firm failed to conduct a proper reputational risk assessment when it accepted the SARS appointment. Had this been done, it would have been evident that undertaking this work at a time of high political contestation about SARS was highly risky. Even if the full political ramifications were not obvious up front, this remains in my view a grave failure of judgement.

It hardly needs adding that the firm hugely regrets accepting the SARS assignment.

Additionally, we deeply regret the firm’s failure to take immediate, decisive and corrective action once sections of the report had been leaked in October 2015. The firm’s lack of appropriate action allowed findings about former executives of SARS to remain in the public and to be mistaken as definitive conclusions.

The recent VBS Mutual Bank situation resulted in two partners resigning from the firm in the face of the commencement of disciplinary proceedings against them. We have launched an independent investigation into the work performed by KPMG South Africa for VBS Mutual Bank and are fully committed to co-operating with the investigations by the Reserve Bank and the Independent Regulatory Board for Auditors (IRBA) that are ongoing. It has been a disappointing episode for

Message from our Independent Non-Executive Chairman

us as we have been let down by one of our most senior former colleagues. It has, nonetheless, strengthened our resolve to rehabilitate the firm fully and implement further steps to address our legacy issues as part of the rebuilding process.

We are not walking away from our responsibilities. We will continue to cooperate with the investigations, inquiries and commissions looking into our specific affairs or the broader issues around state capture and we will act on their findings. Whilst these proceedings are underway, we are taking bold steps to address the mistakes we have made and to make sure we do everything we can to ensure they don't happen again.

ENGAGING WITH OUR STAKEHOLDERS

A key principle in our rebuilding process is that we open ourselves up to different perspectives and we listen to different points of view. We have therefore embarked upon a specific programme of engaging with our stakeholders, especially those most critical of our past posture, actions and ways of working, such as civil society.

It is my hope that the renewed KPMG South Africa will be as well known for acting in the public interest and its uncompromising ethical standards as it is for the high quality of its professional services. I want to build a firm that is driven by purpose more than profits and which, in turn, attracts people and clients who subscribe to the same values.

“I want to build a firm that is driven by purpose more than profits.”

BUILDING AN ETHICALLY-DRIVEN BUSINESS

Since my appointment as Chairman, I have focused on the areas of governance, ethics and culture.

For me, the culture of a firm is simply its embedded or default mindset. It is not so much the set of rules, rewards and penalties a firm espouses, but the inner, shared values of the individuals who work there and how they interact with each other. The task of renewing our culture is therefore as much about ensuring that all our processes and procedures are explicit and enforced as it is about restoring our people's pride in themselves as professionals and what it means to work for KPMG South Africa. I want every member of staff to be proud to be part of this firm and the role we play in our country.

“I want every member of staff to be proud to be part of this firm.”

LOOKING FORWARD WITH CONVICTION AND CONFIDENCE

I am starting to see the solid progress we are making, but at the same time we are realistic and appreciate that it will take time for many of the changes we are introducing to deliver results that are visible to you. I am excited by the expected outcomes and changes that the leaders of the firm are standing together to bring to bear over the next 18 to 24 months.

We recently announced a reshaping of KPMG South Africa, which, together with our other reforms, will result in a leaner, but stronger and more focused firm. The steps we have taken, which have been difficult and painful at times, will enable us to best service the needs of clients and make a broader contribution to society, while establishing the platform that will allow us to earn the right to grow in South Africa once again.

"We are making solid progress, but we are realistic and appreciate that it will take time for many of the changes we are introducing to deliver results."

In closing, the Board and I would like to acknowledge the courage and character of staff and management during this difficult time. It has been most gratifying and encouraging to witness the professionalism, determination and enthusiasm shown by the people of the renewed KPMG South Africa as they focus on the task ahead. It is this spirit and resolve that allow me to look forward to the future with optimism and conviction.



Professor Wiseman Nkuhlu
Chairman
KPMG South Africa



Message from our Chief Executive Officer

I have now been in my role as the Chief Executive Officer of KPMG South Africa since 15 September 2017. My appointment at that time was borne out of a well-documented and very difficult period for the firm, but as in the case of most crises, the past months have also provided a period of reflection and learning.

The last eleven months have fundamentally changed the fabric and direction of KPMG South Africa. We have undertaken significant changes since September last year but we know that rebuilding the trust of our stakeholders will take a commitment to doing what is right on a continuous and consistent basis. A large part of this is to open ourselves up to scrutiny and to commit to sharing information in an open and transparent manner.

In line with our organisational reforms, we committed to start reporting publicly as part of our commitment to transparency and accountability. We also recognise that our broad community of stakeholders need to be regularly kept abreast of developments affecting us.

This report represents an ongoing honest conversation with our stakeholders. We have a clear vision of the type of business we want the renewed KPMG South Africa to be, but we also recognise that the rebuilding process will take time. By publicly reporting our progress, every year, our stakeholders will be able to gain confidence that we continue to be accountable and on track.



“By publicly reporting our progress, every year, our stakeholders will be able to gain confidence that we continue to be accountable and on track.”

WIDE-RANGING REFORMS

We are building a renewed KPMG South Africa. We are not making superficial changes. While we are keeping what established KPMG South Africa's positive reputation in the past, we are not simply repairing or rebranding where changes are required. As this report documents, we have begun introducing a wide range of bold reforms that are creating a significantly different and renewed firm.

Taken together, all of our initiatives – in the areas of governance, leadership, client engagement and acceptance, audit quality processes, culture, ethics and the size and shape of the business – add up to dramatic and significant change. Whilst there is much continuity in terms of the work we are doing and ongoing client relationships, KPMG South Africa is definitely a different firm from a year ago. This is more than just words, and the impact of the reforms and the change in tone from the top has been felt by all KPMG South Africa employees.

As we progress through these reforms, I am also delighted to be able to confirm that our intensified commitment to transformation has already resulted in us improving our BBBEE scorecard rating from a Level 2 to a Level 1 contributor. We know that much more remains to be done in terms of further transforming our firm to be fully representative of the demographics of South Africa and we are committed to continuing to work hard to achieve this goal.

OUR STRATEGIC PRIORITIES

As a member of the KPMG global network, our strategy is largely guided by the KPMG Global strategy which is focused on building public trust. This is then complemented by our local "Vision 2023" strategy, which is built on our four primary objectives of achieving the highest levels of quality and integrity, becoming a genuinely transformed South African firm and delivering solutions as a fully integrated and dynamic firm. Quality and integrity are at the heart of our mission. Everything that we do, in terms of the business we do, the clients we work with and how we do business, will be shaped by how it serves these two values.

We acknowledge that auditors and professional advisors have a responsibility to ultimately serve the public interest alongside the duties owed to their clients. Having public interest at the centre of everything we do will be embedded into the culture of the firm, the conversations we have, how we define success and how we measure and reward performance.

"I know that we will be financially sustainable by creating a virtuous circle."

We want to build a firm that balances commercial success against what is right for our clients and society in the long term. I know that we will be financially sustainable by creating a virtuous circle, such that our focus on making the right decisions will lead to attracting and retaining the right clients and work, which, in turn, will lead to attracting and retaining the right people and talent.

RESHAPING OUR BUSINESS

The recently announced reshaping of our business is part of the initiatives required to restore the strength of KPMG South Africa. The decision to reshape the business was taken as the result of a strategic review of our overall business structure, staff headcount, operating model and cost base. This review took into account recent client losses and reduced level of demand for certain services.

We anticipate that up to 400 people will leave the firm, as a result of our decision to close our smaller regional offices, refocus our advisory business and scale down our internal business support to reflect our reduced footprint. In the future, the national business will operate out of four hubs in Johannesburg, Cape Town, Durban and Port Elizabeth.

It is important to highlight that we are, and will continue to be, a business of scale. Over the recent months we have had regrettable staff and client

Message from our Chief Executive Officer

losses but the large majority of our clients have stayed with us. Similarly, although there has been increased levels of staff attrition, many of our colleagues have made the conscious decision to stay with KPMG South Africa because they want to play an active part in the future of the firm and to serve the wider business community.

Following the reshaping of the business, KPMG South Africa will have more than 130 partners and 2,200 employees, supported by the breadth and depth of the skills and experience of the global network of KPMG, comprising more than 200,000 people. We remain committed to our multi-disciplinary model. Our audit and tax businesses will remain substantially the same as levels prior to the reshaping and our advisory business will also continue to offer the wide range of the core services that our global, regional and local clients require.

KPMG INTERNATIONAL AND SUPPORT FROM THE GLOBAL NETWORK

The significant support that we have received from KPMG International (KPMGI) and our network of firms has been vital in the process of rebuilding our firm. The firm has capitalised on the respective expertise of the large team of global leaders and specialists who have been working in South Africa since August 2017. Their support and guidance has enabled us to make decisions and enable reforms faster, while respecting that our Board and shareholders need to take ownership and accountability for our future destiny.

As recently announced, we will have continued involvement from KPMG International as we embed in the firm a number of senior partners from the global network in Board and executive positions, as well as senior client service roles. These appointments will strengthen the leadership capacity available to the South African firm as we navigate the challenges we face, implement the significant enhanced internal procedures to which we have committed, and continue to service our significant client base to the highest level of quality.

This is further evidence of the significant investment KPMG International has provided to help ensure we can continue to focus on trust, quality and integrity in the interests of the stakeholders we serve and the public at large.

We have initiated significant changes and I am confident these are the right steps to reform and reshape the business. Now, we need time for these to be fully embedded in the business. I am grateful to all of you for your continued engagement through this time.



Nhlamulo (Nhlamu) Dlomu

*Chief Executive Officer
KPMG South Africa*

“At KPMG we strive to support and strengthen the societies we operate in around the world, and the prospects of those who live within them, through work delivered to the highest ethical, professional and societal standards and expectations. KPMG aspires to serve as a business leader ***and a guardian of the public interest*** by leveraging our skills and knowledge for the benefit of the audit profession, our people, society and business clients. We commit to engaging in business activities that positively impact the society within which we work.”



Integrated Reporting at KPMG South Africa

WHY HAVE WE ADOPTED INTEGRATED REPORTING?

Our adoption of Integrated Reporting (<IR>) is a reflection of our intention to be a transparent and accountable organisation that is focused on creating and sustaining value for all our stakeholders.

The process of reporting publicly on an ongoing basis is also a tangible expression of our commitment to transparency and engagement with all our stakeholders, as well as our determination to back up our words with action.

As we rebuild KPMG South Africa, the International <IR> Framework provides us with a set of guidelines on how best to communicate concisely our business model, strategy, governance, performance and prospects in the context of our external environment and engagement with stakeholders.

An added benefit of the process is that it will encourage 'integrated thinking' within the business, which is an approach designed to help make organisations more alert, agile and responsive.

For KPMG South Africa, integrated reporting is more than just disclosure: it is a process that changes behaviour in the way that we manage our business and focus our people on our strategy and higher purpose aspirations.

"Integrated Reporting will help us communicate with our stakeholders openly, comprehensively and honestly."

OUR INTEGRATED REPORTING OBJECTIVES:

- Rebuilding trust within our community of stakeholders
- Embedding accountability and stewardship throughout the organisation
- Visibly expressing our commitment to transparency
- Improving internal reporting, analysis and decision-making processes

Integrated thinking fosters a greater awareness of the interdependencies and connectivity between the range of factors that impact the ability of an organisation to create value. It is a way of looking at an organisation that leads to an improved quality and flow of information into management reporting, analysis and decision-making processes.

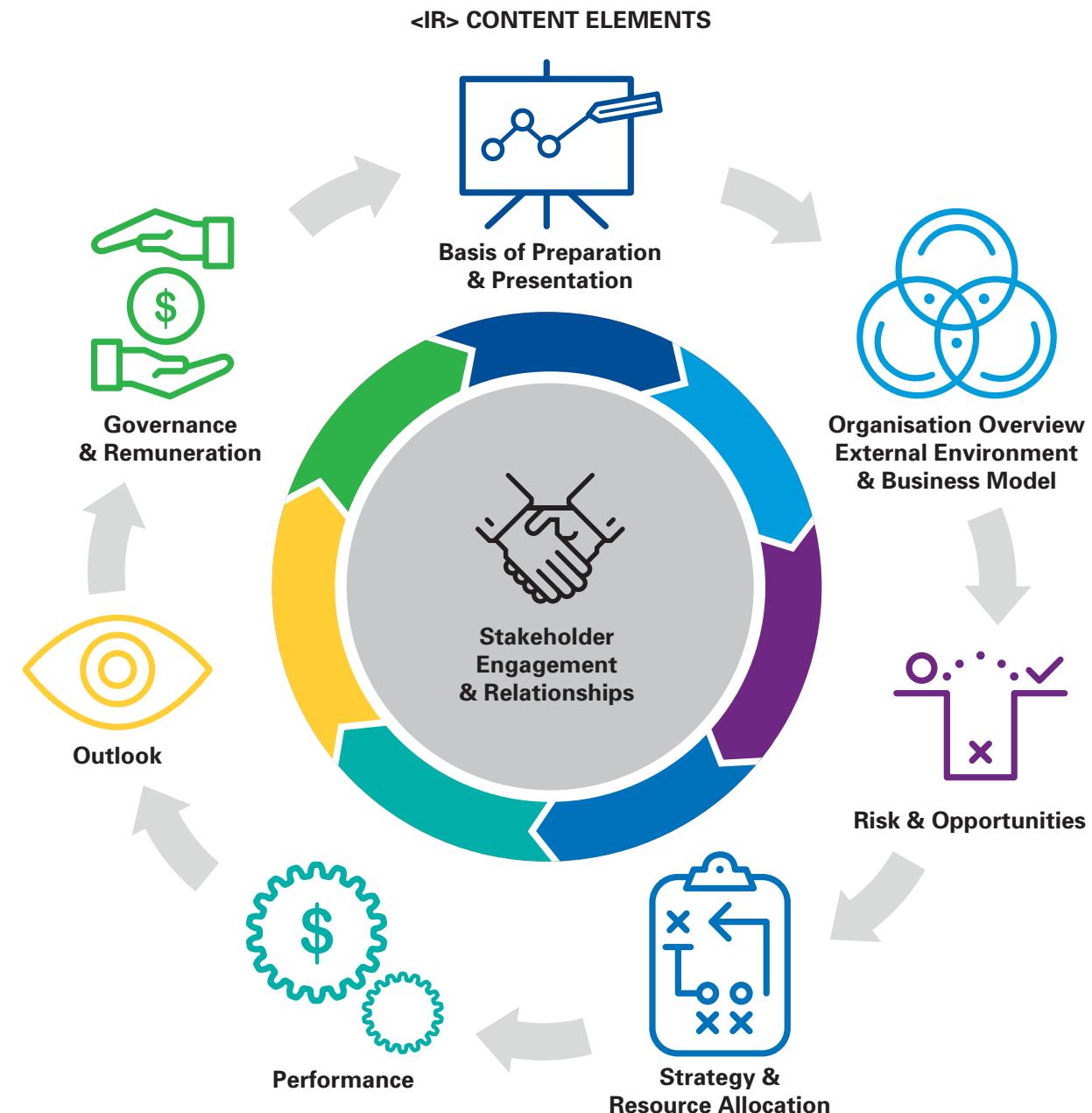
WHAT IS INTEGRATED REPORTING?

The **<IR>** process is designed to help create informed, productive partnerships between stakeholders and the organisations in which they are invested.

The **<IR>** process endeavours to achieve this by helping companies identify and communicate to stakeholders the relevant information needed to make informed decisions.

The information typically included in the **<IR>** process encompasses the strategy, governance procedures, performance and prospects of the reporting organisation.

The process diagram (right) illustrates the eight Content Elements of **<IR>**. The elements are fundamentally linked to each other and build on each other to provide a holistic, coherent view of the organisation.



OUR BASELINE REPORT

Since we have started our <IR> journey as part of rebuilding KPMG South Africa, we have decided to issue this Baseline Report with the purpose of providing our stakeholders with an update on our progress, and giving them insights into what we are prioritising, particularly regarding the context of the upheaval in September 2017 and immediate actions taken, as well as our strategy and vision going forward.

This Baseline Report will be followed by our annual integrated report for the year ending 30 September 2018, which will provide further insight into our business model, governance, material matters, strategy and related performance and outlook for the firm.

REPORTING BOUNDARY AND SCOPE

KPMG South Africa is affiliated with KPMG International, a Swiss cooperative. KPMG South Africa ('the firm' or 'the business') operates through two entities: KPMG Incorporated out of which we deliver our audit services, and KPMG Services (Proprietary) Limited out of which we deliver our advisory and tax services. Both entities are incorporated under the South African Companies Act, 2008, and are wholly owned by their shareholders (directors).

This Baseline Report addresses all pertinent aspects of the operations of KPMG South Africa and excludes KPMG Southern Africa member firms outside South Africa.

REPORTING SUITE

The following table describes the suite of reports that will be produced by KPMG South Africa. The purpose of this set of reports is to go beyond regulatory compliance and to provide our diverse and wide-ranging community of stakeholders with an accurate and complete portrayal of the firm. It is our hope that these reports will enable you to make knowledgeable, confident decisions about KPMG South Africa and your continuing working relationship with us.

Baseline Report	Integrated Report	Audit Quality Transparency Report
Interim	Year ending 30 September 2018	Year ending 30 September 2018
July 2018	December 2018 (Annual)	December 2018 (Annual)
		
A once-off report on the key issues identified and actions taken since September 2017. Also setting a path for the full integrated report to be published at the end of 2018.	An annual, comprehensive publication designed to provide stakeholders with a complete set of financial and non-financial information to enable them to make informed decisions about the progress and performance of KPMG South Africa.	A supplementary report, published annually, which describes our systems of audit quality control, independence and risk management policies, audit approach, ethical standards and governance processes.



This suite of reports will be made available online on our website (<https://home.kpmg.com/za/en/home/campaigns/2018/07/baseline-report-20181.html>) or by contacting Nqubeko Sibiya at nqubeko.sibiya@kpmg.co.za

ASSURANCE AND COMPARABILITY

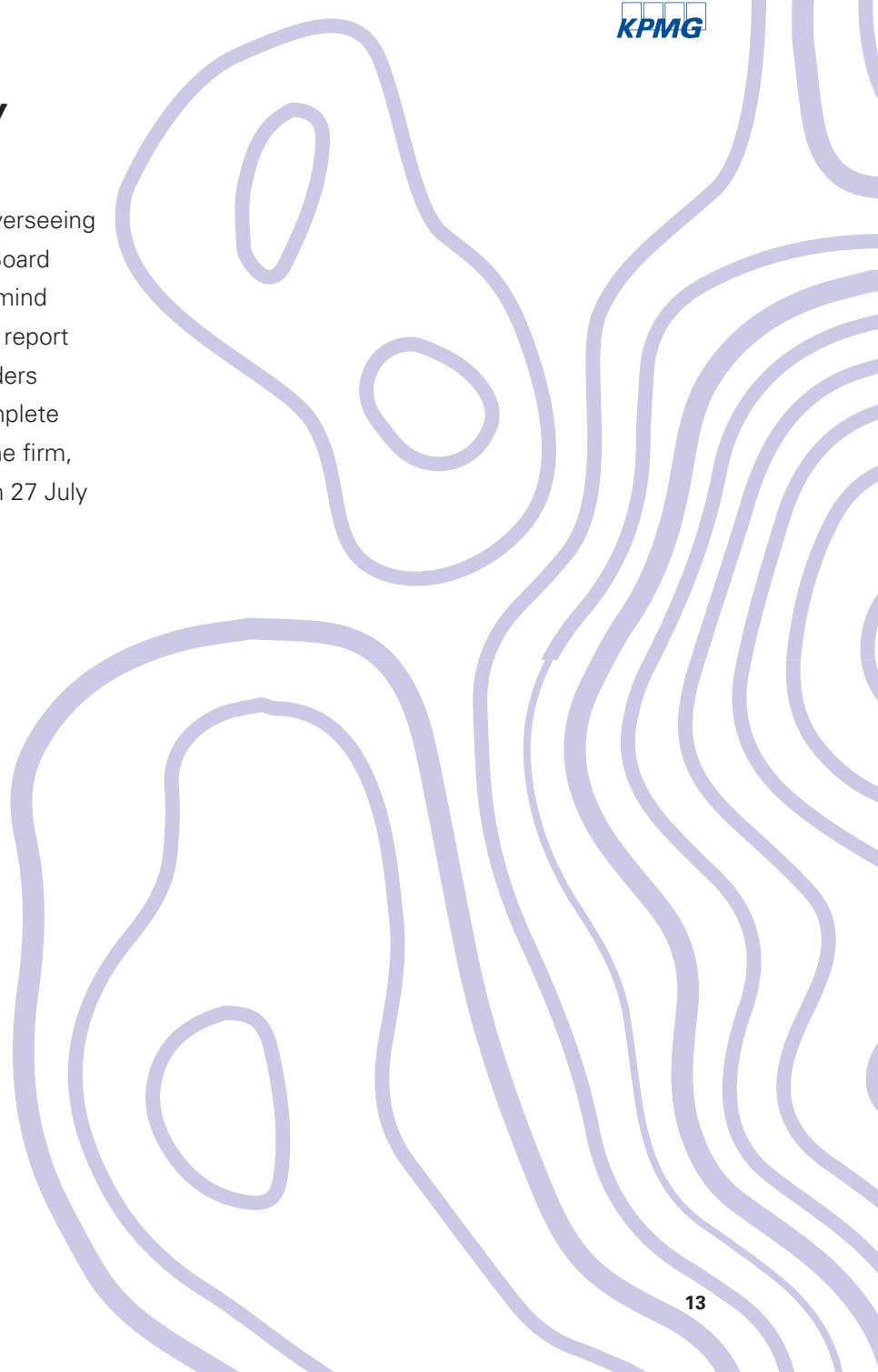
We are at the beginning of our <IR> journey and recognise that the information we are able to present will improve as our processes mature, but we are committed to presenting information that is complete, balanced, accurate and unambiguous.

We have established an <IR> steering committee and working group, which have developed processes and work plans to establish a robust <IR> process, with appropriate controls and oversight. The steering committee reports to our Executive Committee and the <IR> process is overseen by the Combined Assurance and Reporting Committee and reviewed and approved by the Board (refer Our Governance Model – page 24).

It is our intention to develop and expand our assurance processes as our formal reporting methods and procedures mature.

BOARD RESPONSIBILITY AND APPROVAL

The Board is, ultimately, responsible for overseeing the integrity of this Baseline Report. The Board confirms that, after applying its collective mind to the preparation and presentation of this report and reviewing the content herein, it considers this report to be accurate, reliable and complete in presenting material information about the firm, and approved the Baseline Report 2018 on 27 July 2018.



“We are committed to presenting information that is complete, balanced, accurate and unambiguous.”

Acknowledging and Addressing our Past Issues

Recent events have required us to step back and examine our business and practices. The auditing of Gupta-related South African entities, SARS work and the VBS Mutual Bank situation are separate incidents with their own fact patterns. Each of them has been or is in the process of being thoroughly investigated to understand fully the “root causes” of the underlying issue so as to build adequate remediation plans.

In order to provide our stakeholders with some perspective of the issues that KPMG South Africa has encountered with regard to the Gupta entities, SARS work and, more recently, the VBS Mutual Bank situation, we have provided a summary of the key findings of our investigations, lessons learnt and actions taken.

KPMG INTERNATIONAL INVESTIGATION AND FINDINGS — GUPTA ENTITIES & SARS WORK

In response to widely reported allegations and public concern raised with respect to the work of KPMG South Africa for Gupta family-owned South African businesses, as well as work performed in preparing a report for SARS in 2014-15, KPMG International (KPMGI) conducted a comprehensive investigation with the support of external lawyers.

“KPMG South Africa should have ceased providing services to the Guptas much earlier than it did.”

KEY FINDINGS OF INVESTIGATION

The key findings arising from the Investigation were:

- KPMG South Africa should have ceased providing services to the Guptas much earlier than it did.
- Audit work for the Gupta entities, in certain instances, fell well short of the quality expected.
- No KPMG South Africa partner should have attended the Gupta Wedding in 2013.
- SARS should no longer rely on the executive summary of the SARS report, which refers to conclusions, recommendations and legal opinions.
- There was no evidence of participation by KPMG South Africa, its partners or staff in illegal activity or corruption as a result of the work performed on the Gupta and SARS engagements. In particular, no evidence that in the delivery of tax services, KPMG South Africa, its partners or staff, were involved in any activities of the Gupta family involving potential money laundering, tax evasion, corruption or any other illegal activity.

KPMG South Africa accepts that the failings identified went beyond a mere technical failure to apply standards and processes and, accordingly, the actions the firm has taken (or is in the process of taking) are reflective of this.

“We accept that the failings identified went beyond a mere technical failure to apply standards and processes.”

In addition to our own investigation, the following independent inquiries are in progress:

- The IRBA initiated an investigation into various engagements carried out by the firm in respect of the Guptas and SARS Report and has recently commenced an investigation into work performed for VBS Mutual Bank.
- On 2 November 2017, the South African Institute of Chartered Accountants (SAICA) established an inquiry under the leadership of Advocate Dumisa Ntsebeza SC. The terms of reference were set independently of KPMG South Africa and KPMG International.

KPMG South Africa is committed to co-operating fully with these ongoing inquiries and an update on their status has been provided on page 34.

SOME KEY LESSONS LEARNT

Whilst we await the findings from the inquiries and investigations which are currently underway, we have already reflected and acted on some key lessons learnt:

- Auditors and professional advisors can never forget that they have a responsibility to serve the public interest alongside the duties owed to their clients. This acknowledgement should be embedded in the culture of our firm, be explicit in all our conversations and reflected in the way we define success and how we measure and reward performance.
- In performing our role as auditors and advisors, we need to be more closely attuned to our economic, social and political operating environment and the needs, interests and expectations of all our stakeholders.
- As auditors and professional advisors we should never lose sight of the criticality of professional scepticism, both in accepting and performing our audit and advisory engagements.
- In an environment where there is rightly increased expectations of transparency and accountability, the governance of the historically owner-managed professional services firms can benefit from independent oversight and input so that they are aligned to the public interest they ultimately serve, and where benefiting shareholders or owners becomes a result and is not the primary objective.

VBS MUTUAL BANK

In addition to the issues described above, one of our audit clients VBS Mutual Bank was placed under curatorship in March 2018. In April 2018, KPMG learned via a whistleblower of a serious allegation concerning the audit partner who signed the VBS audit opinion. The firm immediately appointed external counsel to lead an investigation into the allegations and the audit partner was

Acknowledging and Addressing Past Issues

suspended. Based on information revealed by the independent investigation, KPMG South Africa suspended a second audit partner and swiftly moved to commence disciplinary proceedings against both partners. Before these proceedings concluded, the two partners tendered their resignations. The disciplinary charges in both cases rested on conduct issues; they failed to disclose relevant financial and business interests to the firm.

There are a number of ongoing investigations concerning VBS Mutual Bank; these include an investigation instituted by the SARB and an investigation into the audit work by IRBA. The firm is fully committed to cooperating with these investigations.

The firm has taken a deep and extensive approach to self-reflection and to drive the opportunity to further embed within our culture our public commitment to the highest standards of quality, ethics and integrity in the service of the public interest.

The last audit we performed for VBS bank was for their March year end in 2017 which pre-dated the implementation of significant Audit Quality and Risk Management improvement actions taken by KPMG South Africa since September 2017. We continue to look for ways to improve the quality of our work.

Key lessons learnt from this experience include a need to:

- further enhance our ability to identify and respond to risk issues timeously,
- ensure that we have a robust process to verify information that is disclosed to the firm by partners and staff, and
- make profound changes to our culture by enhancing our ethics and increasing our teams' ability to report issues as they emerge without any fear or favour.

We have addressed these through various incremental measures announced in April 2018 and ongoing remedial actions.

ACTIONS TAKEN TO ADDRESS IDENTIFIED ISSUES

Based on the findings from the KPMG International investigation and the subsequent independent investigation into the VBS matter, a number of actions have been taken — or are in the process of implementation — to address the issues that were identified, and to deliver on the commitments made in our public statements on 15 September 2017 and 15 April 2018.

The summary table on the following page presents an overview of actions taken or in progress, as well as a status update on each action area.

Action	Detail	Status
Leadership Reforms	<ul style="list-style-type: none"> The responsible individuals have left KPMG South Africa 	Completed
	<ul style="list-style-type: none"> Appointment of a new CEO and leadership team 	Completed
	<ul style="list-style-type: none"> Embedding of additional senior resources from the global KPMG network to strengthen leadership capacity 	Imminent
Governance Reforms	<ul style="list-style-type: none"> Election of a new Board 	Completed
	<ul style="list-style-type: none"> Separation of Exco from the Board 	Completed
	<ul style="list-style-type: none"> Appointment of an independent non-executive Chairman and an independent non-executive director on the Board 	Completed
	<ul style="list-style-type: none"> Appointment of additional non-executive directors 	On-going
Quality and Risk Management Reforms	<ul style="list-style-type: none"> Elevated and separated role of the Risk Management Leader and significant further resources in the risk management function 	Completed
	<ul style="list-style-type: none"> More rigorous system for client and engagement acceptance and continuance with centralised escalation of approvals 	Embedded
	<ul style="list-style-type: none"> Termination of some clients and engagements following the review of our entire client portfolio 	Completed
	<ul style="list-style-type: none"> Comprehensive review of services the firm provides 	Completed
	<ul style="list-style-type: none"> Strengthening of the Audit Quality Control Committee functionality 	Embedded
Audit Practice Reforms	<ul style="list-style-type: none"> Additional training on exercising professional scepticism, understanding the risk of fraud, money laundering and unusual transactions 	Recurring
	<ul style="list-style-type: none"> Reinforcement of the role of Engagement Quality Control Review (EQCR) partner 	Embedded
	<ul style="list-style-type: none"> A programme of extensive quality review of audit files to assess the commitment to quality and professionalism of our engagement teams 	Completed

Acknowledging and Addressing Past Issues

Action	Status	
Forensic Practice Reforms	<ul style="list-style-type: none"> Strengthened rules and processes for client and engagement acceptance and continuance The scope of investigations and agreed procedures will be examined rigorously Second Review Partners process enhanced Enhanced report finalisation process Reinforcement of reforms through training 	Embedded
Stricter Hospitality Rules	<ul style="list-style-type: none"> Stricter rules on accepting and providing of hospitality 	Embedded
SARS Fees Returned	<ul style="list-style-type: none"> Return of all the fees earned to SARS for the report we produced 	Completed
Public Reporting	<ul style="list-style-type: none"> Initiation of an integrated reporting and related communication process 	On-going
Civil Society Engagement	<ul style="list-style-type: none"> A series of regular dialogue sessions and interactions with civil society leaders 	On-going
Donation of Fees from Gupta-Related Entities	<ul style="list-style-type: none"> Implemented a process to allocate the R47.8 million in fees we received from work on Gupta-related entities to donate to NGOs mainly involved in education and anti-corruption initiatives 	<p>Call for education funding applications launched in May 2018.</p> <p>Partners for anti-corruption funding identified and in process of finalising formal arrangements.</p>
Culture and People Programmes	<ul style="list-style-type: none"> Implementation of a "Speak Up" programme to sit alongside normal whistle-blowing policies Extensive integrity checks of all partners (and their spouses/partners) in addition to the existing annual declaration processes Undertaking of a comprehensive culture and ethics assessment that will be followed by an appropriate change programme 	<p>Completed</p> <p>On-going</p> <p>On-going</p>

The recent events have had a profound impact on the firm, but they do not define us as an organisation, nor do they define who we are as individuals. The thorough reforms that have been introduced further strengthen existing policies and procedures in place, which underpin the quality of the services we deliver and embody the values and behaviours we expect from our people. These are evidenced by our track record of committed client service over many decades and the levels of employee satisfaction reflected in our annual people survey in prior years.

We recognise however that we need to provide additional assurance to our stakeholders over the depth of reform. We also recognise that many of the actions and strategic initiatives we are undertaking to achieve our vision need to be accompanied by a shift in the attitude and behaviours of our people and, ultimately, the culture of the firm.

Accordingly, as part of our drive to restore public trust, we are undertaking a comprehensive culture and ethics assessment that will be followed by an appropriate change programme.

Our cultural transformation programme will address cultural issues at every level of the firm, including how we operate as an integrated business, how we engage and are accountable to our stakeholders and how we collaborate with them to achieve our vision.

“We are committed to ensuring that the ways in which our people think, behave and work remain consistent with the values that have proudly defined us throughout our history.”

Whilst this work is still in progress, we have identified the need for some initial shifts in mindset and behaviour to become embedded in our culture as follows:

Undesirable culture:	Desirable culture:
Following a transactional approach to our stakeholders in that we view them through the lens of how they could benefit or cost us	Following a relational approach to all our stakeholders that recognises their needs, interests and expectations
Having single-minded intent and focus on how we execute a particular engagement without regard for the broader context	Being appreciative of the impact, consequences and outcomes of the work we do
Having a self-protective, legalistic approach to our engagement with stakeholders	Having a transparent and collaborative approach to our engagement and communication with stakeholders
Acting as individuals in the way we work	Working and thinking as one integrated firm with a shared purpose and vision
Perceived as acting only in our own self interest	Acting, and being seen to act, in the public interest to create shared value

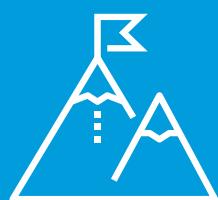
We are committed to ensuring that the ways in which our people think, behave and work remain consistent with the values that have proudly defined KPMG around the world throughout our history. To this end we have embarked upon a culture change programme which is introducing certain interventions, including ways for leadership to set the tone, for all employees to self-reflect and for all to be involved in the crafting of a roadmap towards our desirable culture as in the table above. The progress made will be measured and rewarded throughout the programme in tangible ways so that we go beyond intent to actual change in mindset and behaviour.

KPMG South Africa Overview

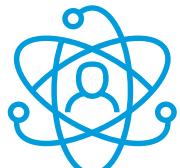
KPMG SOUTH AFRICA AT A GLANCE

OUR HISTORY

The origins of KPMG South Africa go back to 1895 and through organic growth and strategic mergers, we have grown into one of the largest Audit, Tax and Advisory firms in the region, offering a wide range of services to clients in the private and public sectors.



Serving the South African market for over
120 years



Over the last **10 years**, we have recruited and trained **2,500** chartered accountants, many of whom have received scholarships and bursaries.

OUR PEOPLE

More than 130 partners and 2,200 employees supported by an international network that comprises more than 200,000 people.

Our diverse, dynamic and talented people are what define and differentiate us in the market. In a people-to-people business like KPMG South Africa, our partners and staff are our most valuable assets and need to be nurtured and developed in a high-performance environment. We are working hard to develop an inclusive culture for our people where they feel they are making a difference and are connected to a strong sense of purpose. In the face of all the pressures brought about by our past issues, our exceptional people have positively embraced the challenges and stood together to rebuild our firm to be a business that ultimately serves the public interest and of which they are proud to be a part. Our reshaping and refocusing of the firm will result in a business with more than 130 partners and 2,200 employees supported by the breadth and depth of skills and experience of the international network of KPMG that comprises more than 200,000 people.



130+
partners

2,200+
employees

10,000+
KPMG alumni

There are over 10,000 KPMG South Africa alumni who are business leaders in all sectors of the South African economy.

Global network

154
firms



African footprint

33
firms

servicing 54 countries



OUR FOOTPRINT

A global network of 154 firms – An African footprint of 33 firms servicing 54 countries – A South African operating model with 4 regional hubs.

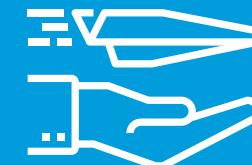
Across the globe, the KPMG network of firms operate in the same geographies as our clients and we have people who understand the local marketplace wherever they are in the world. Our global network of 154 member firms enhances the mobility of skills and knowledge we offer. Our African footprint has 33 member firms servicing 54 countries. As we refocus and reshape our operating model, we are planning for the South African business to operate in the future out of four hubs in Johannesburg, Cape Town, Durban and Port Elizabeth.

OUR TRANSFORMATION JOURNEY

We are proud of our BBBEE Level 1 Empowered Supplier status as per the Amended Codes of Good Practice (19 January 2018), but recognise that there is still a way to go in our journey to becoming a fully transformed firm that is representative of the demographics of South Africa. We have set a good foundation and are committed to working hard to build an inclusive and diverse firm that can compete with greater success in the market.

Our focus remains on developing our Black Staff from a management control, professional expertise and ownership perspective but also placing emphasis on procurement from black owned businesses (particularly SMEs and QSEs), aligned skills development and a commitment to enterprise and supplier development initiatives that lead to job creation.

A BBBEE Level 1
Empowered Supplier
status, but recognising
there is still a way to go on
our transformation journey.



Our clients expect KPMG to bring deep industry expertise to their issues, combining integrity with innovation and a determination to deliver results that matter



OUR CLIENTS AND SERVICES

KPMG South Africa works with an incredible breadth of clients across different industry sectors, from new entrants to established businesses and through listed, private equity and public sector organisations. We recognise that no two clients and their challenges are ever exactly the same and each one expects KPMG to bring deep industry expertise to their issues, combining integrity with innovation and a determination to deliver results that matter.

It starts with the exceptional people that we recruit and train, and the focus we maintain on building their industry expertise alongside professional skills.

Our specialised sectoral approach to the market is critical to ensure a deep

understanding of our clients' issues and to be relevant in the services that we provide. In each sector, supported on a global basis, we are able to provide thought leadership and experience on global industry issues that are increasingly agnostic of national boundaries.

Furthermore, as technological disruption and convergence continue to blur traditional sector boundaries, we are able to derive significant insights from sharing what is happening with clients across different sectors.

We are delighted and proud when we speak with our clients and hear how much they value the quality of our services and the insight their KPMG South Africa team brings.

OUR ENVIRONMENTAL MANAGEMENT INITIATIVES

In line with our Global Green Initiatives, KPMG South Africa maintains momentum in its environmental stewardship through new initiatives and constantly updated targets for renewable water and energy consumption.

1,300+ tons  saved on CO₂ emissions per annum

Water

Our offices capture both grey water from within the building as well as external rain water. This is used on KPMG gardens and is supplemented with borehole water.

Solar Energy

KPMG took the initiative in 2014 by installing 7,500 sqm of solar panels on the roofs of their buildings, totalling 3,260 solar panels installed. This has resulted in 1,300,000 kWh worth of saving.

What does 1,300,000 kWh saving mean?

- R1,5m saved on electricity costs per annum (saving R1.20 per kWh)
- Over 1,300 tons saved on CO₂ emissions per annum
- Over 13,000 trees saved

IMPACTFUL SOCIAL INVESTMENT

Caring about, and contributing to, the communities in which we live and work is the cornerstone of our commitment to serving the public interest — beyond delivering work to the highest ethical, professional and societal standards and expectations. We recognise that our own success is intertwined with operating within a healthy environment and therefore we seek to contribute to transforming our societies in a sustainable way by responsibly leveraging the firm's social investments and resources including skills, talents, infrastructure and networks. Beyond the R40 million Public Interest Funding to Education and Anti-corruption, we are focusing our long-term corporate citizenship strategy on Education, Anti-Corruption, SMME Development, Pro Bono Services and Employee Volunteerism. Some of the current initiatives in which KPMG South Africa makes a difference are listed alongside:



Youth Managers Foundation

YMF is a platform that is consistently shaping the youth from disadvantaged backgrounds to unleash their true potential.



Thuthuka

TBF is a registered non-profit emanating out of the CAs Eden Trust. KPMG, together with other audit firms, contributes towards the Fund which has created over 250 CA (SA), 750 Honours and 950 BCom graduates.



KPMG Vorentoe Running Academy

KPMG aids and funds the disadvantaged athletes of Vorentoe High School.



KPMG Family for Literacy

KPMG has joined the fight against childhood illiteracy.



Enactus

We sponsor Enactus, an international organisation that brings together a diverse network of university students.



Operation Hydrate

To date KPMG has delivered over 85,000 litres of water to project Hydrate and Water Shortage South Africa.



Caring4Girls

Caring4Girls is a sanitary towels distribution programme helping keep young girls in schools.



KPMG Winter Drive

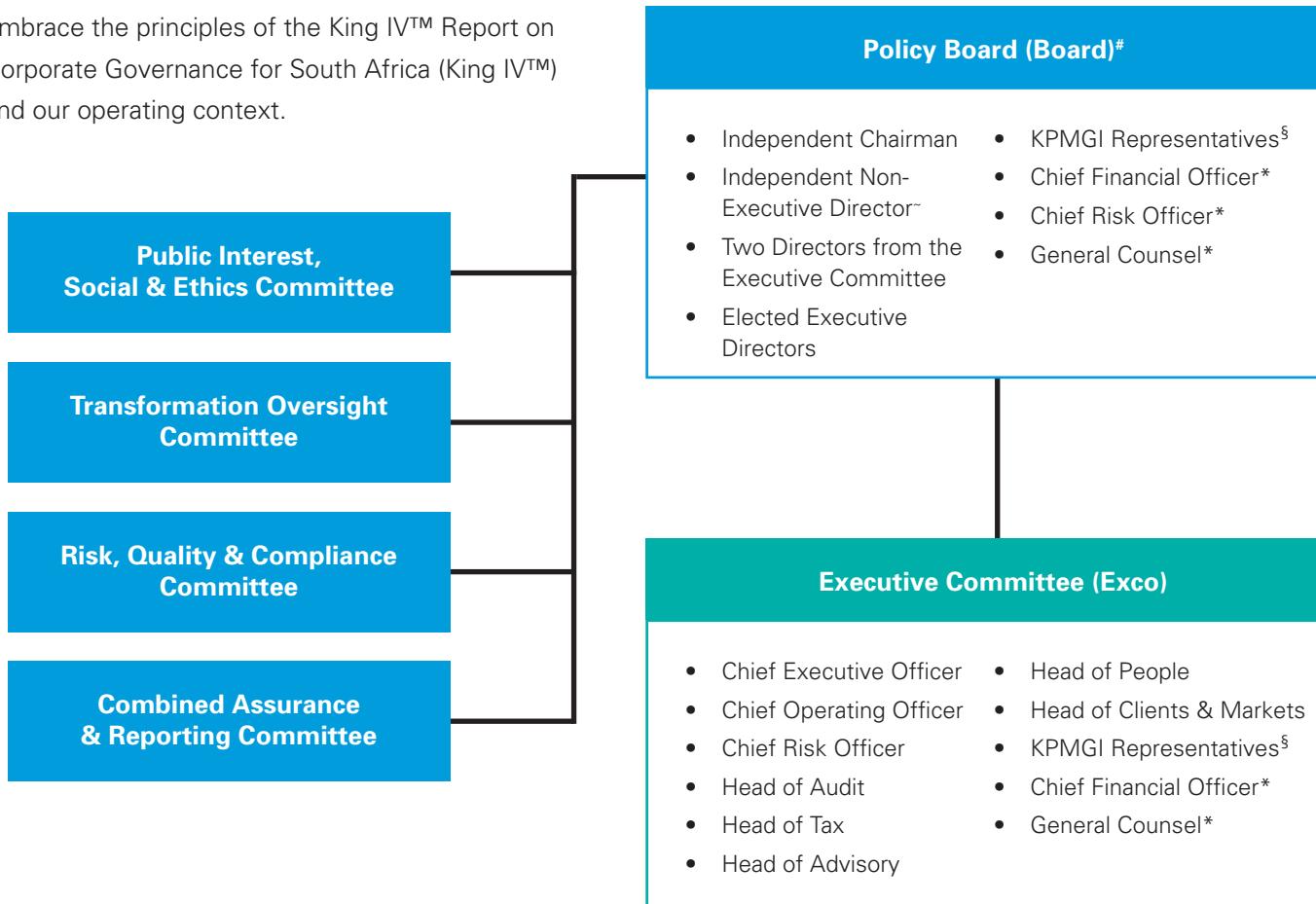
Each year, business units, individuals and regional offices donate blankets to many homeless people across the country during the winter season.



We are focusing our long-term corporate citizenship strategy on Education, Anti-Corruption, SMME Development, Pro Bono Services and Employee Volunteerism.

OUR GOVERNANCE MODEL

We have made some significant changes to our governance model to move from a traditional self-governed partnership model to a model that will embrace the principles of the King IV™ Report on Corporate Governance for South Africa (King IV™) and our operating context.



KPMG South Africa operates through two entities: KPMG Incorporated out of which we deliver our audit services, and KPMG Services (Proprietary) Limited out of which we deliver our advisory and tax services. Both entities are incorporated under the South African Companies Act, 2008 and are wholly owned by their shareholders, the directors. Each director of KPMG Inc. is also a director of KPMG Services but only Registered Auditors are directors of KPMG Inc.

[#] The duties of the Remuneration, Nominations and Appeals Committee are fulfilled by the entire Policy Board

[~] We are pursuing the appointment of additional independent non-executive directors

[§] Additional KPMG partners from across the international network will be appointed to Board and Executive positions

^{*} Invitees

OUR BOARD

Uniquely for our profession in South Africa, our Board composition has been enhanced by including two independent non-executive directors and by having only two executive directors from the Executive Committee, thereby enhancing the ability for oversight.

Our elected directors were voted in by our shareholders. Representation of Executive Committee members on the Board is restricted to our Chief Executive Officer (CEO) and Chief Operating Officer (COO), in line with the recommendations of King IV™. The Chief Financial Officer (CFO), Chief Risk Officer (CRO) and General Counsel (GC) are in attendance as invitees at Board meetings for report back on functional areas.

We are particularly proud of the high calibre and experienced independent non-executive Chairman, Professor Wiseman Nkuhlu, and director, Ansie Ramalho, that we have appointed to the Board to provide independent challenge and oversight. We are pursuing the appointment of additional independent non-executive directors to bolster the extent of independent scrutiny at Board and sub-committee levels. In addition, a number of KPMG partners from across the international network will be appointed to Board and Executive positions to further strengthen the leadership capacity available to the South African firm.

OUR GOVERNANCE STRUCTURES AND PROCESSES

Given our commitment to ethical and effective leadership, it is vital that our governance structures and processes reflect good governance and are aligned to drive our purpose, vision and strategy. Our Board Charter and sub-committee objectives, terms of reference, work plans and reporting are undergoing a thorough review by the Board to ensure that these are aligned with the principles of King IV™ and our operating context.

KPMG Inc. and KPMG Services (Proprietary) Limited each has a Policy Board constituted in terms of their memoranda of incorporation. The Policy Board is a committee of the Board of directors and all authority of the Board of directors has been delegated, without abdicating responsibility, to the Policy Board. The Policy Board of both entities sits co-timeously as they comprise the same members and considers issues common to both entities. When matters arise that are specific to one entity, then the respective Policy Board of that entity will deliberate and decide on its particular matter and only the Policy Board members who are directors in respect of such entity will vote in respect of such matter. For ease of understanding, references to Board or Policy Board refer to the Policy Boards of both entities.

The annual integrated report will provide further insight into our governance structures as well as functional area oversight reviews in accordance with King IV™ disclosure requirements.

Stakeholder Engagement

Effective engagement with our stakeholders is essential to better understand their expectations and concerns and, in turn, their own views on our risks and opportunities that we need to respond to.

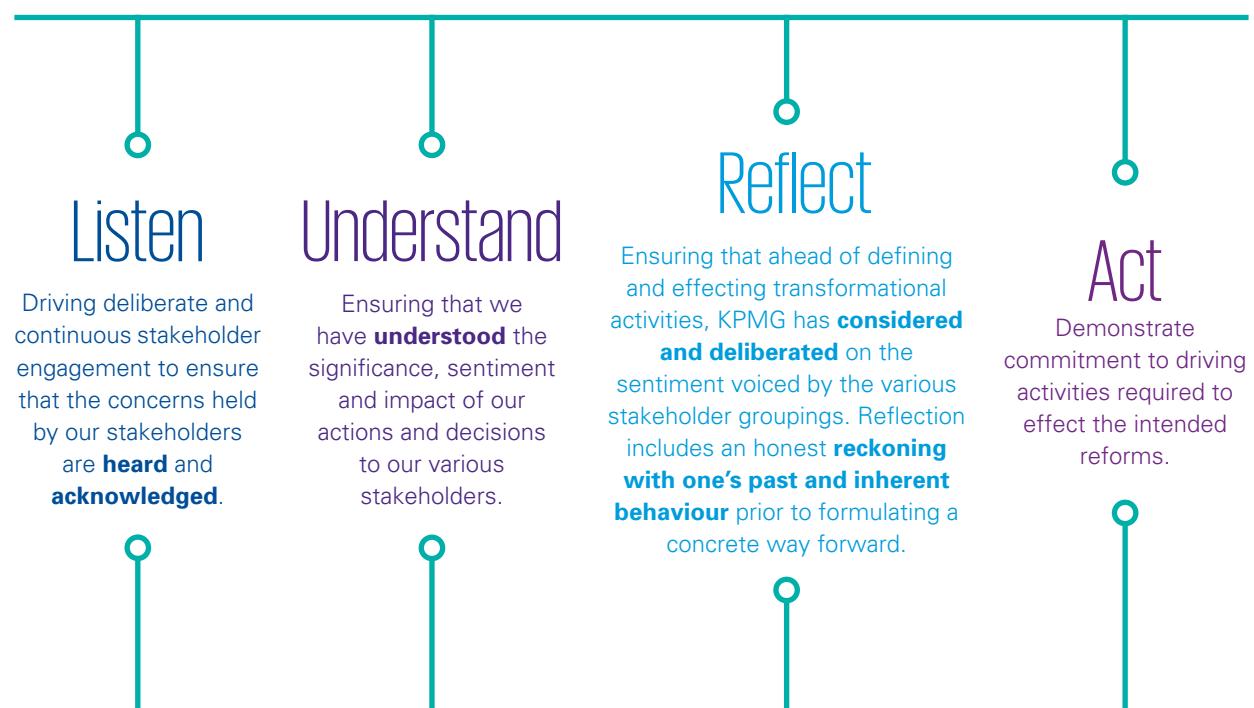
While effective stakeholder engagement is essential in the ordinary course of business, arguably, the need for a robust stakeholder engagement approach has never been more critical for us. Historically, our stakeholder engagement approach has been heavily focused on our clients and our people. Yet recent events have shown that we need to expand our approach and engage with a much wider community of stakeholders, both within our groups of clients and people and across society as a whole. Our social licence to operate depends on this.

ENGAGEMENT APPROACH

Our recent experience of engaging with a variety of stakeholders has reinforced the importance of authenticity and humility in our interactions, ensuring that we are listening carefully to comprehend fully their views regarding the impact of our actions.

In our growing understanding of this, we have embarked on a deeply reflective process looking into our past and inherent behaviour in order to formulate actions that demonstrate that our learnings are reshaping our conduct and ways of working.

In order to embed an authentic engagement approach, we have adopted a process that ensures we Listen, Understand and Reflect, before we Act (LURA) as outlined below:



This new approach is implemented as below with respect to three of the categories of our stakeholders namely: the business sector, our people and the public.

ENGAGING WITH THE BUSINESS SECTOR

The Clients and Markets team has mapped key business stakeholders, documented an understanding of their concerns and assessed the level of priority of stakeholders identified, as well as methods of engagement.

The team is responsible to ensure engagements happen on a continuous basis, formulating actions against commitments made, as well as targeted responses for concerns raised.

Following the public disclosure of our recent shortcomings, it was important that focused conversations took place with our clients. Understandably, the associated damage to our reputation and the loss of public trust raised significant concerns for these critical stakeholders.

The CEO and KPMG South Africa partners continue to provide clients with updates on progress across the various reforms currently underway at the firm and we take significant comfort from the fact that the overwhelming majority of clients, after considering our remedial actions, have concluded that they would continue to be served by the teams they know and the quality of service they have experienced first-hand.

Our basis and tone of working with our regulators has also shifted towards a more pro-active, constructive and co-operative approach which includes engaging on issues facing the profession as a whole.

Most of the engagements with stakeholders other than clients and regulators in this grouping were initiated or intensified as a result of the recent issues that faced KPMG South Africa. Lessons have been learnt on the need to maintain close relations with a broader range of business stakeholders.

ENGAGING WITH OUR PEOPLE

Our people are our most valuable asset. The firm has been built through actively seeking, developing and retaining people who have the right skills and abilities, share our values and are a good fit with our culture.

“It is important to recognise that our people, as well as their respective families and communities, have been deeply impacted by our September 2017 disclosures and the subsequent negative media coverage.”

It is important to recognise that our people, as well as their respective families and communities, have been deeply impacted by our public disclosures and the subsequent negative media coverage. Most recently the announcement to reshape the firm with up to 400 people anticipated to leave the firm as a result of this plan has placed further pressure on our people and increased the need to engage effectively with them during this time of uncertainty.

During this difficult time for the firm, key concerns arising from dialogue with staff have included the need for transparency, the speed at which information is cascaded to employees, job security and the ability to retain critical talent.

There is clear recognition by the firm that meaningful staff engagement is a critical lever as we seek to retain our best people and embed a culture that demonstrates the importance of acting in the public interest and upholding a high moral conscience in everything we do.

ENGAGING WITH SOCIETY

The negative public sentiment towards KPMG South Africa since September 2017 has revealed the historic shortcomings of the firm's engagement approach with civil society and the broader public.

Until recently, our approach to civil society stakeholder engagement had been largely focused on members of the public that are either directly or indirectly related to our employees, clients or beneficiaries of the KPMG Foundation and other Corporate Social Responsibility activities. This has meant that engagement with stakeholders in the context of KPMG South Africa being a guardian of public interest had been limited, exposing significant gaps in our stakeholder map.

Our capability and experience in dealing with a variety of public stakeholders, including the media, has proved lacking and has demanded a major shift in our engagement approach.

“Our capability and experience in dealing with a variety of public stakeholders, including the media, has proved lacking and has demanded a major shift in our engagement approach.”

As such, the direct engagement of civil society in the context of KPMG South Africa's role to protect and further public interest is a significant area of learning. This grouping of stakeholders serves to awaken the country's moral conscience and has been instrumental in shining a spotlight on the significance of our role as custodians of financial conduct at key South African public and private institutions.

This being a new area of focus for the firm, it was important to map the civil society landscape as we know it. The media coverage since June 2017 was also used to identify those civil society organisations or individuals that had explicitly expressed an opinion regarding KPMG South Africa. This, combined with interactions with individuals or organisations with whom KPMG South Africa already had established relationships, has helped form a base for direct engagements. The engagements range across organisations and individuals in social justice, anti-corruption, ethics, business associations (including those driving transformation), political analysts, faith-based communities, the public sector and the media.

Various commitments and actions have been planned to ensure that our engagement with civil society is continuous and serves as a key input into KPMG South Africa as it crafts the way forward.

One of these commitments was the inaugural KPMG South Africa Civil Society Breakfast dialogue session, which we hosted on 23 February 2018. The session provided us with the opportunity to update representatives of civil society leaders on our commitments and actions to date and served as a platform for reflection and engagement on public sentiment and perception of KPMG South Africa, the accountancy profession and broader corporate South Africa. The objectives of the breakfast were part of our efforts to:

- enhance the understanding of KPMG South Africa leaders of the socio-political landscape in which the firm operates;
- clearly understand what society expects of KPMG South Africa in terms of upholding the highest standards of integrity;
- unpack what is expected of the audit profession and corporate South Africa to remain relevant and responsive to the operating context and expectations of societal stakeholders; and
- afford KPMG South Africa leaders an opportunity to update civil society leaders on progress against the commitments and planned reforms of the firm.

The event took the form of a *listening* exercise and through a series of moderated discussion panels, civil society leaders shared their thoughts and recommendations on the following topics:

- the socio-political landscape of South Africa;
- corporate integrity; and
- the role of the audit profession and corporate South Africa in society.

The numerous salient insights and suggestions derived from the robust discussions included:

- KPMG South Africa needs to recognise its responsibilities to South African society;
- a genuine, tangible cultural shift is required at every level of the organisation;
- KPMG South Africa needs to be part of the 'clean-up' and assist in ensuring criminal consequences for those involved in state capture and adopt a 'state witness' mindset;
- KPMG South Africa should commit to true ethical reform
 - moving from doing what is *legally* correct to that which is *morally* correct
 - graduating from a *legalistic* approach to a *transparent* approach
 - focusing less on the *intent* and more on the *impact* of its actions
 - forming partnerships with entities that advocate against corrupt practices; and
- KPMG South Africa should help strengthen and support weak state institutions.

These messages were direct and to the point and certainly met the objectives of the interaction. In line with our Listen, Understand and Reflect, before we Act approach we have internalised these messages and will look to ensure they are incorporated wherever appropriate and possible into suitable responses in our future strategic and cultural direction.

NEXT STEPS ON STRENGTHENING STAKEHOLDER RELATIONSHIPS

The consequences of our past issues have, within a short space of time, forced us to strengthen our stakeholder engagement and management processes, being clear about who matters, why they matter, and what is important to each of them. Although triggered by external events, this process has been valuable in ensuring that we reflect, introspect and challenge ourselves, and one another, and emerge as the relevant business that South Africa needs us to be. To ensure that the learnings, capacity and capabilities built during this difficult period are embedded into our everyday practices, the following actions will be prioritised as the firm builds momentum going forward:

- Centralisation of the monitoring and management of stakeholder engagement as a key business imperative.
- Establishment of consolidated stakeholder engagement and management strategy, plan and approach.
- Clear outlining of roles and responsibilities for stakeholder engagement across the firm.
- Demonstrable integration between stakeholder engagement and firm strategy.
- Establishment of monitoring and reporting intervals, as well as process, tools and templates, to ensure that timely and credible information is available to support decision making.
- Oversight of stakeholder engagement and relationship management by the Public Interest, Social and Ethics committee.

Our Vision and Strategy

In the immediate aftermath of events last year and the appointment of a new leadership team, the focus of our executive management team has been to develop and implement an updated vision and strategy for the firm which has driven a new business plan, whilst also managing a number of “business unusual” activities to stabilise the business. These included engaging fully with the ongoing investigations and inquiries, along with the development and execution of our business plan.

Whilst we acknowledge the challenges we are facing in the short term and reaffirm our commitment to proactively assisting in inquiries and investigations processes, it is critical that we evolve and align our strategy to continue driving the fundamentals of our business. By focusing on growth, innovation and the future relevance of our business, we are setting ourselves up to be relevant and play our part in the next chapter of the economic growth in South Africa.

KPMG GLOBAL STRATEGY

As a member of the KPMG global network, our vision and strategy is largely guided by the KPMG Global purpose, values, vision, strategy, and our promise which is best summarised as follows:

Our purpose

Inspire Confidence.
Empower Change.

This is why we're here.

Our values

- Lead by example
- Work together
- Respect the individual
- Seek the facts and provide insight
- Communicate openly and honestly
- Committed to our communities
- Act with integrity

This is what we believe in.

Our vision

The Clear Choice:

- Our people are extraordinary
- Our clients see a difference in us
- The public trust us

This is what we want to be.

Our strategy

Globally we will:

- Drive a relentless focus on quality and excellent service
- Take a long-term, sustainable view
- Act as a multi-disciplinary Firm, collaborating seamlessly
- Invest together in our chosen global growth priorities
- Continuously improve quality, consistency and efficiency
- Maintain a passionate focus on our clients
- Deploy globally our highly talented people
- Bring insights and innovative ideas
- Build public trust

This is how we'll get there.

Our promise

With passion and purpose, we work shoulder to shoulder with you, integrating innovative approaches and deep expertise to deliver real results.

This is how we want the world to see us.

KPMG SOUTH AFRICA VISION 2023 AND STRATEGY

Building on the global strategic priorities, our KPMG South Africa "Vision 2023", has been developed to address specifically our current local operating context and imperatives. It is designed to ensure we achieve our four primary objectives:

- Achieve the highest levels of integrity
- Achieve the highest levels of quality
- Become a genuinely transformed South African firm
- Be relevant to our market by delivering dynamic solutions as a fully integrated and agile, multi-disciplinary firm

In order to achieve these objectives, and taking into consideration the feedback from engaging with our stakeholders, we have established the following set of guiding principles for our "Vision 2023":

Guiding Principles

- 1 Driven by highest quality and professional standards
- 2 Ongoing conduct of partners and staff that demonstrates our commitment to ethics and integrity
- 3 Manage infrastructure of the firm so that it is controllable, sustainable and realistic
- 4 Focus on engagements and associations that are consistent with our core brand and values
- 5 Focus on services and engagements that the firm is capable and competent to deliver
- 6 Manage and operate within the boundaries of market permission
- 7 Provide a foundation for transformation
- 8 Provide a foundation for growth in the future
- 9 During transition, treat our clients and people in the way that we would like to be treated

Central to our "Vision 2023" is our decision to choose "quality", "integrity" and "transformation" as our fundamental pillars. We have committed that everything we do as KPMG South Africa will be evaluated in terms of how it serves these three qualities and the public interest. We acknowledge that this choice will require reaffirming our culture and the conduct of partners. Furthermore, we recognise the need to deliver world class, "dynamic solutions" to our clients that are responsive to their needs and expectations as a fully integrated and agile, multi-disciplinary firm.

Alongside our values, the key to achieving our strategic objectives is that we need to rebuild KPMG South Africa as a manageable, controllable, sustainable and realistically sized business, relative to current levels of demand for our services, that will form a solid foundation for future growth.

"Vision 2023" acknowledged that this refocusing process requires a reshaping of the firm to a leaner, yet stronger and more focused business. Unfortunately, this has necessitated closing our smaller regional offices, refocusing our advisory business, scaling down our internal business support and, in turn, the reduction of up to 400 of our employees. We will treat all clients and colleagues affected by the decisions with appropriate respect and consideration.

Our purpose and vision have been aligned to our local context and imperatives as set out below. Our "Vision 2023" objectives have been aligned to four strategic focus areas or "pillars". Our global values underpin everything we do and remain consistent and steadfast.

VISION 2023



Trading Conditions, Outlook and Next Steps

The firm aspires to set new standards for ourselves and for the profession, and is committed to the series of actions and reforms as set out in this report to ensure it improves continually. KPMG South Africa is also committed to working with our regulators and all current inquiries and we are equally committed to embracing any further actions that might result from these inquiries and processes.

The support shown by clients, our people and members of the public in understanding our commitment to change, has provided us with the impetus to continue to engage with all of our stakeholders and provide regular updates of our progress as we work to restore public trust in us.

Through these conversations, the firm has also drawn strength and resolve from the overall willingness of people to engage with us and the richness of the feedback and advice we have received.

CLIENT RETENTION

In the current environment, we have been very encouraged by the fact that the majority of shareholders' meetings to date, where the firm's audit mandate was coming up for renewal, have continued to vote to retain the firm after these clients have engaged with the firm and formally evaluated the significant changes and safeguards the firm has put in place following recent events.

KPMG South Africa is also pleased to see that the firm continues to secure work in a variety of services, where its skills and credentials, together with an open conversation about what it is doing to transform the firm, allow clients to select it for their projects. Following a strategic review of our activities and taking

into consideration current levels of demand for our services, we announced a reshaping of the firm's activities on 4 June 2018. Regrettably, this means that we have had to part ways with some of our loyal clients. We trust that they recognise this has been a difficult decision and that they understand the rationale behind it.

Our audit and tax practices will remain substantially similar in size to levels prior to the reshaping. Our advisory practice will be refocused and will continue to offer a wide range of services that our global, regional and local clients require. Paramount to the plan is that the proposed new business structure will enable KPMG South Africa to continue providing quality service to its major clients and to focus on its core business going forward and to bring more fully the capabilities of the global firm to bear for our local clients.

KPMG South Africa will remain a business of significant scale with more than 130 partners and 2,200 employees, supported by the breadth and depth of skills and experience of the international network of KPMG, which comprises more than 200,000 people. It will continue to offer a wide range of the core services that our global, regional and local clients require.

TALENT RETENTION

Whilst the firm has maintained a dedicated and committed team over what has been a significant period of uncertainty for the firm, it is nevertheless the case that we have lost a number of key partners and staff who have chosen to pursue their careers elsewhere. In addition, in June 2018 we announced our decision to reshape our business and this will regrettably result in up to 400 of

Trading Conditions, Outlook and Next Steps

our partners and staff leaving the KPMG South Africa network. As we planned our reshape we were able to rely on significant support from the network and many of our people have continued to pursue their careers internationally with KPMG firms abroad. Over time we intend to continue to leverage our global network in order to strengthen our own capability on the ground by seconding in and transferring specialist skills from other member firms as required.

During the business reshape we have also worked collaboratively with SAICA to support the ongoing education of our trainees who were impacted by the reshape.

As we look to the future it is critical that we continue to engage and motivate our people and re-establish KPMG South Africa in their minds as a great place for them to build their career. This is a key priority for us.

We continue to engage with universities and other sources of talent, including schools, to ensure that these institutions and students understand what we are doing to implement meaningful changes and be the sort of organisation that they want to be a part of.

Another key priority is to ensure we have teams that truly reflect our society. The extent to which we are transformed has been maintained following the exercise to reshape our firm but as we move forward we want to take action that will accelerate the transformation of our firm.

KPMG INTERNATIONAL COMMITMENT TO SOUTH AFRICA

As a member of a global network present in over 150 countries and with more than 200,000 professionals, KPMG South Africa benefits from the substantial international investments in quality, sector insights, technology and expertise made by the network.

The firm has capitalised on the respective expertise of the large team of global leaders who have been working in South Africa since August 2017. Their

support and advice has enabled the firm to make decisions and implement reforms faster. KPMG South Africa is an important part of the KPMG global network and in our 4 June 2018 statement, KPMG International announced that it will continue to provide support to the South African firm with the embedding of experienced leaders from the global network in Board, Executive Committee and client service roles.

The lessons learnt from the recent experiences of the South African firm are also being reflected upon by the Global Board of KPMG International. KPMG International has approved changes to certain risk management processes which have been adopted across the global network and further changes are being considered.

STATUS OF CURRENT INQUIRIES

KPMG South Africa expects the highest standards of professionalism and integrity from its partners and staff, with a minimum baseline compliance with the law, applicable codes of conduct and other professional standards. We take these matters extremely seriously. We are fully committed to cooperating with each inquiry which concerns work performed by KPMG South Africa.

IRBA inquiry

As detailed above, KPMG South Africa has undertaken far-reaching reforms. We have been in dialogue with the IRBA throughout this period, and we welcome their recent announcement of a review of the adequacy of the remedial actions we have committed to, in line with their continuous process to monitor improvements to the operations of the firm.

Separately, the IRBA continues to investigate matters related to work performed by the firm in respect of the Guptas and SARS Report and has recently commenced an investigation into work performed for VBS Mutual Bank. We will continue to co-operate and assist with and await the outcome of those

investigations. The IRBA has said it is in everyone's interest to conclude investigations and hearings as quickly as possible.

Ntsebeza Independent Inquiry

Following the KPMG International investigation, we called for an independent inquiry to seek the full facts, including information which may not have been available to us at the time of the KPMG International investigation. The Ntsebeza Inquiry convened on 2 November 2017 and requested submissions from the public in respect of any misconduct by KPMG South Africa chartered accountants during the period January 2013 to September 2017.

The Inquiry asked the public to make submissions where they had concerns that chartered accountants employed by KPMG South Africa during the period from 1 January 2013 to 15 September 2017, may have breached the Code of Professional Conduct of SAICA. We take comfort from the fact that having cast the net wide, the Inquiry attracted a limited number of submissions; the overwhelming majority of which raised issues with matters that were already known to the firm.

The Inquiry was established in a manner that was completely independent of KPMG South Africa. The Inquiry set its own terms of reference, process and timelines. In line with our commitment to transparency and accountability, the firm attended

the Inquiry and provided evidence in relation to the SARS engagement, work performed for the Guptas, policies concerning client acceptance and continuance and remedial actions taken by the firm. We note the impending completion of the Inquiry and await its findings.

Since the Ntsebeza Inquiry was established, two new inquiries have been initiated: The Commission of Inquiry into Tax Administration and Governance by SARS (lead by former Judge, Robert Nugent), and the Zondo Commission on State Capture. Although it is too early to know exactly how these inquiries will address issues relating to KPMG South Africa, their work could overlap with the scope of the Ntsebeza Inquiry and provide further insight into the relevant matters. We are committed to cooperating with these inquiries.

"We are fully committed to cooperating with each inquiry which concerns work performed by KPMG South Africa."

VBS

In April 2018 we announced the departure of two partners as a result of their failure to comply with the firm's policies and procedures regarding the disclosure of relevant financial and business interests.

We have launched an independent investigation into the work performed by KPMG South Africa for VBS Mutual bank, which is being carried out by the law firm Bowmans.

Since our last public communication on VBS, the curator has withdrawn the financial statements for the financial year ending 2017 on the basis that the financial statements can no longer be relied upon. In addition, the Deputy Governor and CEO of the Prudential Authority of the SARB has appointed Mr Terry Motau SC to investigate matters relating to VBS. We are fully committed to, and have been co-operating with, that investigation which, the Reserve Bank has indicated, will take another two to three months to complete.

In accordance with South African Labour law, the two individuals were given the opportunity to consider the disciplinary charges brought against them and chose to resign. We await the outcome of the investigations and the allegations against the individuals in full, before deciding what further action the firm will take. This includes pursuing all possible legal claims against the VBS audit engagement partner.

KEY NEXT STEPS

Our focus will remain on managing our short-term priorities to stabilise the firm while ensuring that we position the firm for medium and long-term growth.

Short-term priorities include continued:

- Close co-operation and engagement with IRBA and Ntsebeza inquiries, as well as other investigations
- Engagement and communication with all stakeholder groups to build and restore trust
- Complete implementation of all remediation initiatives
- Roll out of our new governance and leadership models, including ethics and culture programmes
- Relentless focus on risk and quality management enhancement programmes
- Completion of our business reshaping programme
- Embedding and implementation of our strategy and business plan in terms of clients, people, transformation and operational efficiency

Medium and long-term priorities that are receiving close attention include: investing for future growth; technological and solution innovation that keeps us relevant to our

markets; regional integration; and transformation of our firm to achieve a position of leadership in the profession in line with our vision.

WHEN WE REPORT AGAIN

KPMG South Africa has committed to reporting publicly to fulfil our commitment to transparency and to enable our stakeholders to assess whether we are remaining accountable and on track.

As we rebuild KPMG South Africa, the International <IR> Framework provides us with a set of guidelines on how best to communicate concisely our business model, strategy, governance, performance and prospects in the context of our external environment and engagement with stakeholders.

We will publish our full integrated report in December, for the year ending 30 September 2018. Our full report will build on this baseline version and provide further insight into our business model, our governance and material matters as well as address our progress against the strategic plans and focus areas outlined in our vision and strategy.

FEEDBACK AND SUGGESTIONS

Your feedback, comments and suggestions are important to us in order to ensure that we are meeting your reporting and disclosure expectations. This is our first formal public report and we welcome your feedback as your suggestions will help us to improve our future reports. Please contact me directly on +27 (0) 11 647 7111 or at mark.hoffman@kpmg.co.za



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*Director, Accounting Advisory Services
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