



# Trustworthy by design

**KPMG South Africa**  
**Annual Integrated Report 2020**



## Our refreshed values

Integrity } We do what is right.

Excellence } We never stop learning and improving.

Courage } We think and act boldly.

Together } We respect each other and draw strengths from our differences.

For Better } We do what matters.



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# About this report

## Making an informed assessment

Our KPMG SA voluntary integrated report is an expression of our commitment to transparency and open engagement with our stakeholders. Our aim is to enhance our stakeholders' understanding of how we have addressed past issues, how we are dealing with current and future challenges and how we are leveraging our resources and relationships to create sustainable value in the short (one year), medium (two to three years) and long (five years) term. We trust that our report will enable you to make knowledgeable and confident decisions when it comes to your working relationship with us.

## Providing a comprehensive overview

Information presented in this report is supplemented by our audit quality transparency report. Both reports are available on our website. You can also email KPMG SA's Head of Communications in the office of the CEO, Dudu Ndlovu on [dudu.ndlovu@kpmg.co.za](mailto:dudu.ndlovu@kpmg.co.za).

| KPMG SA<br>Integrated Report<br>2020   | KPMG SA<br>Transparency Report<br>2020  |
|--|---|
|    |    |
| Concise descriptions of our business model, strategy, governance, performance and prospects in the context of our external environment and engagement with stakeholders. | Detailed descriptions of our systems of audit quality control, independence and risk management policies, audit approach, ethical standards, audit quality indicators and related governance processes. |

## Basis of preparation and presentation

Our reporting process has been guided by the principles and requirements contained in the IIRC's <IR> Framework, the King Code on Corporate Governance 2016 (King IVTM) and the South African Companies Act, No. 71 of 2008. We have established an Integrated Report Steering Committee and working group to ensure that the presentation of information is complete, balanced, accurate and clear. The Committee, which has developed processes and work plans to establish a robust <IR> process with appropriate controls and oversight, reports to our Executive Committee. The process is overseen by the Combined Assurance & Reporting Committee and reviewed and approved by the Policy Board.

## Approval process and materiality

The Policy Board is ultimately responsible for overseeing the integrity of this integrated report. In the board's opinion, this report provides a fair and balanced account of the firm's performance on those material matters that we have assessed as having a bearing on our capacity to create, sustain or erode value for all our stakeholders in the short, medium or long term.

We have assessed issues, risks and opportunities that significantly impact value creation not just for our ourselves and our clients, but also for the public interest and the communities in which we operate. This reflects our core purpose to contribute to a trusted society by inspiring confidence and empowering change in our country as well as the countries in which our member firms operate.

**Note:** The Policy Board approved the 2020 KPMG SA integrated report on 6 April 2021.

## References to KPMG

Throughout this report, whenever we refer to 'KPMG South Africa', 'KPMG SA' and 'the firm', we refer to the firm in South Africa. The term 'KPMG Southern Africa' relates to the independent member firms operating in Southern Africa, while 'KPMG International' (KPMGI) refers to KPMG International Limited, a private English company limited by guarantee with which all KPMG member firms are associated. KPMGI does not provide services to clients. 'KPMG Global' refers to the global organisation of member firms of KPMG International Limited ('KPMG International'), each of which is a separate legal entity.

KPMG is a global organisation of professional services firms providing Audit, Tax and Advisory services.

KPMG is the brand under which the KPMG member firms operate and provide professional services. In this report, the terms 'KPMG' and 'KPMG firms' are used to refer to one or more of the member firms of KPMGI, each of which is a separate legal entity. No member firm has any authority to obligate or bind KPMGI or any other member firm vis-à-vis third parties, nor does KPMGI have any such authority to obligate or bind any member firm.

## Scope and boundary

This report covers KPMG SA's operations (see page 4 for details of where we operate). It reviews our strategy and business model, together with the most material risks and opportunities and outcomes faced by our business. It also covers our operational and governance performance for the financial year from 1 October 2019 to 30 September 2020. To enhance the reader's overview of our performance, where relevant we have included significant matters that arose after year-end.

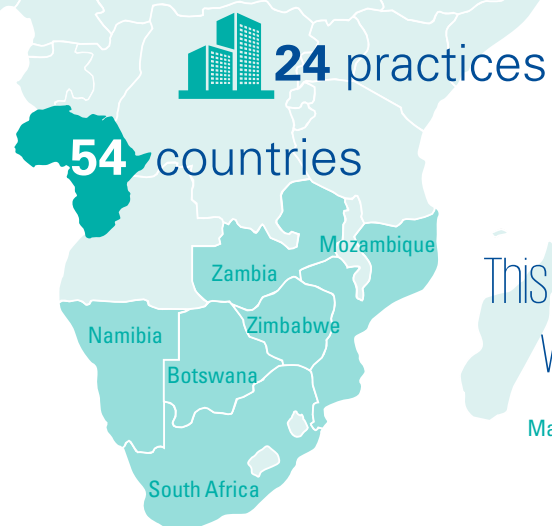
# About KPMG SA:

## Serving the South African market for over 125 years

Headquartered in Parktown Gauteng, **KPMG South Africa** has collectively **125 partners** and **1 941 professionals** servicing several industries across our country's nine provinces. We operate from four offices across **Johannesburg, Cape Town, Durban** and **Port Elizabeth**.

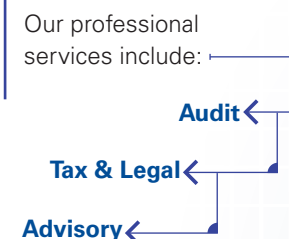


KPMG is well represented in Southern Africa. With **South Africa** as the largest and anchor practice of the region, we have a presence in most of the neighbouring countries where we regionally service the needs of our local and global clients. This includes our offices in **Namibia, Zimbabwe, Botswana, Zambia, Mauritius** and **Mozambique**. We have an impressive African footprint of **24 practices** servicing **54 countries**.



**KPMG South Africa** is supported by an international KPMG organisation that comprises more than **227 000 people** and KPMG firms operate in **146 countries** and territories serving the needs of business, governments, public-sector agencies, not-for-profits and through KPMG firms' audit and assurance practices, the capital markets. KPMG is committed to quality and service excellence in all that we do, bringing our best to clients and earning the public's trust through our actions and behaviours both professionally and personally.

This is what we offer



# Executive overview of the year

At the time of releasing our FY19 Integrated Report, concepts such as 'lockdown', 'compulsory masks' and 'social distancing' were unknown to most of us. They now form part of our everyday vocabulary. These terms further emphasise the extent in which COVID-19 has impacted our lives. We are also reminded of those that have suffered as a result of the pervasive impact of the pandemic and stand in solidarity with the people of South Africa as we continue to work through these challenges.

We remain resilient in navigating the 'New Reality' by putting safety first, but also focussing on quality delivery to ensure that we continue to provide the market with services and solutions that will make KPMG SA the most trusted and trustworthy professional services firm in South Africa.

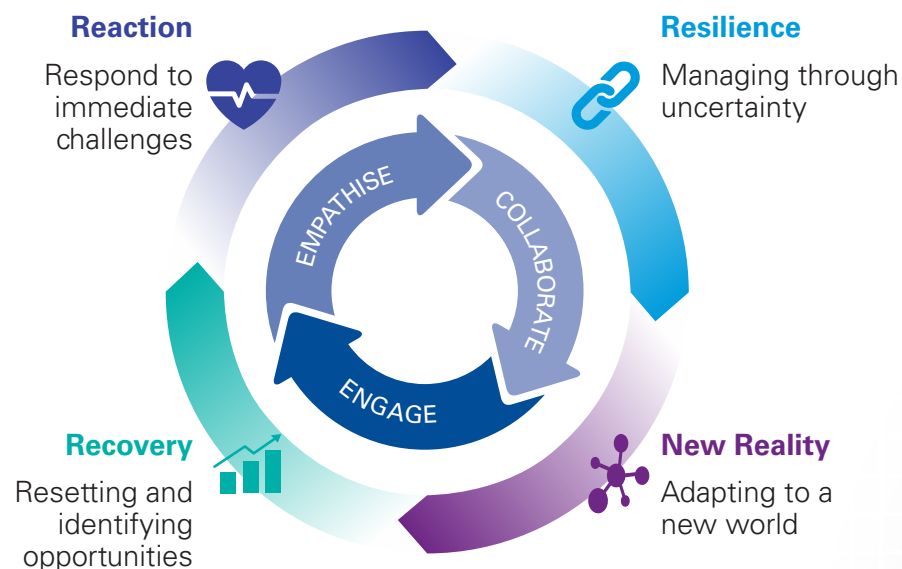
Despite the challenges above we continued relentlessly on our journey to restore KPMG SA to set the standard for serving the public interest.

## For Better – in a crisis

KPMG SA quickly reacted to the pandemic and associated developments. These included moving swiftly to establish a COVID Crisis Committee. Our aim was to respond to the challenges experienced by all our stakeholders and to align with one of our core values – 'For Better'. This value is based on doing what matters by serving and strengthening our markets and communities, making the firm better for future generations and making a positive impact on society.

As our clients grappled with the demands and uncertainty triggered by COVID-19, our firm responded rapidly to a situation which was unprecedented. Our account teams, functions, sectors and regions all took action to support our clients and our people through four defined phases: Reaction, Resilience, Recovery, New Reality.

The four phases were defined so that everyone would understand the natural progressions required in the crisis:





We held more than 40 webinars attracting more than 12 500 business leaders participants to discuss matters of government support, business continuity, business optimisation, future impact scenarios and modelling the interrelated risks impacting on business in South Africa.

We specifically translated our “For Better” value into action with senior professionals from across the firm providing R5,7m of *pro-bono* hours as part of a comprehensive COVID-19 response by business.

As indicated by the World Bank, COVID-19 posed a serious threat to “development divides”, including gender. The pandemic played a significant role in reversing women’s and girls’ decades-long gains in human capital, economic

empowerment, as well as voice and agency. Against this backdrop, we provided external and internal support for gender-based violence. KPMG SA actively participated in ‘Courageous Conversations’ an event involving KPMG firms from across the global organisation launched in response to the Black Lives Matter movement. We also contributed R29.2 million to the development of our communities.

### Maintaining focus – despite a crises

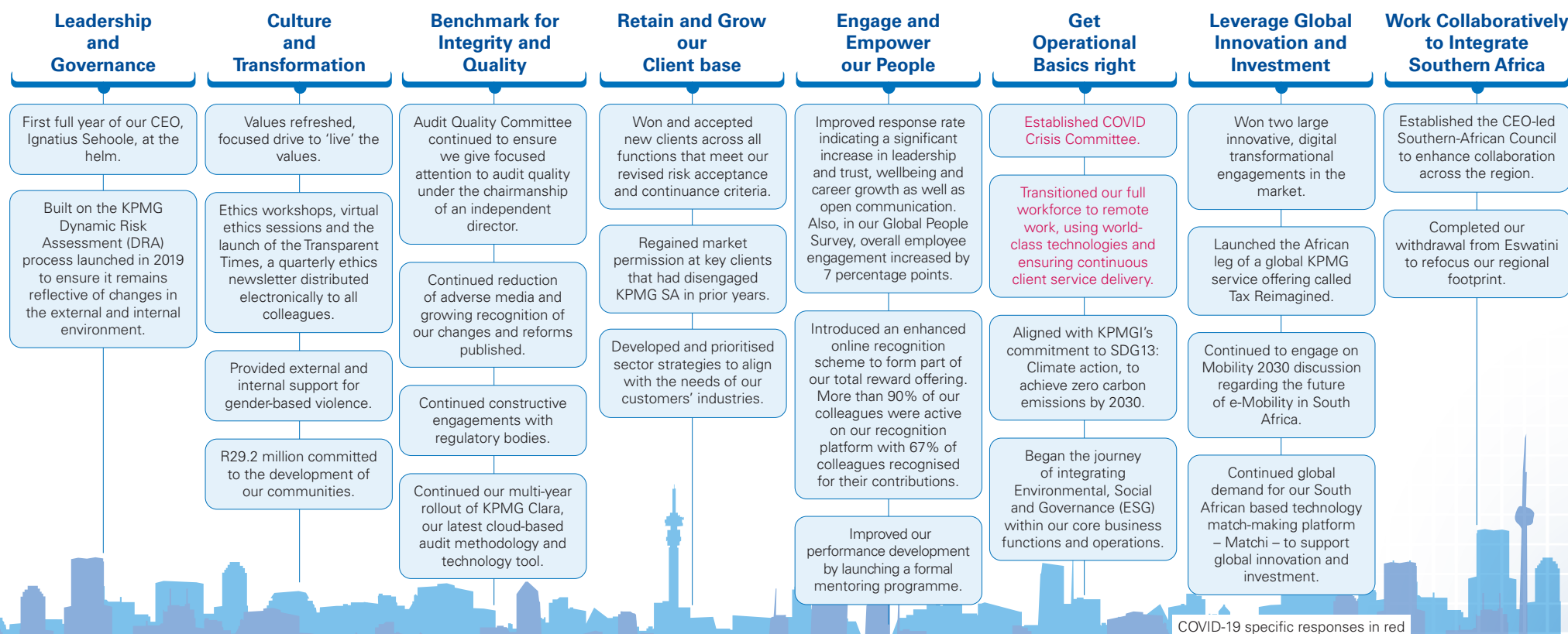
We are proud of the manner in which our people transitioned seamlessly into remote working. Our IT teams enabled all of our colleagues to move to remote working as lockdown was announced. Our People teams deployed and launched digital learning solutions to all our stakeholders in

an unprecedented manner. In response to the pandemic, we launched the first virtual Partner Assessment Centre for the KPMG African region member firms which meant a new way of working, meeting and interacting.

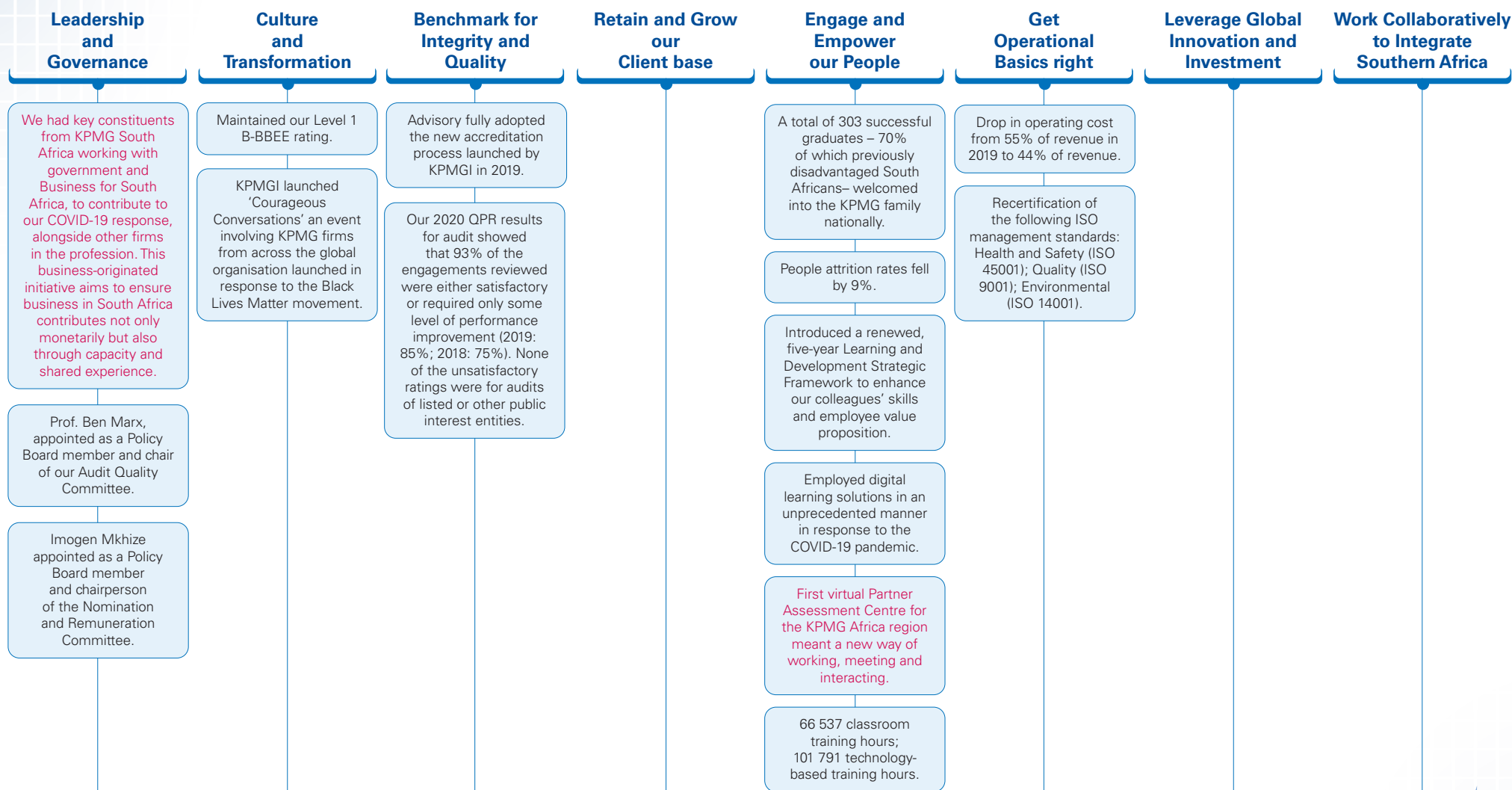
Critical to our plans for 2020 was the launch of KPMG’s refreshed values, as defined in the inside cover of this report. Living the values became central to this board – sponsored programme and our daily decisions and actions represent KPMG’s values, ultimately shaping our culture.

We have maintained focus on our ambition of being the most trusted and trustworthy professional services firm.

Further highlights per strategic response pillar are as follows:







COVID-19 specific responses in red

## Governance and ethics

We continue our emphasis on enhancing our governance and ethics. We expanded the role of Independent Non-Executive members on our Policy Board with the appointment of two more Independent members being Prof. Ben Marx and Ms Imogen Mkhize. The Audit Quality Committee, Combined Assurance and Reporting Committee and Nomination and Remuneration Committee is now formally under the chairmanships of an Independent member.

The values programme referred to above, has been reinforced by ethics workshops, virtual ethics sessions and the launch of the Transparent Times, a quarterly ethics newsletter distributed electronically to all colleagues.

As the Chairman of the board handed over the reigns to Ignatius Sehoole as Chief Executive Officer during 2019, Ignatius had a full year in office to deliver on our strategy. Setting the tone from the top, values and ethics, not only whilst at work, but also in everything our people do, has become a regular mantra. All of this in pursuing our ambition, but always ensuring that public interest is honoured.

## People

Our annual Global People Survey (GPS) serves as an yardstick to assess the involvement and willingness of our People to contribute to the success of our firm. We are proud to acknowledge an improved response rate to our GPS, with overall employee engagement increasing by 7 percentage points. People attrition rates reduced by 9% although the COVID-19 pandemic contributed materially to this. Other areas of improvement are leadership and trust, well-being and career growth and open communication.

Our 2020 survey provides a baseline towards measuring our progress and with an increases participation rate of 87% (FY19: 80%) and improved engagement rate of 83% (FY19: 76%) we compare well with peer group

averages locally and internationally.

To enhance our total reward offering, we introduced a revised online recognition scheme. More than 90% of our colleagues were active on our recognition platform with 67% of colleagues recognised for their contributions. We also improved our performance development processes by launching a formal mentoring programme and by introducing a renewed, five-year Learning and Development Strategic Framework to enhance our colleagues' skills and employee value proposition.

In line with our emphasis on diversity, 70% of the total of 303 successful graduates we welcomed into the KPMG family nationally were previously disadvantaged South Africans.

## Market impact

The market was significantly challenged by the impact of the crises, with specific sectors growing whilst other sectors were terminally impacted.

Our work to rebuild trust gained momentum as we regained market permission with key clients that had disengaged KPMG SA in previous years and won two large innovative, digital transformational engagements.

We won and accepted new clients across all functions that meet our revised risk acceptance and continuance criteria.

Climate is yet another global challenge that is widening development divides. We have responded to this by aligning with KPMG's commitment to SDG13: *Climate action*, to achieve zero carbon emissions by 2030. We have also begun the journey of integrating Environmental, Social and Governance (ESG) within our core business functions and operations.

## Legacy issues – looking back

Over the past few years, we have been working extensively with regulatory bodies in a spirit of openness, transparency and humility to constructively resolve legacy issues. We have progressed and closed various matters but the work remains ongoing and is more fully disclosed in the full report.

The success of our engagements is underscored by the ongoing reduction of adverse media and growing recognition of our changes and the reforms we have published.

## Summing up

COVID-19 continues to send shock waves across our home and work lives, our economy and our country. To allay these, we remain resilient as a business and continue to work as a long-term partner to our clients. We continue to support our people, our communities and our country.

As we work together to help our stakeholders shape a sustainable recovery, we will continue to work relentlessly to achieve our ambition of becoming the most trusted and trustworthy professional services firm in the country in the public interest.

## Post year-end events/guidance

Subsequent to the reporting period covered by this report, some market announcements have been made. Details of these announcements are not included in the formal Integrated Report, unless relating to a historic matter.

- 1 Non-audit services policy announcements.\*
- 2 ABASA Business Forum small black-owned practice development announcement.\*

\* see <https://home.kpmg/za/en/home/media/press-releases.html> for more information

# Message from our Chairperson



“I am delighted to be able to state categorically that our journey to refresh and renew the soul of KPMG SA is well under

way. We have made significant progress in serving not just our clients, but the public interest, thereby positively impacting on society and the public good. This, our third integrated report, indicates how we are working to achieve our ambition of being the most trusted and trustworthy professional services firm.”

## Restoring public trust

The Zondo Commission of Inquiry into State Capture highlighted disturbing breaches by the accounting profession. Once again, these revelations demonstrate why, as a profession, we cannot afford to be complacent and why we must continue to emphasise unquestionable integrity and the highest possible level of audit quality.

I cannot overemphasise how important it is for market stability that the public should be able to have absolute confidence in the financial information presented by businesses. KPMG SA continues to be deeply concerned about, and respond faithfully to, public concerns about audit quality as well as pioneer the change we want to see in the audit profession.

To help achieve this, we continue to participate with members of the industry under the auspices of the South African Auditing Profession Trust Initiative (SAAPTII) with a primary objective of formulating proactive responses to concerns about trust. The process has produced recommendations ranging from governance and ethics to continuing professional development, all with the overarching aim of ensuring improved audit quality in line with the public interest mandate.

The firm has also been actively involved in the South African Institute of Chartered Accountants’ (SAICA’s) discussions and processes related to building further trust in the profession. We welcome the revision of the Institute’s governance structure to include non-CAs on the board, as well as the revision of procedures to ensure it acts quickly when there are reports of unethical conduct by its members.

I recognise that public concerns about the profession will continue for some time, but the steps we as an organisation and a profession have taken should go a long way to reassure the public about integrity and accountability.

Equally important is our duty to serve the public interest. This has become much more embedded in our culture

and resonates with our ambition to become the most trusted and trustworthy firm in the country.

The process of serving the public interest begins internally. Accordingly, we have become much more focused in terms of communicating ethics issues to raise internal awareness of the importance of this topic.

Within the firm, there is now greater alignment with King IV™, as discussed on page 23. We have also taken steps to ensure we remain aligned to governance standards through investing significantly in the continuous enhancement of quality across the business.

## Ensuring audit quality

We have continued to implement faithfully the reforms we reported on last year. Actions taken include increasing oversight governance through the appointment of additional independent directors. The establishment of the Audit Quality Control Committee last year continues to ensure we give focused attention to audit quality under the chairmanship of an independent member. Our appointment of an independent non-executive member to chair the Nomination and Remuneration Committee has thoroughly enhanced our oversight and is an important milestone on our culture transformation journey. So too, is our future commitment to reward achievements based not only on revenue and client service, but also on behaviour, values and adherence to quality.

We are proud to record, that for the second year running, the firm showed significant improvements in audit quality reviews, as discussed on page 77. These are conducted by experienced partners from outside South Africa who assess quality and adherence to global auditing standards as well as KPMG’s audit methodology and standards. The fact that we were able to sustain these improvements even during the pandemic is noteworthy and highlights the effectiveness of the Audit Quality Control Committee and the controls we have applied. The firm has continued with another

layer of reviews – known internally as ‘second line of defence’ reviews which have improved the quality. The sustained improvement in audit quality is being reflected in client wins.

### Working with the regulators

We have cooperated extensively with all the inquiries related to legacy issues. Our Chief Executive Officer (CEO), Ignatius Sehoole, has continued to work on restoring trust with the regulators, particularly the Johannesburg Stock Exchange (JSE), the South African Reserve Bank (SARB) and the Independent Regulatory Board for Auditors (IRBA). This transparency and cooperation have helped us to resolve issues that have been under review for some time.

Among these is the Gupta matter. As previously reported, the IRBA concluded its investigation into the ‘Gupta entities’ audit engagements as they relate to KPMG SA. The regulator’s review of certain engagements performed involving one practitioner is still in progress.

In terms of issues related to VBS Mutual Bank, we continue to cooperate with the Hawks. The ex-KPMG partner who was engaged with the relevant audit has been charged, the matter is now before the courts and we trust will be addressed accordingly.

We understand that the IRBA investigations into the former KPMG SA director and lead partner who prepared the SARS report is ongoing.

### Responding to COVID-19

In the second quarter of the last financial year, the COVID-19 crisis hit our economy hard. Many of our priorities changed overnight. Safeguarding our people, physically and mentally, while looking after the best interests of our clients, became our most important priority.

I want to thank the executives and leadership of the firm for the exemplary manner in which they responded to the crisis, implementing protocols to ensure the safety of our people and our clients, as well as establishing processes that enabled efficient remote working. The crisis was also an opportunity to stand shoulder-to-shoulder with our clients and co-create solutions for change, resilience and recovery. Our partners stepped forward to volunteer their time to the Business for South Africa initiative and worked with businesses and government to develop a national dynamic risk assessment model (DRA) to guide plans and interventions for a united response.

In line with KPMG’s values ‘Together’ and ‘For Better’, these actions speak to KPMG SA’s renewed soul – being a firm that has reimagined the future of what good corporate governance for an audit firm should be as well as one that serves as an active agent when advocating for such a change.

“In line with KPMG’s values ‘Together’ and ‘For Better’ these actions speak to KPMG SA’s renewed soul – being a firm that has reimagined the future of what good corporate governance for an audit firm should be as well as one that serves as an active agent when advocating for such a change.”

### Aligning with the United Nations Sustainable Development Goals

Before the pandemic, KPMGI was very involved in Environmental, Social and Governance (ESG) matters and had been in discussions with the World Economic Forum (WEF) to drive progress on the United Nations (UN) Sustainable Development Goals (SDGs).

This work has been made more relevant and urgent by the COVID-19 crisis, particularly given that South Africa is a developing country characterised by high levels of poverty and inequality. In terms of infrastructure and resources – financial and otherwise – we are not as well-resourced to deal with the pandemic and associated fall-out as developed countries. However, as a professional services company, we have valuable knowledge and capacity which give us an additional responsibility to advance the public good. We also have a shared responsibility to impact on the practices of our clients so that they too, contribute to building a better world.

As detailed throughout this report, we have prioritised certain SDGs, all of which are interlinked. Climate risk and net zero have become defining business issues and South Africa has already been adversely impacted by climate change. Against this backdrop, as KPMG SA, we welcome KPMGI’s commitment to SDG13: *Climate action*, evidenced by our global drive to help develop transformative solutions to climate change and to achieve zero carbon emissions by 2030 within our own operations. Our work to restore public trust highlights our belief in the centrality of public interest and is related to SDG16: *Peace, justice and strong institutions* and this in turn underpins all the SDGs.

We are committed to being part of the solution in rebuilding trust in our brand, our profession and our country.



## A continuing journey of renewal

The role of non-executive members is to provide guidance and oversight, with the role of embedding real change falling to the CEO and leadership team. I commend Ignatius Sehoole and his team for promoting openness and diversity in a manner which has entrenched our purpose and has also helped to strengthen the resilience of our culture.

In rebuilding the firm and earning back trust through our actions, we realised that if we want to be more trusted, there had to be trust inside KPMG first. In other words, we had to build trust within the organisation before we could achieve this on the outside. There had to be trust between partners and trust between all levels of the organisation. Most importantly, there had to be a sense of pride in our purpose and the impact of our work on the greater public good. By insisting that our people stand their moral ground when things are not right and by championing the centrality of public interest, they are embedding real, positive change throughout our organisation.

This has positioned us well to accelerate our journey of renewal as we rebuild trust in our brand. The culture of KPMG SA is evolving to become a leading firm of the future – a firm that is characterised and regarded for its ethical conduct, audit quality and the manner in which it serves the public good, a firm that is the most trusted and trustworthy.

## Acknowledging our stakeholders

On behalf of KPMG SA, I would like to extend my thanks to all our various stakeholders including our clients, who remained loyal during the crises of the past, as well as those who have come back to us. Their support has enabled us to continue as a viable operation. Thanks are also due to our Colleagues and Partners who continued to trust in the firm and our future. To those who have recently joined us, I am confident that your belief in us will be upheld as we move forward.



**Prof. Wiseman Nkuhlu**

Chairperson  
KPMG SA

# Message from our CEO



“I am honoured to present this message after my first full year in the role as KPMG SA’s CEO. I have also been delighted

by the response to KPMG’s refreshed values, both internally and externally. Our colleagues have embraced them, championed them and are actively working to make them a reality, even in the challenging context of COVID-19. Throughout the organisation, colleagues are standing up, saying what they need to and most importantly, holding one another accountable.”

## Pulling together

At KPMG SA, the COVID-19 crisis called upon our deepest sense of purpose to inspire confidence and empower change. Working from home demanded that we go digital to unprecedented levels.

I am very proud of how responsibly our people reacted to the new normal and adhered to the motto ‘safety first!’. We provided personal protective equipment and set up virtual sessions to support our colleagues, urging them to work from home wherever possible. We also made it very clear that no one should be doing anything they were not comfortable with. This included not going to clients’ sites where their safety was compromised.

Heightened motivation and commitment towards the firm were reflected in our Global People Survey (GPS). The results were a significant improvement over 2019, with the response rate improving from 80% to 87%. Partner and employee engagement also improved to 89% and 81% respectively (2019: 86% and 76% comparatively). This despite the additional and profound challenges related to COVID-19.

At the start of the pandemic we took a decision to protect jobs, with all partners taking salary cuts. Nevertheless, as described on page 28, regrettably there have been some retrenchments. Until the economy recovers, many of our people will continue to be worried about job security. Timing of when activities will return to normal, or a new normal, remains uncertain. However, we are confident that our business is well positioned, resilient and focused to continue to provide our people with employment security.

I am proud of, and inspired by, the resilience of businesses, entrepreneurs, our government employees, our health sector and of course our own amazing Colleagues. We did it, together!

During this crises, the relevance of our refreshed values of ‘Integrity, Excellence, Courage, ‘Together’ and ‘For Better’ truly showed the paramount significance of these values to the firm – because this is exactly how it felt.

## Regaining our market permission

In FY20, we were especially proud to see some market share gains, resulting from the reforms and changes we have implemented in the past. This is evident in the number of significant new clients gained.

These recent wins are a leading indicator that we are regaining trust in the market. Clients believe in our renewal journey, they have confidence in us and they are happy to start working with us. These wins are an endorsement that we are on the right track and an indication that if we continue on this track, we will be laying strong foundations for becoming the most trusted and trustworthy professional services firm.

Our high level of client support – evidenced not just in new clients but also in the many clients who have continued to remain loyal to us – was vindicated by our recent reviews by KPMGI which showed a marked increase in satisfactory audit quality outcomes. Trust without verification is risky. However, the reviews demonstrated that our intensive focus on audit quality is bearing fruit, that the partners and teams are taking the issue very seriously and that they are applying it to engagements.

These developments also give our efforts even further momentum to relentlessly push forward as it is our public duty and heartfelt purpose to deliver assurance: for the world of today, but also for the economy of tomorrow, for new sectors, through new technologies, for new emerging issues of public debate, and with the generation of tomorrow.



## Internalising KPMG's values

KPMG's values are intertwined with quality. This means that we cannot achieve the level of quality we are aiming for without absolute buy-in from our people to these values. We are creating a culture in which the people who choose to join and stay with KPMG are those who internalise our values and ambition until they become second nature. We see this philosophy evidenced in, for example, the number and quality of graduates joining the firm with whom our values resonate. In fact, I am delighted to report that KPMG SA was voted as one of the country's Top 10 Most Attractive Employers for 2019 in a survey compiled by research house Universum Global, which canvassed 45 000 students and 20 000 professionals in South Africa.

World leaders have talked extensively about the "Great Reset" which aims to rebuild society and the economy in a more sustainable way. We have focused on resetting ethics at KPMG SA to the extent that it has become a lifestyle, rather than a choice. This is because our ambition of working towards being the most trusted and trustworthy firm is a long-term goal to ensure our sustainability as a business. Ethics does not just apply when we are sitting in front of clients. It permeates our lives. There is no separation between KPMG SA and our colleagues, or between our work and our home lives. We expect our people to live with integrity and be beyond reproach in everything they do.

The Ethics Office has worked hard to heighten the understanding and application of our ethical standards. They have achieved this through ethics workshops, virtual ethics sessions held on Global Ethics Day and the launch of the Transparent Times, a quarterly ethics newsletter distributed electronically to all colleagues.

## Leveraging the power of digital

The volumes of transactions businesses undertake every day are enormously complex. Our focus on audit quality is facilitated by KPMG's smart digital audit platform – KPMG Clara and through our use of artificial intelligence (AI). We leverage the power of these digital tools to help us look through the volumes of transactions and pinpoint anomalies. This in turn helps to manage risk, as well as enhance audit quality and our value to the client and society. We made progress in rolling out both our Celonis process mining solution and KPMG Clara, deploying the latter and hosting five digital workshops to promote understanding.

Through KPMG Clara, we are integrating a new workflow and enhanced methodology together with powerful, web-based and cloud-enabled technology to enhance the audit process and enable real-time engagement monitoring. With the increased reliance on a virtual environment, KPMG Clara is a key component of KPMG's technology enablement for the companies we audit and central to KPMG's efforts to enhance quality and consistency across the global organisation.

**"Our commitment is to action our market-leading changes to continue to regain and build the public's trust in us. Trust is key."**

**Ignatius Schoole**

## Walking the talk

Within the context of living with integrity and the pressures precipitated by the COVID-19 pandemic, as well as our aim to promote public good, in the past year we focused on gender-based violence (GBV). This remains one of South Africa's biggest social ills with President Cyril Ramaphosa referring to it as a "national crisis".

In support of ending this scourge, we provided support to Tswaranang Legacy Advocacy Centre (TLAC) for the provision of legal support to victims and survivors of GBV. In terms of internal initiatives, we also partnered with Sonke Gender Justice (Sonke) a South African-based non-partisan, non-profit organisation working throughout Africa to promote healthy gender relationships. Sonke held education and awareness sessions aimed at bringing this issue out into the open. Our position on GBV is clear: While we will provide counselling for our employees and allow for a period of adjustment where necessary, there is no room for GBV in our society or within KPMG and we will not tolerate it.

## Supporting mandatory audit firm rotation and external transformation

The audit profession in South Africa is highly concentrated. This means that while the purpose of mandatory audit firm rotation (MAFR) is laudable in principle, it is difficult to achieve the desired outcomes in practice. Accordingly, we have taken the decision to work with smaller Black owned firms to build their capacity. This approach is helping to drive transformation, dilute the Big Four monopoly and enhance the reputation of the profession. It's also aligned with our belief that we need to deepen and widen transformation, not just internally, but also externally.

## Serving the public interest

I was asked a few months ago by students from various universities what we mean by the term 'public interest' and why we need to serve it? These interesting questions led me to the following conclusion: The Auditing Profession Act (APA) has been put in place by Parliament, giving us the privilege of being auditors. Parliament in turn represents the public. Accordingly, our rights and privileges emanate with the public. We are here because of them and that's why we need to serve them. We need to tell them if things are right as well as when they are not, this in turn builds trust – a vital aspect of our industry.

We invest significant time and energy in building and maintaining a high-performance culture based on common values and an inspiring purpose, because such a culture is key for a professional services firm like KPMG. It plays an important role in the way we challenge ourselves, work together and interact with our environment. It is therefore also a requirement that our clients adhere to these principles and our client acceptance process assesses this.

Our clients understand that their interests should always be aligned with the public interest in the long term. If not, we would enter into frank and open discussions, failing which, we would walk away. To give a more concrete example, if we were considering a potential client who was flouting environmental regulations, unless they agreed to remediate the situation, we would not take them on.

Our first duty to the public interest is becoming second nature at KPMG. This is highlighted by the fact that we have turned down four private and listed companies as clients because they did not meet our acceptance criteria.

A key milestone achievement that speaks to our active role in rebuilding trust and pioneering change in our profession is our intention to cease all non-audit related services to all our listed clients. We will be the first firm in the country to take this voluntary step forward.<sup>1</sup>

We take the public interest approach through to audit engagements. Our vision is that every audit should be of the highest possible quality. It's not about a "tick box approach" or complying with legislation – it's about doing what is right in line with public interest.

Our approach to transformation is similar. As a firm we need to progress transformation to a point that shows we embrace the environment and the communities that we work in and that reflects the demographics of the environment in which we operate. Starting at Partner level, our dialogues on transformation are robust and direct. Talking with courage and integrity, we are finding new issues and also new solutions.

This approach has also informed our non-defensive engagement with the regulators which, as Prof. Nkuhlu has outlined, yielded positive results.

## Paying tribute

In the 18 months since I have been with KPMG SA, I have never ceased to be amazed by the resilience, courage and commitment displayed by all our people. They worked tirelessly to overcome the challenges of COVID-19, enhance quality and regain trust. It is due to such efforts and those of the leadership team, guided and inspired by Prof. Nkuhlu, we are in a much stronger position than we were this time last year. I look forward to the year ahead, confident that we will continue to grow from strength to strength.

## Looking ahead

It is very important to keep on accelerating the rate at which we are regaining public trust from the public sector and civil society. The most effective way of doing so is through the public observing us as we actively own this process. That is why it remains of paramount importance that we remain smart and clear when communicating our objectives and values. It is also why we are determined to continue to lead the industry in this regard.

The COVID-19 crisis may not be over, but I am confident that with the established winning spirit, energy and eagerness to fulfil our purpose, and an unwavering commitment to quality and trustworthiness demonstrated by KPMG, we are set to continue winning even in this new reality.

I want to thank everyone at KPMG SA for their relentless efforts. The 2019/2020 results are a testament to our relevance to our clients and the agility of our organisation. It is encouraging for the coming year, when we are determined to win in the new reality. Our commitment is to action our market-leading changes to continue to regain and build the public's trust in us. Trust is key. Accordingly, all our work is about becoming the most trusted and trustworthy professional services firm. That remains the key focus of the firm, not just for the year ahead, but for the foreseeable future.



**Ignatius Schoole**  
Chief Executive Officer  
KPMG SA

<sup>1</sup> Our new non-audit services policy for JSE-listed audit clients was announced subsequent to year-end, on 15 February 2021.

# Update on our past issues

## Market acceptance

During 2020 the firm worked hard at engaging our stakeholder groups. Initially this was done physically with a continuous engagement process of dialogue, listening and actions to improve and deepen our trust. This process became virtual as the conversations quickly changed to deal with the COVID-19 crisis and specifically, the economic impact of lock-down. Webinars were used extensively to share knowledge, learn together and manage what was and still is an enigma event.

We have been humbled with the trust our clients, old and new, have shown in issuing various mandates to the firm, across our three functions and the broad spread of the services and solutions we offer.

## Outstanding investigation outcomes

Our previous integrated reports provided an update on internal and external inquiries, as well as investigations related to work conducted by KPMG SA for the 'Gupta entities', VBS Mutual Bank and the 2014-15 SARS report. The progress that the firm has made in addressing these past matters is detailed below:

### SARS report

The Nugent Commission of Inquiry into Tax Administration and Governance by SARS covered the problems at SARS and causes thereof in extensive detail. It also made recommendations for appropriate remedies, however made no adverse findings against KPMG SA.

Our leadership, led by our CEO, continues to engage with SARS to restore our relationship with SARS and to rebuild public trust. We are committed to working with the tax authority to close this chapter.

### IRBA investigations

As previously reported, the IRBA concluded its investigation into the 'Gupta entities' audit engagements as they relate to KPMG SA. The regulator's review of certain engagements performed involving one practitioner is still in progress. We understand that the IRBA investigation into the former KPMG SA director and lead partner who prepared the SARS report is ongoing.

In April 2018, KPMG SA announced an additional programme of extensive audit quality file reviews focused on assessing the commitment to quality and professionalism of each audit partner. We shared the findings of our review programme, and related remedial actions with the IRBA to demonstrate our commitment to improving audit quality.

The IRBA investigations department considered the findings from the programme, and after extensive consultation with the firm, concluded its investigation into the programme during January 2021. While it was highly unusual for an audit regulator to seek to impose charges based on the findings resulting from an internal quality performance review process, in the spirit of respect and co-operation that KPMG SA has built with the IRBA under the new leadership of the firm, the firm agreed to working with IRBA and the partners to find a solution to conclude on these matters of the past rather than proceeding through lengthy legal processes which

do not serve the audit profession and the public interest. Consequently, 10 partners currently employed by the firm consented to charges raised by the IRBA which resulted directly from the findings identified during the Programme. The publication by IRBA of the outcomes will be in general terms only.

We are pleased that the investigations into the programme, insofar as it relates to the individual partners, have now been concluded with our regulator. These IRBA consents and sanctions do not impact our ability to continue to provide high quality, professional services to our clients. They relate to past matters and the firm has subsequently implemented significant improvements in audit quality. The firm has also actively assessed both the commitment to quality and the actual quality of the work performed by these partners, in order to ensure that they are delivering on the firm's commitment to audit quality.

Our most recent Audit Quality Report Back was included in our 2020 Transparency Report issued in March 2021. The document provides insight into the quality initiatives and processes in place at the firm. KPMG SA remains proactive in engaging with the regulator and we are committed to closing out the remaining legacy issues.

### **Ntsebeza Commission of Inquiry**

The Ntsebeza Commission of Inquiry was convened by SAICA for alleged breaches of the SAICA code of professional conduct by certain members employed by KPMG SA between January 2013 and September 2017. The commission released its report to SAICA in December 2018, with recommendations on the conduct of individual members who fell within its mandate. This report has not been published by SAICA or shared with KPMG SA.

In October 2019, SAICA provided KPMG SA with formal confirmation that it would not be conducting disciplinary investigations against our firm. Disciplinary action by SAICA against two current employees and two other former colleagues remains in progress.

### **Motau Report (VBS Mutual Bank)**

Various parties, including a former KPMG SA partner, were arrested during June 2020 and are accused of being instrumental in the theft of the bank's resources and its ultimate liquidation. While one of the accused was sentenced to seven years' imprisonment, the trial of the other accused is only set to take place during 2021. The firm has addressed all requests for information received from the Hawks.

One of the recommendations in the Motau Report was the instituting of a claim by the liquidator against KPMG Inc. as the auditor. The firm received a civil summons from the liquidator of VBS Mutual Bank dated 23 February 2021, in respect of the audit performed by KPMG Inc. for the year ended 31 March 2017. The firm is defending the claim and are unable to comment further while the matter is before the court.

### **Zondo Commission**

In December 2018, we volunteered to appear before the Zondo Commission, if required. While we have not yet been requested to appear, we continue to cooperate fully with the Commission and have made numerous submissions of information relating to sum of the matters before it.

### **Continued commitment and cooperation**

KPMG SA is committed to co-operating fully with ongoing inquiries and investigations. While we have already taken extensive steps to address issues concerning the firm, we remain committed to making further changes should these inquiries identify additional matters.



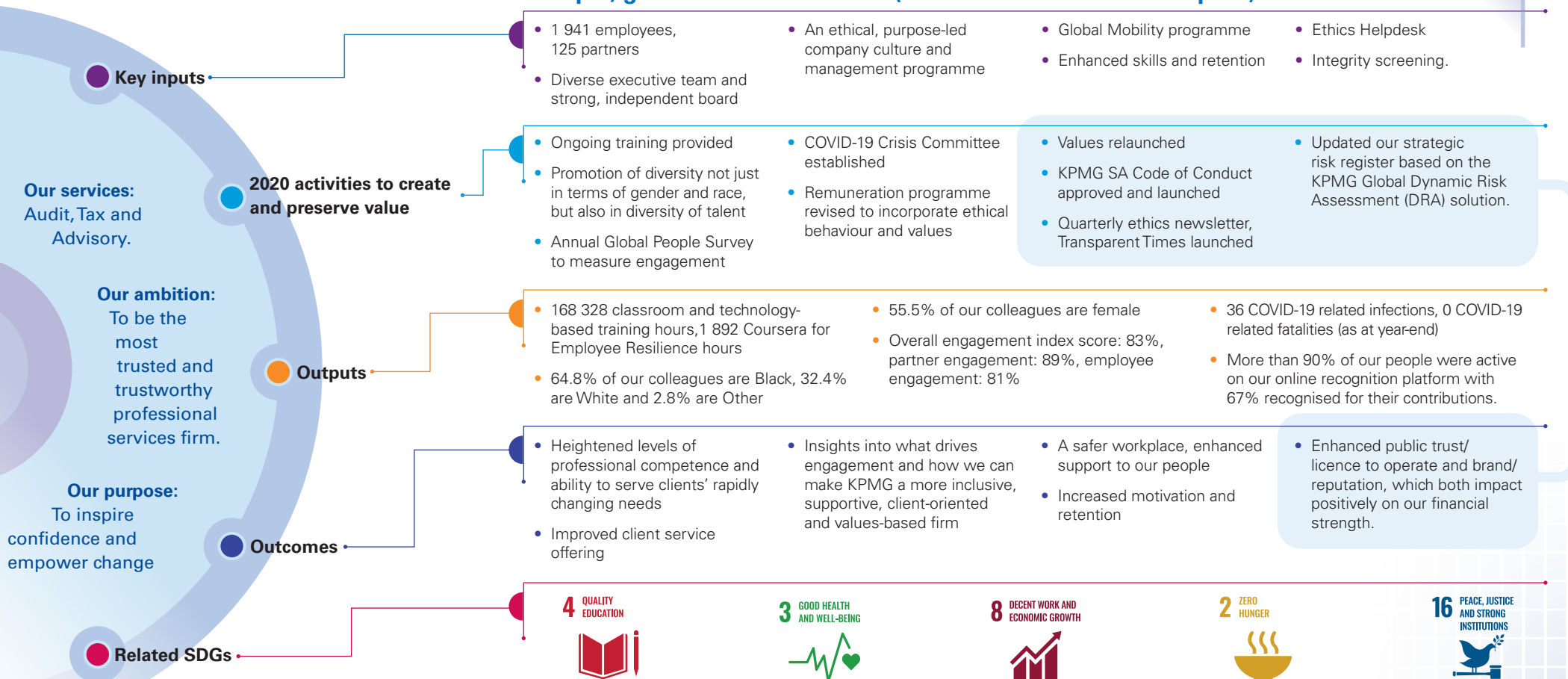
# Overview of KPMG's value creation process

Our business model is designed to develop solutions, insights and perspectives by blending human capabilities, experiences, together with formal and informal training, locally and globally. In doing so, we transform knowledge and understanding of information, industries and business

trends into value for our clients and our people, as well as the capital markets. Our overarching aim is to provide streamlined solutions to complex business issues and enhance trust generally and specifically in capital markets while contributing to the greater public good.

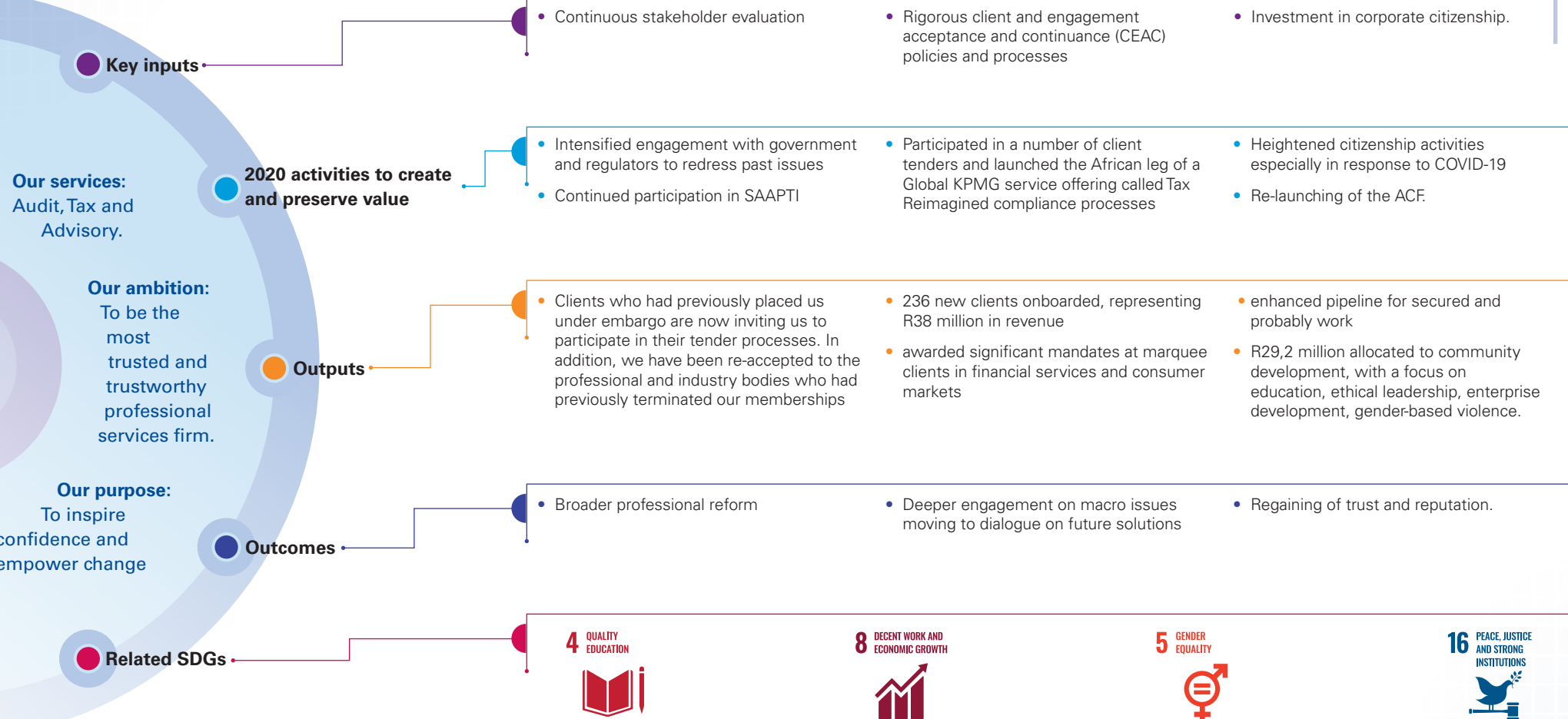
This business model should be read in conjunction with the section on page 43 which outlines our top strategic business risks and opportunities, as well as the table on page 57 provides more specific details on the manner in which we create positive social impact.

## People, governance and culture (Human and intellectual capital)

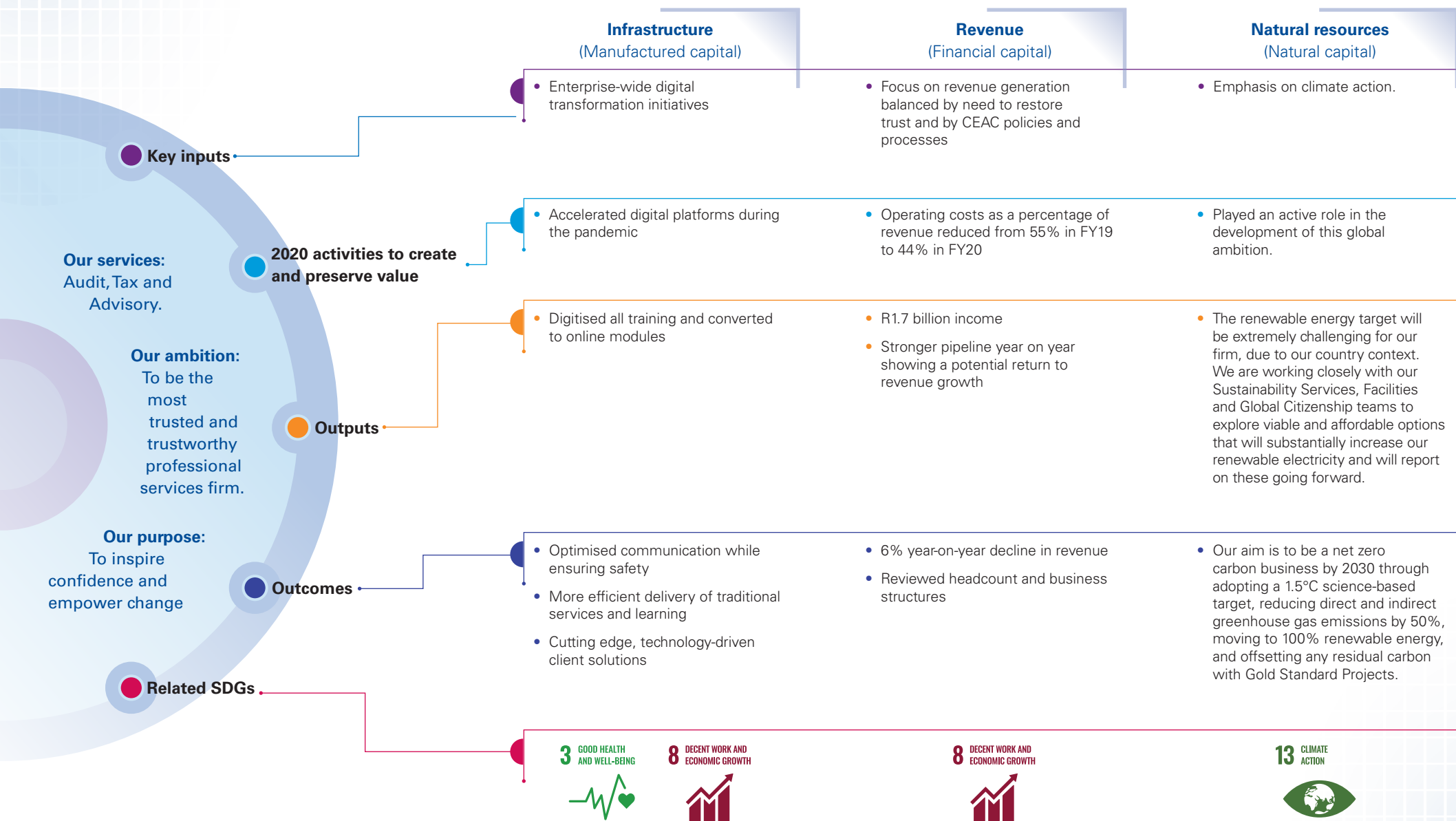


## Relationships with key stakeholders (Social and relationship capital)

For further detail on our key stakeholder relationships, please refer to page 35







# Commitment to trust and ethics

“Professional services firms like KPMG serve society. A recognition of our social purpose is the starting point for integrity at KPMG.”

## KPMG's refreshed values

### Integrity

#### We do what is right:

- Consistently leading by example with **high standards** and morals
- Being **honest and truthful** in words and actions.
- **Navigating** pressures honestly, in a challenging environment.

### Excellence

#### We never stop learning and improving:

- Setting the **standard for and executing with quality**
- Continuously **building on current performance** and culture
- Taking **responsibility** and **accountability** for actions.

### Courage

#### We think and act boldly:

- Communicating **openly** and **directly**
- Striving for **innovation** and new thinking
- Relentlessly pursuing **differentiation** in the market.

### Together

#### We respect each other and draw strength from our differences:

- Showing **care and consideration** for others
- Embracing **diversity** and acting inclusively
- **Collaborating** within and across teams.

### For Better

#### We do what matters:

- Serving and **strengthening our markets and communities**
- Making the firm better for **future generations**
- Making a **positive impact on society**.

## Update on KPMG's new values

Our ambition is to be the most trusted and trustworthy professional services firm, thereby accelerating our growth. Realising this ambition depends on a strong culture based on clearly understood values. Accordingly, we have invested in culture as a collective strategic priority.

The culture of KPMG is underpinned by a strong set of values and supporting policies and processes. These enable the right attitudes and behaviours to permeate throughout the global organisation, starting from the very top. We promote a culture in which consultation or open dialogue is encouraged and recognised as a strength.

During the year KPMG revisited and updated its values to better reflect current practices and insights.

KPMG refreshed its values based on the continuation of our commitment to quality and ambition to become the most trusted and trustworthy professional services firm.

We distilled insights from research including the 2018 Independent Culture Assessment together with historic Employee and Partner Engagement Surveys and discussed key insights and perspectives with KPMG Global stakeholders and clients to understand perceptions of KPMG and the firm's future.

We conducted further research to understand where the industry is going to 'future-proof' KPMG's purpose and values. We further evaluated KPMG's purpose and values against those of key competitors.

KPMG SA launched a campaign to familiarise our staff with these new values. Through our values activation plan we are empowering our colleagues to actively explore, express, celebrate and live our values in every aspect of their lives.

KPMG's refreshed values have been embedded into our people processes including induction, employee recognition scheme, performance development discussions and individual goal setting. These values are also part of our recently revised Code of Conduct (the Code) which sets out KPMG's ethical principles and helps partners and employees to understand and uphold those principles. In addition, the Code emphasises that each partner and employee is personally responsible for following the legal, professional and ethical standards that apply to his or her job function and level of responsibility.

## Updates and feedback on our culture

### Embedding ethics across all operations

Professional services firms like KPMG serve society. A recognition of our social purpose is the starting point for integrity at KPMG. The people that comprise our firm – auditors, accountants, tax practitioners and business advisors – are moral agents in society who promote reliability, transparency and accountability. We also recognise that our actions impact others. Consequently, our flagship product is trust – in our capital markets, our profession and our firm.

To serve our social purpose and to generate trust requires both technical and ethical skills. Achieving and maintaining professional competence requires more than keeping abreast of financial reporting and auditing standards, or the latest tax regulations. The fundamental principle of “professional competence and due care” also encompasses the cultivation and application of moral capabilities. These capabilities include the ability to recognise ethical concerns (moral sensitivity), to unpack and think through moral dilemmas (moral reasoning), and to put moral judgement into action (moral motivation). Another value increasingly emphasised in professional services, is moral courage.

Of course, these ethical competencies must be supported by an environment that makes it easy for a professional to do right, and difficult to go wrong – a so-called ethical organisational culture. The need for a supportive ethical environment in professional services firms is echoed in the South African Auditing Profession Trust Initiative’s Discussion Document (April 2020), which recommends – in line with IAASB ISQM1 requirements – that a firm’s culture reinforces the importance of ethics. This recommendation can also be found in the Brydon Report that proposes, in a section on ‘Audit Firm Culture’, that the culture within an audit firm should be rooted in principles.

### Embedding our ethics management programme

A culture based on quality, integrity and ethics is essential in an organisation that carries out audits and other services on which stakeholders rely. Accordingly, the aims of our ethics programme are to:

- Develop and maintain moral competence among KPMG professionals
- Create and sustain an organisational culture supportive of ethical conduct
- Promote professional self-reflexivity (i.e. debate regarding the key ethical issues marking our profession).

The underlying assumptions of the programme are as follows:

- Ethics is a set of skills or virtues that requires continuous ‘practice’ (analogous to professional expertise)
- The goal of an ethics programme is twofold: firstly, to enhance individual ethical decision-making and conduct with integrity; secondly, to create an ethical organisational culture simultaneously
- A healthy profession continually discusses its ethical standards and ethical challenges.

“We recognise that in professional services, excellence cannot be divorced from moral character... Character, in this context, includes being motivated by the right issues and developing the right dispositions.”

### Embedding a focus on culture risks

An ethics programme responds to the ethics risks of a firm. The culture risks on which KPMG’s ethics programme focused in 2020 include:

- Maintaining a public interest mindset
- Workload impacting on diligence and due care
- Commercial pressure impacting on professional integrity
- Confidence in whistleblowing.

These risks were addressed through awareness, policy and embedding initiatives.

### Embedding awareness and understanding initiatives

One feature of an ethical organisational culture is clarity or awareness – the extent to which colleagues understand and can apply the ethical standards of the firm.

To promote clarity, the Ethics Office rolled out the initiatives below:

- **Induction sessions:** At the start of the year sessions on ethics were arranged for all newcomers in audit, tax, advisory and infrastructure. The sessions covered: the importance of ethics at KPMG, ethical decision-making, KPMG’s Code of Conduct, practical ethics risks, and resources available to KPMG colleagues (i.e. the Ethics Helpdesk and the KPMG Faircall Line for reporting ethics concerns)
- **Annual ethics workshops:** These workshops are attended by colleagues across the entire firm. Themes covered this year included: ethics and COVID-19; the link between ethics and trust; moral will (the public interest); moral skill (KPMG’s refreshed values); and, practical dilemmas
- **Ethics newsletter:** A quarterly ethics newsletter (Transparent Times) is distributed electronically to all colleagues
- **Ethics hour:** On Global Ethics Day, virtual ethics sessions were facilitated to consider key ethical concerns in the world and in our profession. The occasion was also used to introduce KPMG’s revised Code of Conduct.

### Embedding trust through policy and procedures

Within our Code of Conduct (the Code), we outline the responsibilities that all KPMG colleagues have to each other, our clients and the public. The Code sets out how KPMG's values inspire our greatest aspirations and guide our behaviours and actions to ultimately empower change. It also defines what it means to work at and be part of KPMG, as well as our individual and collective responsibilities. In 2020 we revised our Code to include:

- A message from local leadership
- Local resources for gaining advice or reporting suspected misconduct
- KPMG's refreshed values
- An increased focus on our social purpose (the public interest)
- A separate section on inclusion and diversity.

### Ethics Helpdesk and integrity screening

KPMG's ethical standards are also embedded into operations through an Ethics Helpdesk and the screening of candidates for Associate Directors and Partners.

- **The Ethics Helpdesk:** Colleagues in KPMG can seek advice on ethical issues in full confidentiality using the Ethics Helpdesk. In 2020, requests for advice were received on the following topics: fair treatment, wellness, confidentiality, independence, gifts and hospitality, appropriate use of information technology, privacy and whistleblowing.
- **Integrity screening:** The assessment process for promotion to Associate Director or Partner includes an 'integrity screening', or a session during which the ethics capabilities of candidates are tested. Moral sensitivity and moral reasoning are assessed using practical scenarios. Considering the economic challenges raised by the COVID-19 pandemic, fewer candidates were considered for promotion. In total 25 candidates were screened.

### Resetting ethics

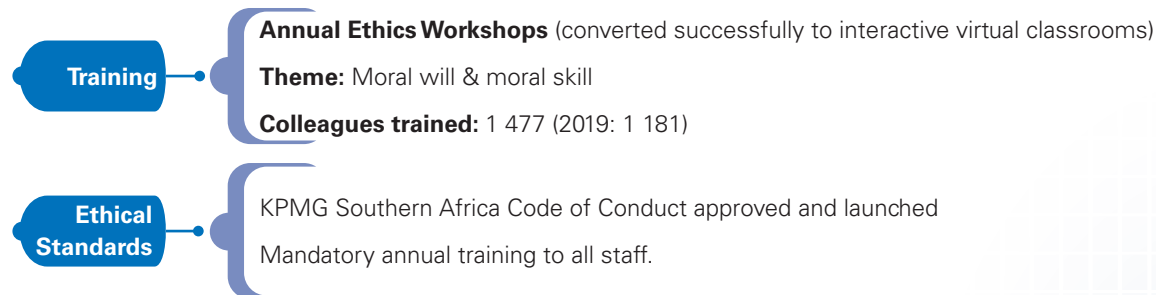
The ethics programme, and the quality of KPMG SA's organisational culture are subject to oversight by the KPMG Public Interest, Social & Ethics Committee, as well as the KPMG Audit Quality Committee, both chaired by non-executive members.

The ethics programme is executed alongside several mutually supporting initiatives aimed at, among other things, inclusion and diversity, transformation, colleague engagement, the embedding of values, and corporate citizenship.

The need for an 'ethics reset' in the accounting profession was suggested at many fora in 2020. However, this reset already began in 2017 for KPMG SA and is an ongoing process.

We recognise that in professional services, excellence cannot be divorced from moral character. The reliability of financial statements, the quality of audits, the credibility of tax advice and the trustworthiness of consulting work are all influenced by the integrity, objectivity and diligence of the teams responsible for them. Character, in this context, includes being motivated by the right issues and developing the right dispositions.

### Ethics Office programme highlights 2020





# Our governance model

“We have benchmarked our governance practices to the recommended practices in King IV™ and have made good progress in implementing these recommendations.”

## New appointments strengthen governance

The firm has progressed from a traditional professional services firm following a self-governed partnership-based model to one that has embraced the principles of King IV™. Our practices have matured over the past year. We now have a solid foundation on which to achieve the governance outcomes of ethical leadership, good performance, effective control and increasing legitimacy with stakeholders.

The firm appointed two additional independent non-executive members on the Policy Board with effect from 11 November 2019, bringing our independent non-executive Policy Board members to a total of four. This is unique for a professional services firm and enhances the experiences and perspectives, as well as the objective oversight of the Policy Board and its committees.

## Building on a solid foundation

Our ambition of becoming the most trusted and trustworthy professional services firm in South Africa and in the region - conscious of our role in, and impact on, society - has focused our efforts on implementing and embedding applicable good governance practices. We have benchmarked our governance practices to the recommended practices in King IV™ and have made good progress in implementing these recommendations.

In addition, to ensure an ongoing, appropriate balance of authority and accountability, an independent non-executive member chairs the Policy Board. Independent non-executive members also chair committees for Audit Quality, Public Interest, Social & Ethics, Nomination & Remuneration and Combined Assurance and Reporting.

“What makes this firm great is its people. 2020 was an unprecedented year for the firm and its staff. Overall engagement with colleagues has seen an increase as we continue to live the values Together and For Better. We adapted to virtual working overnight. The launch of the Teams platform has been instrumental in collaboration across teams virtually. I will never forget the call hosted on this platform announcing the ABSA win. My blood was pulsing with blue pride as Devon Duffield reminded us of the journey it took to reach this milestone. We have enjoyed seeing our CEO and COO in our homes during the touch base sessions. The Colleague Business Forum (CBF) continued to engage with leadership on topical concerns as we navigated this year. Their personal commitment to this engagement platform gives this forum purpose. It has been inspiring to watch us grow together as we continue to build trust and inspire confidence.”

**Simonique Oosthuizen**  
CBF member

## Policy Board



Chancellor of  
the University of  
Pretoria

Trustee of the  
African Union  
COVID-19  
Response Fund

**Prof. Wiseman Nkuhlu**

Non-executive  
Chairperson

BCom(UFH) MBA (New  
York)  
CA(SA)  
DCom(hc)(UFS)  
DCom(hc)(US)  
DCom(hc)(UCT)  
DCom(hc)(UP)  
DAccSci(hc)(UNISA)



Recently appointed  
Chairperson to the  
King Committee  
on Corporate  
Governance

Professional NED

**Ansie Ramalho**

Independent Non-  
Executive Member

B.luris LLB



Chairperson for  
the Ethics Institute

Member of  
Rhodes University  
Board of  
Governors

**Imogen Mkhize<sup>1</sup>**

Independent Non-  
Executive Member

BSc Information Systems  
(Rhodes University)  
MBA (Harvard Business  
School)



Professor at  
University of  
Johannesburg  
(Head of  
Department of  
Accounting)

**Prof. Benjamin Marx<sup>2</sup>**

Independent Non-  
Executive Member

M.Compt Accounting  
(cum laude),  
PhD CA (SA)



**Ignatius Sehoole**  
Chief Executive Officer

**Giuseppina Aldrighetti**

Elected director

**Coenraad Basson**

Elected director

**Kashmiri Bhana**

Elected director

**Zola Beseti**

Elected director

**Devon Duffield<sup>3</sup>**

Head of Audit

**Nosisa Fubu**

Elected director

**Mohammed Hassan**

Elected director

**Modise Maseng**

Elected director



**Makgotso Letsitsi<sup>4</sup>**  
Executive: Transformation  
and Citizenship

Changes from prior year:

<sup>1</sup>Appointed with effect from 11 November 2019

<sup>2</sup>Appointed with effect from 11 November 2019

<sup>3</sup>Devon Duffield stepped down from the Policy Board when he was appointed as Head of Audit with effect from 1 October 2020 and joined the Executive Committee

<sup>4</sup>Makgotso Letsitsi was appointed as Head of People with effect from 1 October 2020. She continues overseeing the Transformation and Citizenship team, which has been incorporated into the People team



## Executive Committee



**Ignatius Sehoole**  
Chief Executive Officer



**Gavin de Lange**  
Chief Operating Officer



**Joelene Pierce**  
Head of Financial  
Services Sector



**Makgotso Letsitsi<sup>1</sup>**  
Head of Transformation  
and Citizenship



**Ron Stuart**  
Head of Clients  
and Markets



**Jan Vliegthart**  
Country Risk  
Management Partner



**Mritunjay Kapur**  
Head of Advisory



**Duncan McLennan<sup>2</sup>**  
Chair of Audit



**Joubert Botha**  
Head of Tax



**Ed Belstead**  
Cape Town  
Managing Partner



**Ugen Moodley**  
Durban  
Managing Partner



**Boitumelo Ngutshane**  
Head of Priority Accounts



**Ingrid Waterfield<sup>3</sup>**  
Head of People



**Safeera Loonat**  
Head of Energy Sector

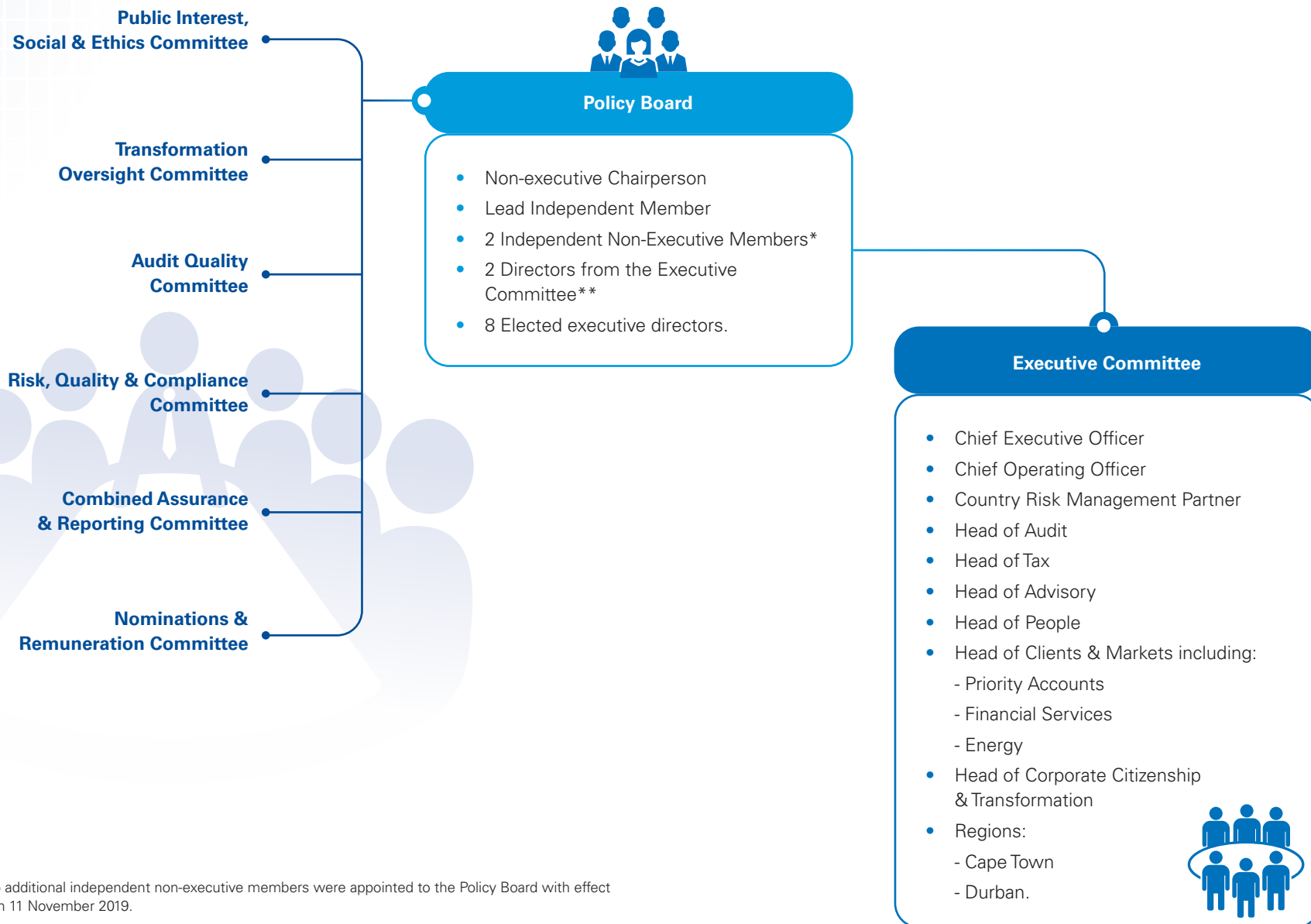
Changes from prior year:

<sup>1</sup> Makgotso Letsitsi was appointed as Head of People with effect from 1 October 2020. She continues to oversee the Transformation & Citizenship team, which has been incorporated into the People team

<sup>2</sup> The Chair of Audit was a temporary appointment and supported by the Audit COO, David Read until the appointment of Devon Duffield as Head of Audit on 1 October 2020

<sup>3</sup> Rachel Campbell held the position until 1 January 2020 and was subsequently replaced by Ingrid Waterfield who fulfilled the role for the major part of 2020.

## Governance structure



\* Two additional independent non-executive members were appointed to the Policy Board with effect from 11 November 2019.

\*\* Executive membership of the Policy Board is limited to two Executive Committee members: the CEO plus his nominated Exco member, the Head of People, Corporate Citizenship and Transformation

# Remuneration philosophy and policy

“Our annual salary review includes a detailed comparison to the market using market data received from salary surveys, which form the basis of our internal salary bands.”

## Overview of our colleagues remuneration philosophy and policy

Annual market data from external service providers forms the basis of our internal salary bands. Aligning to our reward philosophy, for FY20 (1 October 2019 to 30 September 2020) we continued to review market salaries, matching them more closely with the market. For the first time, we also shared the market salary data and our own salary position with colleagues in keeping with our commitment to heightened internal and external transparency. The link between roles and market value, together with individual contribution served as a key part of the personalised reward conversations.

Aligned with global best practices, our Reward Philosophy aims to pay market-leading rewards where individual and firm performance, exceeds expectations.

Salary increases issued from 1 October 2019 took into account our Reward Philosophy as we continued to progress in terms of our salary position when compared to the market. Our FY19 bonuses were paid in November of FY20, and we implemented our new bonus plan which included the principle of bonus zones for those eligible. This also ensured that we could appropriately reward in-year performance through our bonus awards that were supported by a market-driven salary approach driving the in-year performance.

During FY20 our primary objective shifted to job preservation in the wake of uncertainty created by COVID-19. This necessitated a freeze on colleague bonuses and promotions for FY20.

## Colleague remuneration market benchmark levels for each function and level

Our annual salary review includes a detailed comparison to the market using market data received from salary surveys, which form the basis of our internal salary bands.

Salary bands are reflective of the different service lines in the firm and individual levels of responsibility. Our salary principles are to:

- Conduct transformation and gender reviews
- Consider relevant experience within the salary band
- Take affordability into account.

Salary and bonus decisions are made by the function heads and People Exco, thereby ensuring a consistent application of the agreed principles. Exco provides final sign-off on the recommendations.

“Regarding our partners admitted in the past five years, there is no gender pay gap differential and an ethnicity ‘pay gap’ differential of 1 %”

## Gender and racial pay parity

We are passionate about creating an inclusive and collaborative culture where everyone is supported to reach their potential and appropriately rewarded for their contribution. We have robust processes and monitoring in place to ensure that our people are treated and paid fairly, meeting both our legal and moral obligations. While diversity is key to our people value proposition, we do not remunerate based on gender, race or any other diversity characteristic. Instead, remuneration is based on our core value of excellence.

Our approach to promotion and progression aims to ensure that a diverse group of talent progresses through the firm. However, we recognise that the full impact of this approach will take time to show in our data.

Our gender 'pay gap' differentials across the categories we monitor are all 15% or less (2019: 15% or less) in favour of males as compared to females. Our ethnicity 'pay gap' differentials that we monitor are 4% (2019: 5%) when comparing white generic to black generic. This continues to be the area of focus.

Regarding our partners admitted in the past five years, there is no gender pay gap differential and an ethnicity 'pay gap' differential of 1%.

Our gender and ethnicity 'pay gap' differentials at an Exco level (excluding the CEO and KPMG members from outside South Africa) is 25% in favour of males as compared to females and comparing white generic to black generic. The above continues to be the area of focus. In accordance with the average earnings, the differential pertains to the relative leadership responsibilities and experience of the executive committee.

## Policy Board, Exco and Partner remuneration

Together with the individual skills and experience, the role and performance of a partner are appropriately recognised and rewarded. Partner role profiles are used to enable the link in role, performance and reward most effectively. There are three groups of partner role profiles where each category has three levels based on the degree of accountability exercised:

- Clients and Markets where partners are spending 60% or more of their time in the market delivering to clients
- Clients and Technical / Specialists where partners provide a specialist expertise to clients with no delivery target
- Business Management or Business Leadership defined roles through leading a significant part of the business.

Partner role profiles are reviewed each year taking into account the overall level, role and responsibilities of each partner and the relative level of accountability in role which translates into the salary bands. The differential in partner remuneration relates to the consequence of driven behaviours and the displayed values in accordance with the Partner Quality and Compliance Sanction Policy.

Partner earnings, before tax, are disclosed based on actual performance relating to the earnings of the specific financial year.

### Policy Board and Exco Remuneration

|   | FY20    | FY19*   |
|---|---------|---------|
|   | Average | Average |
| Executive Management**                            | R4.5m   | R4.7m   |
| Independent non-executive<br>Policy Board members | R2.3m   | R3.3m   |

The CEO joined KPMG in 2019 at a stage where the firm needed a widely recognised, credible business leader who was prepared to put his personal reputation at stake to stabilise the firm and restore its legitimacy and reputation in the eyes of its stakeholders. His remuneration was benchmarked against the local market and other KPMG member firms and is included in the average executive management calculation (annualised for comparative purposes for the prior year).

### Partner remuneration

|             | FY20           | FY19*          |
|-------------|----------------|----------------|
|             | Range          | Range          |
| Partners*** | R2.0m to R5.1m | R2.2m to R5.5m |

Average remuneration decreased by 10,5% from FY19 as a consequence of COVID-19 financial impacts as well as the voluntary pay reductions adopted by Partners, executive management and independent non-executive Policy Board members to provide further financial resilience to the business in May 2020.

\* The FY19 remuneration shown in the table is different when compared to the FY19 Integrated Report due to the adoption of a new approach for earnings disclosure for the FY20 Integrated Report. For FY20, we used the actual earnings for partners versus on-target earnings disclosed in FY19.

\*\* Executive management are executive committee members, excluding our independent non-executive Policy Board members and Chairperson

\*\*\* Excluding executive management, independent non-executive members and KPMG members from outside South Africa



# Stakeholder engagement

“We invest time and resources in monitoring global and local landscapes and ensuring our strategy and plans remain fit for purpose.”

## Overview of engagements in 2020

Change is the only constant in our world. We experienced it again with the COVID-19 pandemic that brought the world to an almost complete standstill. Agility is critical to ensure a competitive advantage and as well ensure we remain able to respond to what the world needs now. This requires a strategy that can adapt to these new realities.

At KPMG SA, we invest time and resources in monitoring global and local landscapes and ensuring our strategy and plans remain fit for purpose. Our ambition of becoming the most trusted and trustworthy professional services firm in South Africa is informed by ongoing stakeholder engagements that afford us the opportunity to appreciate other perspectives and gain an enhanced ability to recognise where there may be legitimate expectations.

A milestone event in FY20 was held just before lockdown when we facilitated a discussion in our Cape Town office on Conscious and Ethical Leadership Conversations – Elevating Ethics and the Role of the Profession. The panel included the late Auditor General Kimi Makwetu, Prof. William Gumede, Associate Professor, School of Governance at the University of the Witwatersrand and Executive Chairperson of Democracy Works. The keynote speaker was Prof. Thuli Madonsela, Law Trust Chair in Social Justice and Law Professor at the University of Stellenbosch.

## Our response to COVID-19

With the imposed lockdown restrictions in March 2020, KPMG SA was the first member firm in Southern Africa to be affected. This meant that we had to implement workable solutions to ensure effective engagement with our internal and external stakeholders. The challenge to our operating model and business was unlike anything we had faced previously, so the entire firm was mobilised to ensure we could protect the firm for the future and to protect the health and safety of all of stakeholders.



## A comprehensive action plan

### Objectives

- The successful firm-wide rollout, training and implementation of Microsoft Teams to enable a virtual working environment
- Establishing the necessary guidance and control measures to meet the national government regulations
- Managing and evolving our mitigations and controls under the variable lockdown levels
- Assisting and supporting our people with adapting to the additional rigours of a virtual delivery
- Implementing the necessary adjustments and changes to our operating environment and budgets to ensure optimal financial performance.

### Governance

- COVID Crisis Committee (CCC) established in March under our Business Continuity Plan (BCP)
- CCC incorporated all the BU heads (Audit, Tax and Advisory) as well as the heads of the support functions.

### Planning

- KPMG SA compliance and continuity plan was developed to adhere to Government regulation but also keep the safety of our internal and external stakeholders our 1<sup>st</sup> priority.
- Each KPMG office appointed a compliance officer who regularly updated the CCC.

### Risk

- Risk register updated
- CCC initially met daily to record and track the actions the firm had to take as well as to scan the horizon for new risks, incorporating key learnings from our global organisation.

### Assurance

- An external audit has been performed on our policy with independent reviews on our COVID actions
- The CCC is still in place and continues to meet regularly to ensure its key objectives are achieved.

## Responding to stakeholders during the pandemic

### Our people

- All colleagues equipped with laptop computers, data cards and enterprise grade communication and collaboration software to pivot into working from home
- Provided the tools and materials to be able to work safely either virtually or on our premises
- Equipped all our offices with the necessary changes to facilitate enhanced social distancing and limit the risk for colleagues working at the office
- Significantly increased the frequency and nature of our office cleaning
- Deep (fogging) cleaning of any premises post a positive case at our premises
- Robustly applied additional guidance and policies to protect the health and safety of our people, at our offices, at a client's offices and in their communities
- Put special measures in place for staff with specific health concerns as defined by the national regulations or those who needed to travel for client presentations.
- Implemented a screening process for all staff who wanted to access our premises
- Eliminated all unnecessary costs to provide business resilience
- Increased emotional and mental well-being support provided to colleagues who battled in the lockdown conditions.

### Our clients

- Seamlessly transitioned into a virtual delivery environment
- Supported and advised our clients around evolving their businesses to weather the storm of the pandemic
- Maintained an online COVID-19 financial reporting resource centre to assist companies and other stakeholders in understanding potential accounting and disclosure implications.
- Provided virtual training and webinars of the latest developments in the market from our market specialists
- Our engagement with our clients included a Thought leadership approach which was essential in maintaining contact during this period.
- Implemented a screening and education process for visitors to our premises.

### Our communities

- Supported some of our SME suppliers negatively impacted by the lockdown restrictions.
- Mobilised a team of senior professionals to work with 'Business for South Africa' in a unified effort to galvanize business support in response to the pandemic
- 13 micro-enterprises trained as part of The Hope Factory COVID-19 relief programme
- Contribution towards continued provision of legal support to victims of GBV
- Support provided to Doctors on Call COVID helpline co-founded by our Healthcare Strategic Advisor.

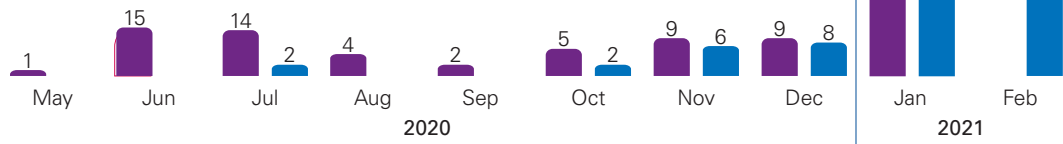
## Impact on our People

We have been fortunate in that none of our people have died from COVID during FY20. Tragically, post year-end, Ahmed Jaffer, former Partner and Chairman of KPMG SA, succumbed to the disease. A snapshot of the health impact on KPMG SA is set out below.



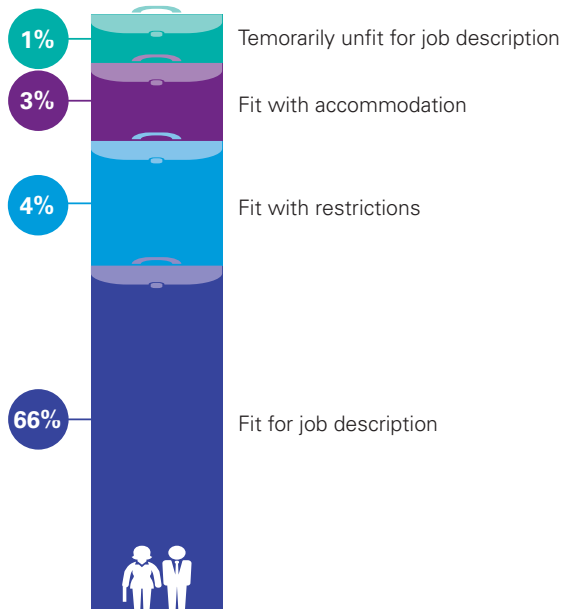
### Total Confirmed Cases vs Recoveries

■ Positive Case ■ Recovered

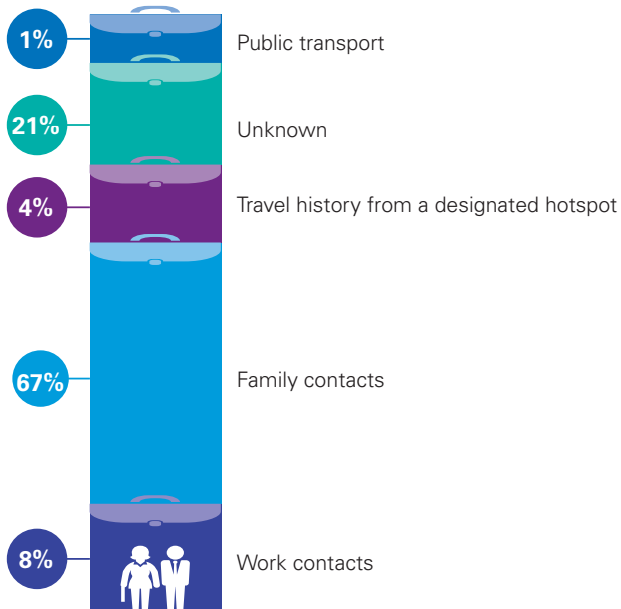


**Note:** The firm closure over December meant that colleagues who contracted the coronavirus during the break only reported their status on their return to work in January. This delay in reporting resulted in the reported peak in January but actually represents the period from December.

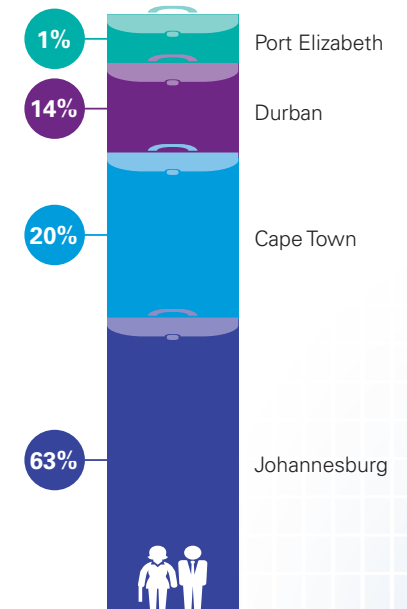
### Return to work fitness percentage



### Confirmed cases – causes



### Confirmed cases in regions



## Client Service Review

The voice and views of our clients are key indicators of whether the efforts that we have put into our business truly make a positive difference. To complement the many individual client engagements that take place and are reviewed on a continuous basis throughout the year, this year we implemented a detailed Client Satisfaction Review.

We engaged the services of KPMG Germany to conduct this review at arm's length. The review itself focused on strategic elements of our client interactions across our Audit, Advisory and Tax functions and aimed to determine our team's commitment to delivering a trusted and trustworthy service. The review assessed the manner in which our teams represent the firm's values, together with the reliability and value added at a project level and finally in-depth questions about our Partners' performance as well as that of the extended teams on each project.

A total of 124 clients responded, with 93% of respondents indicating their overall satisfaction or extreme satisfaction with the quality of our services. Of these respondents, 17% were either executive or non-executive views which underscores the fact that our efforts are being valued at the highest levels.

KPMG's core value of Excellence is underpinned by a concerted focus on continuous improvement. Accordingly, we have reviewed the comments of less satisfied and dissatisfied respondents and engaged with our functional leadership to ensure that these views are considered and the remedial actions are implemented.

Looking forward, we will continue to engage with our clients to achieve our strategic objectives of growth, trust, consistency and accountability.

Our objectives of the Client Service Review were:

### Independent, valuable feedback

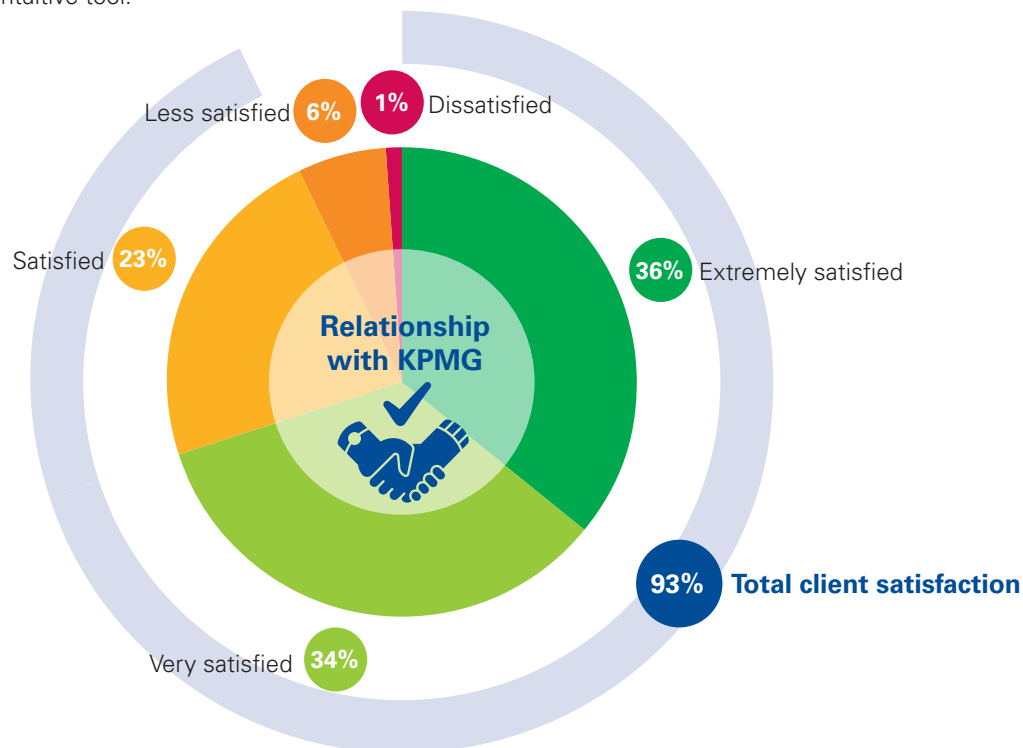
- Early warning radar
- Business development
- Pulse on market sentiments and movements

### Analysing results (statistical, qualitative)

- Cross-country benchmarking
- Smooth and efficient processes

### Quick and easy

- Brief questionnaire
- Tried and tested
- Intuitive tool.



The following table summaries expectations and issues raised in the year by key stakeholders:

## Clients

| Profile/description  | Methods of engagement   | Key concerns & expectations  | Our response   |
|--|---|--|--|
| <ul style="list-style-type: none"> <li>• <b>South African global businesses</b></li> <li>• <b>Local businesses ranging from SMEs and family businesses to large enterprises</b></li> <li>• <b>Private equity</b></li> <li>• <b>Public sector.</b></li> </ul> | <ul style="list-style-type: none"> <li>• Senior management meetings to update on supplier performance and delivery governance</li> <li>• Audit committee meetings and formal presentations</li> <li>• Update letters and external reports</li> <li>• Dissemination of thought leadership</li> <li>• Industry forums</li> <li>• Client satisfaction surveys</li> <li>• Industry focused webinars and Thought Leadership events</li> <li>• Technology driven events due to COVID-19</li> <li>• Leadership meetings with public sector.</li> </ul> | <ul style="list-style-type: none"> <li>• Commitment to being the most trusted and trustworthy</li> <li>• Value added at a project level</li> <li>• COVID-19: Will it impact service delivery?</li> <li>• Impact on public trust on stakeholder relationships</li> <li>• Board and non-executive director engagements with stakeholders</li> <li>• Brand acceptance in the market and public sector specifically</li> <li>• Understanding market drivers, including civil society expectations, regulatory changes and technology disruptions</li> <li>• Regular and transparent communication</li> <li>• Continuity of client service teams</li> <li>• Remaining relevant in the market in a multidisciplinary way, despite current staffing constraints.</li> </ul> | <ul style="list-style-type: none"> <li>• Regular client meetings by engagement partners and senior leadership</li> <li>• Actively engaged with our clients to gain a deeper understanding of our strengths as well as weaknesses and how we can improve our service offerings and client service experience</li> <li>• Monitor our market profile through leading-edge social media listening tools</li> <li>• A segmented and targeted client portfolio plan</li> <li>• Cross-functional collaboration to provide competitive</li> <li>• Solutions within regulatory frameworks</li> <li>• Technological innovation and sector expertise through global connectivity</li> <li>• Issuance of thought leadership publications</li> <li>• Held webinars for clients throughout the lockdown period.</li> </ul> |



## People



| Profile/description   | Methods of engagement   | Key concerns & expectations  | Our response  |
|---|---|--|---|
| <ul style="list-style-type: none"> <li>Partners</li> <li>Colleagues.</li> </ul> | <ul style="list-style-type: none"> <li>Colleague Connect sessions (virtual)</li> <li>Colleague communications (e-mails, on-screen-pop- up messaging), business unit meetings (virtual)</li> <li>Culture, ethics and support Workshops</li> <li>Well-being sessions</li> <li>Annual Global People Survey (GPS)</li> <li>Pulse Surveys</li> <li>Counselling and career development/ performance management programmes</li> <li>Weekly CEO newsletter</li> <li>Online Portal (COVID-19 and Me).</li> </ul> | <ul style="list-style-type: none"> <li>Need for transparency and speed at which information is cascaded to colleagues</li> <li>Job security, promising future and career plans</li> <li>Strong leadership and clear strategy, with accountability, and aligned culture</li> <li>Public interest and values-driven organisation</li> <li>Remuneration and incentives/ accountability aligned with market and Strategic key performance indicators</li> <li>Firm's response to COVID-19 crisis.</li> </ul> | <ul style="list-style-type: none"> <li>Firm-wide Connect sessions with all our colleagues, as well as individual functional and business unit meetings continued to be held virtually</li> <li>In addition to our annual Global People Survey, we also conducted two Pulse surveys during the review period as a means of gauging the level of engagement and colleague's responses and general state of well-being during the pandemic</li> <li>Revitalised remuneration, incentive and benefits programmes (prior to COVID-19 suspension)</li> <li>More intensive culture, ethics and legacy issue workshops and engagements</li> <li>Continued with implementation of our comprehensive remedial plans, together with culture alignment programmes</li> <li>We have now formally developed and launched a comprehensive well-being strategy which will be one of our key colleague engagement strategies for FY21</li> <li>Through our citizenship and public interest initiatives, we embarked on a virtual volunteerism programme allowing our colleagues an opportunity to still participate in social investment activities, promoting colleague engagement and an enhanced sense of purpose during the pandemic</li> <li>COVID Crisis Committee established.</li> </ul> |

## People

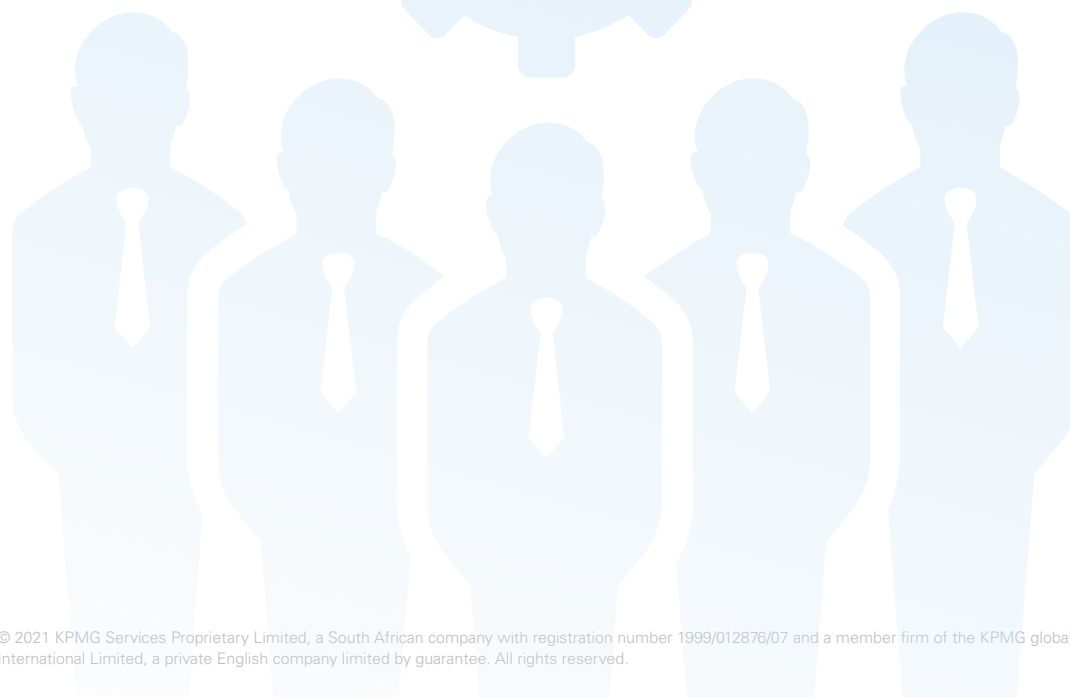


| Profile/description  | Methods of engagement  | Key concerns & expectations   | Our response  |
|--|--|---|---|
| <ul style="list-style-type: none"> <li><b>Alumni.</b></li> </ul>                                 | <ul style="list-style-type: none"> <li>Email communication</li> <li>Integrated report</li> <li>Client Webinars</li> <li>Alumni programme.</li> </ul>   | <ul style="list-style-type: none"> <li>Need for transparency and speed at which information is cascaded to colleagues</li> <li>Relevance in the marketplace</li> <li>Sustainability of the firm and profession reforms</li> <li>Firm's response to COVID-19 crisis.</li> </ul>                  | <ul style="list-style-type: none"> <li>More intensive culture, ethics and legacy issue workshops and engagements</li> <li>Continue with implementation of our comprehensive remedial plans, together with culture alignment programmes</li> <li>Continue with the implementation of a robust business plan and strategy to position for the future and monitoring thereof</li> <li>Issuance of thought leadership publications</li> <li>Media engagements and external event participation on ethical and conscious leadership – thought leadership articles and opinion editorials.</li> </ul> |
| <ul style="list-style-type: none"> <li><b>Graduates</b></li> <li><b>Universities.</b></li> </ul> | <ul style="list-style-type: none"> <li>Integrated report</li> <li>Webinars and online school for universities</li> <li>Online supplementary learning material</li> <li>Email communication</li> <li>Virtual seminars.</li> </ul> | <ul style="list-style-type: none"> <li>Need for transparency and speed at which information is cascaded to students and lecturers</li> <li>Digital solutions during COVID-19</li> <li>Sustainability of the firm and profession reforms</li> <li>Firm's response to COVID-19 crisis.</li> </ul> | <ul style="list-style-type: none"> <li><i>Pro-bono</i> work for universities</li> <li>Implemented a 'We're going virtual' campaign for graduates.</li> <li>Online school for universities as part of virtual volunteerism programme</li> <li>Launched an initiative to our university community. The partnership involves the provision of KPMG online supplementary learning material for Schools of Accounting focused on Accounting, Auditing, Taxation, Integrated Topics and Soft Skills. Material provided by a variety of KPMG personnel.</li> </ul>                                     |

## Regulators/professional associations



| Profile/description   | Methods of engagement  | Key concerns & expectations  | Our response  |
|---|--|--|---|
| <ul style="list-style-type: none"> <li>• <b>Independent Regulatory Board for Auditors (IRBA)</b></li> <li>• <b>Institute of Internal Auditors (IIA SA)</b></li> <li>• <b>JSE</b></li> <li>• <b>PCAOB</b></li> <li>• <b>SAICA</b></li> <li>• <b>SARB.</b></li> </ul> | <ul style="list-style-type: none"> <li>• Responding to formal investigations and inquiries</li> <li>• Formal inspections and findings reports</li> <li>• Enquiries and reporting</li> <li>• Update letters and reports</li> <li>• Meetings and presentations</li> <li>• External reports.</li> </ul> | <ul style="list-style-type: none"> <li>• Ability to deliver constantly high-quality audits, compliant with standards and regulations</li> <li>• Upholding of professional standards, including independence and ethical behaviour</li> <li>• Compliance with regulatory requirements (e.g. Banks Act on appointment of auditors for banks, accreditation of JSE-listed auditors)</li> <li>• Market concentration within the auditing and auxiliary professional services sector</li> <li>• Advancing transformation within South African context.</li> </ul> | <ul style="list-style-type: none"> <li>• Enhancement of leadership and government reforms with new non-executive members included in the Policy Board and several committees focused on reforming KPMG SA governance</li> <li>• Entrenchment of quality and risk management reforms</li> <li>• Transformation and diversity programmes implemented</li> <li>• Commitment to transparency and sustainability in external reporting</li> <li>• Continuing to engage with regulators and strengthen our relationships with them</li> <li>• Monitored the impact and adoption of MAFR in line with global standards.</li> </ul> |



## Government



| Profile/description  | Methods of engagement  | Key concerns & expectations   | Our response   |
|--|--|---|--|
| <ul style="list-style-type: none"> <li>• <b>Standing Committee on Public Accounts (SCOPA)</b></li> <li>• <b>South African Revenue Services (SARS)</b></li> <li>• <b>African Development Bank</b></li> <li>• <b>Auditor General of South Africa (AGSA)</b></li> <li>• <b>Ministry of Finance</b></li> <li>• <b>Development Bank of SA (DBSA)</b></li> <li>• <b>Ministry of Public Enterprises</b></li> <li>• <b>Ministry of Communications</b></li> <li>• <b>Industrial Development Corporation (IDC)</b></li> <li>• <b>Eskom</b></li> <li>• <b>Gauteng province</b></li> <li>• <b>Johannesburg metro municipality</b></li> <li>• <b>Tertiary education institutions</b></li> <li>• <b>World Bank</b></li> <li>• <b>NHI project.</b></li> </ul> | <ul style="list-style-type: none"> <li>• Formal meetings, presentations and engagements</li> <li>• One-on-one meetings, and engagements</li> <li>• Ongoing updates of Thought leaderships Reports</li> <li>• Invites to virtual events.</li> </ul> | <ul style="list-style-type: none"> <li>• Update on legacy issues and analysis of the primary causes of underlying issues</li> <li>• Queries about the firm's professional standards and ethics in nature and quality of work undertaken on the above entities</li> <li>• Details about the audit quality on work performed on behalf of Auditor General's office</li> <li>• What is the extent of external investigations and inquiries?</li> <li>• Update on the management of association risk regards continued business relationship with KPMG SA</li> <li>• Update on regulatory and public trust on KPMG South Africa.</li> </ul> | <ul style="list-style-type: none"> <li>• Draw a line and establish a legacy period</li> <li>• Undertook a primary root cause analysis, investigated all identified issues concerning the firm.</li> <li>• Committed to appropriate remedial plans, supporting external investigations and sought to implement consequential actions accordingly</li> <li>• Coherent and extensive stakeholder engagement programme</li> <li>• Seek to embed client and engagement acceptances.</li> <li>• Setting a convincing future strategic direction for the firm that reflects our values and culture</li> <li>• A detailed Audit Quality plan (January 2019) of 42 pages monitored by the Policy Board and the IRBA, through ongoing quarterly reporting.</li> <li>• Enhanced KPMGI oversight including Policy Board level oversight, reporting and governance reforms</li> <li>• Pre-issuance reviews, including enhanced QPRs and Regulatory compliance reviews (IRBA, JSE).</li> </ul> |



## Business associations

| Profile/description   | Methods of engagement  | Key concerns & expectations   | Our response  |
|---|--|---|---|
| <ul style="list-style-type: none"> <li>• <b>ACF (Audit Committee Forum)</b></li> <li>• <b>Business for South Africa (B4SA)</b></li> <li>• <b>Business Unity South Africa (BUSA)</b></li> <li>• <b>Business Leadership South Africa (BLSA)</b></li> <li>• <b>Black Management Forum (BMF)</b></li> <li>• <b>Banking Association South Africa (BASA)</b></li> <li>• <b>Association for the Advancement of Black Accountants of Southern Africa (ABASA)</b></li> <li>• <b>African Woman Chartered Accountants (AWCA)</b></li> <li>• <b>Institute of Directors SA (IoDSA)</b></li> <li>• <b>Institutional investors</b></li> <li>• <b>SAAPTI (South African Auditing Profession Trust Initiative).</b></li> </ul> | <ul style="list-style-type: none"> <li>• <i>Pro-bono</i> work</li> <li>• Meetings and presentations</li> <li>• Written correspondence (Update letters and reports)</li> <li>• External reporting</li> <li>• COVID-19 business response.</li> </ul> | <ul style="list-style-type: none"> <li>• Assist with business response to the COVID crisis</li> <li>• Is KPMG SA adopting a zero-tolerance approach to corruption?</li> <li>• Ability to deliver constantly high-quality audits, compliant with standards and regulations</li> <li>• Upholding of professional standards, including independence and ethical behaviour</li> <li>• Advancing transformation within South African context</li> <li>• Commitment to true ethical reform</li> <li>• Sharing lessons learnt with wider business community</li> <li>• Participating in the various enquiries and investigations</li> <li>• Supporting big business's COVID-19 response through our risk planning programme</li> <li>• Supporting a campaign to pay SMMEs in 30 days.</li> </ul> | <ul style="list-style-type: none"> <li>• <i>Pro-bono</i> work</li> <li>• Enhancement of leadership and governance reforms with new non-executive members included in the Policy Board</li> <li>• Embodiment of quality and risk management reforms</li> <li>• Transformation and diversity programmes</li> <li>• Commitment to transparency and sustainability in external reporting</li> <li>• Sharing of lessons learned at various business forums</li> <li>• Focused on delivering constantly high-quality audits, compliant with standards and regulations.</li> </ul> |



## Society



| Profile/description   | Methods of engagement  | Key concerns & expectations   | Our response   |
|---|--|---|--|
| <ul style="list-style-type: none"> <li>• <b>Social justice institutions</b></li> <li>• <b>Anti-corruption and ethical leadership organisations</b></li> <li>• <b>Non-profit organisations</b></li> <li>• <b>Faith-based communities</b></li> <li>• <b>Media</b></li> <li>• <b>Political stakeholders</b></li> <li>• <b>General public.</b></li> </ul> | <ul style="list-style-type: none"> <li>• Bilateral and multi-lateral engagements</li> <li>• Civil Society Community Response and Recovery Forum and working groups</li> <li>• Media interviews</li> <li>• Press releases.</li> </ul> | <ul style="list-style-type: none"> <li>• Legacy matters, especially SARS</li> <li>• Transparency and continued accountability</li> <li>• Commitment to ethical and authentic reform</li> <li>• Demonstrable cultural shift towards a public interest centric organisation</li> <li>• Responsiveness to societal concerns, especially as a result of the COVID-19 pandemic</li> <li>• KPMG's role in broader profession reform.</li> </ul> | <ul style="list-style-type: none"> <li>• Continued participation at public forums, stakeholder engagement and external reporting</li> <li>• Held a Conscious and Ethical Leadership Dialogue in Cape Town. This was addressed by Prof. Thuli Madonsela, Prof. William Gumede and the late ex-Auditor General, Kimi Makwetu, who discussed our role, as well as that of the wider auditing profession and business in society.</li> <li>• Heightened citizenship activities through mobilisation of human and financial resources (especially, in response to COVID-19).</li> </ul> |

### Looking ahead: embedding stakeholder engagement into our business

Our engagement with our stakeholders aims to build trust through the quality of the engagement process and of the services we deliver. We recognise that their needs are not static, but are dynamic and constantly evolving. Accordingly, responsiveness is the foundation of our approach to stakeholder engagement. Even though COVID-19 was undeniably a harsh setback for many industries and people, our response gave us an

opportunity to demonstrate our trustworthiness and to make a real difference in our country. We ensured our stakeholders were informed of the actions we took at every point of change.

Regardless of the impact of COVID-19, we have remained committed to focused, value-adding stakeholder engagement in every aspect our business.

# Our material risks and opportunities

“Our strategic focus is on building an ethical culture, implementing our audit quality plan and revitalising our people-related policies and practices.”

## Determining material matters

For a firm committed to generating societal value for all our stakeholders and the environment, we depict this in the way we define our material risks and opportunities as matters that can substantively affect the ability of our firm to create value over the short, medium and long term.

## Progress in managing our material risks and opportunities

Within the context of our external environment and internal operations, ongoing stakeholder engagements and implementation of our enhanced risk management processes, there has been a continued improvement in managing our most material matters over the past year.

Implementation of our enterprise risk management (ERM) policy and framework continues to mature. Our strategic risk register, which documents inherent and residual risk status, controls and mitigating actions, has been used and reported on throughout the year to the Risk, Quality and Compliance Committee. This oversight has been strengthened by completing bottom-up or functional risk workshops and developing risk registers that merge our strategic responses to operational matters. This ensured improved accountability by executive and functional leaders across the firm.

## Dynamic risk assessment

In 2019 the firm took a quantum leap by applying the KPMG Dynamic Risk Assessment (DRA) solution to the risk register to validate our view of the strategic risks the firm is facing. During 2020 we built on the results of the DRA process and ran a strategic risk register update process through one-on-one interactions with the risk owners to ensure the risks are relevant and, where required, amended or added new strategic risks. We ensured that the risks were appropriately rated, and good progress was made with the implementation of the mitigating actions plans to enhance the controls implemented to manage these risks.

## Applying DRA to KPMG SA

### Public trust and reputation

Public trust, reputation and social licence to operate has component parts: Public trust/market permission/licence to operate and brand/reputation, both of which impact on our financial strength.

This risk cluster confirms our strategy and activities in stakeholder engagement, communication and brand management. It validates our ambition as a collective and informs our actions to become the most trusted and trustworthy professional services firm in South Africa.

### Conduct, culture and quality

Our second risk cluster speaks to the ideology raised by the CEO – trust without verification is a risk. This is positively highlighted in the interplay between the component parts of conduct, culture, quality and people. It confirms our strategic focus on building an ethical culture, implementing our audit quality plan and revitalising our people-related policies and practices.

### People and transformation

This risk cluster confirmed that transformation and people (attracting, retaining and motivating engaged people) are critical risks in our firm, and highlighted the importance of managing any leadership and strategy risks. In combination, these risk clusters validate our focus on looking after our people and implementing our transformation strategy. Equally, our new governance structure and leadership team remain critical components in implementing this strategy.

### Future role of technology

This risk cluster illustrates the interconnectedness of our technology, people, strategy and financial strength risks. If we do not manage all these risks, the collective consequences could be severe. However, our strategy incorporates mitigating technology and people-related risks and our financial strength. We also understand that our approach to technology plays a role in the people we attract, motivate and retain.

## Linking our material risks and opportunities to our strategic responses

We understand that the risk landscape is constantly evolving and that in order to enhance trust and provide the most appropriate services to our clients, we need to stay one step ahead of these changes. The following table outlines our top strategic business risks and opportunities in FY20. It links these to the key actions we have taken over the past year to mitigate risks or capitalise on opportunities, and sets out how these actions augment our overall strategy.





### Opportunity

- + Continue to contribute to the transformation of the Auditing, Accounting, Advisory and Tax profession in South Africa, in terms of qualified professionals
- + Play a meaningful role in the transformation of South Africa's economy and society.

- + Perform audits of high quality in line with applicable standards
- + Create an environment that supports the above, including board and committee-level oversight, with robust quality-control processes and structures aligned with global standards.

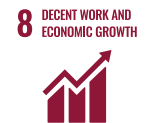
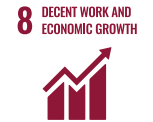
### Our response



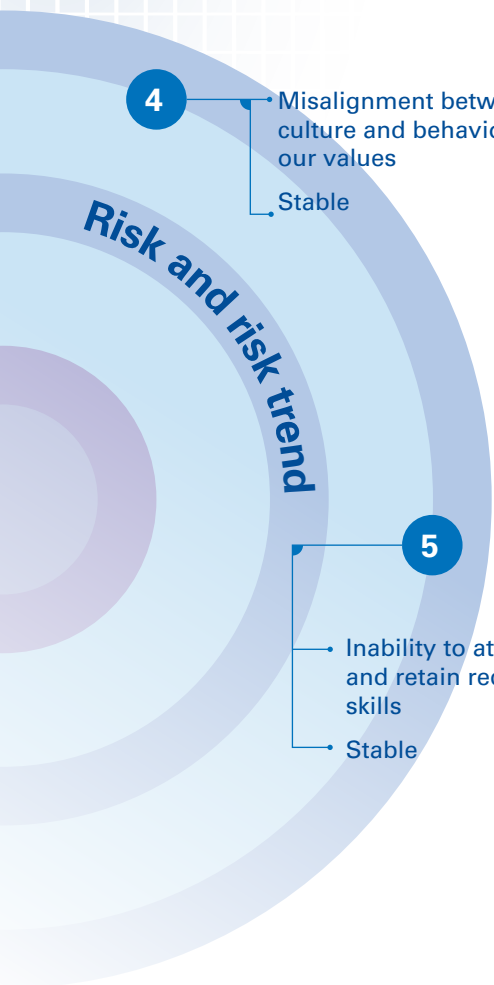
### Alignment with KPMG's values

**Courage**  
We think and act boldly

**Integrity**  
We do what is right.



Alignment with the UN SDGs



## Opportunity

- + Restore the morale and motivation of our people and enable a culture centred on public interest and quality in everything we do.

- + Ensure our remuneration philosophy and policy remains competitive and we continue to provide clear career development opportunities and job security
- + Maintain a sense of belonging through our current challenges.

## Our response

## Alignment with KPMG's values



Leadership and Governance



Culture and Transformation



Engage and Empower our People



Leadership and Governance



Culture and Transformation



Engage and Empower our People

## Excellence

We never stop learning and improving.

## Together

We respect each other and draw strengths from our differences.

8 DECENT WORK AND ECONOMIC GROWTH



10 REDUCED INEQUALITIES

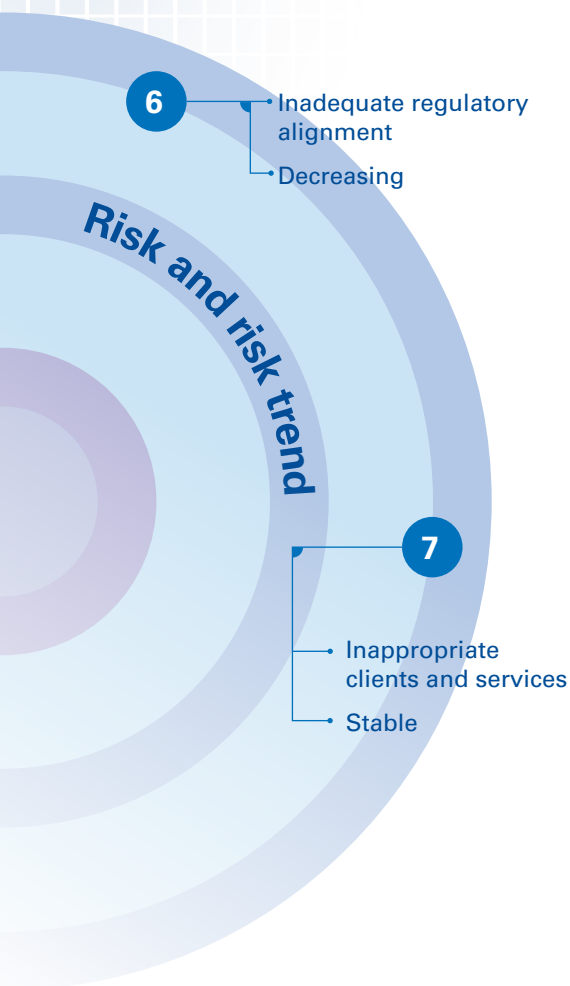


8 DECENT WORK AND ECONOMIC GROWTH



Alignment with the UN SDGs





### Opportunity

- + Manage and remain responsive to regulations that impact our business model, including mandatory audit-firm rotation, restrictions on non-audit services<sup>1</sup> and independence
- + Ensure sound relationships and constructive engagement with audit and other regulators, responding actively and appropriately to regulatory input
- + Effectively manage litigation, regulatory investigations and any other matters that could impact the reputation and stability of the firm.
- + Accept and retain only those clients who are consistent with our brand values
- + Deliver services that are, and are perceived to be, legal, ethical and in compliance with professional standards and our core competencies
- + Be aware of the socio-political landscape when undertaking work in the public and private sectors to ensure that the public interest is always served.

### Our response

### Alignment with KPMG's values



Leadership and Governance



Benchmark for Integrity and Quality



Culture and Transformation



Benchmark for Integrity and Quality



Retain and Grow our Client Base



Work Collaboratively to Integrate Southern Africa

**Integrity**

We do what is right.

**Excellence**

We never stop learning and improving.

**Integrity**

We do what is right.

**17** PARTNERSHIPS FOR THE GOALS



**8** DECENT WORK AND ECONOMIC GROWTH

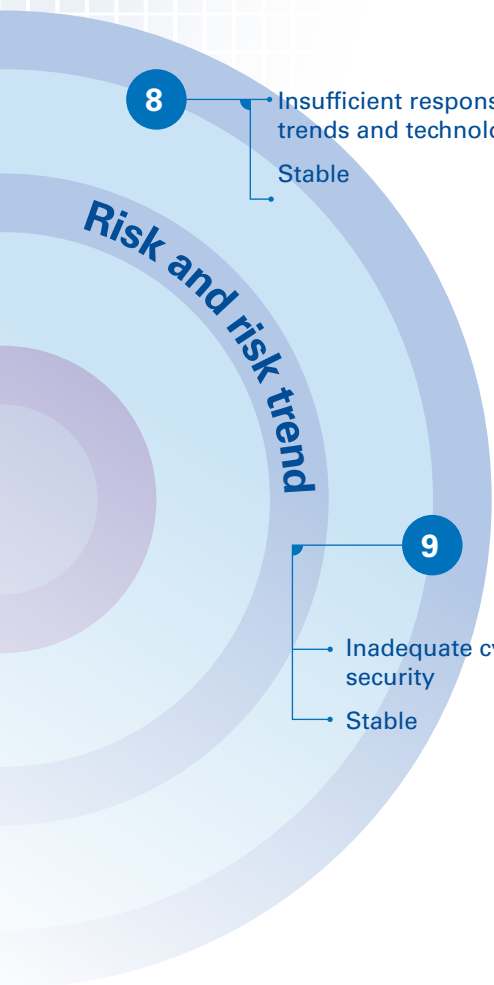


**16** PEACE, JUSTICE AND STRONG INSTITUTIONS



Alignment with the UN SDGs

<sup>1</sup>Our new non-audit services policy for JSE-listed audit clients was announced subsequent to year-end, on 15 February 2021.



### Opportunity

- + Anticipate, respond to, and capitalise on disruptive and innovative technologies for the firm and our clients across all sectors (e.g. robotics, internet of things, data and analytics, artificial intelligence, block chain, automation and social media enablement)
- + Match skills and solutions quickly and effectively to growth areas.

- + Protect confidential client and personal data from cyber-attacks or failures of internal controls.

### Our response

### Alignment with KPMG's values



Retain and Grow our Client Base



Get Operational Basics Right



Leverage Global Innovation and Investment



Benchmark for Integrity and Quality



Get Operational Basics Right

### Excellence

We never stop learning and improving.

### Courage

We think and act boldly

### Together

We respect each other and draw strenghts from our differences.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



Alignment with the UN SDGs



### Opportunity

- + Grow professional leaders who can contribute to the economy and society of our country by providing education, employment, service delivery, poverty eradication, reduction in crime and corruption, leadership, governance and upliftment of human dignity
- + Focus on serving business and society and playing a key role in helping to create a positive future for South Africa and the accounting profession
- + Implement agile change-management processes as well as a business model that is agile enough to adapt to external and internal influences
- + Execute our strategy against our business plan and objectives in a period of rapid change
- + Ensure enough resources for strategy execution and effective change management
- + Communicate and engage with relevant stakeholders on our strategic plan
- + Having a trusted leadership, enforcing effective governance principles leading the firm into increased success
- + Implementing effective succession planning.

### Our response

### Alignment with KPMG's values



Leadership and Governance



Culture and Transformation



Get Operational Basics Right



Leadership and Governance



Benchmark for Integrity and Quality

### Together

We respect each other and draw strengths from our differences.

### Integrity

We do what is right.

8 DECENT WORK AND ECONOMIC GROWTH



16 PEACE, JUSTICE AND STRONG INSTITUTIONS

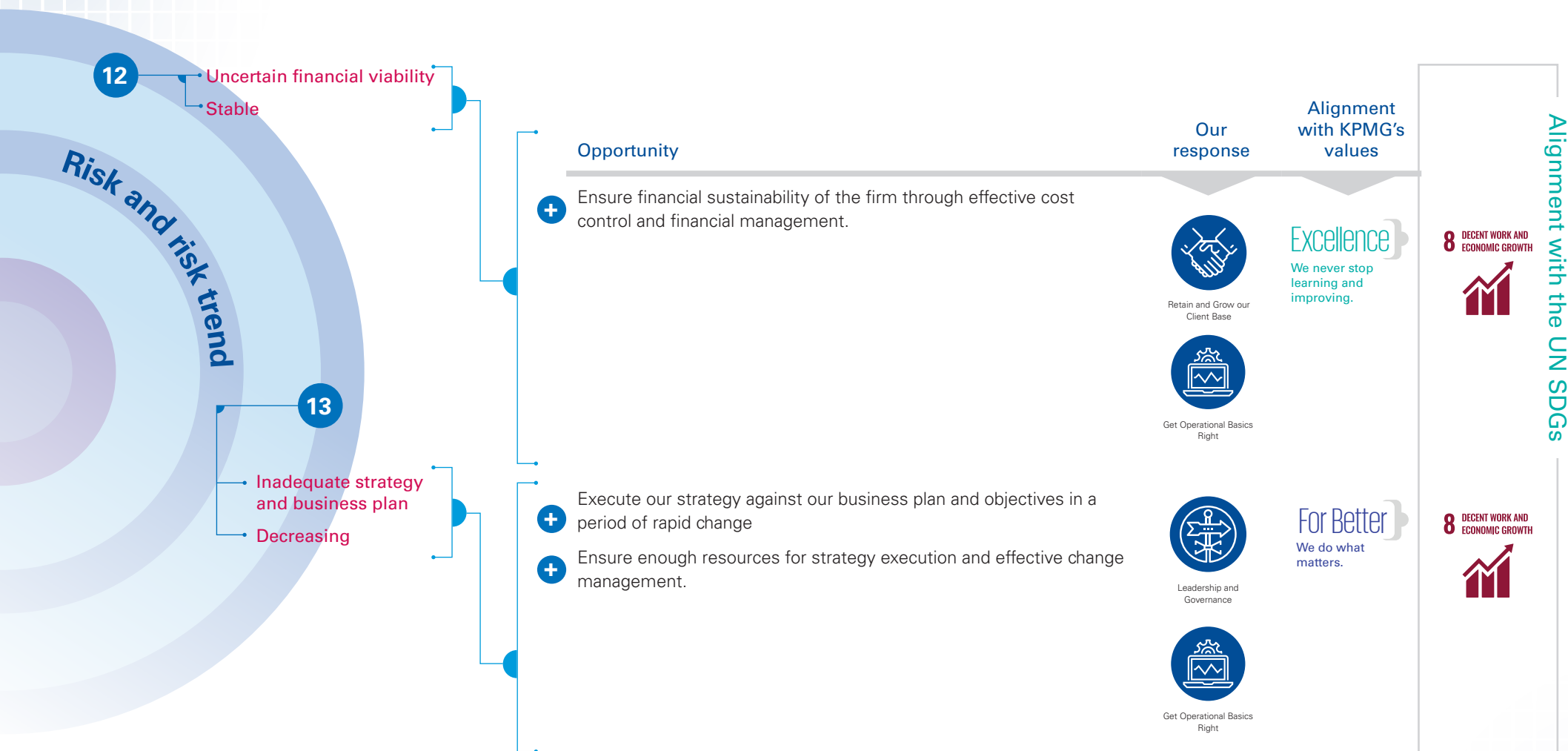


16 PEACE, JUSTICE AND STRONG INSTITUTIONS

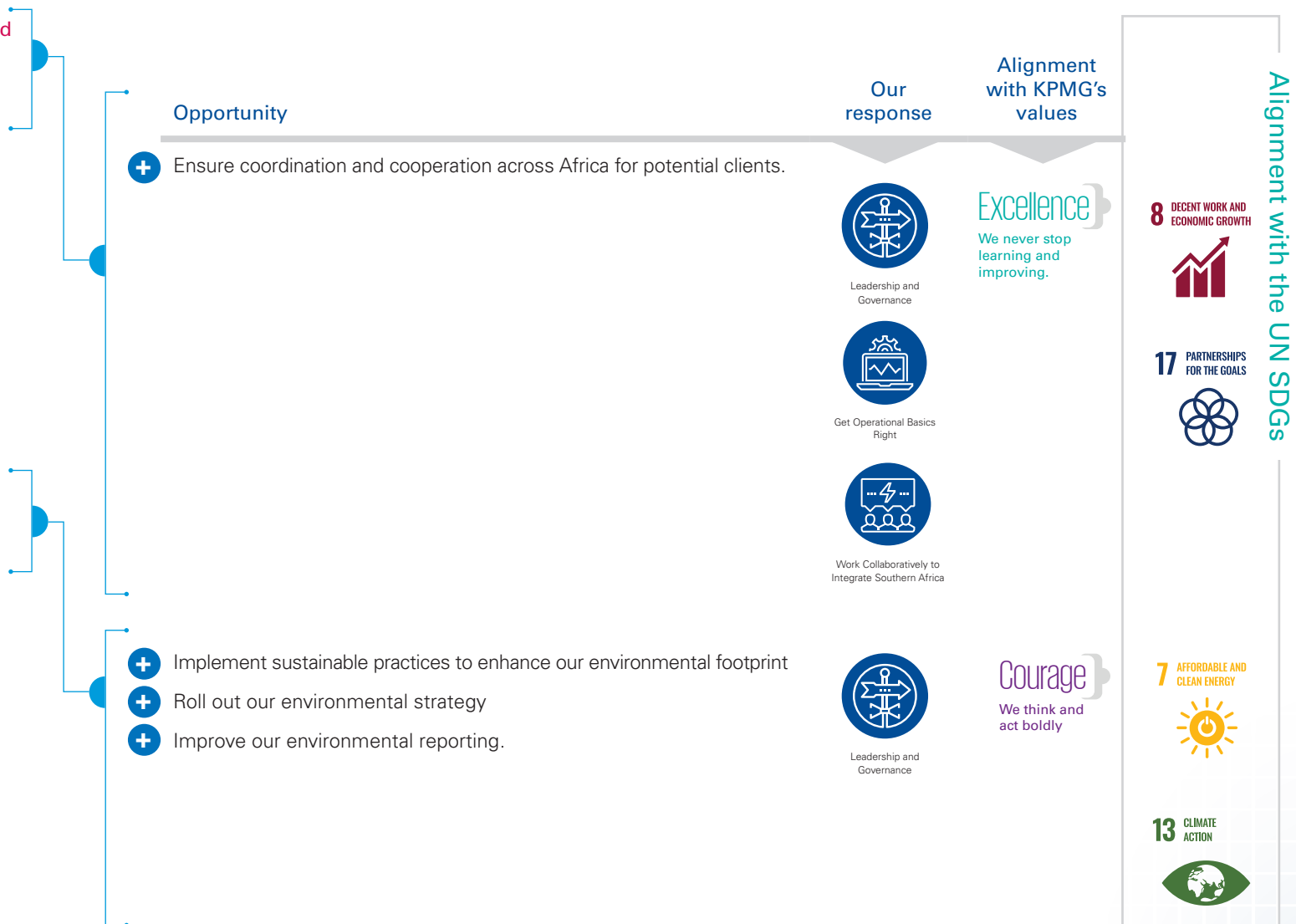
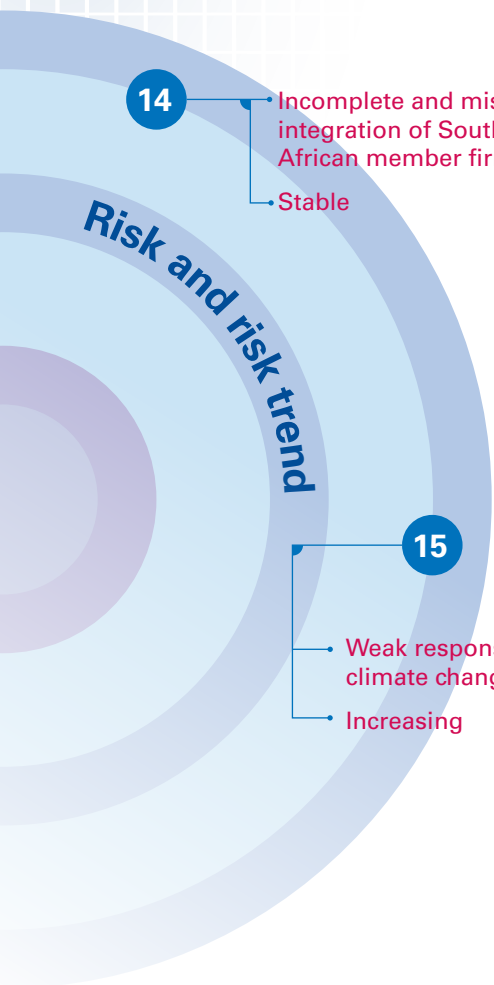


Alignment with the UN SDGs

**Note:** Risks highlighted in red are new risks

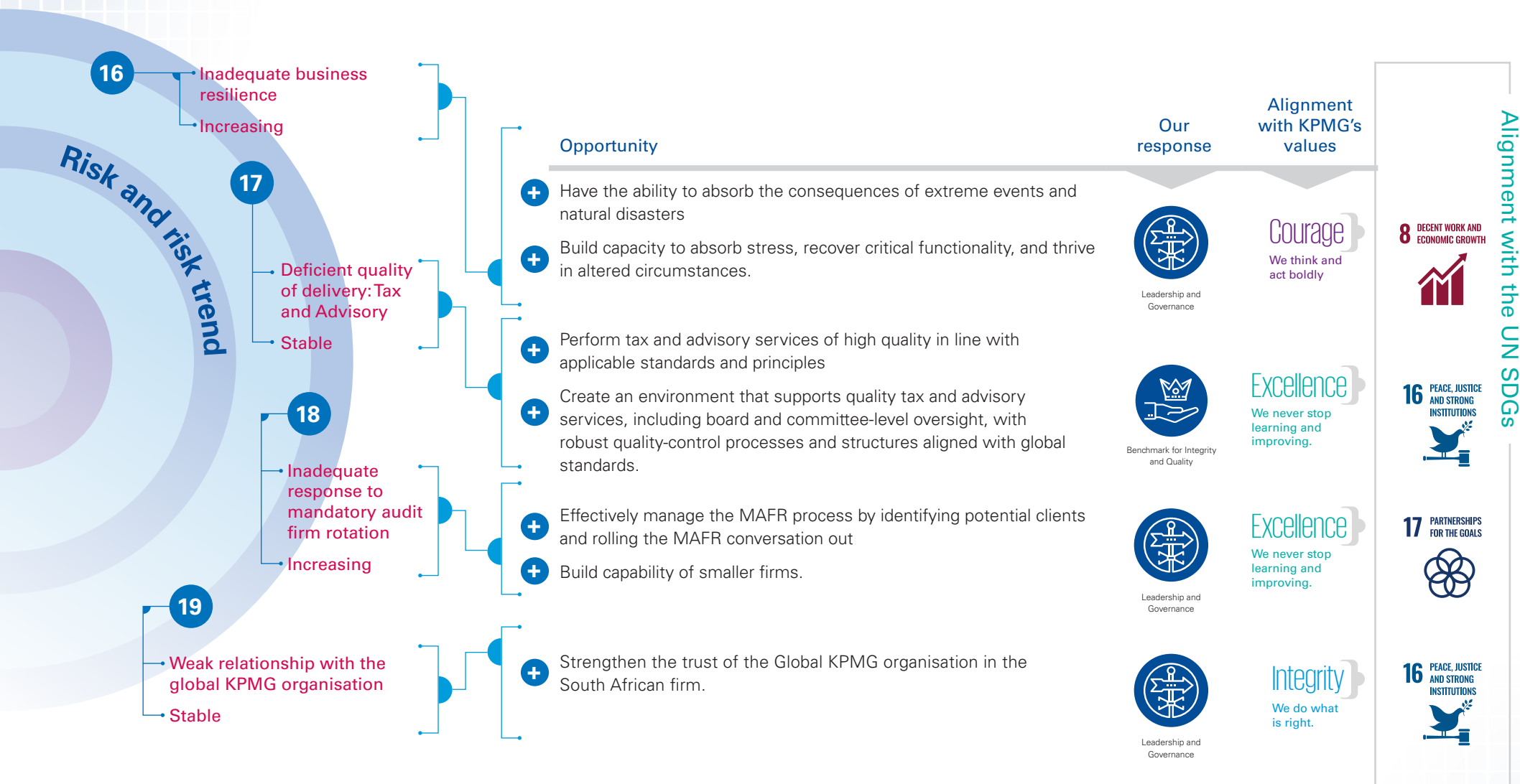


**Note:** Risks highlighted in red are new risks



**Note:** Risks highlighted in red are new risks





**Note:** Risks highlighted in red are new risks

# Our strategy

“We have changed our strategy to rebuild trust, thereby accelerating our growth.”

KPMG SA's history dates back to 1885. We have changed our strategy to rebuild trust, thereby accelerating our growth.

Our local strategy is aligned with the global organisation's collective strategy. This strategy is based on recognising that the world in which we live and work, as well as the expectations and demands placed on us, have and continue to change dramatically at pace. Challenges include:

- Intensified market scrutiny and demands from the public from us as a firm and from our profession
- The requirement for global consistency as regulators call for greater uniformity and transparency across the world
- The need to incorporate new and disruptive technology into our business model, processes and solutions
- Constant change and growing lack of confidence in business, government and society have created increased instability
- The premium placed by clients on the services provided by the advisors they trust to help them navigate our complex world.

In the current environment there's never been a greater need for the work we do. We make our largest impact on society through our services. Our clients need our help solving the big issues with which they are grappling. In the current environment there's never been a greater need for the work we do. They also need to be able to trust us implicitly. By embracing our core value of courage – thinking and acting boldly – we are confident we can achieve our aim of being the most trusted and trustworthy. While trust is important, so too is delivering value to society, beyond our own interests.

## What our strategy means to us

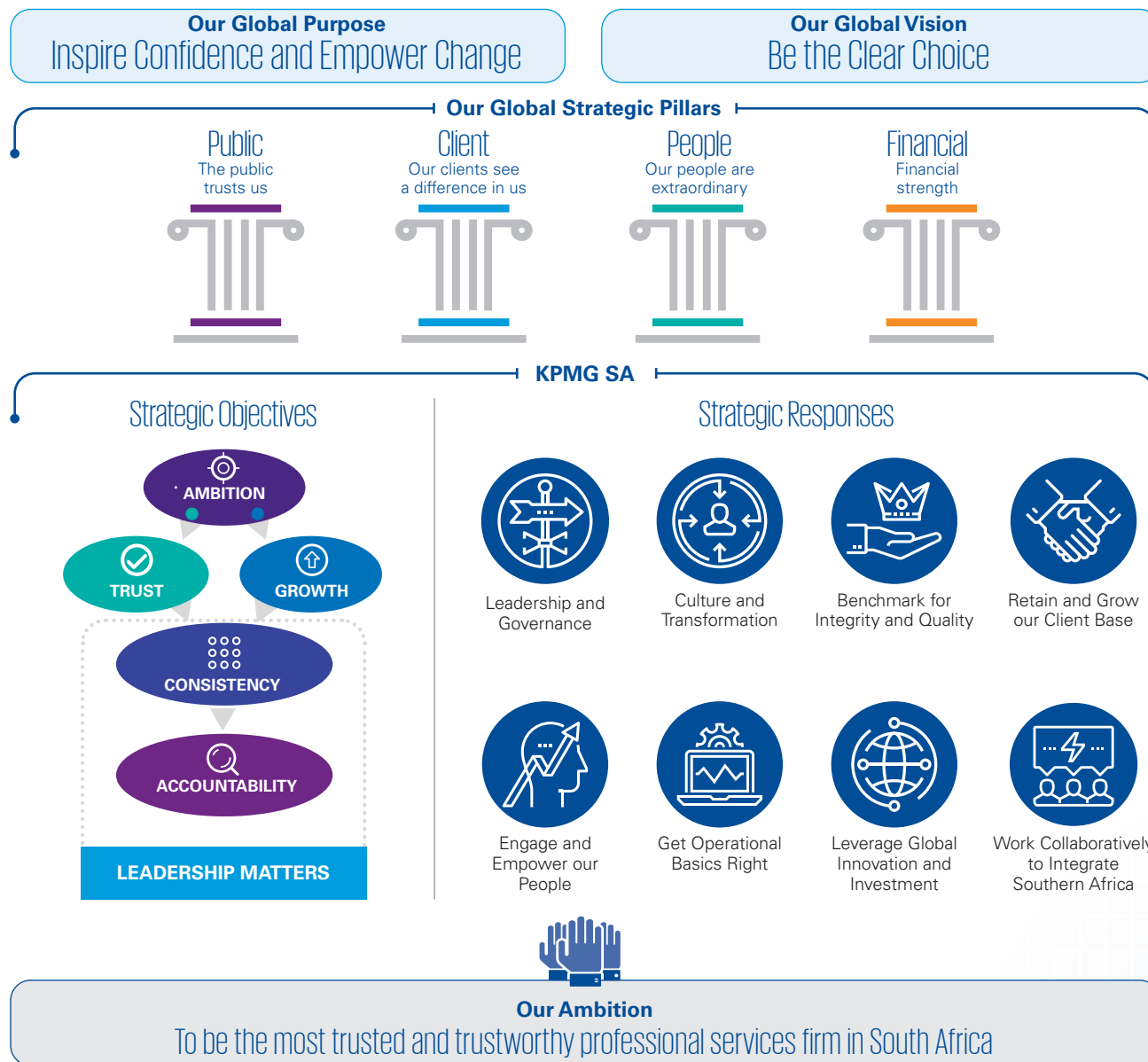
In a challenging and fast changing world, we want to play a meaningful role by serving our clients in protecting and creating value. The year provided an excellent opportunity to look back as well as ahead into the future.

Our new strategy is different in that it's not a global strategy, but rather a collective one. Working with the KPMG firms based in Germany, the UK and US, together with KPMGI and senior leaders from across the global organisation, we contribute to a strategy that outlines how we're going to act together. This commitment to working together and executing collectively is unique and will provide a strong platform for growth.

All firms, including KPMG SA are active agents in delivering the collective strategy.

However, this requires new levels of consistency and a commitment from every firm to invest together in the same priorities. This will strengthen our reputation, drive quality and grow our existing Audit, Tax and Advisory businesses.

The collective strategy is based on accountability, with each of us owning our decisions with confidence and conviction and accepting the attendant consequences.





## Leadership and governance

'Tone at the Top' is very important for the firm and was previously covered in our 2019 Transparency Report, where we described its meaning as the attitudes and conduct of the senior leadership team. Ultimately, the Tone at the Top sets the mood in the firm and determines how our stakeholders perceive us. The change in our leadership over the year has enabled us to demonstrate our commitment to quality, integrity and ethics by introducing various initiatives.

Leadership's goal is to rebuild KPMG SA through its renewed culture based on KPMG's refreshed values. This renewal leverages our values to drive positive change and behaviour, encouraging all our people to embrace our values to a point where they ultimately becomes a way of life. An embedded culture will stand us in good stead when systems fail, as they sometimes do. Any individual not willing to abide by this mindset does not fit into the newly refreshed soul of KPMG SA.

Audit quality underpins the independence of the work that we do for our clients and is consequently the firm's key priority. Serving the public interest drives us as we perform in our daily work. We create an environment that is conducive to each member of our diverse teams boldly challenging anything that is questionable without any fear of reprisal. We now have systems that make this achievable.



## Culture and Transformation Objectives

A diverse organisation remains key to remaining a high performing organisation. Having appropriately skilled and motivated people, who share our renewed sense of purpose and our commitment to acting with integrity

and the highest ethical standards, is key to our business continuity and to achieving our ambition to be the most trusted and trustworthy professional services firm. With this in mind, our key objectives are to create:

- A culture of accountability, focused on quality, ethics and serving the public interest
- An inclusive and transformed firm that reflects the demographics and diversity of South Africa.

### Achievements and milestones



**Level 1** BBBEE rating retained (December 2020)

**40%** black and **60%** female new partner promotions for FY21 year to date

Appointment of a **Black African female Non-Executive member** to the Policy Board in FY20

**Attrition rates normalised across all races**

New graduates recruited included **70%** black intake

Formal rollout of the **Culture** programme, incorporating the refreshed **values** and **ethics** programmes.

Anti-racism pledge signed by all **KPMG SA** partners

**26%** of **KPMG SA** colleagues participated in the **KPMG Global Organisation's Courageous Conversations**

Improvement on the **GPS scores** for diversity and inclusion. Our people feel that they are treated with dignity and respect at work.

### Future priorities

- A culture/values assessment to be conducted in Q3 of FY21
- Incorporate Courageous Conversations actions into KPMG SA's transformation strategy and plans
- Continue facilitating courageous conversations and transformation dialogues for South Africa
- Increase our Black African ownership to 35% on the basis of planned promotions.

Our culture renewal programme continues to be a strategic area of focus for the firm. We have now coordinated all programmes and initiatives contributing to the culture renewal objectives under a single programme governed by one steering group. This is to ensure alignment and achieve synergies across all the initiatives as well as ensure a successful culture renewal in the firm.

In FY20, a 360-degree feedback process was undertaken for half of our partner body and associate directors, with the other half to be conducted in FY21. Results of the 360-degree feedback are analysed thoroughly and remedial interventions implemented to address any behavioural aspects not aligned to our culture and values.

## Transformation scorecard

| Elements <sup>^</sup>               | FY20         |               |                     | FY19         |              |                     |
|-------------------------------------|--------------|---------------|---------------------|--------------|--------------|---------------------|
|                                     | Target score | KPMG SA       | Peer average score* | Target score | KPMG SA      | Peer average score* |
| Ownership score**                   | 25.0         | 23.1          | 24.3                | 25.0         | 25.0         | 24.6                |
| Black ownership percentage ***      | 51.0%        | 29.1%         | 36.2%               | 51.0%        | 27.3%        | 35.7%               |
| Management control                  | 19.0         | 14.7          | 12.4                | 19.0         | 14.6         | 12.3                |
| Skills development                  | 20.0         | 20.5          | 18.3                | 20.0         | 21.4         | 20.3                |
| Enterprise and supplier development | 42.0         | 38.7          | 44.1                | 40.0         | 37.0         | 41.1                |
| Socio-economic development          | 5.0          | 5.0           | 5.0                 | 5.0          | 5.0          | 5.0                 |
| <b>Total</b>                        | <b>111.0</b> | <b>102.03</b> | <b>104.0</b>        | <b>109.0</b> | <b>102.9</b> | <b>103.4</b>        |
| BBBEE level                         | 1            | 1             | 1                   | 1            | 1            | 1                   |

\* The peer average is an internal calculation of our major competitors

<sup>^</sup> Defined as per Broad-Based BEE scorecard

\*\* Ownership score considers black ownership, youth ownership, female ownership and the entry of new black directors into the partnership

\*\*\* Black ownership considers the voting rights and economic interests (profit share, earnings etc.) of both male and female black (African, Indian, Coloured) partners

We consider transformation central to our sustainability and profitability, and an essential aspect of our commitment to serving our communities and having a positive impact on South African society. Our ability to maintain a level 1 BBBEE contributor rating for the fourth consecutive year (certificate issued in December 2020) is testament to our ongoing commitment and initiatives.

While our level 1 rating is an important metric and achievement for us, genuine transformation is an organic process and about much more than numbers.

In 2020, we made good progress in implementing our renewed inclusion and diversity and social equality strategy, focused on delivering meaningful, dynamic change beyond scorecards.

Part of this renewed strategy is to ensure that transformation is achieved at all levels of leadership in the firm. A big focus area for us remains to ensure greater diversity at senior levels, for FY20 we achieved gradual increases in black representation at associate director and senior manager levels. This is a result of our dedicated promotion and talent management programmes which focus on accelerating the leadership development of our black talent. A lot of work however remains to be done in this area.

The Policy Board has 64.3% black representation and 42.9% female representation, while 42.9% of our Executive Committee is black and 35.7% is female. Overall, 55.5% of our people are female and 63.1% are black.

During the year, we enrolled 45 differently-abled individuals in learnerships.

In response to the unemployment challenges faced by our country, we channelled our efforts to providing self-employment opportunities to township youth via our entrepreneurship training programme, aptly named 'Give Yourself a Job', targeting 17 African female youths in Cosmo City and an additional eight beneficiaries in Winterveld.

## Workforce demographics

The percentage of black partners has increased when compared to the number of white partners. There was also an increase in the number of black colleagues.

| Ethnicity    | FY20         |            |           | FY19         |            |           |
|--------------|--------------|------------|-----------|--------------|------------|-----------|
|              | Black        | White      | Other     | Black        | White      | Other     |
| Partners     | 39           | 82         | 4         | 39           | 95         | 4         |
| Colleagues*  | 1 258        | 628        | 55        | 1 186        | 636        | 52        |
| <b>Total</b> | <b>1 297</b> | <b>710</b> | <b>59</b> | <b>1 225</b> | <b>731</b> | <b>56</b> |

\* Permanent employees and graduate trainees



## Graduate intake

Attracting and retaining the best talent requires a positive workplace that offers appropriate development opportunities, performance management and reward.

In FY20, the graduate recruitment team continued to prioritise recruiting the brightest minds and aspiring leaders, with a total of 303 successful graduates welcomed into the KPMG family nationally. These graduates underwent an intensive training programme to enhance their positive contribution to our clients.

Our national intake comprised 70% Africans, Indians and Coloureds, while 43% of our intake was Black African.

|        | Female                              | Male        | Total |
|--------|-------------------------------------|-------------|-------|
| Gender | 49%                                 | 51%         | 100%  |
|        | Black (AIC)                         | White/other | Total |
| Race   | 70% (of which 43% is Black African) | 30%         | 100%  |

## Talent by gender

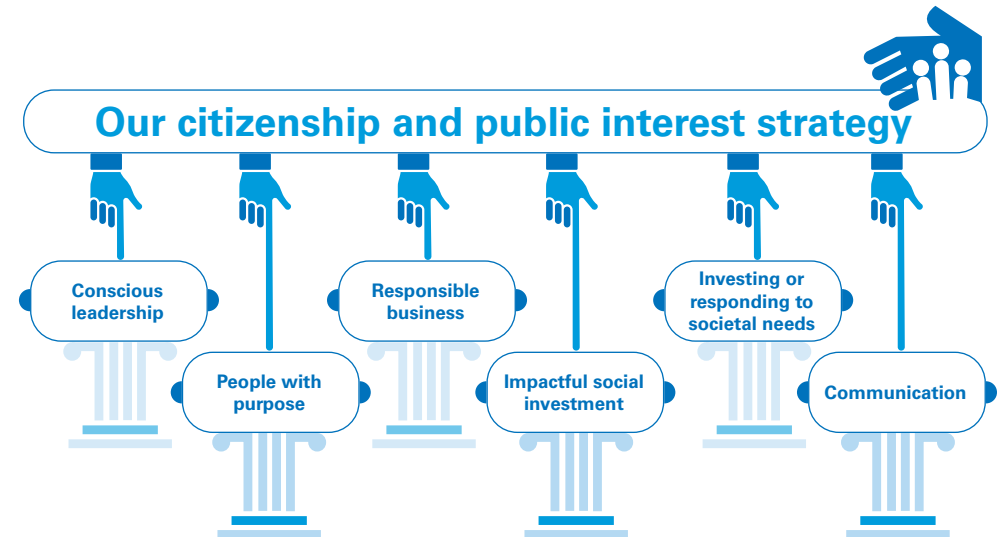
|              | FY20       |              | FY19       |              |
|--------------|------------|--------------|------------|--------------|
| Gender       | Male       | Female       | Male       | Female       |
| Partners     | 84         | 41           | 95         | 44           |
| Colleagues*  | 832        | 1 109        | 759        | 1 115        |
| <b>Total</b> | <b>916</b> | <b>1 150</b> | <b>854</b> | <b>1 158</b> |

\* Permanent employees and graduate trainees

We are creating a workplace where diversity and inclusion are encouraged and a culture in which people 'live' KPMG's values. This in turn has created a strong foundation for meeting our future priorities.

## Societal impact

As a professional services firm, our most significant social impact is through our work. Upholding the highest level of ethics and professional competence is our primary responsibility to society. However, we understand that as a responsible corporate citizen, we also need to be responsive to society's pressing needs.



Our six-pillar citizenship and public interest strategy aims to instill a societally-conscious culture within KPMG. The strategy is both internal and external facing. Internally, the focus has been on developing **conscious leadership** and **people with purpose** through increased exposure to societal matters. Another internal focus has been to support **responsible business** through embedding Environmental, Social and Governance (ESG) across key functions. Externally we have been building **meaningful relations with societal stakeholders** whose voices have significantly shaped our reforms and focus; and **making impactful social investment** through the provision of skills, time or

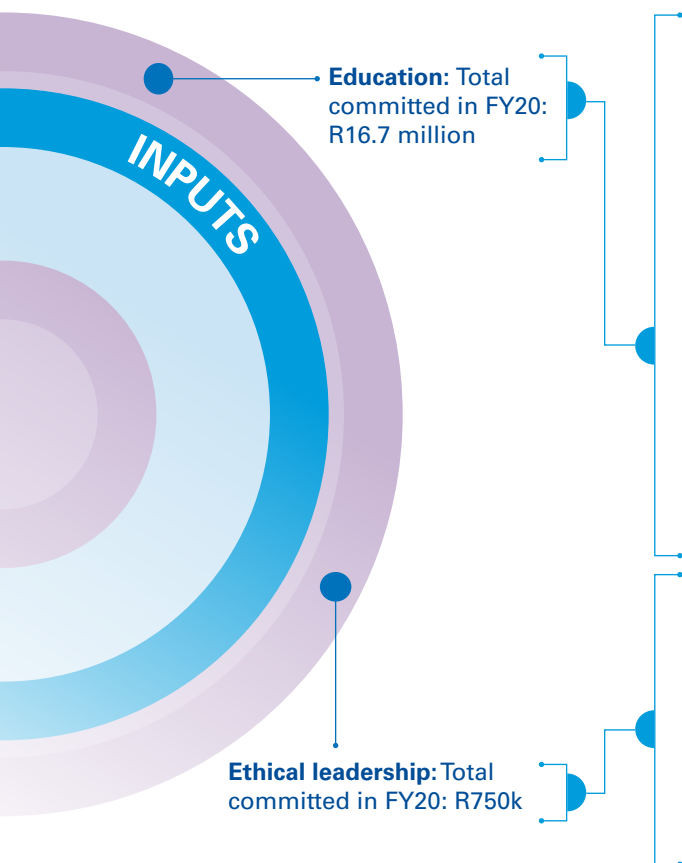
money. Effective **communication** with key internal and external stakeholders is a key lever in building trust.

In FY20, driven by the pressing needs of society following the COVID-19 pandemic, our social investment pillar has been the most active. KPMG SA was privileged to be part of the Business for South Africa response whereby professionals from across the firm provided over 3 000 *pro-bono* hours as part of a comprehensive COVID-19 response by business.

A total amount of **R29.2 million** was committed to the development of our communities in FY20. A summary of key activities for the year is set out below.

## Our investment in social capital

We are pleased to report that our social capital investment increased significantly, rising from 0.4% as a percentage of revenue in FY19 to 1.7% in FY20. (Please refer to our business model on page 17 to see how this relates to the other capitals and the table setting out our strategic risks and opportunities to see the links to various SDGs on page 43.



| KEY ACTIVITIES   | OUTPUTS   | OUTCOMES   |
|--|---|--|
| <b>Education</b>   |   |  |
| <ul style="list-style-type: none"> <li>• R10.4 million to bursaries and Thuthuka</li> <li>• R3.9 million to disability learnerships</li> <li>• Enactus support</li> <li>• Volunteering - university supplementary teaching</li> <li>• KPMG Family for Literacy (KFFL)</li> <li>• Early Childhood Development (ECD) support.</li> </ul> | <ul style="list-style-type: none"> <li>• 24 organisations supported financially; over 10 000 beneficiaries reached</li> <li>• 62 KPMG volunteers participated in the 2020 Enactus Virtual Competition</li> <li>• 10 Universities participating in the supplementary teaching programme</li> <li>• 5000 books to be delivered to 5000 learners for KFFL</li> <li>• A total of 16 ECD centres supported.</li> </ul> | <ul style="list-style-type: none"> <li>• Contribution towards enhancement of education outcomes and employability.</li> </ul>  |
| <b>Ethical leadership</b>  |   |  |
| <ul style="list-style-type: none"> <li>• Continued support of the anti-corruption and social justice organisations.</li> </ul>   | <ul style="list-style-type: none"> <li>• Social Justice Initiative, Democracy Works Foundation and the National Business Initiative supported.</li> </ul>   | <ul style="list-style-type: none"> <li>• Deepening accountability and transparency in the public and private sectors</li> <li>• Strengthening democracy through a focus on social justice and developing young, values based leaders.</li> </ul> |



Primary SDGs





| KEY ACTIVITIES  | OUTPUTS  | OUTCOMES  |
|---|--|---|
| <b>Enterprise development</b>   |  |   |
| <ul style="list-style-type: none"> <li>Provision of training, business development support, infrastructure support and access to markets.</li> <li>Entrepreneurship training programme for underemployed or unemployed township youth</li> <li>Volunteering – SMME training.</li> </ul> | <ul style="list-style-type: none"> <li>23 firms supported through business training and support, and access to markets</li> <li>25 underemployed or unemployed township youth</li> <li>KPMG Volunteering:               <ul style="list-style-type: none"> <li>13 micro-enterprises trained as part of The Hope Factory COVID-19 relief programme</li> <li>150 attendees of the KPMG Wesgro Tax webinars.</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>Supporting the sustainability of small, medium and micro enterprises</li> <li>Empowering entrepreneurs with skills that build resilience and problem solving mindset.</li> </ul> |
| <b>Gender-Based Violence</b>  |  |   |
| <ul style="list-style-type: none"> <li>Continued support to Tswaranang Legacy Advocacy Centre (TLAC) for provision of legal support to victims and survivors of GBV</li> <li>Partnered with Sonke Gender Justice (Sonke) for internal initiatives.</li> </ul>                           | <ul style="list-style-type: none"> <li>Tswaranang Legacy Advocacy Centre developing an app to broaden access to legal support for victims and survivors of GBV</li> <li>KPMG GBV Education and Awareness sessions by Sonke.</li> </ul>   | <ul style="list-style-type: none"> <li>Contribution towards continued provision of legal support to victims and survivors of GBV</li> <li>Improved GBV knowledge and responses at KPMG SA.</li> </ul>                   |

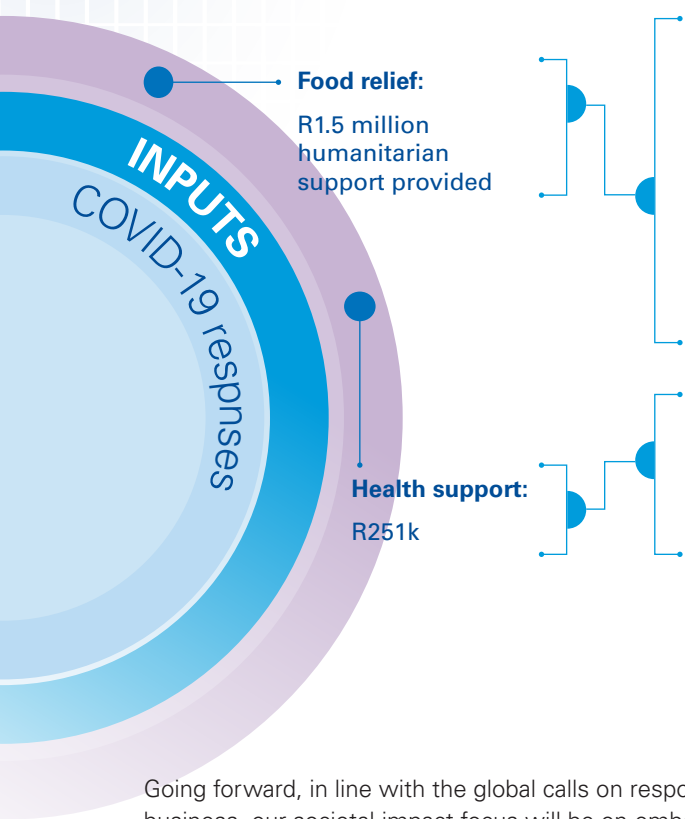
8 DECENT WORK AND ECONOMIC GROWTH



Primary SDGs

5 GENDER EQUALITY





| KEY ACTIVITIES  | OUTPUTS  | OUTCOMES  |
|---|--|---|
| <ul style="list-style-type: none"> <li>Provision of food relief to our most vulnerable communities through continued support to KPMG SA beneficiaries (including Public Interest Funding beneficiaries).</li> </ul> | <ul style="list-style-type: none"> <li>Soul Food: 300 000 meals planned for the year to 1 000 learners</li> <li>160 senior citizens' homes, nine ECDs and one school feeding scheme supported</li> <li>Three community based non-profits supported.</li> </ul> | <ul style="list-style-type: none"> <li>Short-term food relief provided to communities to alleviate hunger.</li> </ul> |
| <ul style="list-style-type: none"> <li>Provision of protective, personal equipment and sanitisers</li> <li>Support provided to KZN Doctors on Call COVID helpline.</li> </ul>                                       | <ul style="list-style-type: none"> <li>160 senior citizens' homes and nine ECDs supported</li> <li>5 seats enabling 5 000 free consults (1 000 consults per seat).</li> </ul>  | <ul style="list-style-type: none"> <li>Contribution towards positive community health.</li> </ul>                     |

Primary SDGs

2 ZERO HUNGER

3 GOOD HEALTH AND WELL-BEING

Going forward, in line with the global calls on responsible business, our societal impact focus will be on embedding Environmental, Social and Governance (ESG) within our core business functions and operations. This journey that has already started as we seek to ensure that ESG issues are key considerations across our services.

At a global level, KPMG has made bold ESG commitments with greater emphasis on climate action. KPMG aims to

be a net zero carbon business by 2030 through adopting a 1.5°C science-based target, reducing direct and indirect greenhouse gas emissions by 50 percent, moving to 100 percent renewable energy and offsetting any residual carbon with Gold Standard Projects.

KPMG SA has played an active role in the development of this global ambition and we are working to align with it locally. However, the renewable energy target will

be extremely challenging to achieve, given our country context and the fact that most electricity is generated by Eskom, which is largely dependent on coal. We are working closely with our Sustainability Services, Facilities and Global Citizenship teams to explore viable and affordable options that would substantially increase our use of renewable energy.



## Benchmark for Integrity and Quality

We want to be 'the clear choice' for clients, employees and society at large when it comes to leading the change or providing the foundation of trust and confidence needed to make the change.

To uphold the highest levels of quality and integrity in all areas of our work, we are investing cross-functionally in our processes, methodologies and systems. This is to ensure every piece of work we do consistently meets the standards expected of us and our profession, so we build trust and grow in a way of which we are proud.

We aim to:

- Deliver consistent, trusted results in terms of audit quality within a global framework based on consistent execution of audits, in line with the requirements and intent of applicable professional standards and a strong system of quality controls
- Undertake all activities in an environment of the utmost level of objectivity, independence, ethics and integrity.

All areas of our firm will experience a significant increase in focus on quality and integrity through the changes we are making to the way we measure performance, train and develop our people, as well as the way in which we ensure our culture reflects KPMG's values. Other related work currently underway includes the new accreditation programme rolled out earlier this year to ensure that Advisory professionals are fully versed in a solution before starting a client engagement. We also continue to drive discussions with stakeholders on the topic of responsible tax.



## Retain and Grow our Client Base

FY20 saw a continued focus on quality delivery work on our engagements in order to retain our current client base. In addition the business has been actively engaged in market opportunities emanating from mandatory firm rotation requirements for public interest entities. These market processes not only impact on Audit but also on Tax and Advisory opportunities as most clients have to consider Independence as they change audit service providers. Our opportunity pipeline is strong and we remain humbled and thankful to the various clients and potential clients that see that KPMG SA has a voice and role to play in shaping the future profession.

Our client satisfaction survey provides evidence from our sampled client base that in a majority of cases, they were 'Very satisfied' or 'Extremely satisfied' with their engagement with KPMG SA (see page 34 for more information). We are also pleased that increased client engagement is contributing to the stability across our client base.

### Objectives

In retaining and growing our client base, we have very clear objectives.

- Multidisciplinary collaboration within regulatory frameworks
- Continuing to win significant new audit clients through our commitment to quality and public interest
- Continuing to win significant advisory and tax opportunities at non-audit clients through technological innovation and deepened sector expertise and global connectivity<sup>1</sup>
- Retaining clients by being a trusted advisor
- Continuing communication and engagement on legacy issues and strategy going forward
- Focusing on client matters that require solutions in the future for example ESG and Digitisation.



## Achievements and milestones

We made significant progress on our journey to rebuild trust in FY20, highlighted by the following:

New appointments by notable listed audit clients

Successfully bidding for and winning new advisory mandates at priority clients

Regaining market permission at clients that had disengaged KPMG SA in prior years

Won two large innovative, digital transformational engagements in the market

Continued reduction of adverse media and growing recognition of our changes and reforms published

Continued constructive engagements with the regulatory professional body

<sup>1</sup>Our new non-audit services policy for JSE-listed audit clients was announced subsequent to year-end, on 15 February 2021.



### Client and account management

Our client and account management process continue being a priority focus going forward. We refocused our efforts in terms of how we go-to-market and this has translated to some key audit wins through the year. We continue to focus on the following three specific areas in this regard:

|             | Client insights and engagement   | Account management  | Pursuits and opportunity management   |
|-------------|--|---|---|
| <b>What</b> | Obtaining a robust view from our clients regarding how they view KPMG SA to ensure that we maintain our focus on our client's strategic objectives | Developing client-centric strategies that are validated with our clients to achieve their objectives and drive growth for both the client and KPMG SA | Co-creating solutions and improving the way we engage with our clients to ensure opportunities are consistently managed in a disciplined and responsible manner |
| <b>How</b>  | Through effective relationship reviews and opportunities/engagements debriefs.   | Through dedicated client service teams with focused account plans that are aligned with our clients.  | Through our pipeline, qualification and opportunity management framework.   |

### Sector prioritisation and focus

Our sector strategies were developed and prioritised to align with the needs of our customers' sectors. This value-adding sectoral focus, categorises clients as accounts with dedicated lead partners feeding into functional leaders to drive shared learnings, growth and success, even in trying times. In order to enhance KPMG SA's profile of thought leadership, we will continue to shape discussions on sectoral perspectives going forward.

### Mandatory Audit Firm Rotation (MAFR)

MAFR is a game changer that will have a significant impact on our clients, our business and our profession. Audit relationships with the largest South African companies will be limited to a maximum of ten years before they are required to rotate. Our audit clients today may be our advisory clients tomorrow. We have put in place extensive measures that ensure our readiness in response to this new market environment.

As a result, clients are looking to us for guidance as they face complex decisions on how to manage their professional services providers. This is a unique opportunity for KPMG SA as we grow our client relationships in an environment in which many of our clients will reevaluate their professional services providers. Through our established Game Changer Programme we can tap into our global framework to effectively harness both local and global expertise

In addition, strong account management, targeted relationship building, together with effective opportunity and pursuit management, enable us to compile an effective strategy to benefit from the growth opportunities provided by MAFR.

We have already seen a significant impact and early adoption of MAFR by the increase in the number of audit tenders in the market. We have also seen early wins which highlight the firm's success in winning back public trust.

It should be noted that we cannot, and will not, be seen to do anything during either phase of our relationship with clients that could challenge the real or perceived independence or quality of an outgoing or incoming audit.

KPMG SA is selective when it comes to the tenders we participate in as we are conscious of our capacity and how we adapt to the changing market. Our Game Changer Programme enables us to be strategic in terms of market engagement. We are committed to ensuring that we do not compromise on quality while establishing KPMG as the clear choice for our clients and our people and enhancing trust in our profession.

### Looking forward

The market will remain challenging as the economic consequences of the pandemic will remain with us. There are however some green shoots for example the marginal corporate tax relief announced subsequent to this reporting cycle.

We remain resolute in striving for our ambition whilst doing the basics right. In doing so we are confident in our growth prospects in the medium term across our portfolio of audit, tax and advisory.



### Engage and Empower our People

Over the past year, we focused on further driving the best development experience at KPMG SA. Aligned to our ambition, we aim to find, recruit, grow and connect extraordinary people who can deliver a differentiated client experience and earn the highest level of public trust.

We aim to build a firm for extraordinary talent that's full of motivated people. This will include much greater diversity in the people we recruit and train, including more technologists, data scientists, mathematicians and other specialists to reflect the changing nature of the work we do.

In order to ensure our people are better able to serve clients wherever needed, make cross-border moves simple and seamless by addressing technology and policy issues. This will help instill a mindset and culture where mobility is seen as critical to our people's development, especially as they move into more senior roles.

Although COVID-19 had a significant impact on the pace of transformation and priorities, the strategic direction of our People agenda is still as valid as ever.

### Objectives

Our people underpin our business success. We cannot achieve our ambition of being the most trusted and trustworthy firm without their engagement with the business, colleagues and this ambition. Against this backdrop, our key objectives are to:

- Attract, motivate and retain key talent
- Develop a pipeline of inclusive leaders who will contribute to our public interest objectives
- Embrace transformation, diversity and inclusion.



### Achievements and milestones

If we want to make a distinctive and meaningful contribution to our ambitions, we need top talents and to empower people to achieve their full potential. We are pleased to report that we are making steady progress on our journey to engage and empower our people, having achieved the following milestones in FY20:

- **The Global People Survey (GPS)** results show significant improvement in our three strategic priority areas leadership and trust, career growth and well-being, and open communication. These FY20 results demonstrate the impact of our progress in addressing these priorities. We have also seen a significant increase in Corporate Citizenship and Innovation which is testament to the way we have all adapted to working Together, For Better in this challenging year
- **Recognition scheme** – We introduced an enhanced online recognition scheme (Bluebucks) to form a valuable part of our total reward offering with the key focus being on supporting our culture of celebrating the demonstration of KPMG's values and behaviours by recognising our Colleagues who go the extra mile. In FY20, more than 90% of our colleagues were active on our recognition platform with 67% of colleagues having been recognised for their contributions
- **Well-being and support** – Much of the support we have provided to our colleagues was focused on their well-being and supporting them in the challenging times since the COVID crisis began. We provided virtual sessions to support our Colleagues with the unexpected challenges due to COVID with weekly guidance on various well-being themes. A future priority includes the rollout of our formal well-being strategy, launched in February 2021, with specific focus on the importance of providing our people with the support and resources to care for their well-being with a commitment from the firm, taking into account the 'whole person' and with full integration in the people strategy
- We improved our performance development in the firm through launching a **formal mentoring programme** with introductory sessions on what it means to be a mentor.
- **Performance development** sessions were held with our Performance Managers to support them in their role as part of the year end process which was attended by 80% of our Performance Managers
- Introduced the **Opportunity-led promotions** approach
- We are delighted Exco approved our Talent Development framework in response to our commitment to colleagues' career growth, which is one of the firm's priority areas. In addition, this forms part of our response to the 2020 GPS results, around Career Growth, where we would like to give colleagues the opportunity to learn new skills and develop as well as build their career at KPMG. One of the pillars of our Talent Development framework, is the Emerging Leader Programme. The programme will be launched on a pilot basis FY21.

### COVID mini Pulse Survey

The rapid spread of the COVID-19 pandemic led to KPMG globally proactively conducting a rapid pulse survey with questions intended for the firm to understand and engage colleagues with a view of their varying backgrounds and how they are managing under the new normal.

Over 60% of Colleagues shared their views on our gradual return to the workplace, the additional support they need and what their future at KPMG looks like.

The feedback was invaluable and clear from the survey results that are summarised below that majority of colleagues 'felt anxious or worried due to the coronavirus', something we were acutely aware of. What was overwhelmingly positive was colleague views on the support they were still getting and colleagues thinking we're continuing to do a very good job of prioritising their safety and wellbeing and keeping them informed about matters affecting the firm.

A high level overview of the survey results was as follows:



We have established a wellbeing function sponsored by an Exco member as an indication that our people matter to us. Additional support is provided through our various communication channels and by going to the COVID and Me portal page and our client COVID portal page. A number of initiatives addressing matters raised have been implemented to show our people that they spoke and we listened and continue to listen.

### Retrenchment and recruitment

#### Retrenchments

Global developments related to the COVID-19 pandemic have adversely affected the South African economy. This impacted the firm in the form of loss of clients; reduced demand for certain services and decreased revenue. Accordingly, we were forced to review our business structures, staff headcount, FY21 budgets, operating model and costs in the Tax and Infrastructure functions in order to ensure our long-term sustainability.

In reviewing the Tax function's existing structures, the Exco and Policy Board considered the following:

- Commitments from clients and the pipeline of work which Tax could realistically expect for the foreseeable future
- The viability of certain areas of the business in relation to diminished client activity
- The business areas on which Tax needs to focus in order to service clients' needs
- Business costs for the foreseeable future.

The analysis highlighted that the existing business structure was not aligned with the foreseeable pipeline of work and that it was overstaffed. In addition, the analysis indicated the need for Tax to change its operating model in certain areas.

Additionally, a decision was taken to reduce the number of functional business support roles in the four offices.

As this was deemed a large-scale retrenchment, our process was guided by Section 189(A) of the Labour Relations Act, 1995 (LRA). Letters were issued to approximately 60 colleagues across the firm, providing the relevant information as required by Section 189(3) of the LRA. Extensive consultations were held with all affected colleagues over the required 60-day period on the proposed business rationale, selection criteria, timing, assistance and severance packages. All viable alternatives were considered, including long-term secondments to other offices and countries, reduction in hours during certain quiet periods, revised budgets and redeployment. Colleagues were given opportunities to make written submissions on all proposals and agreement was reached with all affected colleagues and 21 colleagues were discharged for operational reasons at the end of October 2020.

#### Recruitments

We strive to ensure that the best minds are identified and afforded the opportunity to diversify their skillsets when required. Recruitment is business plan driven and is supported by our recently launched opportunity-led promotions approach – an approach which ensures recruitment is aligned to business strategy.

Subsequent to year-end we recruited 280 new graduate recruits and promoted to partnership 15 new Partners – as we start looking to growth past the pandemic.

## Attrition rates

We proactively monitor our attrition rates on a monthly basis and will continue to benchmark these rates against our functional attrition targets which are incorporated as a key performance indicator (KPI) in our partner scorecards.

In FY20 our firm's attrition was 9% (18% in FY19), with the sharpest decreases seen in Advisory followed by Tax.

Both male and female attrition has decreased to 9% from 19% and 18% respectively when compared to the October 2018 to September 2019 period.

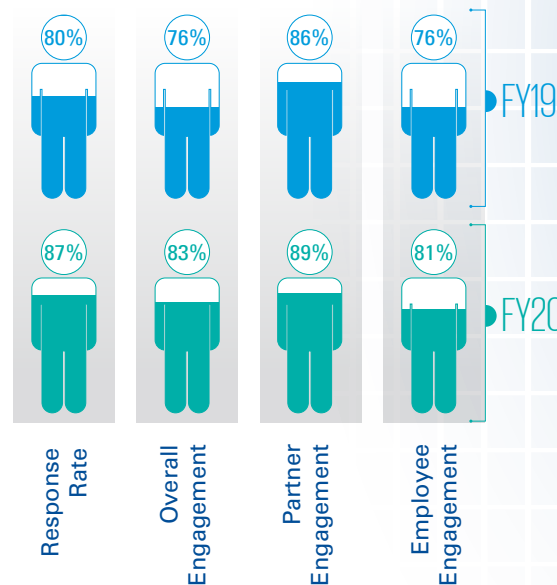
Attrition levels decreased across all races, with Coloured and Other colleagues seeing the sharpest decreases (13%), followed by a 10% decrease for White colleagues, 9% for Indian colleagues and 8% for African colleagues

## Employee Engagement Global People Survey Results

The Global People Survey (GPS) is a critical part of KPMG's engagement strategy. Conducted annually, it invites KPMG people from around the world to tell us how they are feeling about KPMG. It enables us to measure levels of employee engagement, understand what drives engagement and helps us gain vital insights into how we can make KPMG a more inclusive, supportive, client-oriented and values-based firm.

This year, 87% of our people participated in completing our GPS. Our overall engagement index score (EI) was 83% with significant improvement in our partner engagement (89%) and employee engagement (81%).

Since our last GPS conducted in October 2019, we have seen the EI score increase by 7 points with a significant increase in our three priority areas of leadership and trust, well-being and career growth and open communication. We have also seen a significant increase in corporate citizenship and innovation which is testament to the way we have all adapted to working Together, For Better in this challenging year.



### Employee well-being

Engaging our colleagues and looking after their well-being is our core focus. While our strategic priorities stayed the same, our first priority was to keep our people healthy and safe, both physically and mentally

In 2020, we extended our health and well-being offering to support the physical and mental welfare of our professionals through virtual sessions to support our colleagues with the unexpected challenges due to COVID. We provided weekly guidance to our Colleagues on various well-being themes, available on our internal portal. Our revised well-being strategy will be launched early in 2021.

### Global mobility

#### Short-term assignments (12 months or less)

|                | FY20      |           | FY19      |            |
|----------------|-----------|-----------|-----------|------------|
|                | Inbound   | Outbound  | Inbound   | Outbound   |
| Tax            | 1         | 0         | 0         | 0          |
| Audit          | 68        | 85        | 23        | 143        |
| Advisory       | 13        | 1         | 13        | 1          |
| Infrastructure | 0         | 0         | 0         | 0          |
| <b>Total</b>   | <b>82</b> | <b>86</b> | <b>36</b> | <b>144</b> |

#### Long-term assignments (13 months or more)

|                | FY20      |           | FY19     |           |
|----------------|-----------|-----------|----------|-----------|
|                | Inbound   | Outbound  | Inbound  | Outbound  |
| Tax            | 0         | 2         | 0        | 2         |
| Audit          | 6         | 35        | 4        | 21        |
| Advisory       | 8         | 12        | 4        | 1         |
| Infrastructure | 0         | 3         | 0        | 2         |
| <b>Total</b>   | <b>14</b> | <b>52</b> | <b>8</b> | <b>26</b> |

Short and long-term assignments through our Global Mobility programme (GO) are both an attractive benefit and a retention tool for specialised skills in the business. GO builds this base of skills in the global organisation through the various programmes and opportunities that are available to our partners and staff. The GO initiative is also a good opportunity for our newly qualified chartered accountants to gain international experience. As the SAICA qualification is very prestigious and highly regarded among KPMG member firms globally, assignees from South Africa are often a preferred choice, especially in the Audit profession.

During the first quarter of FY20, GO was able to source and secure opportunities for 82 short-term inbound assignees into South Africa and 84 short-term outbound assignees from South Africa to other KPMG member firms. Most of the assignments were for the Audit busy season period (November – March).

At the beginning of March 2020, the COVID-19 pandemic broke out globally and many countries were forced to implement a hard lockdown to avoid the further spread of the virus. The GO team managed to successfully repatriate 80 of the short-term inbound assignees back to their respective countries and we were able to repatriate 42 of our outbound short-term assignees before the hard lockdown was implemented in South Africa at midnight on 27 March 2020. The other 42 short-term assignees were repatriated during the hard lockdown once their assignments came to an end.

Following the outbreak of COVID-19, the GO international central team had to devise new ways of continuing with global assignments and servicing our member firms and clients during the pandemic. An interim solution under consideration is virtual remote working assignments, where physical travel is not permitted to high risk countries. While we are assessing the risks for these types of assignments, where possible, they will open up new opportunities in the way we mobilise our talent pool across the KPMG global organisation.

### Skills development and training

FY20 saw the introduction of a renewed, five-year Learning & Development Strategic Framework which focuses on four areas as set out in the diagram below.





Achieving and implementing this strategy is based on five key fundamentals:

- 1 **Aligning the learning strategy with the people and business strategy**
- 2 **Creating a complementary, target operating model**
- 3 **Designing a diverse blend of learning curriculum**
- 4 **Investing in emerging technology solutions**
- 5 **Establishing learning analytics.**

With the world becoming more digital, we have witnessed the major effect that technology and connectivity has had on consumer behaviour and on the products, services and business models of our clients and KPMG itself. This is why digital and innovation has been a major focus area for all of our business functions in the transition towards digital leadership. We have set out on a journey to digitalise our service offerings and to transform our firm to be able to compete in a digital era.

During FY20, KPMG SA employed digital learning solutions in an unprecedented manner. From the start of the national lockdown on 27 March 2020, all training has been digitised and converted to online modules. We made use of a variety of modalities, including eLearning, virtual classrooms, podcasting, microlearning videos, iPDFs and other typical video conferencing software. This resulted in a rich, multimodal online experience for our colleagues.

We provided all colleagues with access to the Coursera (an open online platform) for Employee Resilience programme and piloted an online offering from training provider Go1 for our infrastructure colleagues. Making use of third-party offerings is becoming a bigger part of our approach to upskilling our colleagues and ensuring their skills are relevant for both their internal and external clients. Further, an in-house offering named 'Learning Unlocked' was made available during Level 5 and Level 4 lockdown.

The first virtual Partner Assessment Centre for KPMG Africa region member firms ran in August 2020. This provided candidates with a rigorous yet differentiated experience as they embraced a new way of working, meeting and interacting. Similar centres were subsequently designed and implemented. We held five KPMG Clara virtual workshops: one for colleagues in Technology Assurance and the remaining four for Audit colleagues.

As the firm, our country and the world continue to battle the COVID-19 pandemic, we look to both technology and the creativity of our people as we provide necessary training and development opportunities in an uncertain future.

## Classroom training hours

|                | FY20          | FY19           |
|----------------|---------------|----------------|
| Audit          | 39 784        | 69 368         |
| Tax            | 11 382        | 6 732          |
| Advisory       | 13 781        | 28 041         |
| Infrastructure | 1 591         | 4 890          |
| <b>Total</b>   | <b>66 538</b> | <b>109 031</b> |

## Technology based training hours

|                | FY20           | FY19          |
|----------------|----------------|---------------|
| Audit          | 75 012         | 40 673        |
| Tax            | 3 239          | 2 216         |
| Advisory       | 20 466         | 9 631         |
| Infrastructure | 3 074          | 3 997         |
| <b>Total</b>   | <b>101 791</b> | <b>56 517</b> |

## Developing future talent

KPMG SA contributes to the development of future leaders in the auditing profession by attracting and developing talented individuals and through participating in the South African Institute of Chartered Accountants (SAICA) training programme and the audit development programme of the IRBA.

The following table compares the KPMG SA and national pass rates in the SAICA Assessment of Professional Competence (APC) and Initial Test of Competence (ITC) examinations:

| Exam              | KPMG pass rate   | National pass rate (SAICA) |
|-------------------|------------------|----------------------------|
| June 2019 ITC     | 69% (Black*:65%) | 38% (Black*:36%)           |
| November 2020 ITC | 28% (Black*:26%) | 22% (Black*:22%)           |

\* Black: African, Coloured and Indian

We are proud of a KPMG candidate who was included in the November 2019 APC honours roll.

### Colleague Business Forum

Our people continued displayed resilience and agility through the unprecedented challenges that characterised 2020. The firm facilitated open communication and feedback amongst colleagues in various channels by creating a collaborative, transparent work environment, including Colleague Connect Sessions and the Colleague Business Forum (CBF).

Our individuals and teams successfully adapted to change in virtual working – necessary to ensure safety and protect the lives of our people during the COVID-19 pandemic. The roll out of Microsoft Teams was instrumental in this regard. Our people were extremely receptive to our wellness initiatives which contributed to an increased focus on our health and wellbeing. The CBF continues to strive for excellence in all we do upholding the KPMG values.

### Looking forward

Our competitors can replicate our process and possibly even our technology, but they cannot replicate our people, which is why we place such a high priority on them. Looking forward, our strategic priorities include:

#### Agile working approach

As part of our commitment to give our colleagues more flexibility in the way that they work under the new reality, while still recognising the need to deliver on our client commitments, we will be introducing agile working approaches that will be made available to our permanent colleagues.

#### People Leader model

The People Leader model is a framework that aims to strengthen and boost the People Performance and Culture team's reach within the business by bringing in experienced Senior Managers and Associate Directors to focus on specific People process priority areas. The People Leader model will be launched and embedded to create a community of support and insights to better support our People and enable partners to focus on the market.

#### Strengthen our culture for our 'New Reality'

We will be rolling out a culture project detailing our current and desired culture with an implementation plan on how to bridge the gap.

#### Digital learning solutions

Drive increased levels of engagement through a best in class people experience.

#### Develop workplace and workforce of the future framework

The People Performance and Culture team in collaboration with business leadership will establish their requirements of the of the future workforce and workplace and define a framework for KPMG SA. The agile work arrangement will be revisited to focus on the three main hubs where colleagues operate i.e. client hub, office hub and home hub.

#### Launch new ways of working as part of our 'New Reality'

Opportunity-led Promotion Strategy amongst other priorities - we continue to prioritise talent retention and facilitate progression within the firm while being faced with budget constraints. We do this by providing our Talent clear guidelines for our 'new reality' and revisiting our promotion approach that promotes agility and positions KPMG as an employer of choice.

#### Wellbeing strategy

Provide colleagues with a framework that supports physical and mental health matters.

#### Strengthen induction & onboarding process

To ensure seamless integration / transition of new joiners to the social and performance development aspects of their new role and become productive, contributing members of the firm. To welcome and inspire new colleagues to stay with the firm so that value is realised by both colleague and the firm and in current times whilst working remotely.

#### Develop an integrated Talent Development Strategy

To build, attract, retain the best talent, and develop them through well-targeted development efforts whilst building the firm's bench strength to ensure long-term growth and stability by addressing risk of capability gaps in key roles underpinned by our transformation imperative.

#### Roll out Pan African virtual leadership development and assessment centres

To create an environment where we assess and develop Talent for senior roles utilising KPMG approved methodologies to build talent pipeline with the right candidates attending the centres and in line with our transformation targets.



## Getting the Operational Basics Right

### KPMG SA financial highlights

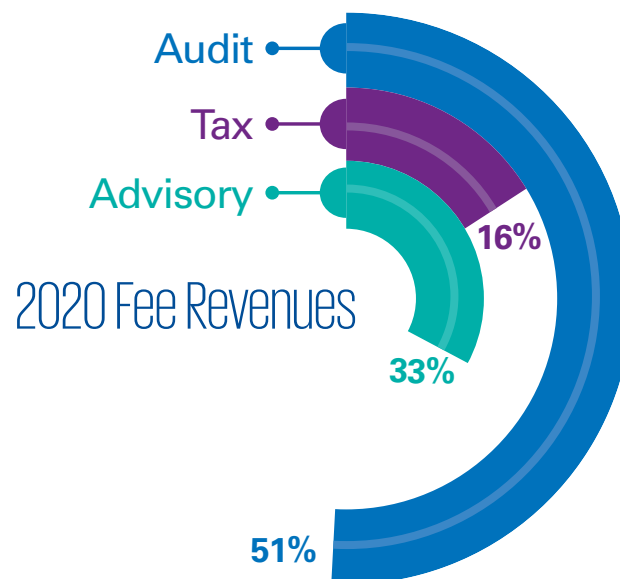
KPMG SA has taken the setbacks of the past few years as an opportunity to adopt a lean and agile operating model, focused on aligning key margin areas and a balanced risk spend.

During the past few years KPMG SA has closed its offices in many parts of the country, exited certain business lines and took steps to reduce the staff complement. Colleagues and partners were equally affected, as was the organisation's intake of graduate trainees, the lifeblood of the assurance organisation and the training grounds for many future business leaders. The firm, supported by international KPMG member firms, raced to assist and redesign the operating model; to both right-size the cost base but also ensure a quality of service that would prevent and safeguard the operations against catastrophic events.

|                                | FY20   | FY19   |
|--------------------------------|--------|--------|
| Fee revenues                   | R1.7bn | R1.8bn |
| Fee revenues (Top 200 clients) | R1.2bn | R1.2bn |
| Operating cost %               | 44%    | 55%    |
| CSI spend (% of revenue)       | 1.7%   | 0.4%   |
| Staff                          | 1 941  | 1 874  |
| Number of partners             | 125    | 138    |

### Revenues

Fee revenues declined by 6% year on year, the firm had expected a year of stability to build on past quality initiatives and to rebuild trust in the market, but the effect of a prolonged COVID-19 lockdown impacted on the achievement of targets.



### Quality

A continued measure of the firm's commitment to quality is the fact that 7% of fee revenue was invested in risk and quality measures in FY20 (FY19: 9%). These initiatives include aligning with global best risk practice, independent risk reviews, both of processes and during engagements and establishment of core functions to monitor quality on an ongoing basis.

### Non-audit services

The firm's operating structure, risk policies and monitoring procedures, linked to global best practices, create distinct protocols and in some case barriers to the provision of assurance as well as advisory services to the same client. During FY20, 8% of revenue earned from the audit function was made up of ancillary non-audit services (FY19: 9%).

### Cost model

The infrastructure operating model, our core internal support function, managed to contain cost growth despite inflationary pressures. Continued improvement in efficiency and a reduction in vacant office space has seen many of the legacy costs reduced. Central infrastructure spend reduced by 33% from FY19.

### ISO compliance

The firm currently complies with and is certified in the following three ISO standards:

- Health and Safety (ISO 45001)
- Quality (ISO 9001)
- Environmental (ISO 14001)

Annual surveillance is performed with a re-certification completed every three years; the most recent re-certification review was conducted in November and December 2020.

### Global support

KPMGI continues to support the local firm's endeavours to achieve excellence in risk and quality. Many of the resources from other member firms, so instrumental in assisting the firm achieve this objective, have since returned to other assignments or home countries, and whilst support remains in the form of oversight and financial support from KPMGI and its related entities, KPMG SA is able to effectively manage with mostly local resources.

### Partner remuneration

Partners' remuneration includes salary, medical aid, performance incentive, retirement and life benefits and is benchmarked against performance of the individual, division and the firm.

During 2020 all partners, including non-executive members, unanimously agreed to take a voluntary six-month pay reduction to mitigate any possible adverse effects of the COVID-19 on the firm.

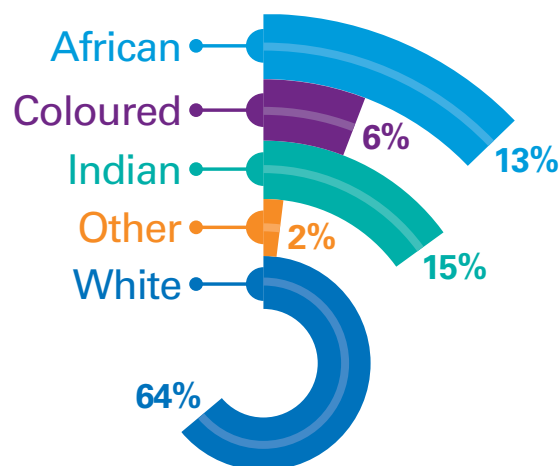
### Partner pay differential

The firm strives for equality across demographic lines with an ancillary focus on achieving transformation targets. The maximum differential for white versus black and male versus female remuneration is shown below.

|             | FY20        | FY19*       |
|-------------|-------------|-------------|
| White/Black | 14% or less | 10% or less |
| Male/Female | 8% or less  | 15% or less |

\* Restated as disclosed on page 29

### Partnership demographics – current



### Leverage Global Innovation and Investment

The COVID pandemic has seen society disrupted at an unprecedented scale during the past year. KPMG has been working with clients across the world to turn this disruption into opportunity by harnessing the power of innovation. In South Africa, we have focused on bringing the very best of these innovations into the local market. We have focused particularly on digital transformation – helping our clients to use cloud computing and other technologies to make step-changes in their performance.

### Our global solutions: Connected. Powered. Trusted.

Our global approach to enterprise-wide digital transformation, Connected Enterprise, helps clients to align front, middle and back office activities to help them deliver a better customer experience. Powered Enterprise is our answer for clients looking to maximise functional efficiency and tap straight into advanced organisational design, leading technology, processes and operating models. Any business must have trust and confidence in their processes, people and technology, all of which the Cyber Solutions set help address. Rather than simply responding to reactive compliance issues, our set of Regulatory-Driven Transformation solutions optimise risk and automate compliance.

We have worked hard to bring these trusted world-class solutions to the South African market. Some of the key highlights include:

- Very strong take-off of our Powered Enterprise offering – with marquee wins with some of the largest insurance and retail companies in South Africa
- Multiple webinars on a host of related topics (e.g. Cyber Security, IFRS 9, IFRS 17, Business Continuity, Powered Enterprise, Software Asset Management and many others) – with speakers from countries such as the UK, Netherlands and India who shared their experiences with our clients
- Conducted a Mobility 2030 workshop bringing together players from government, private sector and academia to discuss the future of e-Mobility in South Africa
- Ensuring our South Africa team work shoulder-to-shoulder with our global Centres of Excellence in areas such as Big Data, Microsoft Dynamics, HR excellence and others – transferring deep experience into our local community.

### Technology in everything we do

We have continued to roll out advanced technology across all our service offerings – across two key dimensions:

- Deliver traditional services more efficiently
- Bringing technology-enabled solutions to our clients.

Our Internal Audit Services have benefited from technology in areas such as Robotic Process Automation for technology assurance and the Keystone tool to digitise the end-to-end assurance process. Our Financial Risk Management (FRM) practice also continues to invest in technology-enabled services.

In collaboration with our alliance relationships, we also exploit our global reach and combined abilities to help solve our clients' most pressing technology-based challenges. Key focus areas include cloud transformation, intelligent automation, cybersecurity, data & analytics and regulatory change.

### Re-investing in our global infrastructure

Despite the challenging times we have continued to invest in the infrastructure necessary to provide every client with full exposure to our global organisation and intellectual property.

We are rolling out a new data strategy and aligned set of standards will enable us to manage the exponential rise in data we are acquiring, handling and storing across the world. It will also help us to leverage the value of this data for our clients.

We are also making it easier to share intellectual property across our global organisation – to enhance benefits from technology and country practices.

### Bringing South African expertise to a global audience

As we build our South African practice, we have seen an increasing demand for our South African skills to be deployed on the global stage. We have strong technical skills in South Africa and believe we are in good position to service and meet the demand of several other geographies.

We have also continued to develop our IRIS risk solution – a tool to support assurance of expected credit losses under IFRS9 – which has contributed to successful bids for some of our largest Financial Services audit clients in France, the UK, and the Netherlands.



## Work Collaboratively to Integrate Southern Africa

### Objectives

Given our objectives to improve the consistency and quality of our client delivery and further strengthen and support the resilience of the global organisation, KPMG is integrating across the Southern African region. The operational integration which commenced in 2019 is ongoing and made some significant strides over the past year – notably, the establishment of a reliable internet network connection throughout the regional network. This has enabled the rollout of our global tools and technology across the various locations, significantly advancing process consistency and efficiency. It has also enhanced our ability to identify and monitor issues.

### Achievements and milestones



During FY20, the KPMG organisation, including the South African firm, implemented new arrangements to facilitate collaboration and ensure greater consistency and accountability across KPMG globally.

- We continue to **evaluate the KPMG Southern African footprint** and as a result completed our withdrawal from Eswatini in August 2020. Currently there are KPMG firms in South Africa, Botswana, Mauritius, Mozambique, Namibia, Zimbabwe and Zambia. We believe KPMG's current regional footprint provides us an excellent footprint to leverage our collective experience and serve our global and regional clients in the Southern African region.
- Through our review of the Southern Africa region, we identified further opportunities to **share cross-border resources**. Despite the lockdown restrictions and closed borders, we have been able to use resources from other Southern African practices to support local teams in delivering to clients.

### Governance structure

We have improved the governance and reporting across the Southern African firm network by leveraging the revised South African Policy Board and its underlying sub committees. The sub committees set out below now include reporting from the Southern African practices together with South African reporting:

- **Audit Quality Council**

The South African Audit Quality Council meets regularly to discuss the quality of audit reporting across the region. The audit quality controls applied locally in each of the countries and the results of the audit quality testing are reported to this forum.

- **Risk Committee**

The South African Risk Committee meets regularly to assess the risk and risk controls of the Southern African KPMG organisation. The local risk controls, risk incidents and results of the risk control testing are reported to this forum.

- **Southern African Council**

The CEO has established the Southern African Council which meets monthly with all the Southern African managing partners to discuss key considerations related to clients, markets, people and operations. The Council's salient findings are incorporated into the CEO's report which is reviewed by the Policy Board. This ensures the board remains fully briefed on the key matters in the Southern African country practices.

The pertinent features of the Southern African firms are collated through these forums and committees and are shared with the South African Policy Board. This provides a consolidated view of the Southern African region.

### Integrating risk in Southern Africa

To further demonstrate our commitment to quality improvement and delivering relevant insights, KPMG has made significant advances in our regional risk management controls and structures in the past year. Our consolidated client onboarding tool and global conflict checker have provided our teams with a more seamless, efficient risk process for the evaluation of independence related to engagements and the acceptance of clients.

Furthermore, the development of a Southern African risk management community across the region, functions and business has also enhanced our approach and ability to identify, evaluate and manage risk across the regional organisation.

### Advisory specific collaboration

The integration of our advisory teams across the region is furthering our ability to win clients. Combining the business development and local commerce connectivity of the local country partners with the specialisation delivery capability of joint regional teams is enabling enhanced Advisory success across the region.

### People and leadership development

In line with the integration efforts, we have harmonised the people development and leadership development processes across the region. Our leadership development functions, which have been developed locally using global best practice and learnings, are consistently applied across the Southern African region and across the whole of the African region.

### Looking forward

In the next year we intend to strengthen operational integration and act as a collective across the region. This successful inter-regional collaboration could potentially be the foundation for a more formal alliance in the medium term.



# Enhancing quality

“The Audit Quality Performance Review (QPR) programme assesses audit engagement performance and identifies opportunities to improve quality.”

## Quality Performance Reviews

The Global Audit Quality Monitoring Group (GAQMG) comprises a team of partners, directors and senior managers experienced in performing programme reviews of listed and related entity (LRE) audit engagements. The team also includes partners and professionals with experience in auditing general information technology controls and application controls. For the last three years, the South African QPRs have been conducted exclusively by individuals from this group and other experienced reviewers independent of KPMG SA.

The QPR programme assesses audit engagement performance and identifies opportunities to improve quality. Each audit engagement partner is reviewed at least once in a three-year cycle as part of QPR. KPMGI helps ensure that our QPR is fair and objective. Our review is overseen by an independent experienced lead reviewer who is from a different KPMG firm and is part of the GAQMG.

## Department of Professional Practice

The Department of Professional Practice (DPP) is the custodian of the accounting and audit technical knowledge, expertise and related tools within KPMG South Africa. DPP has a deep understanding of accounting and auditing standards and plays a critical role in delivering on the Audit Quality (AQ) Plan.

DPP assists our audit teams with the application of accounting, auditing and related standards. It provides updates on new or upcoming standards, the tools and guidance needed to correctly apply the standards and responds to technical queries and consultations.

It also performs pre-issuance reviews of financial statements and audit reports and participates in Audit 2LoD reviews. DPP participates in global and local networks and working groups to ensure that it has the most up-to-date information, and communicates and can apply the most relevant and appropriate information to the benefit of our audit teams.

Our Audit QPR ratings are discussed on page 77.

“While South Africa and the world are dealing with unprecedented challenges given the pandemic, it has been an opportunity for growth as a firm, one that has employed sensitivity to our colleagues and ensured our safety whilst still continuing to deliver a valued service to our clients. As KPMG, it is really heartening to know we can preserve and continue to always strive to be a better firm, this is a true testament to our values. #Together #ForBetter ”

**Daniella De Gouveia**  
CBF member

# Conclusion

“The extraordinary times we experienced over the past year have required extraordinary solutions to complex challenges.”

KPMG SA has made steady progress on its journey to being the most trusted and trustworthy professional services firm. KPMG's relentless focus on this is the global organisation's top priority and underpins everything KPMG firms do. KPMG firms have an unwavering commitment to serve the public interest by leading the profession in audit reforms on a global scale.

In South Africa, our commitment to promote diversity and inclusion is equally unwavering. We are determined that our workplace should represent the demographics of our country – not just because it is the right thing to do, but also because doing so enhances our ability to serve our clients. It also leads to higher level of employee engagement. All our actions are guided by the KPMG values. They drive our daily behaviours, guide our decisions and shape our culture.

Promoting diversity and inclusion aligns with our core value of **Integrity** – doing what is right; **Together** – respecting each other and drawing strength from our differences; as well as **For Better** – we do what matters.

The fact that KPMG's values of **Integrity** and **Excellence** are being 'lived' by our people is evident in our commitment to quality and continuous improvement, as detailed in the previous sections. This is amplified by the significant investments are making to drive consistency and quality across all functions.

The COVID-19 pandemic has pushed us to think differently about our approach to our stakeholders and society. The increased economic uncertainty and risk due to the pandemic has had significant financial reporting implications across world markets.

The extraordinary times we experienced over the past year have required extraordinary solutions to complex challenges.

Our extraordinary people demonstrated resilience, agility and high levels of innovation during the crisis. This gives us the utmost confidence that we will be able to respond to and embrace this challenge as we focus on recovery and resilience in this new reality.

As we move forward in the new normal, we will continue to ensure that we serve our clients and the public interest in an environment of objectivity, independence, ethics and integrity.

All our leaders and all our people understand that they are responsible for continually raising the bar for quality, integrity and public trust.

Against this backdrop, we are confident that we will realise our ambition of becoming the most trusted and trustworthy professional services firm.

# Governance report

“Our governance structure and practices have been designed to support our ambition of becoming the most trusted and trustworthy professional services firm in South Africa.”

## Policy Board composition, structure and progress report

In accordance with the practice recommendation in King IV, a formal assessment of the board and its committees' performance was conducted in FY 2019 but not repeated in this format in 2020. Instead the agendas of the board and each committee provided firstly, for review of progress made regarding issues identified through the formal process and secondly, for the consideration of further areas for improvement.

Against the backdrop of our ongoing commitment to ethical and effective governance, our governance structure and practices have been designed to support our ambition of becoming the most trusted and trustworthy professional services firm in South Africa.

Consistent with the previous reporting period, our governance model seeks to ensure that our Policy Board, in consultation with the Exco, sets the strategic direction of the firm effectively and that it maintains adequate, independent oversight of strategy execution through close monitoring of performance and the control environment.

The Policy Board is supported by a number of committees focused on key functional governance areas. Exco reports to the board and has two directors that serve on the Policy Board, as well as several invitees to ensure sufficient engagement and discussion at board level.

KPMGI observers attend Policy Board meetings and partners have been seconded from elsewhere in the organisation to sit on Exco. These partners bring specialist skill sets and diversity to the leadership team, supporting

best practice, greater connectivity with the rest of the organisation, and sharing a wealth of experience.

Our governance bodies as at 30 September 2020 are shown on page 26, while our Policy Board and Exco members are shown on pages 24 and 25.

## Company board structure

KPMG SA is the collective trading name for KPMG Incorporated (KPMG Inc) and KPMG Services Proprietary Limited (KPMG Services). The partners of KPMG SA are directors in one or both of KPMG Inc and KPMG Services and as directors they have delegated, without abdicating responsibility, to the respective Policy Boards of each company in accordance with the memoranda of incorporation. The Policy Boards therefore act as the committees of the board of directors of each entity. The Policy Board of both entities sits co-timeously as they comprise the same members and consider issues common to both entities. When matters arise that are specific to one entity, then the Policy Board members who are directors of that entity will vote in respect of such matter; for example, in the context of governance matters relating to the audit business as a whole and audit quality. For ease of understanding, references to 'board' or 'Policy Board' refer to the Policy Boards of both entities.

## Policy Board composition

KPMG SA has recognised the merits of having a balanced board and the value to be derived from diversity, independent views and advice informed by relevant skills and experience. No individual director has dominance or unfettered power on the Policy Board.

In 2019, elections for new members to the Policy Board were held and shareholders voted for additional members (our elected Policy Board members) who added to diversity and representivity from across the functions in the firm to the Policy Board. Acknowledging the benefits of independent, non-executive members on the Policy Board, shareholders also voted to amend the memoranda of incorporation so that an additional two independent, non-executive members could be appointed. These appointments were made with effect from 11 November 2019.

We are proud of the calibre and experience of our non-executive and independent Policy Board members. Our Chairperson, Prof. Wiseman Nkuhlu, is a leader acknowledged for his life-long commitment to the auditing and accounting profession.

Ansie Ramalho, our Policy Board lead independent member, plays an important role in ensuring that good governance practice and standards as well as independent oversight are upheld. Her experience as the project lead for the King IV™ report and directorships on other boards has brought a higher level of professionalism to our governance processes.

Prof. Ben Marx, previously an independent member of several board committees, was appointed as a Policy Board member on 11 November 2019 and chair of our Audit Quality Committee (effective 16 April 2019). His expertise in the accounting and auditing fields, and his independence bring objective and impartial oversight to the key audit quality initiatives of the firm.

We are also delighted to welcome Imogen Mkhize, our newest independent non-executive, who was appointed as a Policy Board member on 11 November 2019. Her expertise in matters ranging from Ethics to Information Technology, in conjunction with her years of experience as a director in both executive and independent non-executive capacities, has further enhanced the skill sets of our Policy

Board and will help us to achieve our strategic goals.

A chartered accountant by profession, former executive president of the SAICA and director of numerous blue-chip companies, our CEO, Ignatius Sehoole, who took office on 4 June 2019 has made significant impact since his appointment. He has been successfully driving home the message to our people, clients and stakeholders that we are working to establish KPMG SA as the most trusted and trustworthy professional services firm.

Consistent with good governance practices, representation of Exco members on the Policy Board is restricted to our CEO and one other Exco member – our Executive Head of People, Transformation and Citizenship.

Other Exco members and general counsel may attend by invitation for all or part of Policy Board meetings to report back on functional matters, but they do not vote on any Policy Board decisions.

### Policy Board charter and effectiveness

Our governance structures and processes are aligned to our purpose, vision and strategy. Our Policy Board has a board charter and work plan and its committees also operate with terms of reference and work plans. Committees report back to the Policy Board after their meetings. The company secretary, Essop Sather, a professional with over 36 years' related experience with JSE-listed and private companies, continued providing secretariat services to the Policy Board and its committees during the year.

Following the shareholders' resolution to amend the memoranda of incorporation to allow for the appointment of four independent non-executives members of the Policy Board in 2019, the Policy Board formalised the Nomination and Remuneration Committee with its membership comprising only independent non-executive members. The Nomination and Remuneration Committee is responsible for aligning strategy and behaviours,

nomination and remuneration matters.

In accordance with the practice recommendation in King IV™, a formal assessment of the board and its committees' performance was conducted in FY19 but not repeated in this format in FY20.

The agendas of the Policy Board and each committee provided for reflection on progress made with items identified through the formal assessment process and to consider further areas for improvement.

## Policy Board and committee meeting attendance

### Attendance register at Policy Board and Sub-committee meetings from 1 October 2019 to 30 September 2020

| Policy Board  |                |         | Combined Assurance and Reporting Committee | Risk, Quality and Compliance Committee | Public Interest, Social & Ethics Committee | Transformation Oversight Committee | Audit Quality Committee |                  | Nomination and Remuneration Committee |         |
|---|----------------|---------|--|--|--|------------------------------------|-------------------------|------------------|---------------------------------------|---------|
|   | Scheduled      | Special | Scheduled                                  | Scheduled                              | Scheduled                                  | Scheduled                          | Scheduled               | Special          | Scheduled                             | Special |
| Total number of meetings held during the year             | 7              | 12      | 4  | 4                                      | 4  | 4                                  | 4                       | 3                | 3                                     | 2       |
| Chairperson   | Wiseman Nkuhlu |         | Ben Marx                                   | Ansie Ramalho                          | Ansie Ramalho                              | Nosisa Fubu                        | Ben Marx                |                  | Imogen Mkhize                         |         |
| Actual attendance/possible maximum attendance of meetings |                |         |  |  |  |                                    |                         |                  |                                       |         |
| Independent Non-Executive                                 |                |         |  |  |  |                                    |                         |                  |                                       |         |
| Wiseman Nkuhlu^   | 7/7            | 9/12    | 4/4  |  |  |                                    | 4/4                     | 3/3              | 3/3                                   | 2/2     |
| Ansie Ramalho   | 7/7            | 11/12   | 3/4  |  | 4/4  | 4/4                                |                         |                  | 3/3                                   | 2/2     |
| Benjamin Marx ~ °   | 7/7            | 10/12   | 4/4 <sup>1</sup>                           | 4/4                                    |  |                                    |                         | 4/4              | 3/3                                   |         |
| Imogen Mkhize ~ ¢   | 7/7            | 10/12   |  |  |  |                                    | 3/3 <sup>a</sup>        | 3/3 <sup>a</sup> | 3/3                                   | 2/2     |

\* Retired from KPMGI Cooperative 30 June 2020

~ Appointed as independent non-executive directors of KPMG Services (Pty) Limited and as Policy Board members on 11 November 2019  
Attended first meetings from 13 November 2019

° Appointed as independent non-executive chairperson of the CAR Committee on 16 April 2019

♦ Appointed as independent non-executive chairperson of the NomRem Committee on 13 November 2019

‡ Appointed as Policy Board members on 1 October 2019

<sup>^</sup> The Independent non-executive chairperson and the Chief Executive Officer attends all sub-committee meetings as permanent invitees unless as Policy Board members as stated

• Devon Duffield resigned as a Policy Board member on 30 September 2020 to assume the role of Head of Audit

<sup>a</sup> Appointed as independent non-executive member of the AQ Committee on 13 November 2019

° Appointed as members of the NomRemCo on 24 July 2020

<sup>1</sup> Ben Marx attended the first meeting in FY20 as an invitee

<sup>2</sup> Appointed as a Policy Board member on the PISE Committee on 31 October 2019

<sup>3</sup> Appointed as a Policy Board members on various board sub-committees on 31 October 2019



| Elected Partners                      |     |       |     |     |     |       |       |  |
|---------------------------------------|-----|-------|-----|-----|-----|-------|-------|--|
| Zola Beseti <sup>3</sup>              | 7/7 | 12/12 | 3/4 | 2/3 |     |       |       |  |
| Devon Duffield •                      | 7/7 | 12/12 | 4/4 | 4/4 | 2/3 | 1/1 ° | 2/2 ° |  |
| Mohammed Hassan <sup>2</sup>          | 7/7 | 11/12 | 3/3 |     |     |       |       |  |
| Giuseppina Aldrighetti ‡ <sup>3</sup> | 7/7 | 12/12 | 3/3 |     |     |       |       |  |
| Coenraad Basson ‡ <sup>3</sup>        | 7/7 | 12/12 | 3/3 |     |     |       |       |  |
| Kashmira Bhana ‡ <sup>3</sup>         | 7/7 | 12/12 | 3/4 |     |     |       |       |  |
| Nosisa Fubu ‡ <sup>3</sup>            | 7/7 | 11/12 | 4/4 | 4/4 |     |       |       |  |
| Modise Maseng ‡ <sup>3</sup>          | 7/7 | 10/12 | 3/4 |     |     |       |       |  |
| Executive directors                   |     |       |     |     |     |       |       |  |
| Ignatius Sehoole ^                    | 7/7 | 11/12 |     |     |     | 1/1 ° | 2/2 ° |  |
| Makgotso Letsitsi ‡ <sup>3</sup>      | 7/7 | 12/12 | 4/4 |     |     |       |       |  |
| KPMGI observers                       |     |       |     |     |     |       |       |  |
| Andrew Cranston                       | 6/7 | 10/12 |     |     |     |       |       |  |
| Rachel Campbell *                     | 1/7 | 2/12  |     |     |     |       |       |  |

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# Segmental overview: Audit

“The single most important driver in earning and maintaining public trust for the audit business is audit quality.”

## Our objectives

It is clear that our success is inherently dependent upon the trust of all our stakeholders and the trust of society as a whole. Trust is the oxygen that gives the audit profession life. We have lived the experience of our trustworthiness being questioned. We truly understand the privilege and responsibility entrusted to us in serving the markets as auditors and will continue to do everything necessary to never be in that position again.

Audit has always been the cornerstone of the KPMG brand and it lies at the heart of our purpose in serving the public interest and capital markets alike.

KPMG has set a clear ambition of being the most trusted and trustworthy professional services firm in the market. Everything we do and everything we are is shaped by that ambition, and executed by every single professional through KPMG's values, priorities and a mantra of 'I own it'.

## Our processes

The single most important driver in earning and maintaining public trust for the audit business is audit quality. This is the ultimate measure of whether the firm is delivering audits that fully meet the International Standards of Auditing set by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB). Audit regulators around the world have been calling on the audit profession to make a marked difference in achieving audit quality and at KPMG, we are rising to this challenge.

Driving audit quality has been a key area of focus over the past three years. The firm has also been through unprecedented levels of quality checking, performed to the higher levels expected by international regulators, with internal audit quality checking performed by entirely independent international reviewers.

Through our comprehensive audit quality plan, we have implemented a number of ground-breaking, market-leading initiatives such as:

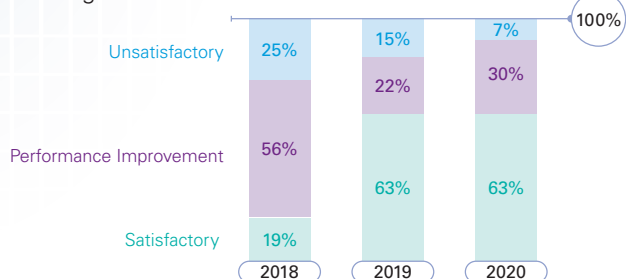
- Fully independent non-executive leadership of the KPMG board, with Prof. Wiseman Nkuhlu as our independent chairman, and three other fully independent non-executive members chairing board committees
- A dedicated Audit Quality Committee of the board chaired by Prof. Ben Marx. This committee monitors the implementation of every aspect of our audit quality plan as this evolves to incorporate all findings related to internal and regulatory quality reviews of the firm, as well as the implementation of the new international standards on quality management (ISQM1 and 2). Audit quality is covered in more detail in the KPMG SA Transparency Report.
- A dedicated second line of defence which involves performing proactive pre-issuance reviews of the audits of all public interest audits performed by the firm.

The results of our IRBA quality reviews continue to show consistent progress with the firm performing ahead of the industry norms. Full details of both our internal and external quality reviews are provided in the KPMG SA Transparency Report.

## Quality Performance Reviews

A total of 31% (39% in FY19) of our engagement leaders were assessed in the 2020 Quality Performance Reviews (QPRs), indicating a high level of consistency in terms of coverage. The basis of selection of files is risk-based and not necessarily partner-based selection.

There is no standard description or objective grading scale for quality reviews amongst regulators and professional auditing firms.



Across all member firms consistent criteria are used to determine engagement ratings as follows:

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

**🍷 Performance Improvement Needed (PIN):**  
The independent reviewer required additional information to reach the same conclusion as the auditor; or where supplementary information obtained as part of the audit but not sufficiently documented in the audit or where specific requirements of our audit methodology were not embedded. A 'PIN' rated engagement does not indicate concerns about the appropriateness of the audit opinion issued or the financial statements to which the opinion referred.

**✗ Unsatisfactory:**  
When the auditor did not perform the engagement in line with KPMG's professional standards and policies in a more significant area, or where there are deficiencies in the related financial statements. Specific accountabilities for remediation, where relevant, are identified and detailed action plans are drawn up.

Our sanctions system incorporates the results of the QPR results where engagement leaders receive 'Unsatisfactory' QPR ratings.

## Achievements and milestones



### Retaining and growing our client base

The firm has carefully managed its retention and the upfront investment in the capacity and capabilities needed to serve the South African market throughout the MAFR cycle. The continued support of KPMGI has been instrumental in our ability to retain and attract the best talent in South Africa now and into the future.

We were gratified when leaders in the South African economy including Absa and Sanlam appointed KPMG SA as their next external auditors under the MAFR rules. We continue to receive recognition from our significant existing clients including Investec, Old Mutual and Standard Bank. This highlights that we are living up to our ambition of being the most trusted and trustworthy professional services firm. Encouragingly, we are being invited to participate in, and are winning, an increasing number of external audit tenders.

Achieving a globally consistent audit experience, ensuring quality, enabling growth and effectively managing delivery costs are imperative for us to be able to provide our clients with the type of audit they need, today and into the future.



### Utilising market-leading technology

In as much as our audit clients face major opportunities and challenges in their digital transformation, the development and utilisation of market-leading technology at KPMG SA transforms the way we perform our external audits and how we are able to provide enhanced assurance and valuable insights for our audit clients.

Over the past year KPMG SA has successfully started the deployment of a new cloud-based digital audit platform 'KPMG Clara' across the global organisation. Clara is a globally integrated platform that drives compliance with the latest auditing standards and houses our existing digital capabilities such as general ledger and sub-ledger analytics, automated audit procedures, process mining, pattern analysis and our class-leading client collaboration portal. It has been designed to seamlessly incorporate new capabilities as they become available based on our global development roadmap and as KPMG audit teams innovate and share on a daily basis across the globe.

## Engaging and empowering our people

Attracting the best talent remains a key priority for our business and we are very encouraged that the firm continues to attract its fair share of talent from across the countries' universities. Our experience is that the way the firm has responded to the challenges of our recent past has in fact been a key element in why students, and even experienced professionals, are actively choosing to be with KPMG.

## Promoting transformation and diversity

A transformed, diverse workforce enhances our provision of quality services to our clients. The table below summarises the Audit workforce demographics:

|              | Female     |               | Male       |               | Total      |               |
|--------------|------------|---------------|------------|---------------|------------|---------------|
|              | Black      | White & Other | Black      | White & Other | Black      | White & Other |
| Partners     | 4          | 11            | 15         | 32            | 19         | 43            |
| Colleagues   | 367        | 160           | 267        | 160           | 634        | 320           |
| <b>Total</b> | <b>371</b> | <b>171</b>    | <b>282</b> | <b>192</b>    | <b>653</b> | <b>363</b>    |

The firm is currently conducting further key initiatives to significantly increase the number of Black audit Partners in the firm.

## Looking forward

The growth described above indicates that we are succeeding in our drive to earn trust through audit quality. To a large extent, this success is based on our exceptional people delivering on our promises in everything that we do. We intend to maintain our momentum if we are to attract and retain the incredible talent we need to serve the market with distinction; create exciting, purposeful careers for our people and accelerate transformation, as we move towards being more representative of the demographics of the profession and the country.

“What a journey this year has been, one that will be etched in our memories till the end of time. Through it all, I am fortunate to be part of a firm that truly has made its employees its first priority in terms of their health and safety by providing us with the necessary support and resources while working from home which went beyond that of technology. We were invited to live sessions with life coaches which focused a number of areas, including mindfulness and being grateful. The firm also had a number of yoga sessions set up! These sessions provided us with techniques which assisted with ensuring our overall wellbeing was taken care off. The COVID-19 taskforce kept us regularly up to date on how the firm was actively managing its people and the pandemic and always ensured that our voices were heard and feedback was considered through the CBF and various other initiatives.

The firm has consistently demonstrated that through it all audit quality was top of mind in every single task we undertook, one of the mechanisms in place were the weekly technical COVID-19 calls with DPP (Department of Professional Practice), which covered key audit, accounting and risk management considerations around COVID-19 and the impact on our audits and other assurance engagements, which allowed engagement teams to obtain real time guidance and support. This support received by our teams enabled them to service our clients in the best possible way. The quote that resonates with me during this time is that of Martin Luther King Jr. which says:

“If you can’t fly then run, if you can’t run then walk, if you can’t walk then crawl, but whatever you do you have to keep moving forward.” Martin Luther King Jr.”

**Fatima Khan**  
CBF member

# Segmental overview: Advisory

“In a constantly evolving market, we have proven we can anticipate client needs to stay relevant.”

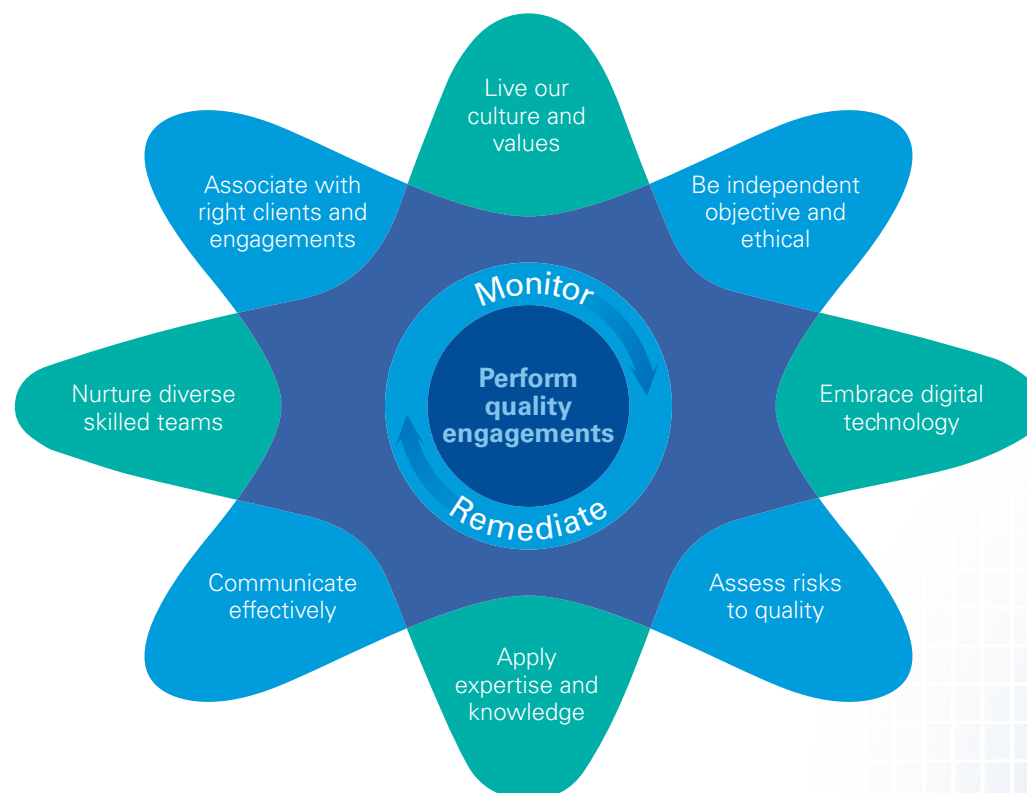
## Our objectives

Our Advisory client programme was an important priority for the business in FY20. In a constantly evolving market, we have proven we can anticipate client needs to stay relevant. Clients are choosing KPMG and the market has put its confidence and trust in the South African Advisory business by awarding us several significant appointments.

We continue to refine and reprioritise the capabilities and solutions portfolio in response to the changing client and market context. The global organisation's collective strategy is driving trust and growth and focused on the following key factors:

- Anticipating client issues
- Consistent delivery and quality
- Being responsive to market trends.

The Global Quality Framework set out below guides all our work. We believe that the globally consistent quality framework will help communicate our quality story, cover the key quality drivers, be engaging and will be ISQM1 ready. The framework as indicated below, will be rolled out across Southern Africa in the coming months.



## Our processes

### Client engagement and approval

A dedicated Advisory Risk Management Partner oversees all risk management aspects regarding Advisory clients and engagements. Approving all client acceptances and medium-high risk engagements form part of this individual's responsibilities. Our automated workflow processes ensure that these approvals take place at the appropriate levels. Our processes have been significantly enhanced in recent months to include the following controls:

- Detailed reasons to be added by all approvers for each client acceptance. Further detailed questions on any business conflicts, if any, and any engagement risk exposures to the firm
- Detailed explanation on the intended use of the KPMG deliverable by the client or any other party associated with the engagement
- In reviewing the engagement acceptance, the approvers review the objectives and scope of the engagement, in order to determine whether this engagement is appropriate for the firm.

### Accreditation

The global organisation embarked on a newly reformed accreditation process in 2019. The accreditation requirement is both at a member-firm level as well as at a professional level. KPMG SA fully adopted this accreditation process and have complied with the model as approved by KPMGI.

Accreditation will support our global strategy, driving trust and growth. It will also facilitate the achievement of consistency across the business, protecting and enhancing the KPMG brand.

The KPMG member firms within the Southern African region have applied for 10 accreditation specialised areas based on the global model, and these 10 service components have been approved.

In terms of the professionals within the region, we have more than 100 professionals accredited to perform services within their areas of specialty. We have applied for an additional 30 individual accreditations and are waiting for the global approvers to review these.

### Risk oversight meetings

Three years ago, we embarked on a risk oversight process where there will be ongoing discussions between risk management and the engagement teams on selected high-risk clients and engagements. This process makes risk management fully aware of issues affecting the effective and efficient delivery of engagements to our clients. The process also provides additional support to the engagement teams from various areas across the firm. In addition, it ensures there are no residual risks to the firm and ultimately, helps us fulfil our top priority – quality delivery to the client.

### Achievements and milestones



#### Quality Performance Reviews

A total of 75% (FY19: 69%) of our engagement leaders were assessed in the 2020 Quality Performance Reviews (QPRs), indicating a high level of consistency in terms of coverage. The basis of selection of files has been enhanced, to ensure focus is risk-based and not necessarily partner-based selection. The results of our 2020 QPRs are as follows:

- **Compliance assessment:** 100% (FY19: 97%) of files reviewed were either fully compliant with policy or required some performance improvement. No files were rated as deficient
- **Quality of work assessment:** 96% (FY19: 90%) of files reviewed were either fully compliant with policy or required some performance improvement.

### Risk training

We continued to hold several focused training sessions for each group within Advisory, aimed at maintaining and improving our focus on the delivery of quality to our clients.

We hosted monthly, bi-monthly and quarterly sessions attended by all Advisory senior staff. In total, we provided over 29 000 hours of training which focused on the following key themes:

- Client and engagement risk assessments
- Engagement quality reviews
- Policy updates and compliance to policies
- Engagement Quality Control Reviewers (EQCR).



## Engaging and empowering our people

### Promoting transformation and diversity

The business views transformation and diversity as a key cornerstone of the overall strategy. At the end of our financial year, 57% of our total Advisory staff were black and 41% of the Advisory partners were black. In terms of gender, the split was 53% male and 47% female and at partner level the split was 63% male and 44% female.

At the end of our financial year we promoted 10 new Advisory Partners of which 50% were Black and 63% female. At an Advisory leadership level 50% of the team is Black and 20% of the team is female.

The table below summarises the Advisory workforce demographics:

|              | Female     |               | Male       |               | Total      |               |
|--------------|------------|---------------|------------|---------------|------------|---------------|
|              | Black      | White & Other | Black      | White & Other | Black      | White & Other |
| Partners     | 5          | 7             | 6          | 11            | 11         | 16            |
| Colleagues   | 129        | 95            | 145        | 103           | 274        | 198           |
| <b>Total</b> | <b>134</b> | <b>102</b>    | <b>151</b> | <b>114</b>    | <b>285</b> | <b>214</b>    |

### Looking forward

- KPMG South Africa Advisory has been growing and is now at an inflexion point of enhanced growth
- Our Powered methodology has seen strong acceptance in the market place and will continue to grow
- Our alliance with Microsoft has been more robust than ever, and we will remain focused on this alliance
- The SA market will see more of our Connected Enterprise offering with a focus on customer centricity
- Cyber security will remain a key focus areas for us, and we will bring many more global best practices and learnings to SA market
- Focus on quality and doing the right thing remain top priority for us. Our recent announcement on restricting all non-audit<sup>1</sup> work for JSE listed audit clients is a step in that direction
- We will continue to encourage innovation across all levels. Focus on enhancing skills – 2021 has been declared as year of deep learning for Advisory team.

<sup>1</sup>Our new non-audit services policy for JSE-listed audit clients was announced subsequent to year-end, on 15 February 2021.

“In a year where we haven’t ‘seen’ our colleagues or stepped foot inside the office for over 300 days, connection and engagement were more important than ever. As a firm, we have had to craft new ways of working together and looking out for each other. I am glad to say that our leaders and our people stepped up to this challenge. As a collective, we managed to accomplish this through informal “check-ins” and a variety of formal engagement mechanisms like pulse surveys and the CBF. This resulted in meaningful conversations and opportunities to listen and learn as we navigated a year of unique challenges and novel growth opportunities.”

**Stephen Price**  
CBF member



# Segmental overview: Tax & Legal

“Responsible tax principles resonate across everything we do.”

## Our objectives

Our KPMG SA Tax & Legal practice relentlessly strives for excellence in everything we do. We are uncompromising in implementing KPMG's values and guiding principles, with our core focus on being the most trusted and trustworthy firm. Responsible tax principles resonate across everything we do. This aligns with our view that active citizenship is key to re-establishing trust between taxpayers on and stakeholders, including governments.

A concerted focus on client service excellence, people development and growth, transformation, the highest quality and risk minimisation lie at the heart of our operational structure.

## Our processes

### Focusing on client and engagement acceptance and continuance

Rigorous client and engagement acceptance and continuance (CEAC) policies and processes are vital to our ability to provide high-quality professional services. Such policies and processes also help protect the reputation of the firm and support the KPMG brand.

Our dedicated, central risk management team continues to support their service-delivery colleagues with the performance of pre-engagement and risk management procedures for the Tax & Legal function. Our CEAC processing times have improved over the last year as the team has become more established in this role.

Depending on the risk profile, new or existing clients and engagements may need several levels of approvals. Additional questions have also been included whereby certain risk factors will require the approval of the Europe, Middle East and Africa (EMA) Head of Risk.

## Achievements and milestones



### Quality performance reviews

As part of the annual Quality Performance Review (QPR) programme, the Tax & Legal functions were reviewed by an EMA-led team during August 2020. The review covered 35% of all engagement leaders (FY19: 26%). Specific action plans have been developed to address identified areas of improvement. The results of our 2020 QPRs are as follows:

- **Compliance assessment:** 92% (FY19: 97%) of files reviewed were either fully compliant with policy or required some performance improvement. No files were rated as deficient
- **Quality of work assessment:** 85% (FY19: 97%) of files reviewed were either fully compliant with policy or required some performance improvement.

### Retaining and growing our client base

We are pleased to report that we on-boarded over 300 new clients during the year. Working with our Audit and Advisory functions, we successfully delivered over 20 000 hours of services on a multidisciplinary basis.

During the year we issued over 110 thought leadership pieces and produced an opportunity document which has 66 different go-to-market opportunities across all business units (BUs) in Tax & Legal. We also hosted several seminars and tax events including a very successful Budget event in February 2020 at the various KPMG regional offices.

Given the impact of COVID-19, we were unable to host our very popular client conferences and technical presentations in-person. Consequently, we moved to a virtual platform, and held numerous successful client conferences and webinars online. We also held approximately 50 virtual technical sessions for clients and colleagues which covered a diverse range of technical topics.

### Investing in the future

KPMG SA Tax & Legal team launched the African leg of a global KPMG service offering called Tax Reimagined in October 2019, six months before the onset of the COVID-19 pandemic. The offering aims to help companies re-engineer their tax operating model in order to adapt to the ever-increasing pace of change in global tax systems. It also guides in-house tax teams communicate both internally and externally on the importance of tax issues facing their business in all of the markets in which they operate. It also helps to improve the efficiency of their tax compliance processes.

Using the tool, our team is working with many South African and international companies operating across Africa to optimise their tax compliance processes and to identify appropriate technology solutions aimed at improving the accuracy and speed of tax reporting. We are already seeing signs that tax authorities are stepping up enforcement and tightening regulations to make up for the revenue lost because of the economic impact of COVID. This is going to accelerate in the coming months and years, thereby forcing corporates – both large and small – to reimagine the management of their tax affairs. When this happens, we will be ideally placed to service their needs.

### Engaging and empowering our people

#### Restructuring our workforce

The constrained economy led to a decrease in revenue. Accordingly, the firm reviewed the Tax & Legal function structures, staff headcount, budgets, operating model and costs. To ensure the long-term success of our practice we entered into a section 189(3) of the Labour Relations Act, 1995 (LRA) rationalisation and restructure. The section 189(3) of the LRA restructure impacted certain specific business units across Tax & Legal.

All alternatives to the restructure were seriously considered and a number of alternatives have been implemented, including redeployment and reduced of working hours. The restructure ultimately resulted in the retrenchment of seven colleagues.

#### Promoting transformation and diversity

We continue to promote transformation and diversity. The table below summarises the Tax & Legal workforce demographics:

|                   | Female    |               | Male      |               | Total      |               |
|-------------------|-----------|---------------|-----------|---------------|------------|---------------|
|                   | Black     | White & Other | Black     | White & Other | Black      | White & Other |
| <b>Partners</b>   | 2         | 7             | 1         | 9             | 3          | 16            |
| <b>Colleagues</b> | 65        | 42            | 38        | 19            | 103        | 61            |
| <b>Total</b>      | <b>67</b> | <b>49</b>     | <b>39</b> | <b>28</b>     | <b>106</b> | <b>77</b>     |

### Looking forward

When organisations make use of sophisticated tax technology, they can harness the power of their data and knowledge to achieve a higher level of certainty in an uncertain world. This enables improved control over taxes and assists organisations' disruptions head-on. Leveraging the breadth of tax and business process skills combined with the relevant technology, our Tax technology team intends to provide the necessary insights that organisations need to make better business decisions, add value and reduce costs.

# Glossary

|               |  |               |  |
|---------------|--|---------------|--|
| <b>ABASA</b>  | Association for the Advancement of Black Accountants of Southern Africa  | <b>DBSA</b>   | Development Bank of South Africa                     |
| <b>ACF</b>    | Audit Committee Forum, a joint initiative between KPMG and The Institute of Directors in Southern Africa (IoDSA) | <b>DPP</b>    | Department of Professional Practice                  |
| <b>AGSA</b>   | Auditor General of South Africa  | <b>DRA</b>    | Dynamic risk assessment                              |
| <b>AI</b>     | Artificial intelligence  | <b>EI</b>     | Engagement Index                                     |
| <b>AIC</b>    | African, Indian, Coloured  | <b>ERM</b>    | Enterprise Risk Management                           |
| <b>APC</b>    | Assessment of Professional Competence  | <b>ESG</b>    | Environmental, social and governance                 |
| <b>AQ</b>     | Audit quality  | <b>EMA</b>    | Europe, Middle East and Africa                       |
| <b>AWCA</b>   | African Woman Chartered Accountants  | <b>EQCR</b>   | Engagement Quality Control Reviewers                 |
| <b>B4SA</b>   | Business for South Africa  | <b>Exco</b>   | Executive Committee                                  |
| <b>BASA</b>   | Banking Association South Africa   | <b>FRM</b>    | Financial Risk Management                            |
| <b>B-BBEE</b> | Broad-based black economic empowerment   | <b>GBV</b>    | Gender-based violence                                |
| <b>BCP</b>    | Business Continuity Plan   | <b>GAQMG</b>  | Global Audit Quality Monitoring Group                |
| <b>BLSA</b>   | Business Leadership South Africa   | <b>GO</b>     | Global Mobility programme                            |
| <b>BMF</b>    | Black Management Forum   | <b>GPS</b>    | Global People Survey                                 |
| <b>BU</b>     | Business Unit  | <b>IAASB</b>  | International Auditing and Assurance Standards Board |
| <b>BUSA</b>   | Business Unity South Africa  | <b>IDC</b>    | Industrial Development Corporation                   |
| <b>CBF</b>    | Colleague Business Forum   | <b>IFAC</b>   | International Federation of Accountants              |
| <b>CCC</b>    | COVID Crisis Committee   | <b>IFRS</b>   | International Financial Reporting Standards          |
| <b>CEAC</b>   | Client and engagement acceptance and continuance   | <b>IIA SA</b> | Institute of Internal Auditors                       |
| <b>CEO</b>    | Chief Executive Officer  | <b>IoDSA</b>  | Institute of Directors South Africa                  |
| <b>COO</b>    | Chief Operating Officer  | <b>IRBA</b>   | Independent Regulatory Board for Auditors            |
| <b>CFO</b>    | Chief Financial Officer  | <b>ISO</b>    | International Standards Organisation                 |
| <b>Clara</b>  | A KPMG 'smart' audit platform based on Microsoft Azure   | <b>ISQM</b>   | International Standard on Quality Management         |
|               |  | <b>ITC</b>    | Initial Test of Competence                           |

|  |   |                         |   |
|--|---|-------------------------|---|
| <b>JSE</b>                                 | Johannesburg Securities Exchange  | <b>2LoD</b>             | Second line of defence  |
| <b>KPI</b>                                 | Key performance indicator   | <b>SAAPTI</b>           | South African Auditing Profession Trust Initiative  |
| <b>KPMGI</b>                               | KPMG International Limited, a private English company limited by guarantee  | <b>SAICA</b>            | South African Institute of Chartered Accountants  |
| <b>KPMG SA/KPMG South Africa/ the firm</b> | <p>KPMG South Africa operates through two entities: KPMG Incorporated for audit services and KPMG Services Proprietary Limited for our advisory and tax services.</p> <p>KPMG Incorporated, registration number 1999/021543/21, a South African private personal liability company and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.</p> <p>KPMG Services Proprietary Limited, registration number 1999/012876/07 a South African private company and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.</p> | <b>SARB</b>             | South African Reserve Bank  |
|  |   | <b>SARS</b>             | South African Revenue Services  |
|  |   | <b>SCOPA</b>            | Standing Committee on Public Accounts   |
|  |   | <b>SMEs</b>             | Small and medium enterprises  |
|  |   | <b>Sonke</b>            | Sonke Gender Justice  |
|  |   | <b>TLAC</b>             | Tswaranang Legacy Advocacy Centre   |
|  |   | <b>UN SDGs</b>          | United Nations Sustainable Development Goals  |
|  |   | <b>Zondo Commission</b> | The Judicial Commission of Inquiry into Allegations of State Capture, also known as the Zondo Commission of Inquiry or Zondo Commission |
| <b>LRA</b>                                 | Labour Relations Act, 1995  |                         |   |
| <b>LRE</b>                                 | Listed and related entity   |                         |   |
| <b>MAFR</b>                                | Mandatory Audit Firm Rotation   |                         |   |
| <b>NHI</b>                                 | National Health Insurance   |                         |   |
| <b>PCAOB</b>                               | Public Accounting Oversight Board   |                         |   |
| <b>PIE</b>                                 | Public interest entity  |                         |   |
| <b>QPR</b>                                 | Quality Performance Review  |                         |   |
| <b>RPA</b>                                 | Robotics Process Automation   |                         |   |

### **Disclaimer**

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