

# Transparency Report 2021

Our relentless focus on quality

**KPMG International** 

home.kpmg/transparency

# KPMG Values

Our Values represent what we believe in, and what's important to us as an organization. They guide our behaviors day-to-day, informing how we act, the decisions we make, and how we work with each other, our clients, companies that we audit, and all our stakeholders.

#### **Our Values are:**

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

KPMG's Values express the organization's long-standing core beliefs, and in 2020 the language was updated to make them bolder, simpler and more memorable to help each of us bring them to life every day.

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# Focus on quality to inspire confidence and empower change

Audit is the foundation of our business, and audit quality is at the core of KPMG.

In our 2021 KPMG International Transparency Report, we document how we are improving our quality management — by investing in new technologies and resources, while building a stronger culture of consistency and accountability. We share how our relentless focus on quality underpins our commitment to serve the public interest, drives our ambition to be the most trusted and trustworthy professional services organization and delivers on environmental, social and governance (ESG) commitments, as outlined in Our Impact Plan.

KPMG has a simple but bold ambition: to become the most trusted and trustworthy professional services organization. That aim is impossible without delivering quality audits, and even though we have a sound foundation to build on, we need to constantly innovate, never losing our focus —especially as leaders of this proud profession.

This past year we've continued to invest in our system of quality management, global monitoring of audit quality, and enhanced support. We're also expanding access and training for innovative technology and tools for our engagement teams, such as KPMG Clara, our smart audit platform, to drive consistency, collaboration and efficiency.

All our actions are guided by our Values. They drive our daily behaviors, guide our decisions, and shape our ethical culture. Integrity is a core Value — we do what is right, in the right way, at the right time. We embody our Values of integrity and excellence in our commitment to quality, and our new Global

Quality Framework outlines how every partner and employee contributes to delivering high-quality audits.

Our people are at the heart of our business and supporting their wellbeing remains a priority through challenging times. This also means assessing the appropriate level of workloads as well initiatives that drive efficiencies through technology.

Driving improvements in audit quality relies on exceptional people always doing the right thing, not taking shortcuts, and being able to speak up without fear of repercussion. Our new Global Quality Framework outlines how every partner and employee contributes to delivering high-quality audits. These are mandatory actions and behaviors, built on our Values that have been our guide throughout nearly 150 years of providing quality audits.

We recognize the significance of the International Sustainability Standards Board, announced at COP26, and our evolving role to provide assurance over sustainability disclosures with the same focus that our auditors deliver over financial statements.

Finally, creating the right environment requires strong governance and practice management standards. It's why our Global Board implemented governance changes to achieve greater levels of consistency and accountability across our entire global organization. All KPMG member firms are now committed to a common set of Values, standards, and service quality expectations.

Together, we're making incredible strides for the better. Quality is what our profession is built on, and it's why KPMG is relentless in our approach to delivering it.

Thank you for the trust you have in us.



Bill Thomas
Global Chairman and CEO,
KPMG International



Larry Bradley
Global Head of Audit,
KPMG International

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# Audit quality is

fundamental to maintaining public trust and is the key measure on which our professional reputation stands.

We define "audit quality" as the outcome when audits are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls.

All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

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# Driving the quality agenda

#### Our global approach to delivering audit quality.

We continue to invest significantly in audit quality across the KPMG global organization. We are building on our sound audit quality foundations, in terms of how KPMG firms are managed and how they execute their audit engagements.

This means ongoing investment in our system of quality management, global monitoring of audit quality, enhanced support, and providing leading-edge technology and tools for engagement teams.

Our global audit quality program supports consistent deployment of consistent policies, processes, control and technologies by firms to enhance and drive a common approach.

#### Building consistency through a global approach



At KPMG, audit quality is about consistent execution across all firms in line with the requirements and intent of professional standards and is supported by a strong system

of quality management. All of our related activities are undertaken in an environment of objectivity, independence, ethics and integrity.

We have made significant investments in strengthening the consistency and robustness of our system of quality management across the global organization, ensuring the effective implementation of the International Standard of Quality Management (ISQM 1), which will take effect as of December 2022. Our approach to ISQM 1 is to drive the consistency and robustness of controls across the KPMG organization. KPMG International has initiated a program to support an effective implementation of the organization-wide requirements for KPMG firms' systems of quality management.

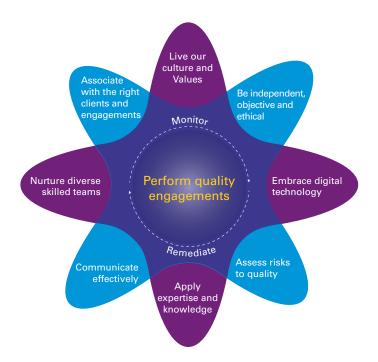
## **Driving standards through a system of quality management**



Our commitment to integrity and quality lie at the heart of the way we do things at KPMG. Our system of quality control ensures our performance meets the highest professional standards.

As we prepare for ISQM 1, we have adopted a new Global Quality Framework to better outline how we deliver quality at KPMG, and how all KPMG professionals are accountable for its delivery. The principle of 'Perform quality engagements' sits at the core along with our commitment to continually monitor and remediate our processes as necessary. Our Quality Drivers give clear direction to encourage the right behaviors in delivering audit quality. The Global Quality Framework also meets the requirements of the current International Standards on Quality Control (ISQC 1), issued by the International Auditing and Assurance Standards Board (IAASB) and the International Code of Ethics for Professional Accountants (including International Independence Standards), issued by the International Ethics Standards Board for Accountants (IESBA), (which we will refer to subsequently as 'the IESBA Code of Ethics') which apply to professional services firms that perform audits of financial statements.

While this KPMG International Transparency Report summarizes KPMG's approach to audit quality, it also applies across the organization, as many KPMG quality control procedures and processes are cross-functional and apply equally to all services offered by KPMG firms. In this report we use our Global Quality Framework to describe our approach to quality.



Throughout this document, "we", "KPMG", "us" and "our" refers to the global organization, to KPMG International Limited ("KPMG International") or to one or more of the member firms of KPMG International, each of which is a separate legal entity.

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## KPMG's commitment to audit quality during the COVID-19 pandemic

The COVID-19 pandemic has forced us all to think differently and we continue to respond to and embrace this challenge.

Since the start of the pandemic, we have maintained an online <u>COVID-19 | Financial reporting resource center</u> to assist companies and other stakeholders in understanding potential accounting and disclosure implications.

KPMG International has issued extensive guidance to assist teams in addressing the various accounting, financial reporting and audit-related matters arising from the impacts of the COVID-19 pandemic, including going concern, asset impairments, valuations and related disclosures, materiality, risk assessment, group audits, inventory, subsequent events and audit evidence of communications with those charged with governance. Additionally, KPMG International issued specific guidance for remote working environments that addresses how teams work together, communications with management and the design and performance of audit procedures.

KPMG International's guidance has been continually updated throughout the pandemic as other significant auditing, accounting and reporting issues have been identified.

KPMG is a technology-enabled organization, with technical accounting and auditing resources, guidance, platforms and tools all available electronically, which greatly enabled the conversion to a remote-working environment.

Enhanced communication has been increasingly important to everyone during the COVID-19 pandemic. We have leveraged our investments in technology to provide KPMG firms with more regular communications, including virtual meetings to share best practices and guidance. In addition, KPMG firms could use specific COVID-19 pulse surveys to hear from their teams in real time and shape responses accordingly.

#### Operating in different regulatory environments



The regulatory requirements under which KPMG operates differ across jurisdictions, and KPMG firms are committed to operating according to the laws and regulatory environment of their market.

KPMG is supportive of international initiatives to promote consistency in regulatory requirements for the capital markets while recognizing that different jurisdictions will have different requirements.

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# Living our culture and Values

It's not just what we do at KPMG that matters — we also pay attention to how we do it. Our Values are our core beliefs, guiding and unifying our actions and behaviors. Shared across every level and in every country, jurisdiction and territory in which we operate, they are the foundation of our unique culture.

## Fostering the right culture, starting with tone at the top

As a global organization, we recognize that strong and clear leadership from KPMG International is critical to set the tone at the top and provides the blueprint for accountability to all KPMG firms.

Our global leadership, working with regional and KPMG firm leadership, plays a critical role in establishing our commitment to quality and the highest standards of professional excellence. A culture based on accountability, quality, objectivity, independence, integrity and ethics is essential in an organization that carries out audits and other services on which stakeholders rely. KPMG International has taken steps to strengthen our governance, with a focus on accountability for quality. All KPMG firms are now committed to a common set of Values, standards, and service-quality expectations.

KPMG's global leadership drives an awareness that everyone across the organization who is involved in performing an audit, or any client engagement across tax and advisory, has a responsibility for quality and a part to play.

This is one of the key factors that connects all KPMG professionals.

#### Clear Values and a strong Code of Conduct

Our Values lie at the heart of the way we do things. To do the right thing, the right way, at the right time. Always. They drive our daily behaviors, guide our decisions and shape our character. They form the foundation of a resilient culture ready to meet challenges with integrity, so we never lose sight of our principal responsibility to protect the public interest. And they propel us forward — through our work and the example we set — as we inspire confidence and empower change throughout the world.

Within our Global Code of Conduct ("the Code"), we outline the responsibilities all KPMG personnel have to each other, the public and our clients. It shows how our Values inspire our greatest aspirations and guide all of our behaviors and actions. It defines what it means to work at and be a part of KPMG, as well as our individual and collective responsibilities.

All KPMG professionals are held accountable for behaving in accordance with the Code and are required to confirm their compliance. They are all required to take annual training that covers the Code. We are committed to holding ourselves accountable for behaving in a way that is consistent with the Code. Individuals are encouraged to speak up if they see something that makes them uncomfortable or is not in compliance with the Code or our Values.

Moreover, everyone at KPMG is required to report — any activity that could potentially be illegal or in violation of our Values, our policies, applicable laws, regulations, or professional standards.

To safeguard this principle of holding each other accountable, each KPMG firm is required to establish, communicate and maintain clearly defined channels to allow KPMG personnel and third parties to make inquiries about, raise concerns in relation to, provide feedback on, and notify reportable matters without fear of reprisal in accordance with applicable laws or regulations.

The <u>KPMG International hotline</u> is a further mechanism for KPMG personnel, clients and other third parties to confidentially report concerns they have relating to certain areas of activity by KPMG International, activities of KPMG firms or KPMG personnel.

All KPMG firms and personnel are prohibited from retaliating against individuals who have the courage to speak up in good faith. Retaliation is a serious violation of the Code, and any person who takes retaliatory action will be subject to their firm's disciplinary policy.

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In addition to the controls outlined above, the Global People Survey provides KPMG International leadership with results related to upholding our Values.

#### Consistent quality and risk management policies



KPMG International has quality control policies that apply to all KPMG firms. These are included in the Global Quality & Risk Management Manual (GQ&RM Manual), which applies to all KPMG personnel.

These policies and associated procedures are designed to assist KPMG firms in complying with relevant professional standards and regulatory and legal requirements.

They are based on the ISQC 1 and on the IESBA Code of Ethics. Both are relevant to KPMG firms that perform statutory audits and other assurance and related services engagements.

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

#### Our global leadership takes responsibility for audit quality

KPMG's global leadership plays a critical role in driving the quality agenda for the organization. In respect to audit quality, our Global Head of Audit and Global Head of Audit Quality provide reports to the Global Audit Quality Committee of the Global Board and has responsibility for oversight of audit quality across KPMG for KPMG International.

Certain global steering groups drive the execution of the quality strategy. Each of these global groups has its specific areas of focus, and they work closely with one another on quality matters, along with regional and KPMG firm leadership, to:

- establish and ensure communication of appropriate audit, quality and risk management policies;
- establish and support effective and efficient processes to promote audit quality;
- promote and support the implementation of strategy in KPMG firms' audit functions, including standards of audit quality; and
- assess and monitor audit engagement quality, including issues arising from quality performance and regulatory reviews, and focus on best practices to increase audit quality.

The overall governance structure of KPMG International and further detail on global leadership groups is provided in the 'Governance and leadership' section of this report.

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# Applying expertise and knowledge

We are committed to continue to build on our technical expertise and knowledge recognizing its fundamental role in delivering quality audits.

## Methodology aligned with professional standards, laws and regulations

The KPMG audit methodology, tools and guidance, which enable a consistent approach to planning, performing and documenting audit procedures over key accounting processes, are:

- Globally consistent and fully compliant with the applicable standards, including International Standards on Auditing (ISA), Public Company Accounting Oversight Board (PCAOB) and the American Institute of CPAs (AICPA) and are supplemented to comply with local auditing standards and regulatory or statutory requirements by KPMG firms.
- Inclusive of KPMG methodology interpretations that drive consistency in areas where the applicable standards are not prescriptive in the approach to be followed.
- Centered on identifying risk, focusing on risks of material misstatements and the necessary audit response.
- Made available to all KPMG audit professionals and required to be used, where necessary.
- Applied even where local auditing standards may be less demanding than the ISAs.
- Focused on the international assurance methodology and the alignment of assurance products in response to growth of ESG reporting.

The KPMG audit methodology is set out in the KPMG Audit Manual (for use with eAudIT) and the KPMG Audit Execution Guide (for use with the KPMG Clara workflow) and includes KPMG interpretation of how to apply ISAs, which we believe enhance audit quality. The methodology emphasizes applying appropriate professional skepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence.

Enhancements to the audit methodology, guidance and tools are made regularly to maintain compliance with standards and address emerging auditing areas of focus and audit quality results (internal and external). For example, as a result of the COVID-19 pandemic, many businesses are experiencing significant financial uncertainty. We have issued guidance to our auditors on conducting audit procedures in a remote-working environment, raising awareness of key audit risks such as going concern and impairments. We have also provided reminders of the importance of exercising professional skepticism and taking appropriate actions if information is identified that is unexpected or unusual and may be indicative of potential management bias, a fraud risk or fraud.

KPMG firms may add local requirements and/or guidance to the KPMG Audit Manual and the KPMG Audit Execution Guide, which KPMG International maintains to give consistent guidance to audit teams to comply with additional professional, legal or regulatory requirements.

#### Access to specialist networks

Specialist expertise is an increasingly important part of the modern audit. KPMG firm engagement teams have access to a network of KPMG

specialists — either within their firm or in other KPMG firms. These specialists receive the training they need to ensure they have the competencies, capabilities, and objectivity to appropriately fulfill their role on KPMG audits.

The need for specialists to be assigned to an audit engagement in areas such as information technology, tax, treasury, actuarial, forensic and valuations is considered as part of the audit engagement acceptance and continuance process, as well as during the planning and conduct of the engagement.

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# Embracing digital technology

At KPMG, we are committed to serving the public interest and create value through continuous innovation. By leveraging leading technologies, we are transforming the audit experience for our professionals and our clients — enabling us to provide an even higher quality audit by increasing our ability to focus on the issues that matter through the data and insights it provides.

#### Intelligent, standards-driven audit workflow

KPMG Clara is our smart and intuitive technology platform that is driving globally consistent audit execution across all KPMG firms. As a scalable, cloud-based platform, it enables the enhanced audit

methodology through a data-enabled workflow.

The platform integrates new and emerging technologies, with advanced capabilities that leverage data science, audit automation, and data visualization.

#### **Evolving our audit workflow**

We recognize that to deliver quality audits, we need to continually evolve and develop our technology solutions to keep pace with today's digital world.

That is why KPMG embarked on a process of reimagining our audit platform, workflow and methodology to provide enhanced consistency and support to our audit engagement teams, deliver detailed insights, and future-proof our systems for the expected continued development of new technologies such as robotic process automation, machine learning and cognitive technologies.

The release of the KPMG Clara workflow and revised audit methodology is an important milestone in KPMG's journey to innovate, digitalize and transform the audit. It is a significant investment that underlines our commitment to audit quality, consistency and innovation.

#### **KPMG Clara**

The digital audit is increasingly integral to how KPMG firms perform quality audits and interact with clients. Policies and guidance are in place to establish and maintain appropriate processes and controls regarding the development, evaluation and testing, deployment, and support of technology in KPMG audits.

KPMG Clara is helping auditors see meaningful patterns across a business, whether conducting risk assessment, tracing transactions through a complex revenue process, or simply adding up the accounts. Examples of current capabilities include:

- enabling the analysis of account balances and journal entry data;
- automating 'period-on-period' balances comparison and 'time series' evolution information; and
- enabling the analysis of sub-ledger, transactional data over certain business processes and accounts.

#### Our vision of the future

KPMG Clara was developed be KPMG's foundational technology platform to deliver audit quality. It delivers this by being the base technology delivering new capabilities in a globally consistent way, enabling the audit workflows and a fully digital experience for KPMG audit professionals.

The KPMG Clara platform evolves as technologies such as artificial intelligence, blockchain and cognitive capabilities transform how audits are delivered.

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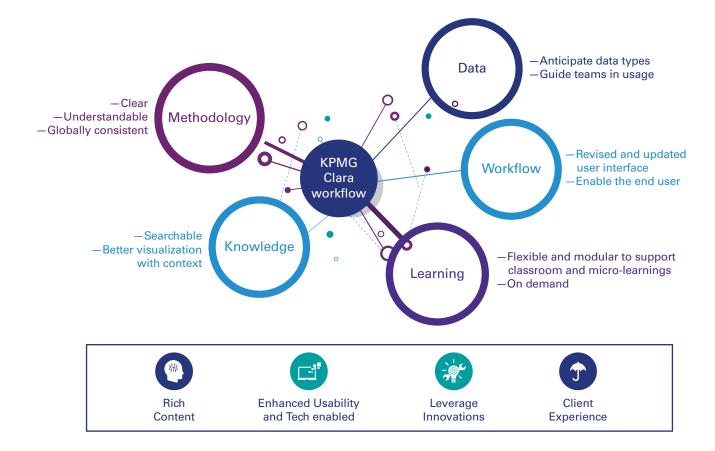
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#### **KPMG Clara workflow**

We are replacing eAudIT with a new workflow and revised audit methodology embedded into the KPMG Clara smart audit platform. Phased full deployment of KPMG Clara workflow commenced globally in 2020 with planned completion of full global transition for the 2022 fiscal period-end audits.

The web-enabled KPMG Clara workflow guides audit teams through a series of steps in a logical sequence aligned to the applicable professional auditing standards with a clear display of information, visuals, and guidance available, and with embedded advanced digital audit and project management capabilities. The workflow and revised audit methodology are scalable, adjusting the requirements to the size and complexity of the audit engagement. KPMG Clara workflow significantly enhances the execution of an audit by KPMG professionals and clearly drives audit quality and global consistency.

Using data mining and tracking of relevant engagement-level data indicators, the KPMG Clara workflow can also facilitate monitoring of audit execution at the engagement level.

We continue to enhance the KPMG Clara smart audit platform to accommodate accelerating security demands, integrate existing audit applications into a single platform, and develop new capabilities to digitize additional audit processes.

#### Client confidentiality, information security, and data privacy



The importance of maintaining client confidentiality is emphasized through a variety of mechanisms including the KPMG Global Code of Conduct (the Code).

We have policies on information security, confidentiality, personal information and data privacy. KPMG firms have a document-retention policy concerning the retention period for audit documentation and other records relevant to an engagement in accordance with the relevant IESBA requirements as well as other applicable laws, regulations and professional standards.

We provide training on confidentiality, information protection and data-privacy requirements to all KPMG personnel annually. Introduction and foreword

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# Nurturing diverse skilled teams

Our people make the real difference and are instrumental in shaping the future of audit at KPMG. We put quality and integrity at the core of our audit practice. Our auditors have diverse skills and capabilities to address complex problems.

#### Recruiting appropriately qualified and skilled people, including specialists, with diversity of perspective and experience

One of the key drivers of quality is ensuring that KPMG professionals have the appropriate skills and experience, motivation and purpose, to deliver high quality audits. This requires the right recruitment, development, reward, promotion and assignment of professionals.

#### Recruitment

KPMG has invested in understanding how we can attract the talent we need across the organization in the future. This includes building an extraordinary people experience for all current and prospective partners and employees.

KPMG International provides KPMG firms with guidance and training on sourcing high-quality talent with the necessary skills, expertise and qualifications to deliver organizational objectives and with the ability to make a positive contribution to the Values, capabilities and goals of the organization.

Additionally, we require that KPMG firms perform candidate application screening that is based on fair and job-related criteria to ensure that candidates possess the appropriate skills and experience to perform competently and are suitable and best placed for their roles. KPMG's policies also require that new employees undergo rigorous reference and background checks subject to legal and regulatory requirements.

KPMG reviews our position against the Universum rankings, which measure how we compare to the world's most attractive employers.

KPMG is consistently ranked as one of the world's most attractive employers among business students (data based on 2012–2021 Universum rankings). As the audit evolves, we are focused on improving our attractiveness

to business and STEM (science, technology, engineering and mathematics) talent in the future. This is why we developed the <u>KPMG Ideation Challenge</u>, which in 2021 was held virtually and challenged student teams to create an advanced technology solution that helps overcome or leverage the impacts of the global pandemic.

#### **Inclusion, Diversity & Equity programs**

KPMG is committed to building a diverse and equitable organization that is inclusive to all.

Inclusion, diversity, and equity (IDE) is at the core of our very existence, helping us build great teams with diverse views that represent the world we live in. It leads to better decision making, drives greater creativity and innovation, and encourages us to stand up, live our Values and do what is right.

We recognize that KPMG firms' global position working with clients around the world affords us a privileged place. With that comes an opportunity and responsibility to achieve more and push for a fairer, more equitable society.

KPMG's Global IDE Collective Action Plan outlines the actions that are necessary to advance inclusion, diversity and equity across all KPMG firms.

For more about inclusion and diversity at KPMG, read here.

#### **Reward and promotion**

All KPMG firms are required to have compensation and promotion policies that are informed by market data and are clear, simple, fair and linked to the performance and talent review process. Such policies help our people understand what is expected of them, and what they can expect to receive in return. The connection between performance and reward is achieved by assessing relative performance across a peer group to inform reward decisions. Reward decisions are based on the consideration of both individual and firm performance.

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The extent to which our people feel their performance has been reflected in their reward is measured through the annual Global People Survey, with action plans developed by KPMG firms as required.

The results of performance evaluations directly affect the promotion and remuneration of partners and employees and, in some cases, their continued association with KPMG.

#### Assigning an appropriately qualified team

#### Partner assignments



All KPMG firms are required to have procedures in place to assign engagement partners and other professionals to a specific engagement

on the basis of their skill sets, relevant professional and industry experience, and the nature of the assignment or engagement. Function heads are responsible for the partner assignment process. Key considerations include partner experience and capacity — based on an annual partner portfolio review — to perform the engagement taking into account the size, complexity and risk profile of the engagement and the type of support to be provided (i.e. the engagement team composition and specialist involvement).

#### **Engagement teams**

Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies, training and capabilities, including time to perform audit engagements in accordance with KPMG's audit methodology, professional standards, and applicable legal and regulatory requirements.

If the right resource is not available within the KPMG firm, the firm accesses a network of highly skilled KPMG professionals from other KPMG firms.

## Investing in data-centric skills, including data mining, analysis and visualization



KPMG is strategically investing in our talent pipeline by partnering with world-class institutions to sustain our strong leadership, while also looking forward to cultivating the

skills and capabilities that will be needed in the future. We are recruiting and training professionals who specialize in software, cloud capabilities and artificial intelligence and who can bring leading technology capabilities to our smart audit platform.

We provide training on a wide range of technologies to ensure that field professionals not only meet the highest professional standards but are also upskilled in new technologies. With this approach we are bringing together the right people with the right skills and the right technology to perform exceptional audits.

## Focused learning and development on technical expertise, professional acumen and leadership skills

### Commitment to technical excellence and quality service delivery



All KPMG professionals are provided with the technical training and support they need to perform their roles. This includes access to internal lists and the professional practice department for

specialists and the professional practice department for consultation.

#### Lifetime learning strategy

Annual training priorities for development and delivery are identified by the audit learning and development steering groups at the global, regional and, where applicable, KPMG firm level. Mandatory learning requirements for audit professionals across the organization are established annually. Training is delivered using a blend of learning approaches and performance support.

Ongoing mentoring and on-the-job coaching

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

Mentoring and on-the-job experience play key roles in developing the personal qualities important for a successful career in auditing, including professional judgment, technical excellence and instinct.

We support a coaching culture throughout KPMG as part of enabling our professionals to achieve their full potential and instil that every team member is responsible for building the capacity of the team, coaching other team members and sharing experiences.

### Licensing and mandatory requirements for IFRS® Standards and U.S. GAAP engagements

Specific requirements apply to partners, managers and engagement quality control (EQC) reviewers working on IFRS Standards engagements in jurisdictions where IFRS Standards are not the predominant financial reporting framework.

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Similar policies apply to engagements performed outside the U.S. to report on financial statements or financial information prepared in accordance with U.S. GAAP and/or audited in accordance with U.S. auditing standards, including reporting on the effectiveness of the entity's internal control over financial reporting (ICOFR).

These require that at a minimum, all partners, managers and, if appointed, the EQC reviewers (and for engagements conducted in accordance with US GAAP and/or US auditing standards engagements, the engagement partner, engagement manager, engagement in-charge and, if appointed the EQCR reviewers) assigned to the engagement have completed relevant training and that collectively the engagement team has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

#### Recognizing quality



KPMG's approach to performance development, known as 'Open Performance Development', is built around the 'Everyone a Leader' performance principles, and includes:

- global role profiles (including role profiles specific to audit quality accountabilities and responsibilities);
- a goal library (including audit quality content); and
- standardized review forms (with provision for audit quality ratings).

Open Performance Development is linked to KPMG's Values and designed to articulate what is required for success — both individually and collectively. We know that by being clear and consistent about the behaviors we expect and rewarding those who demonstrate them, we will continue to drive a relentless focus on audit quality.

At the same time, KPMG is driving a shift in our performance-driven culture, supported by and enacted through leading technology that allows us to embed audit quality into the assessment of performance and the decisions around reward as well as drive consistency across the global organization.

Quality and compliance metrics are considered in assessing the overall evaluation, promotion and remuneration of partners. These evaluations are conducted by performance managers and partners who are in a position to assess performance.

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# Associating with the right clients and engagements

Rigorous global client and engagement acceptance and continuance policies are vital to being able to provide high-quality professional services.

## Following the client and engagement acceptance and continuance policies



KPMG's client and engagement acceptance and continuance policies and processes are designed to identify and evaluate potential risks prior to

accepting or continuing a client relationship or performing a specific engagement.

KPMG firms are required to evaluate whether to accept or continue a client relationship or perform a specific engagement. Where client/engagement acceptance (or continuance) decisions pose significant risks, additional approvals are required.

#### **Accepting appropriate clients and engagements**

**Client evaluation process** 

Every KPMG firm is required to undertake an evaluation of every prospective client. This involves obtaining sufficient information about the prospective client, its key management and significant beneficial owners and then properly analyzing the information to be able to make an informed acceptance decision. This evaluation includes an assessment of the client's risk profile and obtaining background information on the client, its key management, directors and owners. If necessary, each KPMG firm obtains additional information required to satisfy local legal and/or regulatory requirements.

#### **Engagement evaluation process**

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors are considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel<sup>TM</sup>, KPMG's conflicts and independence checking system), intended purpose and use of engagement

deliverables, public perception, and whether the services would be unethical or inconsistent with our Values, as well as factors specific to the type of engagement. For audit services, these factors include the competence of the client's financial management team and the skills and experience of KPMG professionals assigned to staff the engagement.

#### **Continuance process**

An annual re-evaluation of all audit clients is required to be undertaken by all KPMG firms.

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

#### Withdrawal process

If a KPMG firm comes to a preliminary conclusion that indicates it should withdraw from an engagement or client relationship, it is required to consult internally and identify any required legal, professional and regulatory responsibilities. It is also required to communicate as necessary with those charged with governance and any other appropriate authority.

#### Managed portfolio of clients

KPMG firms' leadership appoints engagement partners who have the appropriate competence, capabilities, time, and authority to perform their role for each engagement.

They review each audit partner's client portfolio in individual discussions with the audit partner. The reviews consider the industry, nature and risk of the client portfolio as a whole along with the competence, capabilities and capacity of the partner and wider team to deliver a quality audit for every client.

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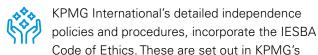
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# Being independent and ethical

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

#### **Acting with integrity and living our Values**



GQ&RM Manual, which applies to all KPMG firms. Automated tools, which are required to be used for every prospective engagement to identify potential independence and conflict of interest issues, facilitate compliance with these requirements. Organization-wide processes are supplemented by KPMG firms' own policies and processes to ensure compliance with additional local independence standards.

The Partner-in-Charge of the Global Independence Group is supported by a core team of specialists to help ensure that KPMG has robust and consistent independence policies and procedures, as well as guidance and tools to help KPMG firms and their personnel comply with these requirements. The Global Independence Group communicates regularly to KPMG firms on policy changes and enhancements, as well as providing guidance on complying with the independence standards. The Global Independence Group holds various workshops and also provides training over the course of each year.

Each KPMG firm has a designated Ethics and Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence (E&I) policies and procedures locally. The EIP is responsible for communicating and implementing KPMG International's policies and procedures and ensuring that local independence policies and procedures are established and effectively implemented when they are more stringent than KPMG International's requirements.

KPMG partners and employees are required to consult with their KPMG firm's EIP on certain specific independence matters as defined in the GQ&RM Manual. The EIP may also be required to consult with the Global Independence Group depending upon the facts and circumstances.

KPMG firms are required to clearly communicate their independence policies and procedures to all of their personnel.

Compliance with independence policies and processes is monitored through annual independence confirmations and compliance audits within KPMG firms, as well as through KPMG's wider monitoring programs described in the 'Monitoring and remediation' section of this report.

Maintaining an objective, independent and ethical mindset, in line with our code of conduct and policies



#### Personal financial independence

KPMG partners and employees are required to be free from prohibited financial interests in, and prohibited financial relationships with, assurance and audit clients (by definition, 'audit client' includes its related entities or affiliates), their management, directors and, where required, significant owners. All partners — irrespective of their firm or function — are generally prohibited from owning securities of any audit client of any KPMG firm.

KPMG firms use a web-based independence compliance system (KICS) to assist KPMG professionals in complying with personal independence investment policies. This system contains an inventory of publicly available investments and provides a tracking mechanism for required users to report acquisitions and disposals of their financial interests. The system facilitates monitoring by identifying and reporting impermissible investments and other non-compliant activity (i.e. late reporting of an investment acquisition).

All partners and manager-grade or above client-facing employees are required to use the KICS system prior to entering into an investment to identify whether they are permitted to do so. They are also required to maintain a record of all of their investments in publicly-traded entities

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in KICS, which automatically notifies them if any investment subsequently becomes restricted. Newly restricted investments are required to be disposed of within five business days of the notification. KPMG firms monitor partner and manager compliance with this requirement as part of our program of independence compliance audits of professionals.

The Global Independence Group provides guidance and required procedures relating to the audit and inspection by KPMG firms of personal compliance with KPMG's independence policies. This includes sample criteria including the minimum number of professionals to be audited annually.

#### **Employment relationships**

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

Former members of the audit team or former partners of a KPMG firm are prohibited from joining an audit client in certain roles unless they have disengaged from all significant connections to the KPMG firm, including payments which are not fixed and predetermined and/or would be material to the KPMG firm, and have ceased participating in the firm's business and professional activities.

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

An assurance team member is also required to notify the EIP when they enter into employment negotiations with the assurance client during the course of the engagement. Former assurance team members or former partners of a KPMG firm who join an assurance client in certain roles cannot continue to participate in the firm's business or professional activities.

#### Firm financial independence

KPMG firms are required to also be free from prohibited interests in, and prohibited relationships with, audit clients and their management, directors and, where required, significant owners. KICS is used to record KPMG firms' direct and material indirect investments in listed entities and funds (or similar investment vehicles) as well as in non-listed entities or funds. This includes investments held in associated pension and employee benefit plans.

Additionally, KPMG firms are required to record in KICS all borrowing and capital financing relationships, as well as custodial, trust and brokerage accounts that hold firm assets.

#### **Business relationships/suppliers**

KPMG has policies and procedures in place that are designed to ensure its business relationships with audit and assurance clients are maintained in accordance with the IESBA Code of Ethics and other applicable independence requirements, such as those promulgated by the US Securities and Exchange Commission (SEC).

#### Ethics and independence — Training and confirmations

All KPMG partners and client service professionals, as well as certain other individuals, are required to complete independence training that is appropriate to their grade seniority and function upon joining KPMG and on an annual basis thereafter.

All KPMG partners and employees are required to sign, upon joining KPMG, and thereafter, an annual confirmation stating that they have remained in compliance with applicable E&I and other key policies.

#### Non-audit services

All KPMG firms are required, at a minimum, to comply with the IESBA Code of Ethics and applicable laws and regulations related to the scope of services that can be provided to audit clients.

In addition to identifying potential conflicts of interest, Sentinel<sup>TM</sup> facilitates compliance with independence requirements.

Certain information on all prospective engagements, including detailed service descriptions, deliverables and estimated fees, are required to be entered into Sentinel as part of the engagement acceptance process. When the engagement is for an audit client, an evaluation of potential independence threats and safeguards is also required to be included in the Sentinel submission.

Lead Audit Engagement Partners (LAEPs) are required to maintain group structures for their publicly traded and certain other audit clients, including their related entities or affiliates, in Sentinel. They are also responsible for identifying and evaluating any independence threats that may arise from the provision of a proposed nonaudit service and the safeguards available to address those threats. For entities for which group structures are maintained, Sentinel enables LAEPs to review and request revision, approve, or deny, any proposed service for those entities worldwide. For approved proposed services, Sentinel designates a timeframe during which the approval remains valid. Upon expiration of the established timeframe, the services are required to be complete or be re-evaluated for permissibility; otherwise, the services are required to be exited.

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KPMG global independence policies prohibit KPMG firm audit partners from being evaluated on, or compensated based on, their success in selling non-assurance services to their audit clients.

KPMG firms are required to establish and maintain a process to review and approve all new and modified services that are developed. Each KPMG firm's EIP is involved in the review of potential independence issues related to these new or modified services.

#### Fee dependency

Self-interest or intimidation threats at the KPMG firm level may arise when the total fees from an audit client represent a large proportion of the total fees of the KPMG firm expressing the audit opinion. In the event that the total fees from a public interest entity audit client and its related entities represent more than 10 percent of the total fees received by a particular KPMG firm for two consecutive years:

- disclosure is required to those charged with governance at the audit client; and
- a partner from another KPMG firm is appointed as the engagement quality control (EQC) reviewer.

#### **Avoiding conflicts of interest**

All KPMG firms and personnel are responsible for identifying and managing conflicts of interest, which are circumstances or situations that may reasonably be expected to have an impact on the firm's ability to be objective or act without bias.

KPMG engagement teams are required to use Sentinel to identify potential conflicts so that these can be addressed in accordance with legal and professional requirements.

#### **Personal conflicts**

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

Consultation with the KPMG firm's Risk Management Partner (RMP) or the EIP is required in these situations.

Policies are also in place to prohibit KPMG personnel from offering or accepting inducements, including gifts and hospitality, to or from audit clients, unless the value is trivial and inconsequential, is not prohibited by relevant law or

regulation, and is not deemed to have been offered with the intent to improperly influence the behavior of the recipient or which would cast doubt on the individual's or the KPMG firm's integrity, independence, objectivity or judgment.

#### Resolving conflicts of interest

Each KPMG firm has one or more allocated risk management individuals who are responsible for reviewing any identified potential conflict and working with the affected KPMG firms to resolve the conflict, the outcome of which is required to be documented.

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

#### **Independence breaches**

All KPMG personnel are required to report an independence breach to their KPMG firm EIP as soon as they become aware of it. All breaches of independence requirements of the IESBA Code of Ethics or other external independence requirements are required to be reported to those charged with governance as soon as possible except where alternative timing for less significant breaches have been agreed to with those charged with governance.

Each KPMG firm is required to have a documented and communicated disciplinary policy in relation to breaches of independence policies, incorporating incremental sanctions reflecting the seriousness of any violations. In the event of non-compliance with KPMG's independence policies, irrespective of how that non-compliance is identified, KPMG professionals are subject to the disciplinary policy.

#### **Partner rotation**

KPMG partner rotation policies are consistent with the requirements of the IESBA Code of Ethics and require compliance with any stricter local applicable rotation requirements. KPMG partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG International policy. These requirements place limits on the number of consecutive years that partners in certain roles may provide audit services to a client, followed by a 'timeout' period during which these partners may not participate in the audit, provide quality control for the audit, consult with the engagement team or the client regarding technical or industry specific issues, in any way influence the outcome of the audit, lead or coordinate other professional service

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delivered to the client, oversee the relationship of the KPMG firm with the client, or have any other significant or frequent interaction with senior management or those charged with governance. KPMG firms are required to monitor the rotation of audit engagement leaders (and any other key roles where there is a rotation requirement) and develop related transition plans to enable the allocation of partners with the necessary competence and capability to deliver a consistent quality of service to clients.

#### Firm rotation

In certain jurisdictions, KPMG firms are only permitted to act as an auditor for a specific audit client for a defined period and not to act as auditor for that client for a specified period of time thereafter. KPMG firms in these jurisdictions are required to have processes in place to track and manage compliance with audit firm rotation requirements.

## Zero-tolerance approach to bribery and corruption



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

KPMG policy prohibits involvement in any type of bribery—even if such conduct is legal or permitted under applicable law or local practice. We also do not tolerate bribery by third parties, including by KPMG firm clients, suppliers or public officials. KPMG International requires KPMG firms to have appropriate internal controls in place to mitigate the risk of involvement in bribery by the firm and its partners and employees.

All KPMG partners and employees are required to take training covering compliance with laws, regulations and professional standards relating to anti-bribery and corruption, including the reporting of suspected or actual non-compliance.

More about KPMG International's position and policies on anti-bribery and corruption is available <u>here</u>.

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# Assessing risks to quality



Through the Global Audit Quality Council (GAQC) and the Global Quality & Risk Management Steering Group (GQRMSG), KPMG International reviews the results of the quality monitoring programs, reviews root causes and planned remedial actions, and develops additional global remediation actions as required.

Global remediations are aimed at actions around culture and behavior across the global organization and at driving consistent engagement team performance within KPMG firms.

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# Communicating effectively

We recognize that another important contributor to upholding audit quality is to obtain and act upon feedback from key stakeholders.

#### Provide insights, and maintain open and honest two-way communication



Honest and candid communication with clients, including management and those charged with governance, is a key aspect of our reporting

and quality service delivery. KPMG Clara, includes a client collaboration portal, allowing clients real-time monitoring of the status of the audit as well as seamless communication with the audit engagement team.

#### Communications with those charged with governance

KPMG International stresses the importance of keeping those charged with governance informed of issues arising throughout the audit through guidance and supporting resources. KPMG firms and professionals achieve this through a combination of reports and presentations, attendance at audit committee or board meetings, and, when appropriate, ongoing discussions with management and members of the audit committee.

The role of audit committees is key in supporting quality auditing by overseeing the relationship between company and auditor and challenging what auditors do and how they do it.

#### **Audit Committee Institute (ACI)**

In recognition of the demanding and important role that audit committees play in driving audit quality and the challenges that they face in meeting their responsibilities, KPMG's Audit Committee Institute (ACI) aims to help audit committee members enhance their commitment and ability to implement effective audit committee processes.

The ACI operates in more than 40 jurisdictions across the globe and provides audit committee members with guidance on matters of interest to audit committees; updates on issues like EU audit reform, changes to accounting standards and other matters of interest to audit committees (such as cyber security and corporate culture); and the opportunity to network with their peers during an extensive program of technical updates and awareness seminars.

The ACI's offerings cover the array of challenges facing Audit Committees and businesses today — from risk management and emerging technologies to strategy and global compliance. Further details and insights on the ACI are available here.

#### **IFRS Institute**

KPMG's Global IFRS Institute provides information and resources to help board and audit committee members, executives, management, stakeholders and government representatives gain insight and access thought leadership about the evolving global financial and sustainability reporting frameworks.

#### Conduct and follow-up on the Global People Survey (GPS)



Only with engaged, talented people can KPMG deliver audits in line with our audit quality

expectations. Annually all KPMG personnel are invited to participate in KPMG's GPS to share their perception about their experience of working for KPMG. The GPS provides a measure of our people's engagement and insights into areas driving engagement. Results can be analyzed by several factors, for example functional or geographic area, grade and gender to provide additional focus for action. Through the GPS, KPMG gains additional insight on how we are faring on categories known to impact employee engagement. We also cover areas of focus which are directly relevant to audit quality; the survey includes specific audit quality related questions that all individuals who participated in an audit in the previous 12 months are asked to respond to, giving us a particular data set for audit quality related matters.

The survey also provides KPMG International leadership with results related to quality and risk behaviors, audit quality, upholding the KPMG Values, employee and partner attitudes to quality, leadership and tone at the top.

All KPMG firms are required to participate in the survey each year and to take appropriate actions to communicate and respond to its findings.

Audit specific analysis of GPS results is also undertaken, with a particular focus on audit quality. Results and key themes are presented to the Global Audit Steering Group on an annual basis for consideration of appropriate remedial action, if needed.

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# Performing quality engagements

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

## Taking responsibility for audit quality at the KPMG firm level



While KPMG International creates the global framework and policies for audit quality, KPMG firm leadership is responsible for the delivery of that quality.

Each KPMG firm is responsible for establishing and maintaining a system of quality control. Within each KPMG firm, there is a Head of Audit, who has primary responsibility for audit quality and is supported by the firm's Risk Management Partner (RMP) in maintaining a system of quality control.

#### **Encouraging a culture of consultation**

KPMG encourages a strong culture of consultation that supports engagement teams throughout their decision- making processes and is a fundamental contributor to audit quality. KPMG promotes a culture in which consultation is recognized as a strength, and that encourages all KPMG professionals to consult on difficult or contentious matters.

To help with this, KPMG firms are required to have established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate the resolution of differences of opinion on engagement issues. In addition, the GQ&RM Manual includes mandatory consultation requirements on certain matters.

#### Technical consultation and global resources

Technical accounting and auditing support are available to KPMG firms through the Global Audit Methodology Group (GAMG), the KPMG Global

Solutions Group (KGSG), the International Standards Group (ISG) and the PCAOB Standards Group (PSG).

#### Global Audit Methodology Group (GAMG)

KPMG's audit methodology is developed and maintained by the GAMG. The GAMG develops our audit methodology based on the requirements of the applicable auditing standards — the ISAs, the PCAOB, and the AICPA.

#### **KPMG Global Solutions Group (KGSG)**

The KGSG is responsible for the envisioning, development, and deployment of global audit tools, including new technology and automation innovations.

KGSG and GAMG work collaboratively to support KPMG firms through collaboration, innovation and technology. We have made significant investment in our audit methodology and tools, with the core focus of improving audit quality, global consistency and standardization.

With locations in each of the three KPMG regions (Americas, Europe, the Middle East and Africa and Asia Pacific), the KGSG and GAMG teams comprise professionals with backgrounds in audit, IT, data science, mathematics, statistics and more, from around the world, who bring diverse experiences and innovative ways of thinking to further evolve KPMG's audit capabilities.

More information about KPMG's global audit methodology and technology-based tools is included in the 'Embracing digital technology' section of this report.

#### **International Standards Group (ISG)**

The ISG focuses on the application of International Financial Reporting Standards (IFRS Standards) and the ISAs.

To promote consistency of interpretation of IFRS Standards and ISAs between KPMG firms, Topic Teams with geographic representation from around the world identify emerging issues and develop global guidance on a timely basis. In summary, the ISG:

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- monitors emerging practice issues identified through quality performance reviews, by regulators and through root cause analysis activities;
- develops guidance on the interpretation and application of international standards and, where appropriate, in response to quality issues emerging from review, drives consistency across the organization;
- provides feedback to international standard setters on proposed changes to standards and consultations; and
- consults on technical matters with KPMG firms in connection with client-specific issues.

The ISG also supports the IFRS Panels and the Global Topic Teams to facilitate information sharing between the Department of Professional Practice (DPP) network, and to help ensure sector-specific issues are dealt with proactively.

#### **PCAOB Standards Group (PSG)**

The PSG comprises a dedicated group of professionals with backgrounds in PCAOB auditing standards who promote consistency of interpretation of PCAOB auditing standards in KPMG firms' audits of non-US components of US companies and of foreign private issuers and non-US components of SEC issuers, as defined by SEC regulations. The PSG also provides input into the development of training for auditors who work on PCAOB audit engagements and, where practicable, facilitates the delivery of such training.

#### Professional practice resource

KPMG firms provide consultation support on auditing and technical accounting matters to their audit professionals through professional practice resources. These resources also assists engagement teams where there are differences of opinion either within teams or with the engagement quality control reviewer. Unresolved differences are required to follow a prescribed escalation protocol for final resolution.

KPMG's ISG and the PSG are also available for consultation support when required.

## Critically assessing audit evidence, using professional judgment and skepticism



On all KPMG audits, the nature and extent of the audit evidence we gather is responsive to the assessed risks. We consider all audit evidence obtained during the course of the audit

including contradictory or inconsistent audit evidence. Each KPMG team member is required to exercise professional

judgment and maintain professional skepticism throughout the audit engagement. Professional skepticism involves a questioning mind and alertness to contradictory or inconsistencies in the audit evidence. Professional judgment encompasses the need to be aware of and alert to biases that may pose threats to good judgments.

#### Direct, coach, supervise and review



### Embedding ongoing mentoring, supervision and review

To invest in building the skills and capabilities of KPMG professionals, we promote a continuous learning environment and support a coaching culture.

Ongoing mentoring, coaching and supervision during an audit involves:

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

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

#### Engagement quality control (EQC) reviews

The EQC review is an important part of KPMG's framework for quality. An EQC reviewer is required to be appointed by KPMG firms for audits, including any related review(s) of interim financial information, of all listed entities, nonlisted entities with a high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements as designated by the Risk Management Partner or country Head of Audit.

An EQC review provides reasonable assurance that the team has appropriately identified significant risks, including fraud risks, and has designed and executed audit procedures to address them. Introduction and foreword

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EQC reviewers are required to meet training and experience qualifications to perform a quality control review for a particular engagement. Reviewers are independent of the engagement team and audit client and have the appropriate experience and knowledge to perform an objective review of the more critical decisions and judgments made by the engagement team and the appropriateness of the financial statements.

The audit is completed only when the EQC reviewer is satisfied that all significant questions raised have been resolved, though the engagement partner is ultimately responsible for the resolution of accounting and auditing matters.

We continually seek to strengthen and improve the role that the EQC review plays in KPMG audits and have taken a number of actions to reinforce this, including issuing best practice guidance, incorporating specific review requirements into our audit workflow, and developing policies relating to recognition, nomination and development of EQC reviewers.

### Appropriately support and document conclusions



Audit documentation is completed and assembled according to the timeline established by firm policy and auditing standards, and we

have implemented administrative, technical and physical safeguards to protect the confidentiality and integrity of client and KPMG firm information. KPMG International recently adopted policies to apply to all KPMG firms to reduce the time period allowed to assemble audit documentation, which is significantly less than required by the applicable auditing standards.

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# Monitoring and remediation

Integrated quality monitoring and compliance programs enable KPMG firms to identify quality deficiencies, to perform root cause analysis and develop, implement and report remedial action plans, both in respect of individual audit engagements and the overall system of quality control.

## Rigorously monitor and measure quality at the local and global level



#### **Commitment to continuous improvement**

KPMG commits to continually improve the quality, consistency and efficiency of KPMG firm audits.

The quality monitoring and compliance programs are globally consistent in their approach across all KPMG firms, including the nature and extent of testing and reporting.

#### Internal monitoring and compliance programs

Our quality monitoring and compliance programs are created by KPMG International and applied across KPMG firms.

The programs evaluate both:

- engagement performance in compliance with the applicable standards, applicable laws and regulations, and KPMG International key policies and procedures; and
- KPMG firms' compliance with KPMG International key policies and procedures and the relevance, adequacy and effective operation of key quality control policies and procedures.

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

- Quality Performance Reviews (QPR) and Risk Compliance Programs (RCP), which are conducted annually across KPMG firms' Audit, Tax and Advisory functions; and
- a cross-functional Global Quality & Compliance Review (GQ&CR) program, with KPMG firms selected for review at various intervals based on identified risk criteria.

Participation in Audit Quality Performance Reviews (QPRs), the Risk Compliance Program (RCP) and the GQ&CR programs is mandatory for all KPMG firms.

KPMG firms communicate the results of the programs internally and take action to make improvements where needed. The results are also considered at a wider regional level and by KPMG International.

We give more detail on these programs and how they work in the following sections.

Global Audit Quality Monitoring Group (GAQMG)

The GAQMG identifies issues to help drive audit quality. The group comprises a team of partners, directors and senior managers experienced in performing program 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.

Audit Quality Performance Reviews (QPR)

The Audit QPR program assesses engagement level performance and identifies opportunities to improve engagement quality. Each audit engagement partner is reviewed at least once in a three-year cycle as part of QPR. A risk-based approach is used by KPMG firms to select engagements.

KPMG International helps ensure that KPMG firms' QPRs are fair and objective, and that they are overseen by an independent experienced lead reviewer.

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

KPMG International helps ensure that consistent criteria are used to determine engagement ratings and audit practice evaluations, which can then be used to measure improvements in the future.

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Lead audit engagement partners (LAEPs) are notified of unsatisfactory ratings on their respective cross-border engagements. Additionally, LAEPs of parent companies/ head offices are notified where a subsidiary/affiliate of their client group is audited by a KPMG firm where significant quality issues have been identified during the QPR.

#### Risk Compliance Program (RCP)

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

- document, assess and monitor the extent to which the KPMG firm's system of quality control complies with Global Quality & Risk Management policies, and key legal and regulatory requirements; and
- provide the basis for KPMG firms to evaluate compliance with relevant professional standards and applicable legal and regulatory requirements.

Where deficiencies are identified, the KPMG firm is required to develop appropriate action plans and then monitor the status of each action item.

Global Quality & Compliance Review (GQ&CR) program

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

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

- a KPMG firm's commitment to quality and risk management and the extent to which its overall structure, governance and financing support and reinforce this commitment;
- a KPMG firm's compliance with key KPMG International policies and procedures; and
- the robustness with which the firm performs its own compliance program (RCP).

KPMG firms are required to develop action plans to respond to all GQ&CR findings that indicate improvement is required and agree to these with the GQ&CR team.

A KPMG firm's progress with its action plan is monitored by the GQ&CR central team. Results are reported to the Global Quality & Risk Management Steering Group (GQRMSG) and, where necessary, to relevant KPMG International and regional leadership.

Area Quality & Risk Management Leaders (ARLs)

The Global Head of Quality, Risk and Regulatory appoints ALRs, who serve a regular and ongoing monitoring function to assess the effectiveness of a KPMG firm's efforts and processes to identify, manage and report significant risks that have the potential to damage the KPMG brand.

Significant activities of the ARL, including KPMG firm issues identified and related response/ remediation, are reported to GQ&RM leadership.

### Obtain, evaluate and act on stakeholder feedback

○☆☆☆ We recognize that another important contributor ※☆☆ to upholding audit quality is to obtain and act upon feedback from key stakeholders.

#### Regulators

KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR), principally through its Global Audit Quality Working Group (GAQ WG), to discuss thematic audit quality issues along with targeted strategies for improvement. We value the open, honest and transparent dialogue that IFIAR facilitates on global audit quality issues.

Every KPMG firm is expected to maintain professional and respectful relationships with regulators, including proactively engaging, responding to questions in a timely manner and taking appropriate remedial actions.

#### **Client feedback**

Client feedback is also important. KPMG firms proactively seek feedback from clients through direct conversations and third-party surveys.

#### Perform root cause analysis



Root cause analysis is important in order to identify and address audit quality issues and prevent them from recurring in the future. All

KPMG firms are required to carry out such analysis.

All Heads of Audit are responsible for audit quality including the remediation of audit quality issues. Risk Management Partners monitor the implementation remediation plans.

At a global level, we continue to strengthen our root cause analysis process and drive consistency across the organization.

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# Governance and leadership

#### **KPMG International structure and governance**

#### **KPMG International**

KPMG is a global organization of professional services firms providing Audit, Tax and Advisory services. KPMG is the brand under which the member firms of KPMG International Limited ("KPMG International") operate and provide professional services. Each firm is a separate legal entity and together they form the KPMG global organization. "KPMG" is used to refer to individual member firms within the KPMG organization or to one or more member firms collectively.

In many parts of the world, regulated businesses (such as audit and legal firms) are required by law to be locally owned and independent. KPMG member firms do not, and cannot,

operate as a corporate multinational. KPMG member firms are generally locally owned and managed. Each KPMG member firm is responsible for its own obligations and liabilities.

#### **KPMG International — Governance**

KPMG International acts as the coordinating entity for the overall benefit of the KPMG organization. It facilitates audit quality across the organization by establishing common policies, processes and standards to be applied across member firms.

KPMG International's governance bodies are comprised of the Global Council, the Global Board (including its Committees), the Global Management Team and the Global Steering Groups. Further detail on each of these is set out below.

#### KPMG International structure and governance



### KPMG member firms — legal structure and relationship with KPMG International

Member firms in the KPMG organization are members in, or have other legal connections to, KPMG International, an English private company limited by guarantee. KPMG International acts as the coordinating entity for the overall benefit of the KPMG member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms who remain solely responsible and liable in respect of these services. Our structure is designed to support consistency of service quality and adherence to agreed values wherever

in the world KPMG member firms operate. KPMG member firms commit to conduct their operations in compliance with a common set of values, standards and service quality expectations. Partners and employees within those firms commit to act with integrity at all times.

Under their membership and associated agreements with KPMG International, KPMG firms are required to comply with KPMG International's policies including quality standards governing how they operate and how they provide services to clients. This includes being professionally and financially stable, having an ownership, governance and management structure that ensures continuity, stability and

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long-term success, and being able to comply with policies issued by KPMG International, adopt global strategies, share resources (incoming and outgoing), service multinational clients, manage risk, and deploy global methodologies and tools. KPMG firm Heads of Audit have direct responsibility for audit quality.

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

A firm's status as a KPMG firm and its participation in the global organization may be terminated if, among other things, it has not complied with the policies set by KPMG International or any of its other obligations owed to it.

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

Unless otherwise indicated, references in this document to a 'firm', 'KPMG firm', 'member firm' or 'member firms' are references to member firms of KPMG International.

#### **KPMG** International governance bodies



As set out above, as at 1 October 2021, the KPMG International Governance Bodies and their functions are as follows:

#### **Global Council**

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

The Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 56 KPMG firms.

#### **Global Board**

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include: approving global strategy, protecting and enhancing the KPMG brand and reputation, overseeing the Global Management Team, and approving policies with which KPMG firms are required to comply. It also approves the admittance or termination of KPMG firms to/from the global organization.

It is led by the Global Chairman, Bill Thomas, and also includes the Chairman of each of the regions and a number of members who are also member firm Senior Partners. The list of Global Board members, as at 1 October 2021, is set out on the Leadership page of our website.

#### Global Board committees

The Global Board is supported in its oversight and governance responsibilities by several committees, including:

- Executive Committee;
- Governance Committee;
- Global Quality, Risk Management & Reputation Committee; and
- Global Audit Quality Committee.

The overarching responsibility of the Global Audit Quality Committee is to strive for globally consistent audit quality across all firms and to oversee those KPMG International activities which relate to improving and maintaining the consistency and quality of audits provided by KPMG firms.

#### **Global Management Team**

The Global Board has delegated certain responsibilities to the Global Management Team.

These responsibilities include developing the global strategy by working together with the Executive Committee, and jointly recommending the global strategy to the Global Board for its approval and overseeing the activities of the Global Steering Groups. The Global Management Team also supports KPMG firms in their execution of the global strategy and KPMG International decisions and policies by member firms, including holding them accountable against their commitments.

The list of Global Management Team members is available on the leadership section of our website.

#### **Global Steering Groups**



There is a Global Steering Group for each key function and infrastructure area, chaired by the relevant member of the Global Management Team

and, together, they assist the Global Management Team in discharging its responsibilities. They act under delegated authority from the Global Board and oversight by the Global Management Team (GMT). Under the oversight of the GMT, they promote the execution of the global strategy and compliance with KPMG International decisions and policies by member firms.

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In particular, the Global Audit Steering Group (GASG) and Global Quality & Risk Management Steering Group work closely with regional and member firm leadership to:

- establish and ensure communication of appropriate audit and quality/risk management policies;
- establish and support effective and efficient risk processes to promote audit quality;
- promote and support strategy implementation in member firms' audit functions, including standards of audit quality; and
- assess and monitor audit quality issues, including those arising from quality performance and regulatory reviews, and focus on best practices that reduce audit quality findings.

#### Global Audit Steering Group (GASG)

The GASG is responsible for driving the member firms' implementation of KPMG's audit strategy, including standards of audit quality. The GASG works closely with the GQRMSG in relation to quality and risk matters related to audit.

The GASG is chaired by the Global Head of Audit, and its other members are the Heads of Audit from the 8 largest KPMG firms which also encompasses the Heads of Audit for each of KPMG's three regions (the Americas, EMA and ASPAC). Senior individuals with direct reporting responsibilities to the Global Head of Audit also regularly attend and provide reports to the GASG, as well as several standing invitees from key KPMG firms.

#### Global Audit Quality Council (GAQC)

The Global Audit Quality Council (GAQC) is chaired by the Global Head of Audit Quality and includes: the Global Head of Audit, Global Head of Quality, Risk Management & Regulatory, Global Head of Regulatory Affairs, Audit, Regional Audit Quality Leaders, country Heads of Audit Quality from 10 of the largest KPMG firms, and the Head of the Global Audit Methodology Group.

The GAQC is responsible for:

 monitoring and driving progress in global audit quality initiatives to improve the consistency and quality of audit execution throughout the organization, including the system of quality control;

- considering audit quality matters on an organizationwide basis (including issues arising through quality performance and regulatory reviews as well as root cause analysis), with a specific focus on those issues arising from the largest KPMG firms;
- assessing and monitoring progress across the organization on how audit quality issues are being addressed by KPMG firms and the organization as a whole; and
- making recommendations to the GASG on policy changes related to audit quality issues.

Global Quality & Risk Management Steering Group (GQRMSG)

The GQRMSG is chaired by the Global Head of Quality, Risk & Regulatory and its other members are the Risk Management Partners from the 8 largest KPMG firms and the Risk Management Partners for each of the three regions. The Global Head of Audit and the Global Head of Risk Management, Audit are regular attendees.

The GQRMSG is responsible for setting quality and risk management policies and procedures for the global organization and for providing associated guidance. These are documented in the Global Quality & Risk Management Manual (GQ&RM Manual) available to all KPMG firms and their personnel on a web-based platform. When exercising its responsibilities, the GQRMSG considers, through the Quality Performance Review (QPR), the Risk Compliance Program (RCP), Global Quality & Compliance Reviews (GQ&CR), and Area Quality & Risk Management Leaders (ARLs):

- firm compliance with GQ&RM policies, processes and systems;
- proactive identification and mitigation of significant risks faced by member firms; and
- performance of member firm professional services to drive and help ensure consistent high-quality work globally.

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# Appendix

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

Aggregated revenues generated by KPMG firms<sup>1</sup> from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was 2.05 billion euros during the fiscal year ending 30 September 2021. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent currently calculable and translated at the average exchange rate prevailing in the 12 months ended 30 September 2021.

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<sup>&</sup>lt;sup>1</sup> Does not include revenues from UK.

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