Our Audit quality journey

KPMG Lower Gulf Limited

February 2024

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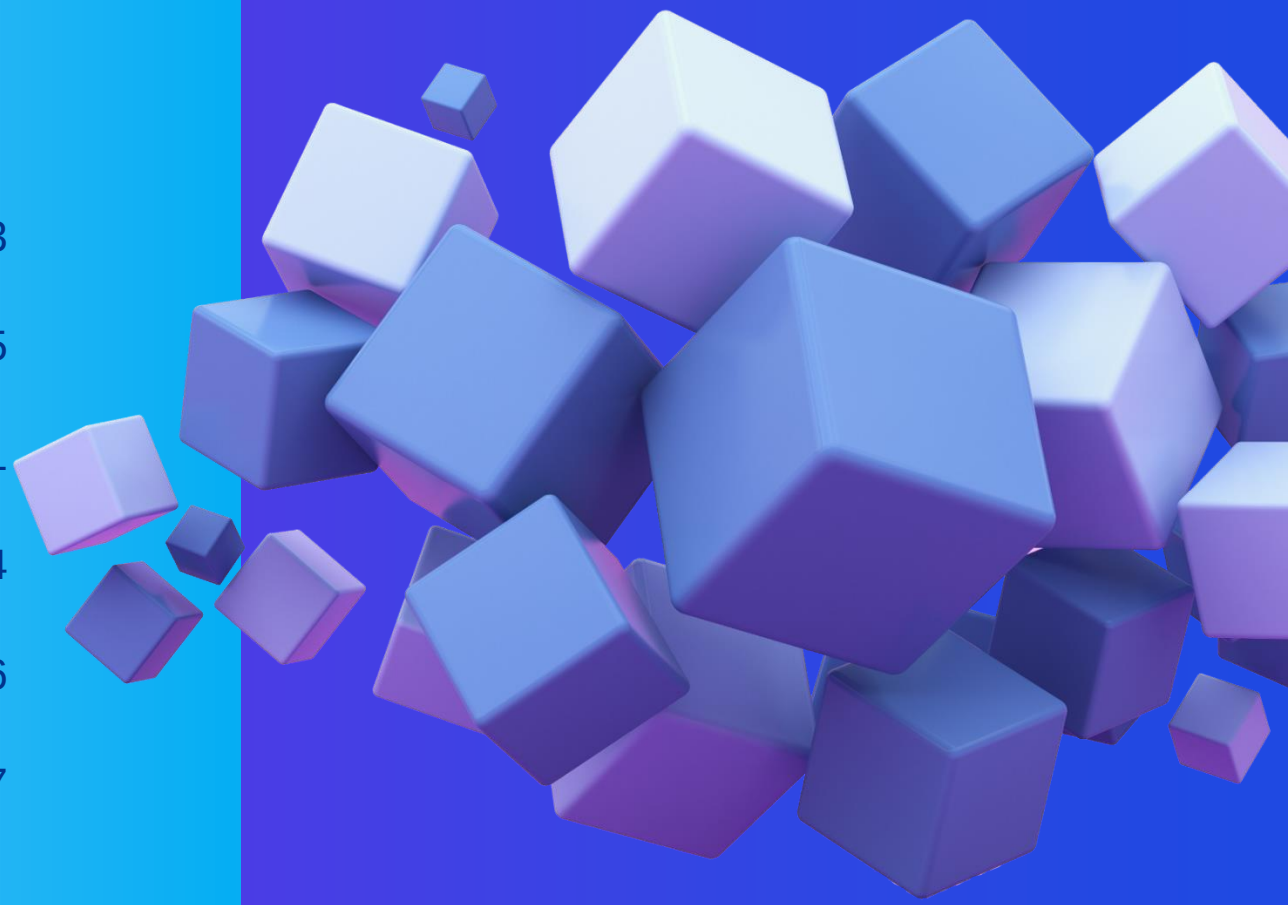

Our commitment to Audit quality

We launched our first Audit Quality Journey Report in January 2022, affirming our commitment to high-quality audits, driven by public interest and anchored in the highest ethical standards. Since then, we've continuously refined this foundation, skillfully adapting to the ever-changing market dynamics and emerging challenges.

Our efforts over the past couple of years have focused on enhancing governance and transforming audit quality. This includes expanding our team of audit professionals, advancing our tools, and improving our monitoring and measurement systems. Additionally, we've strengthened our governance by implementing recommendations from an independent law firm's review, enhancing our transparency and accountability. The result of our efforts is evident. For three consecutive years, we have demonstrated excellent results of quality inspections. These results are a reflection of our dedication and proficiency. Despite these achievements, we remain vigilant about future challenges in an industry facing increased scrutiny, regulatory changes, talent retention issues, and evolving professional standards.

As we move beyond the pandemic, the audit landscape continues to transform, particularly with the growing importance of environmental, social, and governance (ESG) considerations in financial reporting.

Our firm stands ready to tackle these challenges, buoyed by the solid groundwork of our Audit Quality Transformation Program. This program is structured around the four fundamental pillars of Governance, Investment, Monitoring, and Measurement. This report delves into these pillars, showcasing our endeavors and the strides we've made.

In 2023, we celebrated a milestone: 50 years of KPMG in the UAE. This half-century journey hasn't just been about our legacy; it's a story of how our audit services have inspired confidence and empowered local businesses. By adhering to the highest standards, we've enhanced their financial credibility and decision-making, contributing to a thriving regional economy. This milestone highlights our enduring commitment, evident in our investment in local talent and efforts to empower local businesses and enhance the growth and well-being of communities.

Our journey towards audit excellence never ends. As the landscape evolves and Artificial Intelligence (AI) emerges, we'll continuously adapt, embrace innovation, and push the boundaries of what's possible, ensuring our audits remain the benchmark for quality and integrity.

We extend heartfelt thanks to our employees, whose resilience, expertise, and commitment form the cornerstone of our success. Your embrace of challenges and new technologies continues to drive our legacy forward.

In closing, our journey continues with anticipation and readiness for future challenges. Together, we are set to face these challenges with confidence and innovative spirit.

Rohit Rajvanshi
Head of Audit
KPMG Lower Gulf

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Message from our CEO and Senior Partner

Our commitment to exceptional audit quality is unwavering. For 50 years, **together** we have served our clients in the UAE and Oman with **integrity** and **excellence**, and we are proud of our **courage** to always do the right thing, the right way, at the right time, **for better**. Audit quality remains our highest priority and we are transforming the audit experience for both our clients and our teams by investing in cutting-edge technologies to enhance the accuracy and depth of our audits. Our people are our greatest asset, and we are dedicated to continuously investing in their exceptional talents to provide our clients with the highest quality service they have come to expect from us. Trust is at the heart of everything we do. We are a firm whose purpose is driven by inspiring confidence, and we are committed to maintaining the highest level of public trust, to remain the trusted auditor of choice for our clients.

Emilio Pera

CEO and Senior Partner

KPMG Lower Gulf

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01

Audit Quality transformation program

Audit quality transformation program

When we started our audit quality journey, we realized that a quality transformation program would be essential for success.
We decided to structure our Audit quality transformation program around four fundamental pillars – Governance, Investment, Monitoring, and Measurement. This decision allowed us to not only leverage on the best global practices, but also to develop local initiatives in which we had a firm belief.
The program's pillars are designed to work together to improve audit quality and build trust among stakeholders. In this report, we explain these pillars in extensive detail, highlighting key initiative undertaken and the results achieved. Over the years, it has been demonstrated that focusing on these pillars has helped us to successfully transform audit quality and lay a robust foundation to elevate the quality of our audits.

Shamit Shailesh
Head of Audit Quality
KPMG Lower Gulf

Governance

The governance of our audit quality is **anchored by two key committees**: the Audit Quality Committee and the Audit Quality Management Committee. This structure ensures a clear, hierarchical flow of accountability and information, up to the Executive Committee and the Board of Directors, underlining our commitment to high audit standards.

Investment

We firmly believe in the critical importance of **investing in people, training, processes, and tools to elevate audit quality**. Since FY19, our local investment in audit quality has reached USD 22 million, underscoring our commitment to transforming audit quality.

Monitoring

A significant part of the Audit Quality Transformation program is **monitoring the quality at the firm and the engagement level** through multiple monitoring programs. These programs enable us to identify quality deficiencies, to perform root cause analysis and develop, implement and report remedial action plans.

Measurement

The measurement of audit quality is a one of the key aspect of ensuring and improving the overall quality of audit services. **A comprehensive set of Audit Quality indicators** helps us identify areas which require improvement on a timely basis.

*Financial year (FY) throughout the report refers to the year ended 30 September, unless otherwise stated.

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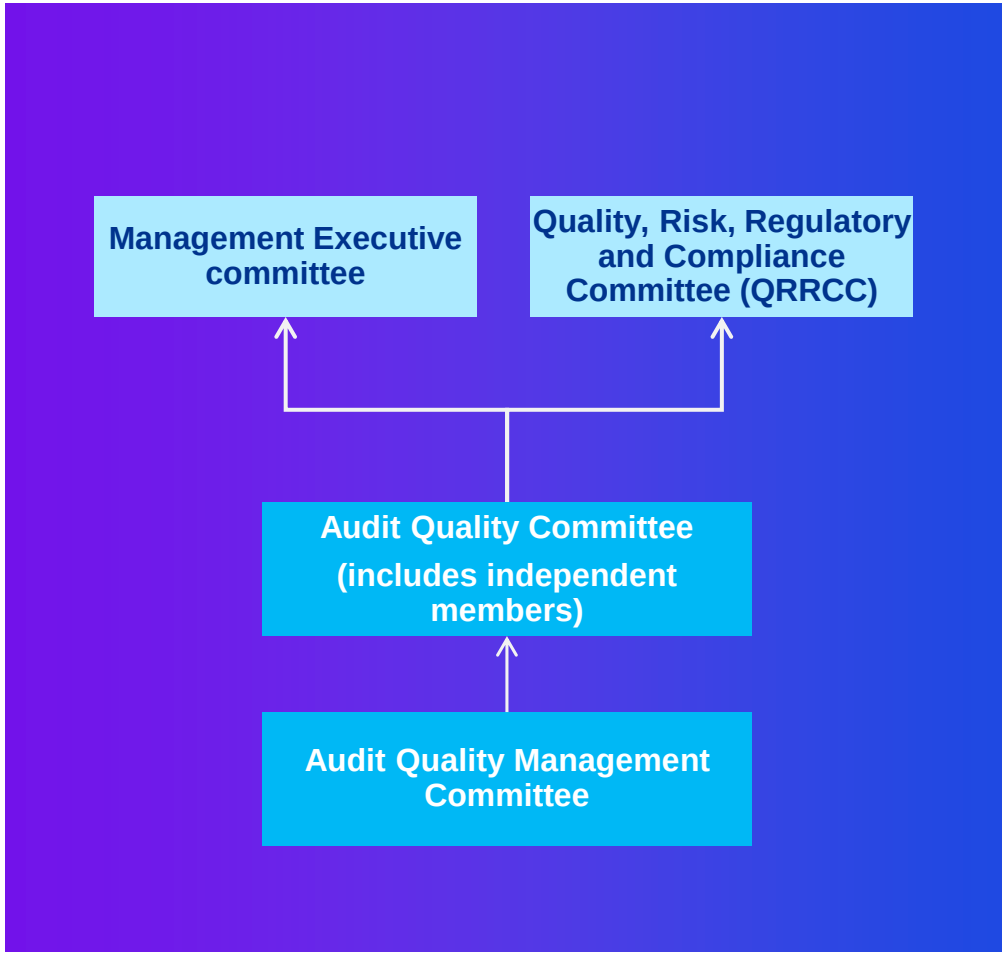
Our structure and governance

In our journey towards enhanced audit quality, the foundation is a robust governance framework encompassing the QRRCC (a committee of Board of Directors), the Management Executive Committee (ExCom), the Audit Quality Committee (AQC), and the Audit Quality Management Committee (AQMC).

The AQC, with 7 active members including 3 independent ones, supervises the governance of our audit quality agenda. Its members, being experienced leaders in Audit Quality and Risk Management, bring diverse perspectives for comprehensive oversight. The AQC met 5 times in FY23.

The AQMC, tasked with management of the day-to-day operational aspects of audit quality, reports to the AQC, ensuring a seamless flow of information and accountability. AQMC is chaired by the Head of Audit with Audit quality network leaders as its members. AQMC members met 8 times in FY23.

To ensure oversight and governance with quality as a key agenda, the AQC reports to both the ExCom and QRRCC. This approach keeps leadership at all levels informed and involved in maintaining a high standard of quality across our organization.



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Investment in audit quality

Over the past five years, our dedicated investment in audit quality has been a key driver in our Audit Quality Transformation. In this period, our audit quality Full-Time Equivalents (FTEs) have more than tripled from 16 to 54, demonstrating our commitment to strengthening the quality support for our audit business.

These FTEs include skilled professionals who develop guidance and provide consultation on technical accounting and auditing matters, IT and valuation specialists, a team focused on monitoring audit quality and offering real-time coaching support to selected audit engagement teams, professionals who ensure our systems of quality management are up to standard and continuously improved, as well as members of our team dedicated to the training and development of our audit staff.

Our annual investments grew from USD 2.3 million in FY19 to USD 5.6 million in FY23, and the cumulative investment reached USD 22 million over the five-year period. While investments in skilled personnel remained our top priority, we have also heavily invested in tools and technology – during this period, we successfully implemented KPMG Clara, our smart technology platform for audit execution. We have also designed and implemented the System of Quality Management (SoQM) to ensure compliance with the requirements of the International Standard on Quality Management 1 (ISQM 1).

It is important to note the context of our investment growth: while our investment in audit quality and related FTEs has seen substantial growth (238%), this increase is significantly above that compared to the overall growth in our total audit FTEs, which rose by 21%. These figures illustrate a significant investment in audit quality, independent of our overall financial performance.

- Network Supporting Audit Quality increased from 16 to 54 FTE
- Specialist Teams of IT and Valuation expanded from 10 to 35 FTE
- Investments: USD 22 million over 5-year period
- Implemented KPMG Clara and Standards of Quality Management System (SoQM)

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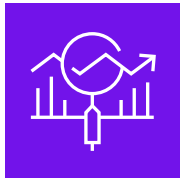
Monitoring audit quality



It has always been essential for us to observe and record what we do in our Audit quality journey in real-time. We wanted to know outcomes of our audits and implement corrective actions as early as possible. For this purpose we have developed and implemented monitoring programs that we are proud to present.

01

Real-time monitoring of audit engagement performance

Milestone monitoring of the most significant and risky audit engagements

02

Second line of defense

An in-flight independent review and real-time coaching of engagement teams

03

Quality Inspection reviews

To ensure all Engagement Partners are inspected on an annual basis – regular feedback and opportunities to improve audit quality and efficiency.

04

Thematic reviews

An indicative test, showing how new audit methodology or requirements were implemented.

05

Root cause analysis (RCA) of the most significant and pervasive audit quality issues

To fully understand the root causes and remediate them through innovative and appropriate solutions.

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Measuring audit quality

To ensure the transformative improvement of our audit services, a critical aspect is the constant and consistent measurement of audit quality. The quantitative approach to quality helps us remain objective and measure audit quality with simple but powerful indicators.

We measure the quality of our audits based on the results of both internal and external reviews. In FY23, our Audit practice underwent several external regulatory reviews, with the majority of our audit engagements being rated as meeting a satisfactory standard of audit quality.

Internally, there has been great progress with compliance of audit engagements: the number of findings from the Quality Performance Reviews decreased by 64% in FY23 compared to FY19, and in FY23, 16 out of 17 engagements rated as compliant or compliant with improvements needed.

We have also developed and implemented a comprehensive set of Audit Quality Indicators. 183 indicators across 32 themes allow us to identify areas in need of attention and corrective action. Among the themes we assess are the involvement of Engagement Quality Control reviewers, specialist support, resource utilization, attrition rates, learning hours of audit professionals, and many others. A variety of indicators helps us ensure that our approach in measuring the audit quality is comprehensive and our response is meaningful and directional.

32

Themes are analyzed to measure the audit quality.

183

Audit Quality Indicators allow us identify areas in need of attention and corrective action

16 out of 17

engagements rated as compliant or compliant with improvements needed.

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02

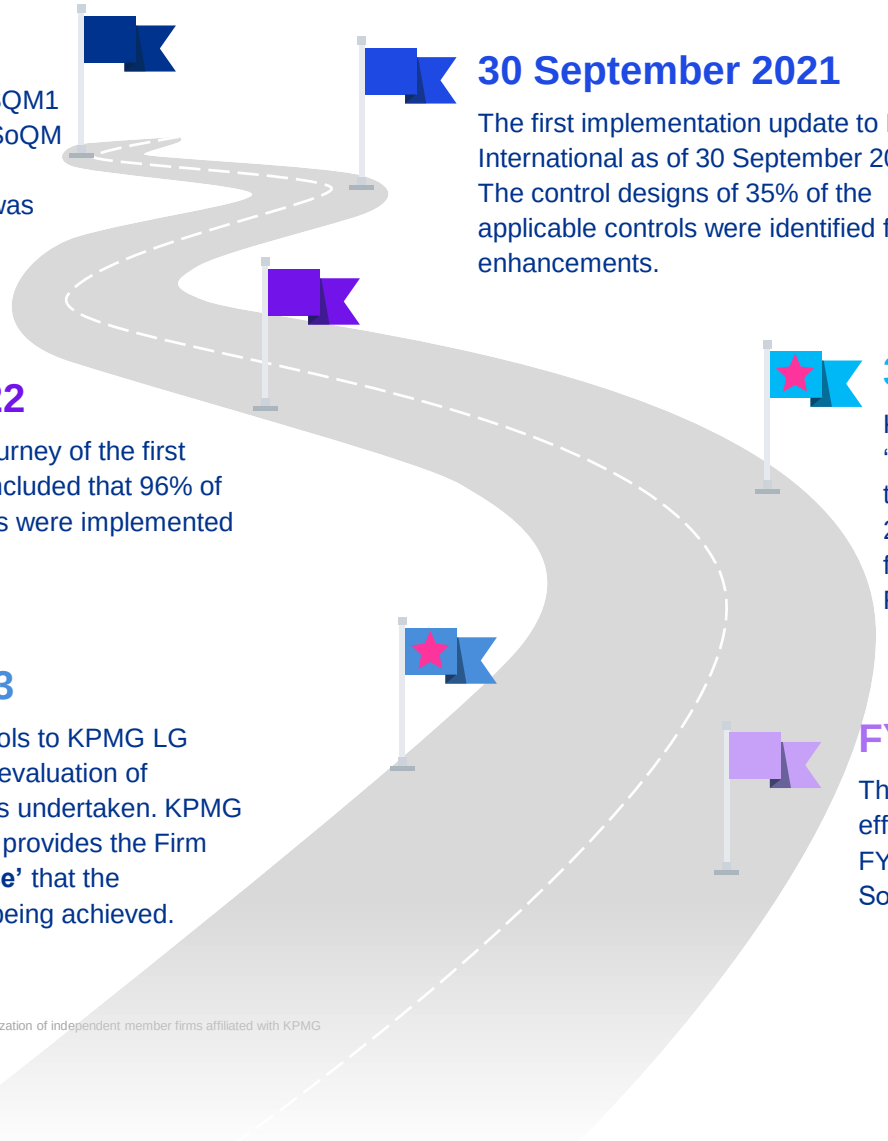
Evolving Audit Quality Excellence

SoQM journey at KPMG Lower Gulf

What is required under the International Standard on Quality Management 1 (ISQM1)?

To design, implement, and operate a System Of Quality Management (SoQM) for audits and reviews of financial statements as well as other assurance or related services engagements.

★ indicates the **Key Milestones** achieved by KPMG LG during the SoQM journey



January 2020

KPMG LG commenced its ISQM1 implementation journey LG SoQM Leader was appointed and a SoQM Steering Committee was set up for oversight and monitoring.

30 September 2021

The first implementation update to KPMG International as of 30 September 2021. The control designs of 35% of the applicable controls were identified for enhancements.

30 September 2022

KPMG LG embarked on a journey of the first implementation year and concluded that 96% of the applicable SoQM controls were implemented by 30 September.

31 January 2023

KPMG LG concluded FY22 as '**Substantially Compliant'** before the global deadline of 31 January 2023 based on the evaluation of findings. Findings identified during FY22 were remediated in FY23.

30 November 2023

100% of the applicable controls to KPMG LG were implemented. The first evaluation of operational effectiveness was undertaken. KPMG LG assessed that the SoQM provides the Firm with **'Reasonable Assurance'** that the objectives of the SoQM are being achieved.

FY2024

The evaluation of the operational effectiveness of SoQM will follow from FY24 onwards on an annual basis. SoQM journey to be continued…

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Evolving Audit Quality Excellence

2019

- Developed an **Audit quality transformation program** along with a plan for significant investment in audit quality initiatives
- KPMG UAE and KPMG Oman practices were integrated operationally as **'KPMG Lower Gulf (LG)**' to seamlessly work across borders
- Accelerated our **managed growth program with the aim of derisking our audit portfolio** and **prioritizing investment in audit quality.**

2020

- **Investment** in networks supporting Audit quality **significantly increased** compared to 2019
- Steps taken to manage **Engagement Partners' workload** including rebalancing their client portfolios
- Significant investment in launching **KPMG Clara,** fully integrated, scalable, cloud-based platform with enhanced Audit methodology
- **Investment in technology** to deliver seamless audit experience to our clients and people during **Covid-19.**

2021

- **Investment** made for the adoption of the International Standard on Quality Management **(ISQM) 1**
- **Investment** in networks supporting Audit quality **doubled** compared to 2019
- **94%** of LG audit engagements rated compliant and compliant-improvement needed in the internal inspection program (QPR) 2021 cycle.
- **Positive feedback and recognition received from wider KPMG network** for moving the dial on Audit quality and successfully implementing several global initiatives.

2022

- **High level of compliant-rated audit engagements** was maintained – **94%** of engagements were rated either compliant or compliant with improvement needed.
- **The significant wins and retention of key clients** in sectors including real estate, financial services, telecommunication, logistics and free zones are testament to the trust that clients place in KPMG as a brand
- **96% of SoQM controls** were successfully implemented.

2023

- **KPMG Clara is fully implemented** for all continuing engagements
- **First year of fully operational SoQM** with the conclusion of "Reasonable assurance" that the objectives of SoQM are being achieved.
- Audit Quality inspection results continue to be of a high standard with **high level of compliant results.**

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03

Our accomplishments

Our accomplishments as of FY23

2,700+
Audit Reports issued

41,000+
learning hours completed

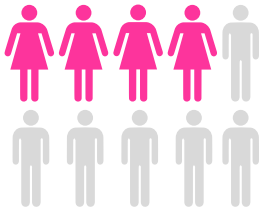
730+
Audit professionals

54
Professionals make up our **networks supporting Audit quality**

We audit industry leaders in UAE in the following key sectors:

- **Real estate**
- **Financial services**
- **Telecommunication**
- **Freezones**
- **Logistics**

100%
CPD compliance



4 in 10
Audit professionals are **women**

41
Nationalities Represented in Audit

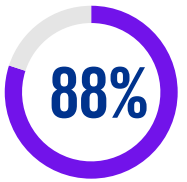
130
Emiratis in Audit representing

19%
of the total Audit staff in the UAE

We audited the **5 of top 10** listed entities by market capitalization in the UAE for the 2022 year-ended financial statements

24 years
Average **audit experience** of engagement partners

Client-facing partners and director reviewed in 2023 cycle (QPR, External and Quality Review)



of people believe that engagement teams **demonstrate commitment to Audit quality** in day-to-day behavior (source: GPS 2023)

The statistics in this document are at the Lower Gulf level (UAE and Oman) unless explicitly stated otherwise.

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Forward Looking

Transforming Audits with AI

We're pushing the boundaries of audit excellence with a $2 billion investment globally in cutting-edge AI and cloud technologies, partnering with Microsoft for early access to their most advanced tools. This puts us at the forefront of audit innovation, shaping the future of how we deliver value.

Imagine a personal AI assistant for every auditor, boosting their effectiveness and insights. That's what we're building with Microsoft Azure OpenAI. We're infusing our deep audit expertise into this secure, KPMG-exclusive environment to create a bespoke AI engine integrated within our KPMG Clara platform. This powerful tool will act as the audit team's smart co-pilot, enhancing our data-driven, risk-based approach to every audit.

We're not just investing globally; we're actively piloting these advanced AI solutions in your region, ensuring continuous improvement and local relevance. Our KPMG Clara platform acts as the central hub, ensuring the highest quality and consistency in our audit delivery, now supercharged by AI.

In collaboration with our AI partner, MindBridge, we're training AI to analyze 100% of your transactions. This means our audit teams can focus on what truly matters: smart risk assessments and targeted testing.

By evaluating each transaction against a range of control points, machine learning algorithms, and statistical models, the AI assigns a risk score and automatically prioritizes high-risk areas. This allows audit teams to focus on the most critical issues. We're currently piloting this exciting new approach in local audits, and it's coming to you in the coming years!

We believe in the power of AI to revolutionize the audit landscape. By investing in cutting-edge technologies and building a secure, KPMG-specific environment, we're empowering our auditors and delivering a smarter, more efficient audit experience for you.

Tax and regulations

Today's reality is shaped by the evolving tax and regulatory environment at both the international and local levels. To enhance our ability to support our clients effectively in these changing times, we are committed to ongoing training for our team and advancing our technological capabilities. We view these changes as opportunities to demonstrate the excellence of our services and to further strengthen the trust we have built.

Environmental, Social and Governance (ESG)

It has become apparent that clients, investors, regulators, and the broader public increasingly demand greater transparency and accountability from companies regarding their ESG practices. In response, KPMG is committed to being at the forefront of ESG integration in quality services. To achieve that, KPMG launched global Sustainability Reporting Resource center, which helps guiding our clients through the evolving landscape of ESG compliance, ensuring their operations are both transparent and sustainable. This focus on ESG not only elevates the quality of our work but also aligns us with the essential principles of responsible business, marking a critical step in our journey towards audit excellence.

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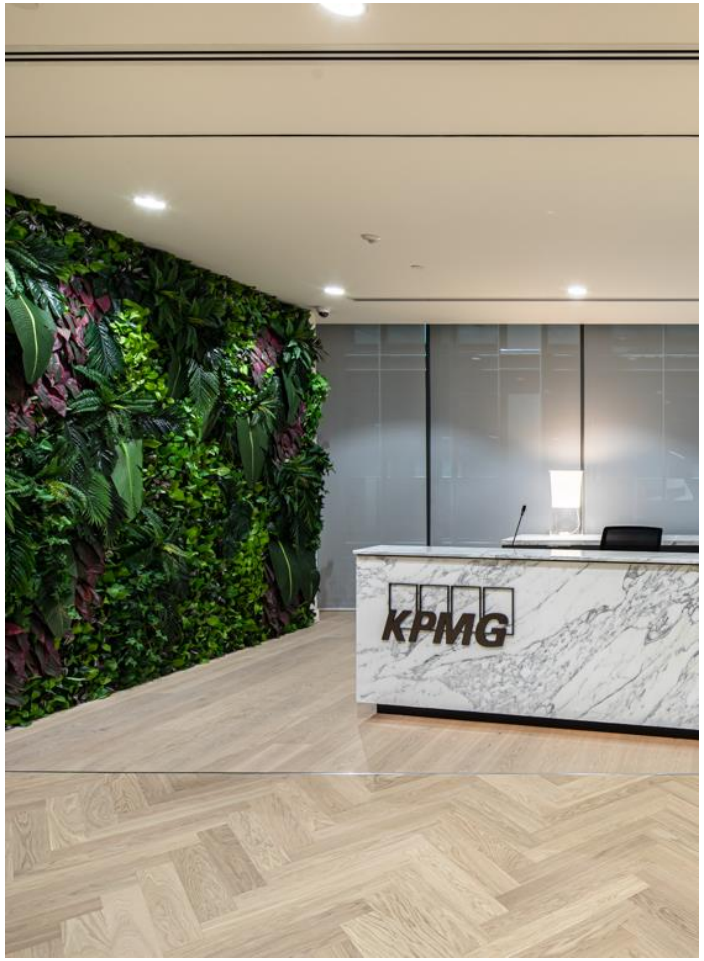
About KPMG



We are proud for 50 years, KPMG LG has been providing audit, tax, and advisory services to a broad range of domestic and international, public, and private sector clients across all major aspects of business and the economy in the United Arab Emirates and in the Sultanate of Oman. We work alongside our clients by building trust, mitigating risks, and identifying business opportunities.

KPMG LG is a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited. KPMG firms operate in 143 countries and territories, and employed more than 270,000 partners and people, serving the needs of business, governments, public-sector agencies, not-for-profits and through KPMG firms' audit and assurance practices, the capital markets. KPMG LG is well connected with its global member network and combines its local knowledge with international expertise, providing the sector and specialist skills required by our clients.

KPMG is also widely represented in the Middle East. In addition to its presence in the UAE and Oman, KPMG has a presence across 21 countries and territories in the MESAC (Middle East, South Asia, and Caspian) sub-region, and has a combined talent pool of over 11,400 people as of 30 September 2023. The MESAC region is comprised of KPMG member firms operating in: Armenia, Azerbaijan, Bangladesh, Bahrain, Egypt, Georgia, Iraq, Jordan, Kazakhstan, Kyrgyzstan, Kuwait, Lebanon, Oman, Maldives, Palestine, Pakistan, Qatar, Saudi Arabia, Sri Lanka, United Arab Emirates and Uzbekistan.

Established in 1973, the KPMG LG now employs 1,730 people, including 166 partners and directors across the UAE and Oman, as of 30th September 2023.

As we continue to grow, we aim to evolve and progress, striving for the highest levels of public trust in our work. 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.

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