



Quality, our top priority



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1

Our Commitment to Quality



Hilario
Albarracín

Chairman of
KPMG in Spain

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Our objective is to be the clear choice among professional services firms and to inspire confidence among capital markets, audit committees, investors, the public at large and other stakeholder groups. We are convinced that such trust can be built and retained over time only by conducting audits to the highest quality standard. Therefore, KPMG is committed, both globally and in Spain, to continuing to advance audit quality.

In this report we describe some of the projects and initiatives undertaken with a view to enhancing the quality of our audits. Most of these projects have no time limit, but rather they are ongoing projects spanning several years through which we seek to improve continuously.

Within the control environment, our quality control system is being further strengthened through early implementation of the new standard on quality management for firms that perform audits (ISQM 1) and of the standard for engagement quality reviews (ISQM 2).

In the technological domain, our smart audit platform, KPMG Clara, a key element underpinning engagement quality, remains one of our most ambitious projects and one we are convinced will enable us to make a quantum leap forward in terms of audit quality. During the fiscal year ended 30 September 2020, we began to deploy KPMG Clara in some audit engagements. Over the coming year, it will be used in a greater number of clients, our ultimate goal being to implement KPMG Clara in all our audit engagements. The new tool incorporates our Data & Analytics capabilities and will, in the future, integrate advanced technologies such as artificial intelligence and machine learning.

Another of the elements that underpins quality is training. For this reason, at KPMG we undertake not only to give our professionals the training they need, but also to provide this training at the right time. Training is carried

out not only through traditional classroom-based courses and eLearning, but also through our “Second Line of Defence” programme. This programme consists of reviews of engagements by experienced professionals who do not form part of the engagement team. The aim is to provide constructive feedback by, for example, proposing alternative methods of performing tests or challenging the engagement team’s conclusions, thereby enhancing audit quality.

To continue improving the quality of our work, we must be aware of the reasons why more work may be needed in certain areas. Based on feedback obtained during our own internal quality reviews and the reviews conducted by regulators, we analyse the root cause of issues and use the analysis to draw up action plans to minimise the risk of recurrence.

Lastly, as a sign of our firm’s commitment to quality, we use Audit Quality Indicators to measure certain aspects of engagement quality and these have a direct impact on our audit professionals’ performance reviews and remuneration.

Our clients, regulators and society at large all demand that audit work be performed to the very highest quality standards. Thus, at KPMG we will continue to work with our clients, regulators and other stakeholders, allocating all the resources necessary to achieve outstanding levels of quality.

I trust you will find this document about quality in our firm to be useful and that it will serve to showcase some of the quality-related projects being carried out at KPMG Auditores, S.L.

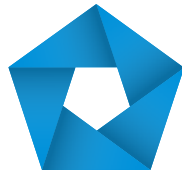
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Our Values

Our Values form the **basis of our ethical practices and principles**, built into our Code of Conduct, they have been defined so as to complement each other and should not be applied in isolation.

In 2020, KPMG conducted a global redefinition of these Values. Their relevance resides in how they:

- Help us distinguish between what is right and what is wrong, especially when we are under pressure
- Represent who we are and who we want to be for all our stakeholders
- Unite us, going beyond our diverse heritages and cultures and providing us with common terms of reference
- Represent what is intrinsic and specific to our culture



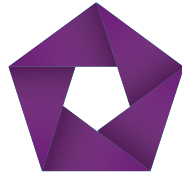
Integrity

We do what is right.



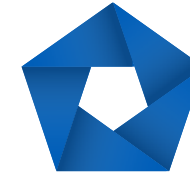
Excellence

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 really matters.

Our Values represent **what we believe in, and what's important** to us as a firm. Furthermore, they drive our daily behaviours, guiding how we act, the decisions we make, and how we work with each other, our clients and our stakeholders.

In these times of unprecedented economic and social uncertainty, our Values are the bond that **unites us** across our myriad backgrounds and cultures.

In a word, our Values guide our behaviour and help us **do what is right** at a time when we are all under pressure.



3

Audit Quality



Quality essentially means, **doing what is right**. That is our top priority.

Audit quality is the key to achieving our goal of being the most trusted firm, and the yardstick against which our professional reputation is measured.

At KPMG we believe in audit quality; it is not just about issuing the right audit opinion, but how we form that opinion. Quality is about the processes, the decisions taken during the audit, and the integrity behind the final auditor's report issued.

Audits conducted on the basis of robust quality are fundamental to the successful working of capital markets, providing **objective assurance** on the facts and figures that investors and other stakeholders rely on. At KPMG we are bound by our duty to serve the public interest and we take **our responsibilities** very seriously.

For this reason, at **KPMG in Spain we continue to make substantial investments in audit quality**. This means making significant investments in our system of quality management, global monitoring of audit quality and enhanced support and providing technology, tools and training for our audit team members. We are building on our **robust audit quality foundations**.

Our commitment to drive these investments and improvements in audit quality and global consistency are brought together in our **Global Audit Quality Transformation (GAQT)** programme, which was launched in October 2018.

The ultimate goal of GAQT is to ensure that our audit professionals have the **support, tools** and **environment** they need to consistently deliver high-quality audits.



How do we define audit quality at KPMG?

We believe it is necessary to define audit quality in order to promote a **consistent global approach** at KPMG. For this reason we have defined audit quality at KPMG as the result of **consistently executed audits, in line with the requirements and intent of applicable professional standards within a strong system of quality controls** and that all our related activities are undertaken in an environment characterised by the utmost level of objectivity, independence, ethics and integrity.

The audit quality framework

A **robust, consistent quality control system** is an essential requirement in providing high-quality services. At KPMG the audit quality framework is the cornerstone on the basis of which we carry out our work.

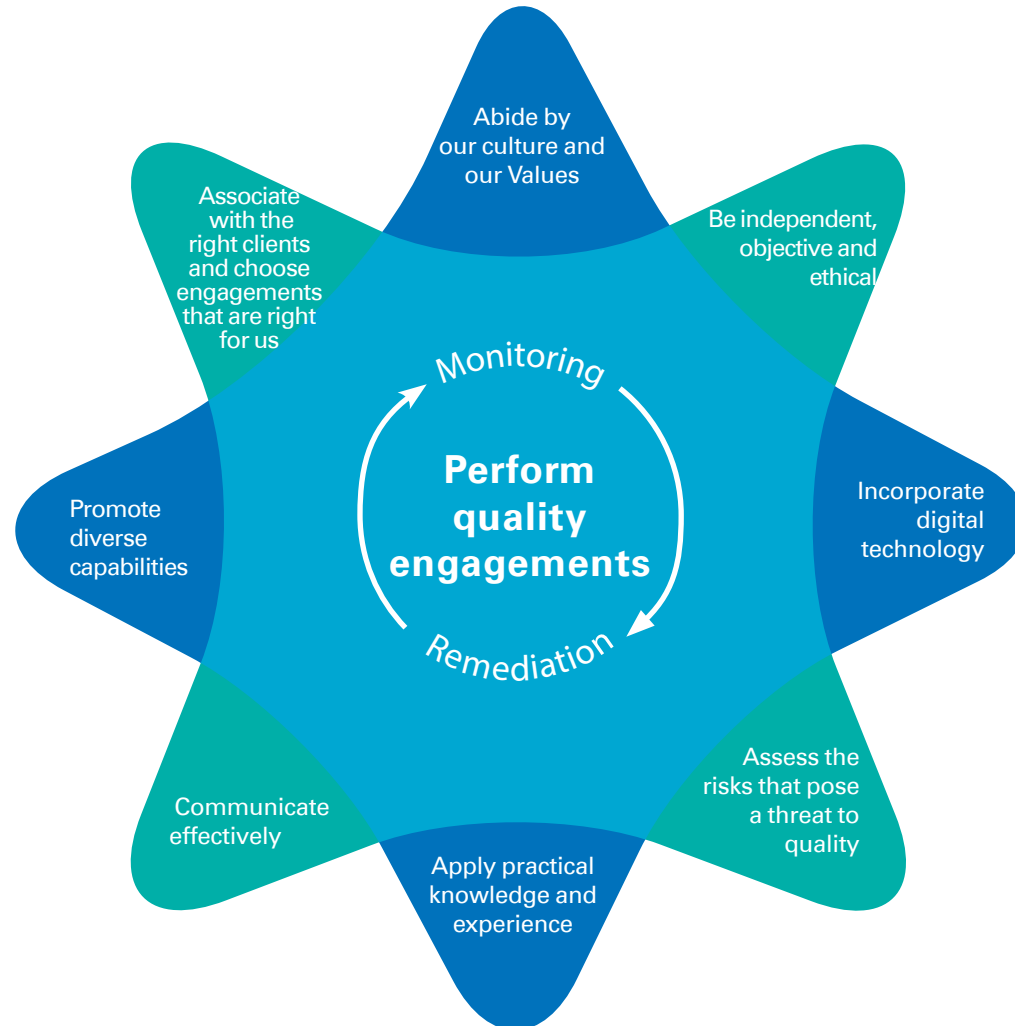
KPMG's refreshed quality framework provides a **common language** to outline how we deliver quality.

"Perform quality engagements" sits at the core of the factors that influence the quality of our audits, along with clear direction to encourage the right behaviour.

Our commitment to continually monitor and remediate our processes and to comply with these factors is essential to deliver high-quality engagements.

Considering this **continuous investment** in audit quality and bearing in mind what audit quality means both for the public at large and for stakeholders, we champion an audit quality approach that not only **complies with regulatory requirements and standards**, but also meets our own **duty** to serve the public interest and reflects our goal and our determination to issue **independent opinions**.

In conclusion, as the title of this document indicates, **audit quality is our top priority**, and the single most important element in determining the KPMG Auditores, S.L. leadership's **objectives**, conducting their **annual performance review** and establishing their **remuneration**.



Our team at KPMG in Spain

KPMG in Spain has an Audit Quality department comprised of professionals from different categories (partner, director and manager), which has been reinforced in recent years and is engaged exclusively in driving improvements in the quality of audit engagements.

The main goals of this team include **improving quality** in our engagements, implementing the various projects that form part of the Global Audit Quality Transformation (GAQT) in Spain, and developing and implementing other local projects that are also germane to engagement quality.

In summary, the **mission** of the Audit Quality department of KPMG in Spain is to be a positive force for change and to **proactively promote improvements in audit quality** so as to meet our strategic objective of becoming the most trusted firm and enhancing our professional reputation.

In this document we describe the steps taken during 2019/20 to move forward and improve both our Audit practice and our firm as a whole. We also include an overview of how we are **strengthening our culture**, and how we continue **to invest in our people and in advanced technologies**. All our efforts are channelled through our quality control system framework, which ensures that our performance meets **the highest quality standards**.

In summary, we describe how KPMG assures engagement quality, as well as our commitment to providing independent assurance on what really matters to the capital markets and other stakeholders.

At KPMG we are bound by our duty to serve the public interest, a responsibility we take very seriously.

At KPMG improving audit quality is a never-ending journey. Each day we work to identify the best way of conducting our engagements and performing high-quality audits while creating value for our clients.



4

Audit Quality Transformation



In October 2018, KPMG initiated a **Global Audit Quality Transformation (GAQT)**, to promote quality improvements consistently across all KPMG network member firms.

The backbone of this transformation is the project known as **System of Quality Management or SoQM**, which entails early adoption of ISQM 1, the International Standard on Quality Management approved in September 2020 by the International Auditing and Assurance Standards Board (IAASB). This project involves significant changes as it requires all KPMG member firms to implement and test the operating effectiveness of internal control related to firm processes that contribute to audit and assurance engagement quality.

The ultimate goal of **GAQT** is to make certain that our audit professionals have the support, tools and environment they need to consistently deliver high-quality audits.

To achieve this objective, in addition to SoQM, KPMG is making significant changes in many areas. There are various levers that the global and local firms are implementing, foremost amongst which are:

- Implementation of **KPMG Clara Workflow**, our new smart audit platform. This is a key element of GAQT and an essential component of our efforts to enhance audit quality and consistency. It will replace KPMG's current audit methodology (KAM) and the workflow tool (eAudit).
- Our firm is currently developing **profiles, functions and responsibilities** defined by KPMG Global to enhance audit quality at every level and category

together with scorecards. The aim is for all audit professionals to have a clear understanding of their roles and responsibilities with regard to providing quality. This project is being implemented at all the member firms during the fiscal year beginning 1 October 2020. A consistent global approach will be put into place so that performance in relation to audit quality is closely linked to remuneration, including penalties and rewards for quality issues and the results of inspections by the regulators.

- To measure the foregoing by profile, all professionals, including specialists, who contribute to audit quality will be given quantifiable and measurable quality targets that can be assessed and quantified into a final **Audit Quality Rating**.
- Because KPMG currently audits some of the world's largest financial institutions, including 10 banks on the list of Global Systemically Important Banks (G-SIB) of the Financial Stability Board (FSB), as well as many other smaller banks that are nevertheless significant within their local economies, our focus on the banking sector is significant. Consequently, greater attention has been placed on the quality of our audits of financial institutions. Specifically, work is being carried out to establish a consistent global framework to conduct audits of Global Systemically Important Financial Institutions (G-SIFI) and other financial institutions, including standardisation of audit approaches, work documents, training and coaching. In short, we are strengthening global **oversight of the audits of financial institutions**.

- Many other measures are also underway and are helping to transform audit quality, for instance:
 - Improving the **resource and portfolio management process** by developing tools and guidelines to anticipate and monitor resource allocation levels.
 - Strengthening the global **Professional Practice network**, which includes support for **information technology** professionals, in addition to creating a new **PCAOB Standards Group**, which takes on a leadership role across the entire network on PCAOB auditing standards.
 - Based on the recently approved quality standard **ISQM 2** (International Standard
- on Quality Management 2) a framework has been established for the **Engagement Quality Control Reviewer or EQCR**, which includes guidelines for identifying, accrediting and assigning an EQCR and recognising and monitoring their work.
- **Reorganising and redesigning training** for all audit professionals and specialists with a consistent global curriculum as well as continuous support for teams during engagements by means of the **Second Line of Defence (2LoD)** coaching programme, which was introduced at KPMG in Spain more than four years ago with excellent results.



5

International Standards on Quality Management (ISQM 1 e ISQM 2)



To perform quality audits it is essential to have a robust quality control system in place. That is KPMG's view and that is how our clients and the regulators understand it.

What does a robust quality control system look like?

The answer to this question is set out in the current International Standard on Quality Control 1 (ISQC 1), which has been in effect in Spain for a number of years and applies to firms that perform financial statement audits and reviews, other assurance engagements and related services. This standard will be replaced by the new International Standard on Quality Management 1 (ISQM 1) and the International Standard on Quality Management 2 (ISQM 2) approved by the International Auditing and Assurance Standards Board (IAASB), both of which are expected to be effective from December 2022.

These new standards entail substantial changes and require all audit firms to introduce additional controls and evaluate their operating effectiveness with a view to consistently delivering high-quality audits.

The main purpose of ISQM 1 is to improve audit quality, **promoting consistency and rigorous** quality management processes so as to foster greater **trust** among users, thus enabling the firm to provide assurance that:

- KPMG in Spain and its personnel comply with professional standards and applicable legal and regulatory requirements and carry out engagements that meet these standards and requirements; and

- The reports issued are appropriate under the circumstances.

KPMG's response to this new standard was the creation of a **System of Quality Management (SoQM)**, which has been promoted by our global network for the last two years and is currently being rolled out at KPMG in Spain and at all network member firms, thus resulting in early adoption of ISQM 1.

SoQM is the "**backbone**" of Global Audit Quality Transformation (GAQT) and is a key element in meeting our goal of enhancing audit quality and consistency, which is essential for the global network to be acknowledged as the most trustworthy professional services firm in the market.

Based on ISQM 1, SoQM consists of **10 components** and involves drawing up a detailed description, for each component, of the internal processes, quality objectives and associated risks, as well as **designing and implementing controls that are effective** in addressing them. In short, it establishes a robust, effective internal quality management system.

The **10 components of SoQM** are:

Firm risk assessment process



In 2019, KPMG in Spain began to adopt the future standard, collaborating with KPMG International to ensure global consistency. Both the EMA region and our Global Monitoring Group make certain that all KPMG firms implement SoQM effectively, applying adequate quality standards.

KPMG in Spain will use a **GRC tool** to manage, monitor and document the controls over the different SoQM processes. Compulsory testing of design, implementation and operating effectiveness of each control will be carried out by our Internal Audit department, which is independent from those responsible for SoQM processes. These tests and conclusions will be documented in a dedicated area of **KPMG Clara**.

Due to the scope and significance of the SoQM project, in 2019 KPMG in Spain created an implementation **Monitoring Committee** formed, among others, by the Head of Audit in Spain, the partner in charge of the firm's Quality & Risk Management department, and the Head of Audit Quality. The task of this committee is largely to promote the project and to guide, challenge and equip the team in charge of implementing SoQM at KPMG in Spain with the necessary resources.

For the Spanish firm, early implementation of ISQM 1 is an important challenge, the ultimate goal being to provide assurance to our clients, regulators and other stakeholders of compliance with the new standard and to substantially enhance the quality of the internal processes and, thereby, of our audits.

In 2019 and 2020 our professionals spent over 3,500 hours implementing ISQM 1 in Spain and Andorra.

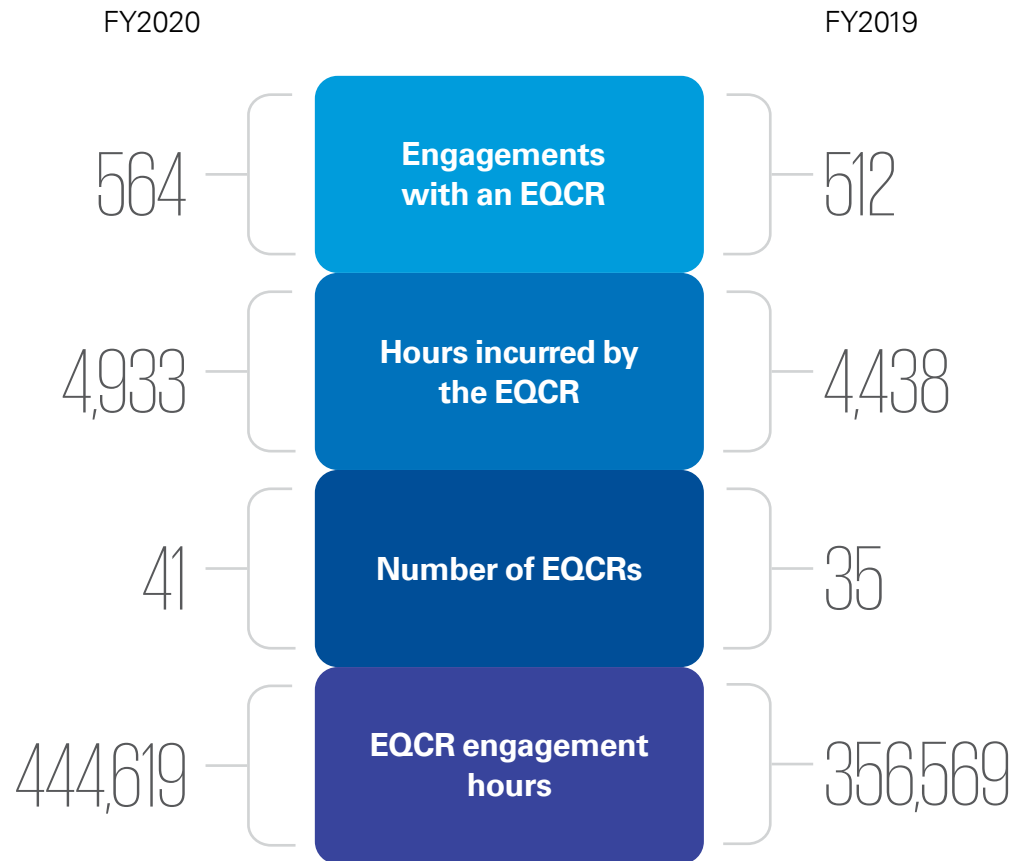
The purpose of the new **ISQM 2** is to improve audit engagement quality reviews by:

- setting more robust criteria for determining which engagements require an Engagement Quality Control Reviewer or EQCR,
- establishing the objectives of a quality review,
- clarifying the nature, timing and scope of the quality review, and
- tightening the requirements to be able to carry out the duties of the quality reviewer

As mentioned previously, in view of our commitment to quality, KPMG is an early adopter of this new standard. Our policies already include and, in some cases, exceed the criteria that an engagement must meet for the assignment of an EQCR, in accordance with **ISQM 2**. All audits of public interest entities, high-risk engagements and other engagements that meet certain requirements are assigned an EQCR.

EQCRs are experienced audit partners, independent from the team and client who are assigned by the Head of the Audit Quality & Risk Management department following strict eligibility criteria which have already been adapted to the requirements of **ISQM 2**. The EQCR should, among other things, have experience in similar engagements and the technical and sector knowledge needed to be able to carry out their duties. Furthermore, they should be independent from the engagement team and the client and have received specific training for the role.

As the quality review partner, the EQCR must review significant and critical audit matters, as well as any other aspects of the engagement they consider necessary. Their review should be carried out applying judgement and professional scepticism and include an **evaluation of the suitability** of the disclosures in the annual accounts, the **judgements and decisions** made by the audit team on significant matters and the **findings**. They also review communications with those charged with governance and the auditor's report. Their review is duly documented in the working papers and the auditor's report is not issued until all their questions and concerns have been satisfactorily answered.



6

KPMG Clara, our Integrated Technology Platform



KPMG Clara is a documentation and communication tool powered by data analytics in order to perform robust, controlled, communicative, consistent and quality audits.

KPMG Clara's analytical capacity allows us to analyse complete populations and draw more robust conclusions.

In 2020 implementation is going ahead as planned as we train personnel and steadily increase the number of engagements, the goal being to apply KPMG Clara in all audit engagements by 2022.

Technological progress and evolving auditing standards have prompted KPMG to develop a new technology platform, **KPMG Clara**, which will incorporate not only audit working papers but also end-to-end audit process management capabilities, likewise integrating our **Data & Analytics (D&A)** capabilities.

KPMG Clara allows us to:

- Redefine the **workflow** to give it greater structure and make it more intuitive.
- Provide increased **consistency** and share KPMG's knowledge with all of its professionals.
- Improve the audit approach through an updated methodology that enhances documentation and monitoring of the **risk identification** and assessment phase.
- Incorporate new flexible, modular, **interactive training resources** in real time.

- **Transform communication** between our people and our clients via innovative collaboration functionality.
- **Integrate D&A capabilities** in the audit process.
- Incorporate capabilities to **monitor project progress in real time**.

KPMG Clara also includes **monitoring of compliance indicators** which measure work progress, foster timely issue resolution and **provide key indicators to prioritise tasks**.

In addition, our new methodology **KPMG Audit Execution Guide (KAEG)**, to be used in conjunction with KPMG Clara and which will replace our current KAM (KPMG Audit Manual), integrates our full methodological support, which we are **progressively improving**, incorporating any new applicable standards.

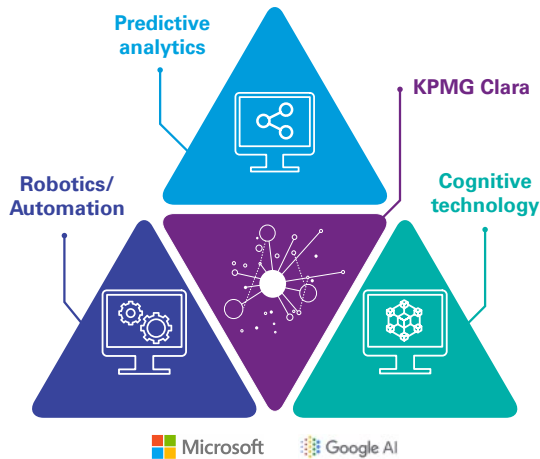
KAEG has a **clear link with auditing standards**, reducing the optional nature of applying our methodology, **promoting consistency** and enabling our auditors **to focus on critical issues** that require judgement.

As part of the KPMG Clara project, KAEG constitutes a **key pillar** of the Global Audit Quality Transformation initiative and is vitally important to honour our commitment to audit quality and consistency.

Commitment to innovation

At KPMG we consider it of paramount importance to continue to innovate and incorporate technology in our audits.

Our **innovation strategy** is underpinned by four pillars with the aim of achieving a predictive audit



In the future, the **complete integration** of artificial intelligence in our KPMG Clara platform will allow us to incorporate external unstructured data and the global knowledge of KPMG into our analysis, helping the audit teams by suggesting approaches, making predictions and drawing reasoned conclusions for the team to make the final decision.

We already use **KPMG Clara and Digital Automation** to analyse data extracted from ERPs, sometimes supported by predictive analysis and artificial intelligence, with specific solutions.

KPMG Clara reflects **KPMG Global's strategic priority, represented by its commitment to driving innovation and inspiring confidence through quality and the use of technology**. The inclusion of tech professionals in the audit team forms part of this strategy. We are developing new ways of working, becoming more agile, efficient, effective and adapting to an evolving business landscape.

Below are some relevant facts and figures related to the implementation of Clara in the last two years:

	FY 2019	FY 2020
Number of engagements in Clara	25	160
Public interest entity engagements in Clara	4	13
Engagements in Clara involving partners and directors	All business unit managers All business unit managers	All, at least on one engagement
Offices / Business units represented	Some	All
Training on Clara	For team members involved	For all partners, directors and managers
Training on Clara for specialists	Yes	Yes



7

IT and Data & Analytics (D&A) Specialists



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At KPMG in Spain we are aware of the importance of having tech specialists on our team, which is why over six years ago our IT and D&A specialists were incorporated into the Audit department. **This team devotes 100% of its time to performing audits.** This facilitates integration with the audit team in all stages of the work.

KPMG in Spain has over **100 professionals who work exclusively on the audit of technological risks, and a further 30 professionals tasked with mass data processing.** They work solely for the Audit department, which allows for specialised audit training and **ensures that engagements have the necessary and appropriate resources**, particularly those involving public interest entities.

A standard methodology shared globally and accessible to the teams.

Our methodology is standardised worldwide and is one of the key drivers in fostering and maintaining high quality in our technological audits. All the teams have access to robust materials that are updated globally every year, enriching both the technical regulatory knowledge and the sector expertise that our professionals require in order to **perform audits consistently** throughout the world.

Our firm constantly communicates and collaborates with the other firms that make up KPMG's EMA and Global organisations, exchanging practical knowledge

continuously and facilitating the analysis of technical and methodological aspects.

Our D&A professionals are seconded to the EMA technology hub located in Berlin, where they help to develop KPMG's technological solutions and gain direct experience in their use.

Specialised technical training and innovative measures for attracting talent.

Given the continuous evolution of technology and its importance in audit processes, the number of tech professionals has risen, thus affecting the training to be provided as well. We have drawn up **specific training plans and developed a new profile for auditors of the future**, with dual expertise in both technological risks and accounting risks, and how they are inter-related. We train financial auditors in technological risks and tech experts in accounting risks and sector knowledge.

In order to attract and retain technological audit specialists, we must change our models for hiring and training specialised tech profiles.

Attracting these profiles poses a challenge, which we approach in a number of ways, such as changing our selection processes. For several years now we have incorporated an innovative, interactive and technical stage to our traditional selection process, called the "Hackathon".

Retaining these professionals also involves a specific training plan, allowing these tech auditors to remain up to speed with technical aspects and committed to quality. We continue to invest in addressing **the ongoing challenges faced in audit methodology**: Cybersecurity, Artificial Intelligence, Bots, Blockchain, Integrated systems, Cloud, Lean methodology applied to the identification and assessment of risk.

Increased quality

We are mindful of the need for continuous quality and have thus incorporated professionals with technological profiles to work on quality in the **2LoD** review teams, actively participating in periodic reviews of quality in a coordinated fashion.

Data analysis capabilities

Our data analysis capabilities are centralised and automated in a **technology hub** integrated in KPMG's team of technology specialists.

This D&A hub increases the quality, efficiency and consistency of our data processing, generating reports on analytical results which enable us to perform further pertinent analyses, obtain additional necessary evidence and draw conclusions.

Our data analysis capabilities are currently concentrated on financial information, automatically processing data using complex algorithms (based on the specific business rules of each process) and generating reports in order to identify patterns and anomalies on which to focus our substantive procedures.

We are also starting to work with external data to corroborate a company's financial information, increasing assurance for complete transaction populations.

Certification of technology solutions

To ensure the quality of the data analysis procedures we perform, all our technology solutions undergo a certification process to validate their functionalities and the capabilities of the future users.

We have drawn up **specific training plans and developed a new profile for auditors of the future**, with expertise in both technological risks and accounting risks, and how they are inter-related.





Second Line of Defence



At KPMG we understand that **the quality of the audit process is as important as the final result**: it is not only about issuing a correct opinion based on the evidence and tests performed, but also the processes, the decisions made during the audit and the integrity of the work underpinning the report issued. In summary, it is about how we arrive at that opinion and how it is documented.

We are therefore convinced that **ensuring the quality of our audit engagement documentation must be one of the primary objectives of the Audit department**.

It has been shown that a KPMG audit with the right balance between **effectiveness and efficiency**, performed with **professional scepticism**, making the necessary consultation to **appropriate specialists** and based on **established auditing standards**, inspires significant **trust in our clients, regulators and other stakeholders**.

Striking the right balance when conducting audits also poses a significant challenge for teams. Consequently, KPMG's Audit department has, for some time, been providing its professionals, who have experience and training in the most highly technical and complex areas, with various **Second Line of Defence** programmes that support the teams and help them fulfil this objective. In recent years we have continued to innovate, implementing new measures that contribute to achieving this objective and providing an added-value service to our clients through audits.

Some levers directly related to an improvement in the quality of our work are as follows:

- **Risk analysis, a timely audit planning and approach, with professional scepticism and efficiency**: Properly documenting our judgements and decisions is critical. Professional scepticism means remaining alert to inconsistencies and keeping an open mind in order to identify risks, discern different alternatives and confirm evidence.

It features prominently in the auditing standards and thus in our audit methodology and attracts significant attention from regulators. We recognise that the exercise of professional scepticism is of vital importance to our role as auditors.

- **Appropriate size of the teams and timely reviews by partners, directors and managers** during the different stages of the work, allowing us to maintain **open communication with clients**. At KPMG we consider it enriching as well as necessary for an efficient audit that teams be of a size appropriate to the complexity of the work. Team members should also be guided throughout the process by the partner signing the report. The partners share their experience and skills day by day with the rest of the team members throughout the engagement. The managers support the partners in these responsibilities and also share their experience and points of view. In short, at KPMG we advocate an **environment of continuous learning** through reviews of the work performed and sharing points of view with the whole team, thereby generating added value for everyone and increasing audit quality.

- **Reviews by the Engagement Quality Control Reviewer (EQCR)**. As indicated in the section on the International Standard on Quality Management (ISQM 2), the role of the audit quality control partner is paramount in cases where their involvement is required, as stipulated in the new ISQM 2 and in our firm's internal policies. Audits of public interest entities and those considered high-risk engagements are always assigned an EQCR.

Involvement of **appropriate Specialists** in the work, as well as any necessary **consultations** regarding relevant matters: We understand that not all audits are identical or managed in the same way. Thus, our specialists, who form part of the audit team, play a significant role in areas requiring their involvement and support.

The areas where they usually make the greatest contributions are, inter alia:

Specialists included in the Audit department

- Information Technologies
- Financial Instruments
- Pensions
- Taxes (*)

(*) these specialists have formed part of the Audit department since October 1st 2020.

Other specialists

- Lawyers (Tax & Legal)
- Corporate Finance
- Financial Risk Management

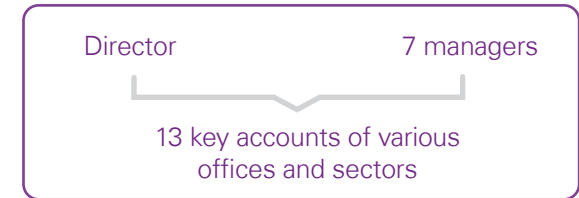
KPMG fosters a culture which considers consultations a strength, encouraging people to consult on complex matters. To this end protocols are in place to make inquiries of the Audit Professional Practice and Risk Management departments.

Network of **KPMG Clara workflow (KCw) champions**. In July 2020 a network of 40 professionals (managers and team leaders) was created consisting of professionals from across Spain who have experience in engagements conducted using **KPMG Clara workflow (KCw)**. They will ensure that the teams assigned to the 2020 audit engagements that will begin applying the new methodology and the new tool receive ongoing support throughout the year, in addition to all of the other training received. Foremost among the tasks assigned to these Champions are:

- To provide troubleshooting support to the teams taking part in the **KPMG Clara Workflow 2020 Deployment**.
- To assist, based on their own experience with KCw in 2019, in managing the change process that the new work teams joining the project in 2020 will necessarily undergo.
- To act as the first point of contact for resolving any doubts raised by the engagement teams regarding the use of KPMG Clara Workflow and the changes that the use of our new audit tool will entail. This support figure does not replace but rather complements the work of the Department of Professional Practice (DPP) and does not rule out the need for consultations with the latter, should the case so require.

Project ATENEA. In June 2020, a task force was created which provides support to the teams at the main audit clients, assisting with financial and administrative management and achievement of milestones in audit projects, and also constant monitoring of the resources assigned to these engagements, including Specialists.

Team ATENEA:



The purpose of this project is to provide efficient management of engagements, effective administrative and resource coordination which, in turn, will permit the teams to focus their efforts on complex key areas of these audits and, therefore, improve work quality and increase added value to clients.

This programme is coordinated by the Department of Professional Practice on Audit Methodology and sponsored by the Head of Audit for KPMG in Spain.

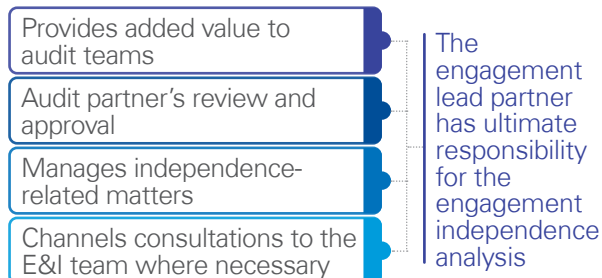


Audit Independence Group (AIG). In June 2017, pursuant to the enactment of the Spanish Audit Law (Law 22/2015) of June 2016 and Regulation (EU) No 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities, KPMG in Spain set up an ad hoc team known as the Audit Independence Group (AIG), with the aim of providing support in the management, analysis and documentation of audit independence analysis in respect of public interest entities and the Audit department's main target clients.



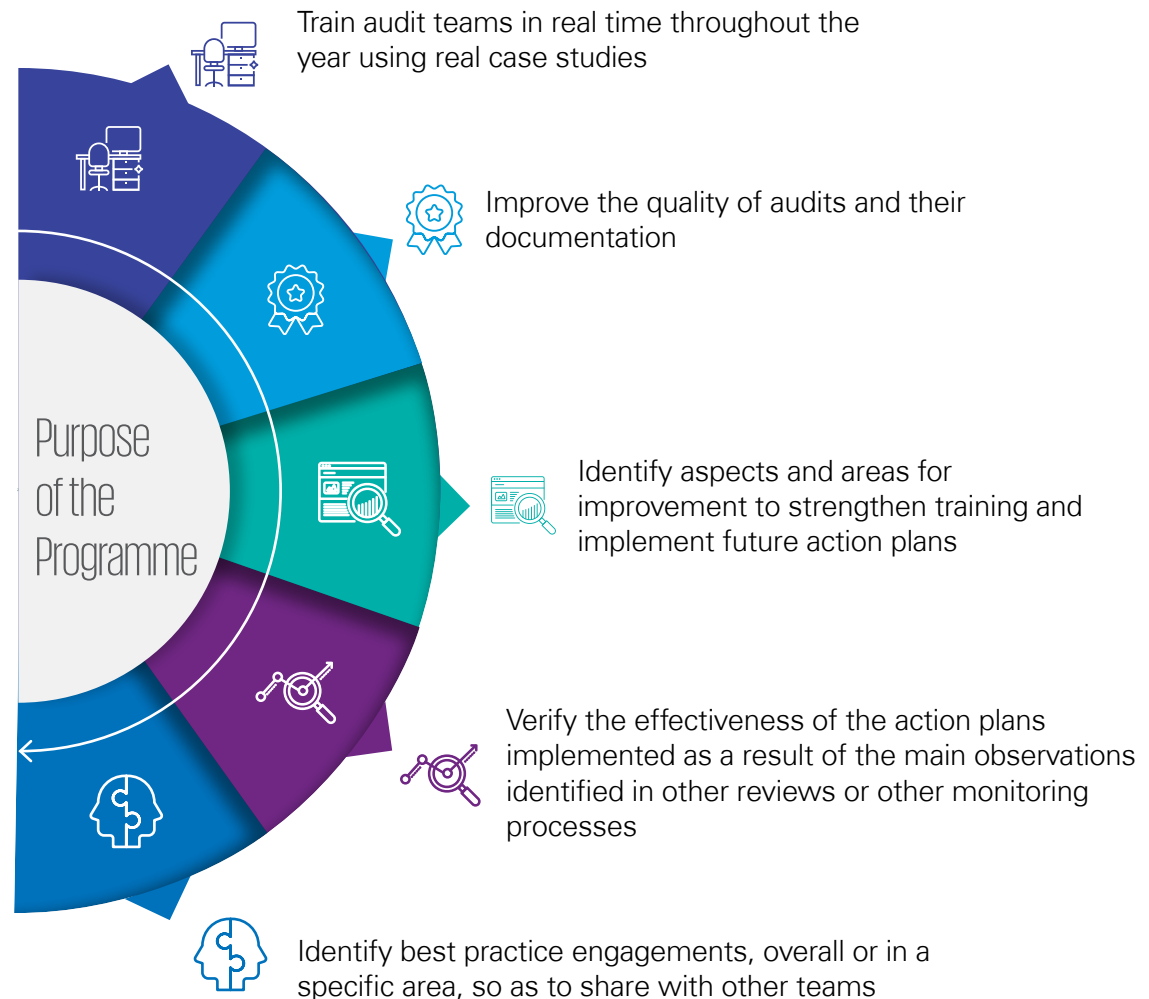
AIG professionals have specific training on independence analysis applicable to our clients, with, six of these professionals, committed to the task on a full-time basis.

AIG objectives:



Second Line of Defence Programme or 2LoD.

Several years ago, KPMG in Spain developed this support programme which is conducted throughout the year and is conceived as a **real-time coaching** tool for the purpose of helping teams to improve the quality of their working papers at different stages of the audit engagement.



This programme helps us to, among other things:

1. **Select the engagements** to receive coaching under this programme each year, which are approved by the Head of the Quality & Risk Management department, the Head of Audit Quality, and the Head of the Audit department, applying a **risk-based approach** to engagement selection. This selection is, in turn, corroborated and approved by KPMG's Audit Quality Partner for the EMA region.
2. The more than **30 reviewers selected are experienced professionals**, independent from the engagement and client, who do not form part of the team. They principally comprise partners, directors and experienced senior managers. They are also assisted by specialist reviewers, mainly in areas involving independence and information technology.
3. Their role is to review, **helping and challenging** the teams in respect of the analysis performed on the **risks identified, the response** to such risks, the tests to carry out and their scope, **key matters** and all the documentation related to the planning, tests conducted in significant areas, findings and their impact on the report.
4. The reviewers have different **tools** available, from specific training for this task to **manuals** on conducting reviews, which describe each area to be reviewed and provide guidelines for documenting their reviews and communicating with the team under review.
5. KPMG in Spain **evaluates this programme** on a yearly basis through different internal and external sources, including satisfaction surveys on the programme and the reviewers, or through changes to the annual quality review programme, among others. The programme is clearly constructive, given the use made by the teams and the benefits reaped, both in the identification of opportunities to improve quality and in the sharing of best practices identified.



(*) Formerly known as In-flight Reviews



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Training, Accreditation and Specialists



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Training our professionals is critical to the delivery of high-quality work

Our firm is responsible for ensuring that our professionals have adequate knowledge and experience to carry out their work. We therefore provide specific training courses tailored to the needs of the engagement teams. Engagements are assigned by selecting partners and professionals with **appropriate training and experience**.

Nuestros profesionales en permanente formación

Our policies regarding the training plans for our professionals are based on meeting the criteria and requirements of KPMG's Global Quality & Risk Management Manual. This manual stipulates that Continuing Professional Development (CPD) must comply with professional standards, applicable legislation and, at the very least, the provisions of the IFAC's International Education Standard 7 (IES 7).

Global Audit Learning & Development is responsible for identifying the teams' training needs and preparing the materials used by all the KPMG member firms to ensure **global consistency**.

The department of Professional Practice of KPMG Spain, reviews the global materials and, where necessary, supplements them to meet local requirement. The learning and Development department of KPMG Spain is tasked with monitoring and evaluating the quality of the training provided in order to implement corrective measures and adopt any necessary improvements.

Algunos datos relacionados con la formación de profesionales de auditoría y especialistas son los siguientes:

FY 2019		FY 2020
1,500	Number of professionals trained	1,593
> 50	Hours of training per professional	> 50
> 10%	Percentage of in-house trainers	> 11%
600	Number of courses	593
> 200	Classroom courses	119
> 67,000	Training hours	128,076
96%	% of professionals that received training	97%
76%	% of hours related to technical training	92%
56,000	Number of hours of technical training	117,549

As a result of the pandemic triggered by COVID-19, we have had to reduce the number of face-to-face courses and increase the number of courses delivered electronically and virtually. In 2019-20, 80% of the 593 courses given were non-classroom based (321 through virtual classrooms and 153 through eLearning) and only 20% (119 courses) were classroom based.

University Master's Course

100% of the firm's new hires receive methodological and technical training which complements the university degree they hold when joining KPMG.

This training is reinforced, in their first year at KPMG, by a University Master's Course which complements the rest of the training received. Professionals successfully completing this course are exempted from the theory component of the exam for access to the Official Register of Auditors (ROAC).

The Master's Course is delivered at prestigious universities such as ICADE in Madrid and Universitat Pompeu Fabra in Barcelona.

FY 2019		Indicator	FY 2020	
ICADE	UPF		ICADE	UPF
34	35	No. of participants	30	30
102	62	No. of KPMG trainers	76	59
656	589	Length (hours)	624	620
76%	83%	% Face-to-face	67%	34%
0%	0%	% Virtual Classroom	5%	40%
24%	17%	% e-learning	27%	25%
0%	0%	% self-study	1%	1%

Credentials and Specialists

At KPMG in Spain we continue to build up our **accreditation system**, which enable us to be certain that the experts (Specialists) involved in audits receive **adequate functional training** as well as **training in auditing standards and regulations**, enabling them to take part in engagements and adequately document their conclusions.

The use in audit engagements of Specialists who have received ad hoc training on auditing standards substantially increases the **quality of work**, which is the ultimate objective in KPMG's audits.

All our teams have access to Specialists

Auditing standards, as well as regulators, require all individuals participating in an audit to possess adequate knowledge of the necessary standards and regulations governing the profession.

KPMG Specialists

In the last three years, Specialists have been active in the following areas:

Area	FY 2018	%	FY 2019	%	FY 2020	%
IT and D&A specialists	10	8%	25	12%	25	11%
Tax for Audit lawyers	55	45%	75	37%	80	35%
Other lawyers	5	4%	10	5%	10	4%
Financial Instruments	9	7%	16	8%	14	6%
Corporate Finance	32	26%	59	29%	76	34%
Financial sector	2	2%	3	2%	3	1%
Accounting Advisory	8	7%	14	7%	16	7%
Total	121		202		226	

Specialists are broken down by category as follows:

Category	FY 2018	%	FY 2019	%	FY 2020	%
Partners/Directors	55	45%	67	33%	76	33%
Managers	66	55%	135	67%	151	67%
Total	121		202		226	



Engagements conducted under US standards (PCAOB Standards, US GAAP, etc)

The complexity of the standards governing engagements conducted under US legislation requires us to have professionals who are adequately skilled to carry out this type of engagement. For this reason, we duly monitor the **training and experience** of professionals who are accredited and, therefore, able to take part in engagements of this nature.

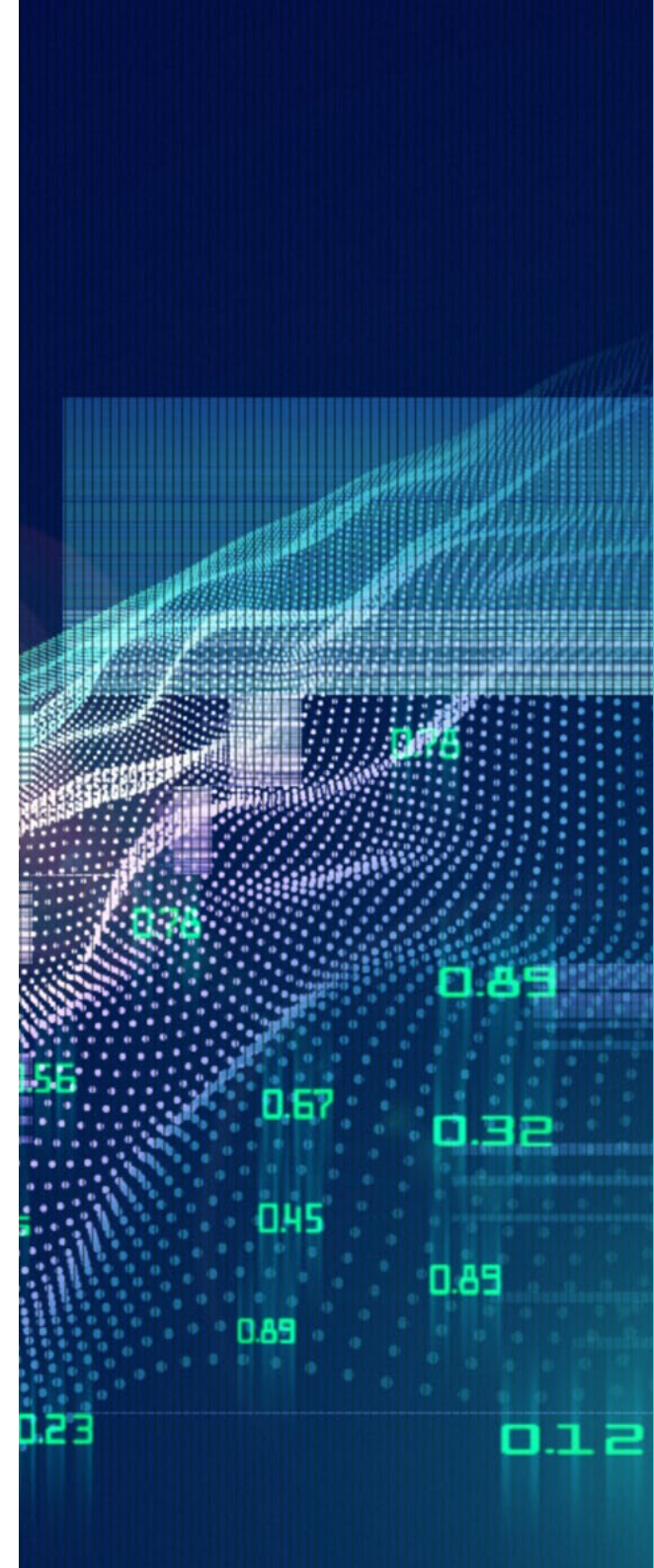
Since 2020 our global audit manual (KAM) has stipulated that Seniors in charge of engagements conducted under US standards must also receive training in these standards, in addition to the requirement that already existed for partners, directors and managers. KPMG in Spain has **reinforced this policy**, requiring all Seniors involved in an engagement – not just the Senior in charge – to be accredited, **thus substantially increasing the training required for the professionals involved in these engagements and, therefore, the engagement quality.**

Professionals accredited under US standards

Category	FY 2018	%	FY 2019	%	FY 2020	%
Partners/ Directors	51	49%	52	49%	81	32%
Managers	53	51%	54	51%	64	25%
Seniors	0	0%	0	0%	106	42%
Total	104		106		251	

Training hours are as follows:

FY 2019	Training hours	FY 2020
38.0	Baselines	38.5
20.5	Annual updates	12.5
58.5	Total	51.0



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Monitoring Programmes / Root Cause Analysis



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Monitoring Programmes

The results of the external inspections and our own internal monitoring are fundamental to identify opportunities for improvement when conducting an audit and to **strengthen our quality control system**.

At KPMG in Spain we continuously monitor and evaluate our performance to ascertain the quality of our audits, thus allowing us to prioritise any areas that need improvement. When it comes to earning the trust of our clients, capital markets, regulators and stakeholders, **learning from the opportunities for improvement identified** is something we take very seriously.

Our monitoring programme includes the **annual global quality performance review (QPR) programme** for engagements. It will encompass oversight of the test of design, implementation and operating effectiveness of the controls in the different processes that make up the 10 components of the **System of Quality Management (SoQM)** workflow, as provided for in ISQM 1.

At KPMG we perform an annual internal review of our audit department through the global Quality Performance Review programme (**QPR**). This programme is designed to **verify compliance** with the aspects of quality control required by the strictest professional standards. Every year quality control procedures are applied to the audit work of approximately 40% of KPMG in Spain's designated signing partners and directors.

Moreover, as previously mentioned, the forthcoming implementation of the international standard on quality management (**ISQM 1**) will bring significant changes and require all firms to have **quality controls in place, whose operating effectiveness has been tested** and which are designed for the performance of quality audits throughout the practice in a consistent manner.

In addition, KPMG's **Client Insights** programme actively seeks commentary from our audit clients regarding the quality of our services. This feedback is received both by the audit engagement team and by the firm and is the key to learning from experience and **improving our client service**.

The findings of our monitoring programmes and the results of the external inspections are summarised into a **formal root cause analysis** on the audit quality issues identified and, based on this analysis, **we design corrective actions that address the underlying causes so as to meet the required quality standards**. These actions include improving policies and guidelines, communications and training for partners, managers and other professionals.

At KPMG we focus on ensuring that our work fulfils the needs of our clients and of the capital markets. To achieve this objective we use a wide variety of mechanisms to monitor our performance and we seek out opportunities for making continuous improvements.

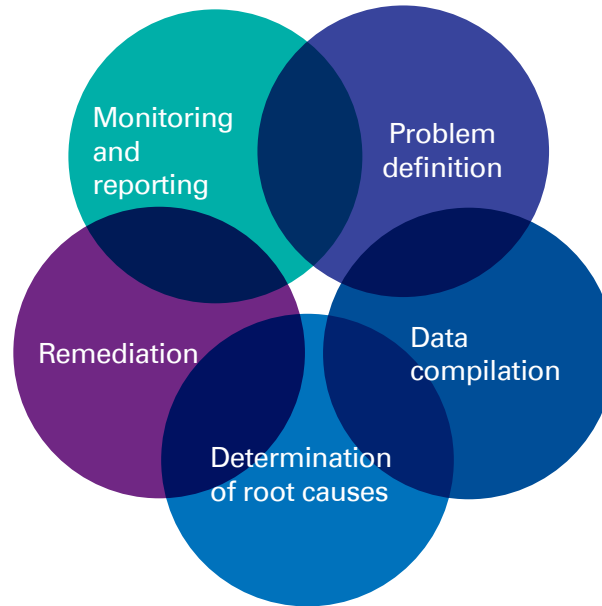
Root Cause Analysis

Root Cause Analysis (RCA) is a process used to identify the root causes of problems so as to prevent their recurrence. Root cause analysis (RCA) is based on the belief that problems are better resolved by identifying and resolving the **root causes**, rather than simply addressing the immediately apparent symptoms.

The **key objective** of RCA is **to improve audit quality** by gaining a better understanding of how audits can be improved. It forms part of an **ongoing improvement process** based on audit inspections, investigating the root causes of the results of those inspections and strengthening our capabilities to respond by taking effective action. Robust root cause analysis is the **key to understanding and properly responding to audit quality matters**.

RRCA is also a means for **identifying best practices** as part of this continuous improvement.

Our methodology for analysing root cause comprises the following five stages:



Root cause analysis is an **iterative process** which requires a review of decisions and remediation plans whenever new or additional information is received.

The effectiveness of the response to a quality issue depends on an **understanding of the root cause**, the ubiquity of the issue, the capacity to adopt a solution under different circumstances, and the leadership.

At KPMG in Spain we draw on **our knowledge from past experiences** and our root cause analysis framework, designed specifically so as to fully understand the root cause of the issues identified and devise innovative, fitting solutions.

KPMG in Spain has an **RCA Committee** that meets periodically throughout the year. The Head of Audit, Professional Practice partner and Audit Quality & Risk Management partner are among the members of this committee. There is also an **RCA working group** tasked with carrying out the various RCA analyses, supported by Specialists as needed.

Details of root cause analyses conducted in the last two years and other relevant data are shown below:

Year	Stage of RCA	Professionals involved	Hours incurred
2018/19	Determination of root cause(s)	4	268
2019/20	Remediation Monitoring and reporting	6	222



11

Audit Quality Indicators



At KPMG in Spain we are deeply committed to maximising quality in all engagements. With this in mind, in 2018, in order to tangibly measure the quality of work performed by our professionals, a series of indicators were established **to assess certain critical or relevant aspects in relation to quality in audit engagements**. These Audit Quality Indicators are reviewed and measured each year for all Audit partners, directors, senior managers, managers, seniors and staff (measurement of the two latter categories began during the fiscal year ended 30 September 2020).

Audit Quality Indicators are structured in such a way as to **cover the various stages of an audit**, including the planning stage, the execution of the work, communications with management and the auditor independence analysis, as well as the engagement closing process and the performance review of the engagement quality control reviewer or EQCR.

They also take into account the auditor's **fulfilment of the annual training programme**, as well as the results obtained from internal quality reviews and the **findings of external inspections** carried out by regulators.

These quality indicators are assessed using mass data processing technology, which allows for **precise and objective measurements**, as well as comparisons of the results obtained.

Applying these quality indicators has become a procedure that enables us to **enhance the quality of our work**, as not only do they serve as an incentive for our professionals by forming part of the quality objectives established each year, but they have also become an **effective means** of analysing specific aspects of the quality of our work.

The Audit Quality Indicator related to Independence has risen by 57% in relation to previous FY.

The process for completing the working paper assembly period has picked up speed, leading to an improvement in this indicator of 70%.

KPMG in Spain intends to extend the application of quality indicators to all other Audit professionals (including IT and financial instruments specialists, etc.).

12

Transparency Report

According to the Spanish Audit Law, auditors and audit firms that audit the accounts of public interest entities must publish and submit a separate transparency report. Once more evidencing its commitment to quality, KPMG Auditores, S.L. published its first transparency report in 2009, when this was not yet a requirement under Spanish law.

Our **annual transparency report** contains information on the components that make up our quality control system, for example, corporate governance and leadership, risk assessment

processes, ethics and integrity (independence) processes, our procedures for client acceptance and client relationship and engagement management, performance of the work and our methodology, resources, information and communication, and monitoring and remediation procedures. In addition, the transparency report contains information on the revenues of KPMG Auditores, S.L. as well as a list of the public interest entities we audit, showing revenues received from these entities and their subsidiaries.

2009



2019



13

Roles and Responsibilities



KPMG has defined several global **roles and responsibilities** to drive improvement in audit quality and ensure that all professionals involved in an audit engagement have a clear understanding of their own particular role and responsibility with regard to the engagement, thereby enhancing **audit quality**.

This global project entitled Accountabilities, Roles and Responsibilities, forms part of the Global Audit Quality Transformation (**GAQT**) project and is intended to establish a framework of compulsory, globally consistent responsibility, which KPMG member firms will be obliged to implement as of 1 October 2020.

The ultimate goal of this project is to:

- **Increase trust among clients, regulators and other stakeholders**, with roles that support a robust system of quality management so that audit teams can provide the highest level of quality.
- **Provide clarity and consistency**, by ensuring that all our professionals understand, accept and prioritise their role in audit quality management.

- **Ensure that audit quality is integrated** by defining roles, objectives, indicators (KPI) and performance *rpensa a los profesionales*.

Initially **30 different role profiles** have been created to ensure that audit professionals have a clear understanding of their roles and responsibilities.

These roles are encompassed in the following **categories**:



To support the profiles of the aforementioned roles, the following elements have been developed:

- A single compulsory **goal (to ensure audit engagement quality)**.
- A set of suggested metrics (**KPI**) associated with the role profiles which includes the results of internal and external inspections.
- A **library of bespoke quality targets** to be selected and tailored

A single **compulsory objective**:
In accordance with the requirements of my profile, I will constantly focus on audit quality, holding myself to the highest professional standards and levels of objectivity, independence, ethics and integrity within our quality management system.

At KPMG in Spain, as part of this project, we have established a general quality rating (**Audit Quality Rating**) taking effect in the fiscal year beginning 1 October 2020 for all partners, directors and managers who participate in an audit (including specialists) based on the results and compliance with certain **Audit Quality Indicators** and **Compliance Indicators**. This rating will affect the performance reviews and remuneration of these professionals.

The ultimate outcome of this project will be a principle-based approach for auditors, including specialists, relating and linking audit **quality, performance** and **reward** and taking quality issues and the results of internal inspections and regulatory oversight into account.

This project ensures that all the **audit quality requirements** enshrined in the new international quality standard, ISQM 1, and in existing professional standards **will be assigned** to the firm's professionals.

Furthermore, this project envisages **promotion and remuneration schemes** based on both monetary and non-monetary rewards for professionals whose contribution to audit engagement quality is considered significant.



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Audit Quality in figures



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As indicated earlier, KPMG in Spain has an Audit Quality department comprised of professionals from different categories (partners, directors and managers) who have accumulated experience and are almost exclusively dedicated to promoting audit engagement quality.

The dedication to tasks related to driving audit quality improvements has grown significantly in recent years. The creation of an Audit Quality department and the various specific related programmes reflect KPMG in Spain's commitment to promoting audit engagement quality. Some of the figures, expressed in hours, that illustrate this commitment are as follows:

FY 2019		FY 2020
268	Root Cause Analysis	222
2,184	Second Line of Defense	2,315
-	Audit Quality Workshops	196
-	Accounting roles and responsibilities	112
891	Quality & Risk Management	1,389
1,725	Quality indicators	1,977
640	SoQM	2,860
1,891	Other Audit Quality projects	4,626
7,599		13,697



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