



# Committed to quality

March 2022

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# Letter from the Head of Audit

01

Once again this year we have published our Annual Activity Report, an opportunity to showcase some of our firm's projects and initiatives related to audit quality. Performing quality audits and continuously improving them is one of the cornerstones of our mission to become the most trusted and trustworthy professional services firm. Although I am certain that our audits are already of a consistently high standard, there is no room for complacency, which is why we remain committed to continuously improving quality.

The quality improvement process is not something particular to any given year or period, but rather something that continually evolves over time. Consequently, the initiatives outlined in this Annual Activity Report are projects that actually got underway some time ago, yet continue to drive improvements in audit quality today.

We delivered a considerable amount of training hours to our professionals in 2021, both on audit methodology and the use of advanced IT tools, including our new smart audit platform known as KPMG Clara. This tool brings together a tested methodology that improves risk identification and assessment, while adding powerful data analysis (Data & Analytics) capabilities. KPMG Clara was developed with the aim of improving the quality of audits and driving consistency, collaboration and efficiency, not just locally, but across all firms making up the KPMG network. We used KPMG Clara in over 1,400 engagements in 2021, compared to the 200 engagements in 2020. We plan to ramp up this figure in 2022 to reach practically all audits we perform in 2023.

Furthermore, we cannot overlook the influence of new standards, the primary objective of which is to ensure audit quality

in many cases. Following publication of the International Standards on Quality Management for audit firms (ISQM 1 and ISQM 2), which the Spanish Accounting and Auditing Institute (ICAC) has put out for public consultation prior to their incorporation into local standards, work was already underway in 2021 at KPMG Auditores, S.L. in order to be fully prepared for their implementation.

Another key touchstone for quality improvement is coaching for engagement teams, something that is delivered while the audit is ongoing. This task is carried out on a daily basis by the most experienced professionals on the engagement teams. However, we also have a specific programme (*Second Line of Defence (2LoD)*), where highly experienced professionals not involved in the engagement can collaborate with team members in order to provide

constructive feedback, foster discussion of possible alternative procedures and offer professional scepticism, helping to strengthen audit quality.

Our commitment to quality would be remiss if it did not form part of our professionals' evaluation and remuneration process. For several years now we have used quality indicators -Audit Quality Ratings- at KPMG Auditores, S.L. These ratings measure aspects of engagement quality, among other things, and are used to assess and remunerate all audit professionals across all levels, from first-year associates to partners. They are also taken into consideration to evaluate and remunerate professionals that do not belong to the audit area but who nonetheless participate in these engagements.

I am certain that we are on the right track thanks to our investment in quality, our professionals and technology, all of which will position us as the market's clear choice when it comes to professional services; a firm that inspires trust in our clients, regulators, markets and society more broadly.

I hope you find this Annual Activity Report of interest and that it helps to underline the extremely high commitment to audit quality at KPMG Auditores, S.L.



**Borja Guinea**

Head of  
Audit



# Our audit practice / Culture and values

02

## Our audit practice

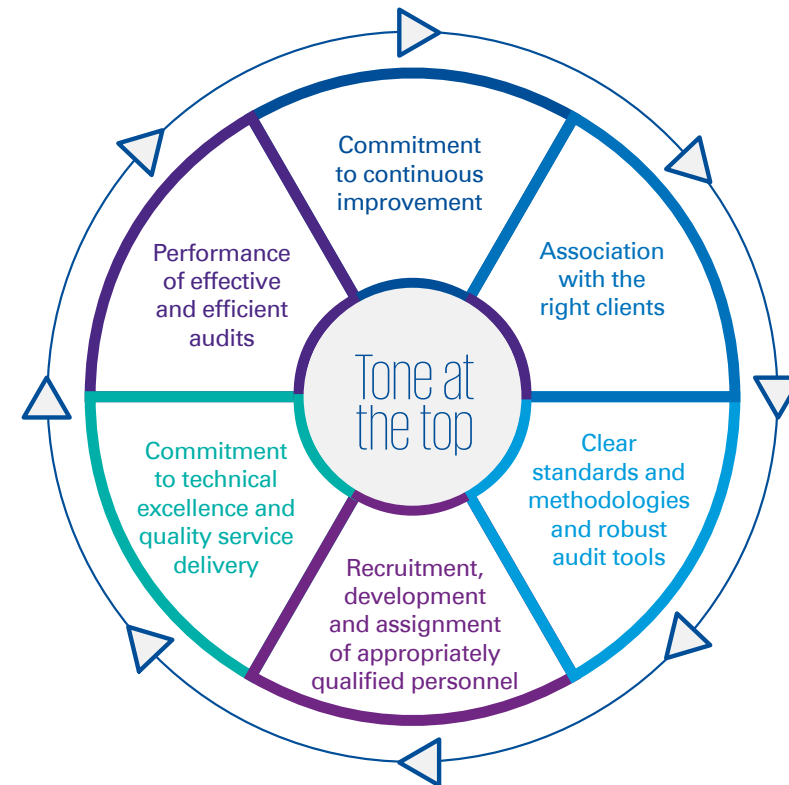
Audit quality lies at the heart of our firm's strategy. We consistently put the focus on delivering the very highest standards of quality, underpinned by innovation, to remain one step ahead of change and to provide even greater value to our clients and stakeholders.

KPMG Auditores, S.L. is a professional services firm that delivers audit and assurance services on financial information, as well as other related services.

We have a clear understanding of the underlying purpose of our activity: **to inspire trust and drive change**. This is precisely what makes our work relevant for society.

We are fully conscious of the responsibility that comes with applying our robust knowledge and value judgements in order to inspire trust amongst stakeholders and to foster greater wellbeing.

Leadership shows management's **commitment to quality, ethics and integrity**. The remaining aspects of our quality control system work in lockstep and are mutually reinforcing



This **focus on quality** enables us to foster greater trust in the markets, strengthen the economy and contribute towards progress, while ensuring that the services we provide to our clients are performed in accordance with a defined process that is known to all professionals and subject to continuous review.

Today's KPMG audit is digital-based, embedding **leading solutions** that drive all aspects of how we carry out the work in the audit. Our professionals are empowered to own their careers, proactively learning skills that will be the hallmark of the next-gen auditor.

The **COVID-19** crisis, lockdown and the need to maintain our economic activity have all accelerated the digitalisation process even further and accentuated the vital importance of **technological and digital** readiness to ensure business

continuity and resilience. Moreover, thanks to the work of the Professional Practice and Audit Quality departments, the audit teams have sufficient support and backing to ensure work continues to be performed at the level of quality expected of us. Professional training continued during this challenging period, albeit adapted to be delivered mostly remotely, thanks to the use of the firm's online training tools and platforms.

Our professionals share **our values** and have the passion needed to collaborate with clients to deliver **tangible results**, and with the ultimate goal in mind of contributing to our clients' success, and generating an impact that extends beyond the communities where we operate.

This document showcases data on our Audit department professionals for the past two years (FY20 and FY21).



## Culture and values

Our Values form the basis of our practices and ethical principles and represent what we believe in, and what's important to us as a firm. They define our conduct, guiding how we act each day, the decisions we make, and how we work with each other, our clients and our stakeholders.

We possess a culture based on **quality, integrity and ethics**, which is essential in an organisation that carries out audits and other services on which stakeholders rely. We promote a culture in which consultation is encouraged and recognised as a strength.

Our Values lie at the heart of the way we do things, **to do the right thing, the right way**. They define our conduct each day, guide our decisions, and shape our character.

They form **the foundation of a resilient culture** ready to meet challenge with integrity, so we never lose sight of our principal responsibility to protect the public interest. Our values propel us forward – through our work and the example we **set – as we inspire confidence and empower change.**

KPMG conducted a global redefinition of these values. Their relevance resides in how they:

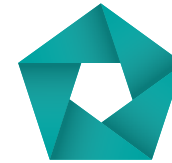
- **Help us to distinguish** between what is right and what is wrong, especially when we are under pressure.
- **Represent who we are and who we want to be** for all our stakeholders
- Bind us together, across our different backgrounds and cultures and providing us with common terms of reference.
- **Represent** what is intrinsic and specific to **our culture.**

Our values are as follows:



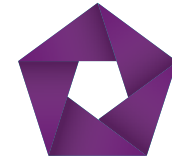
### Integrity

We do what is right.



### Excellence

We never stop learning and improving.



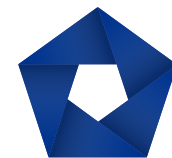
### Courage

We think and act boldly.



### Together

We respect each other and draw strength from our differences.



### For better

We do what matters.

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

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

# Audit quality

03

## Audit Quality

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

We define audit quality at KPMG 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 characterised by the utmost level of objectivity, independence, ethics and integrity.

**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 pursuing 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.

We are keenly aware at KPMG that our audit work is important for companies, as it enhances the transparency and inspires the trust that underpins and facilitates stakeholder decisions. In a highly challenging environment in the wake of the **COVID-19** crisis in 2020 and 2021, audits are key to making that **positive impact on society as a whole**.

Our relentless focus on quality underpins our commitment to serve the public interest and drives our ambition to be the most trustworthy firm that delivers added value to companies' decision making, beyond the mere auditor's report.

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, 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. Transforming audit quality also requires every professional involved in the engagement to have a clear understanding of their **roles** and **responsibilities** when it comes to delivering quality so as to strengthen **professional commitment in this regard**.



To achieve this objective, KPMG is making significant changes in many areas, most notably:

- └ A dopting the new **ISQM1 and ISQM2 quality standards** (International Standard on Quality Management 1 & 2) **ahead of time**; they actually become effective on 15 December 2022. The first involves the creation by the firm of a **System of Quality Management or SoQM**, which forms the backbone of audit transformation. The second establishes a framework for the **Engagement Quality Control Reviewer or EQCR**, which includes guidelines for identifying, accrediting and assigning an EQCR and recognising and monitoring their work.
- └ Replacing the firm's current methodology (KAM) and workflow tool (eAudit) with our new methodology (KAEG) and smart audit platform (**KPMG Clara Workflow**).

- └ Establishing **quality objectives (Audit Quality Ratings)** that are tailored to the various participants in audits across all levels, including the creation of **profiles, roles and responsibilities** that are defined at a global level to drive quality. Establishing and monitoring of quality KPIs for certain key audit tasks in view of their complexity or profile.

- └ Strengthening **global supervision over the audit of financial institutions** given the worldwide importance of these types of entities (at KPMG we currently audit some of world's largest financial institutions, including 10 banks on the Financial Stability Board's (FSB) list of Global systemically important Banks (G-SIB). A consistent global framework has been put in place to conduct audits of Global Systemically Important Financial Institutions (G-SIFI) and other financial entities, including

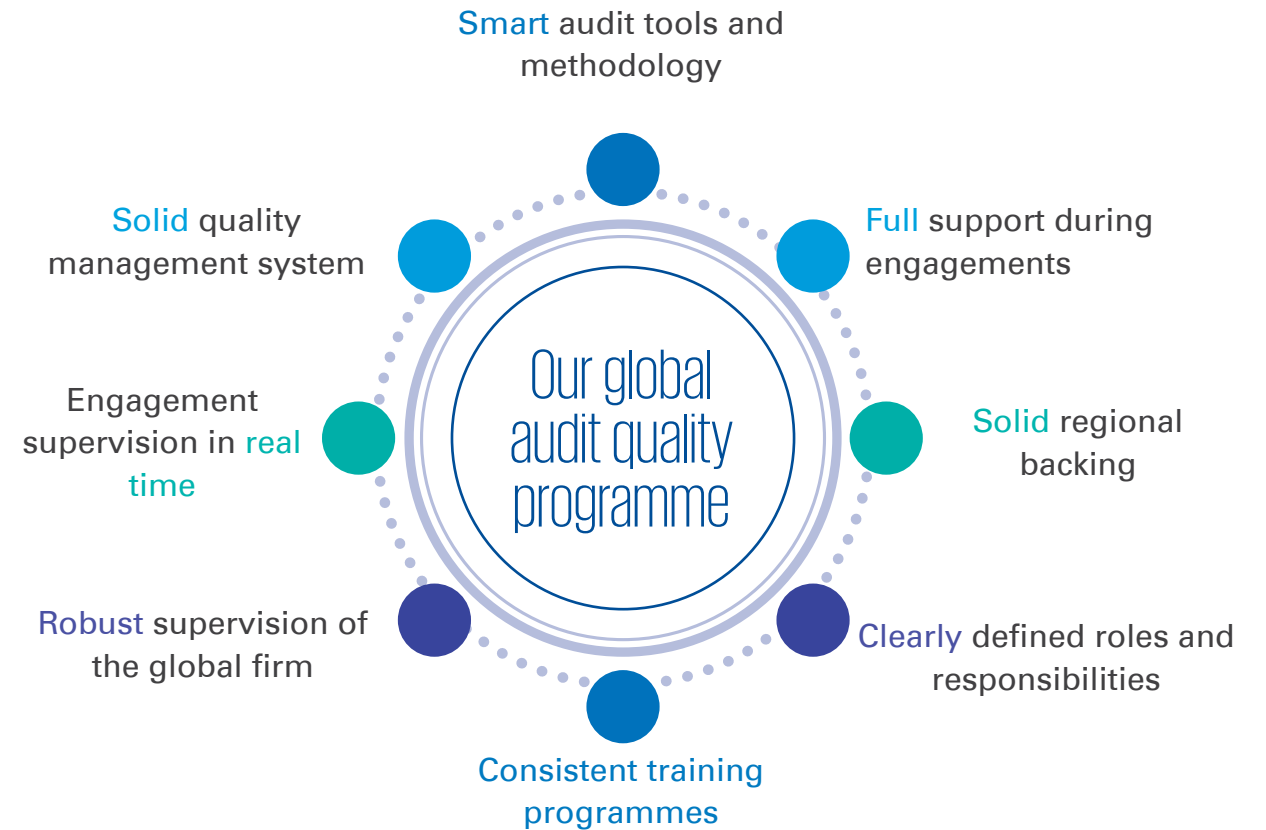
standardisation of audit approaches, work documents, training and coaching.

- └ **Reorganising and redesigning of training** for all audit professionals and specialists with a consistent global curriculum, as well as improvements to **the management of resource and portfolio processes** by leveraging tools and guidelines to anticipate and monitor resource levels.
- └ Providing continuous support for teams during engagements by means of the **Second Line of Defence (2LoD)**, which was introduced at KPMG in Spain more than five years ago with excellent results. We are also strengthening the local and global **Professional Practice network**, which includes support for information technology professionals, and bolstering the PCAOB Standards Group, which takes on a leadership role across the entire network on PCAOB auditing standards.



With this goal in mind, **we increased investment in audit transformation** in 2021, focused on the technology applied to our activity, our quality management system, and on access to and coaching and training on innovative tools for our teams. These innovative tools ensure and bolster the commitment to our clients through our audit services, which are essential for the various players operating in capital markets. We are building on our **solid audit quality foundations**.

Through this programme we have made **considerable progress** on improving audit quality. We are continuously making enhancements to quality through the rollout of KPMG Clara and the implementation of a solid System of Quality Management (SoQM), which is explained in subsequent sections of this report.



## Our Audit Quality department

KPMG in Spain has an Audit Quality department comprised of professionals from different categories (partner, directors and managers), 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, as well as to enhance our professional reputation

The Audit Quality department was actively working on the **following projects and areas** in FY21, which will be explained in further detail in subsequent sections of this document:

- System of Quality Management (SoQM / ISQM1).
- Root Cause Analysis (RCA).
- Second Line of Defense (2LoD).
- Accountabilities, roles and responsibilities (AR&R).
- Engagement real time monitoring (ERTM).
- Audit Quality Rating (AQR).
- Training, accreditation and specialists.
- Engagement Quality Control Reviewer (ISQM2).
- Annual Global Quality Performance review (QPR) programme.
- Coordination with the Department of Professional Practice, IT and D&A specialists and monitoring the implementation of the KPMG Clara IT platform.
- Assistance and coordination with domestic and international regulators.



# Regulatory framework

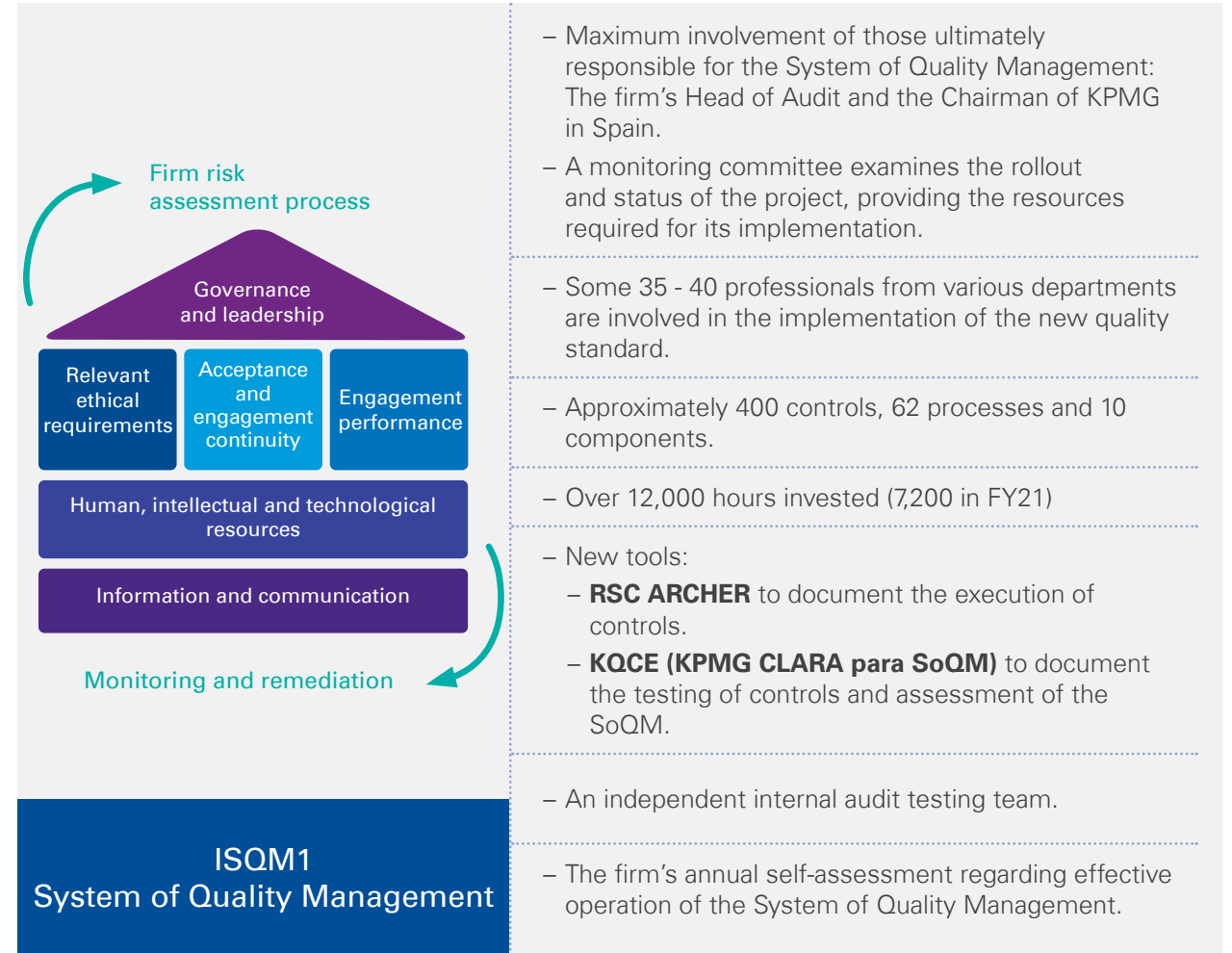
## 04

Our **Global Audit Quality Transformation, or GAQT**, launched by KPMG in 2018, continues to drive improvements to quality with the aim to adapt to the new regulatory environment.

### ISQM1

The backbone of this transformation is the **System of Quality Management or SoQM** project, which entails early adoption of **ISQM 1 (International Standard on Quality Management 1)**. 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 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.



## ISQM2

**ISQM 2, the new International Standard on Quality Management 2,** was implemented by KPMG ahead of time in 2021 and aims 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
- ▶ Improving the requirements to be able to carry out the duties of the quality reviewer.



- 01** Audit partner is assigned to an engagement by the partner in charge of Audit Quality & Risk Management, taking into account their experience in engagements of a similar complexity and features and their technical and sector expertise.
- 02** They receive specific training for the role
- 03** Independent from engagement team and the client
- 04** They review relevant and critical audit matters with professional scepticism, challenging the suitability of the engagement team's decisions

FY20		FY21
564	<b>Engagements with EQCR</b>	686
4.933	<b>Hours incurred by the EQCR</b>	6.606
41	<b>Number of EQCRs</b>	46
444.619	<b>Engagement hours with EQCR</b>	523.270

### Process to assign enhanced EQCR thanks to implementation of ISQM2



- Creation of an EQCR request tool by the teams.
- Assignment by the partner responsible for Audit Quality & Risk Management via this tool.
- Alerts are sent through the tool, to those involved in the engagement once the assignment has taken place
- Regular view of EQCR involvement in engagements to which they have been assigned

## Regulation implementing the Spanish Audit Law

- ▶ On 30 January 2021 the Regulation implementing Spanish Audit Law 22/2015 of 20 July 2015 was approved.
- ▶ Professionals from the firm's Audit Quality & Risk Management department, as well as others from the technical Professional Practice and Ethics and Independence areas, have formed a workgroup to exhaustively review and adapt to this Regulation, as well as to ensure compliance with it

# IT and automation

## 05

KPMG Clara and our new methodology (KAEG), which are clearly aligned with applicable audit standards, are the touchstones of our Global Audit Quality Transformation programme; they are of critical importance when it comes to delivering on our commitment to audit quality and consistency. We incorporate big data analysis into our quality audits through the involvement of IT and Data & Analytics specialists.

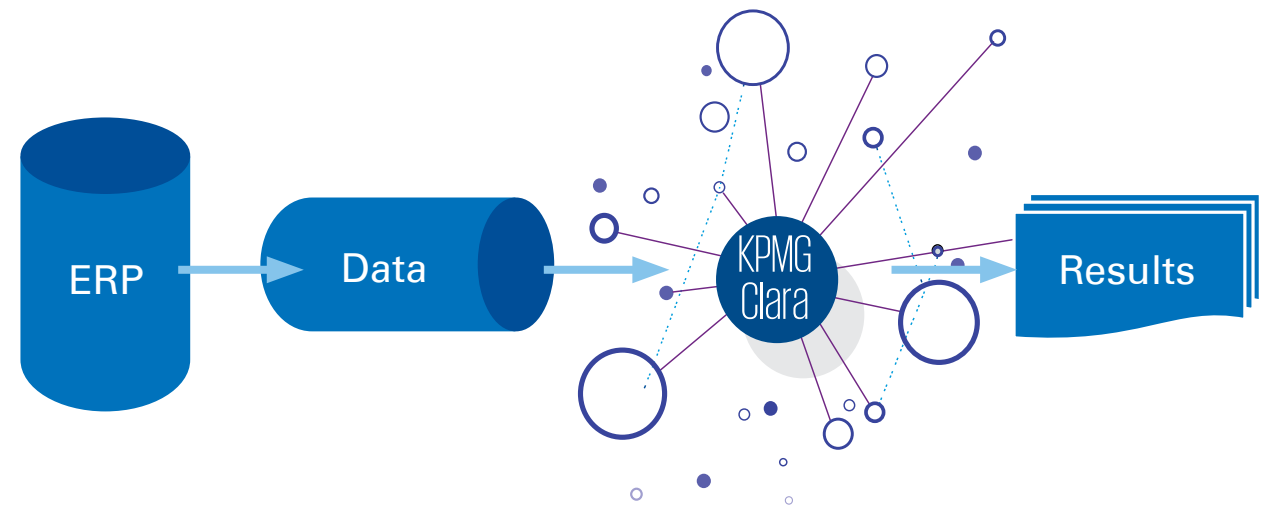
KPMG Clara is our IT documentation and communication tool powered by data analytics in order to perform robust, controlled, communicative, consistent and quality audits.

### Our IT platform

Technological progress and evolving auditing standards have prompted KPMG to develop a new technology platform, **KPMG Clara**, which evolves to 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 enables us to **automate** the entire D&A process, from data extraction to the processing and generation of reports on results, allowing teams to focus on analysis of the results and the corresponding findings.

Process **automation** and **consistent** methodology provide the capacity we need to focus on what is genuinely important, as well as to avoid errors and to safeguard the entire audit process.



Some relevant aspects of KPMG Clara include:

## KPMG Clara Data & Analytics

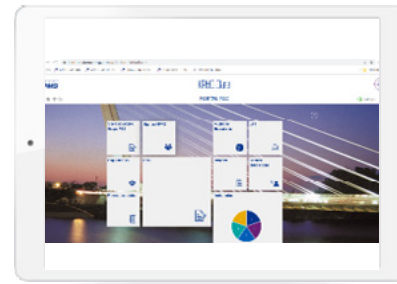
The functionality of KPMG Clara D&A includes the **capacity to analyse all accounting entries**, identifying patterns and anomalies on which to focus the substantive procedures, **obtaining a more in-depth and broader knowledge of the transactions**.



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

## KPMG Clara Collaboration Site

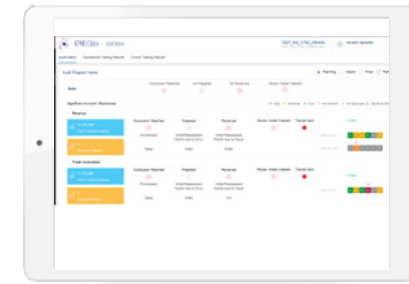
An **online collaboration** function to facilitate **communication and collaboration** between the client and KPMG and between the different KPMG teams auditing components around the world.



The collaboration function facilitates the exchange of information amongst the various KPMG teams and the client.

## KPMG Clara Workflow

KPMG Clara has an activity-based workflow management and electronic audit working paper system which **integrates our methodology and sector knowledge**.



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

Implementation **is going ahead as planned in 2021 as we train teams and deploy KPMG Clara** across engagements equivalent to roughly 50% of audit hours. The final goal is to apply KPMG Clara to practically all audit engagements by 2023.

Below are some relevant facts and figures related to the implementation of KPMG Clara at KPMG Auditores, S.L. in recent years:

	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>
Number of engagements in KPMG Clara	20	200	1.400
Engagement hours KPMG Clara	14.000	170.000	800.000
Public Interest Entities audited in KPMG Clara	3	17	56
Partners / Directors with engagements in KPMG Clara (% total)	23%	73%	95%
KPMG offices with engagements in KPMG Clara (% total)	47%	100%	100%
Hours of training in KPMG Clara	4.495	14.120	22.476
Professionals trained on KPMG Clara	165	335	1.208
Training in KPMG Clara for specialists	N/A	499	160
Hours devoted through network of KPMG Clara Champions	N/A	3.100	12.800





## IT and Data & Analytics (D&A) Specialists

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 across 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.**

### Standardised methodology

Our standardised **methodology** is a key driver to foster the quality of technological audits. Teams have access to robust up-to-date materials, which enriches both their technical and regulatory knowledge and sector expertise in order **to perform audits consistently.**

### Training plans

We draw up **specific training plans and develop new profiles for next-gen auditors,** with expertise in both technological and accounting risks. We train financial auditors in technological risks and train **tech experts** in accounting risks and **sector knowledge.**

### Attracting talent

**Attracting** these profiles poses a challenge that requires changing our selection processes. We have implemented an innovative **interactive and technical process** known as “Hackathon” and we have brought on board talent from diverse backgrounds (data scientists, physicists, mathematicians, engineers, ethical hackers, etc.).

### Retaining professionals

**Retaining** these professionals involves a **specific training plan** to keep tech auditors up to speed with technical developments and committed to quality.

### Tech hub

The data analysis capabilities are centralised and automated in a **technology hub;** this team of technology specialists enhances the quality, efficiency and consistency of our data processing.

### Certification

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

# Reinforcement to teams

06

The quality of the audit process is as important as the final result itself.

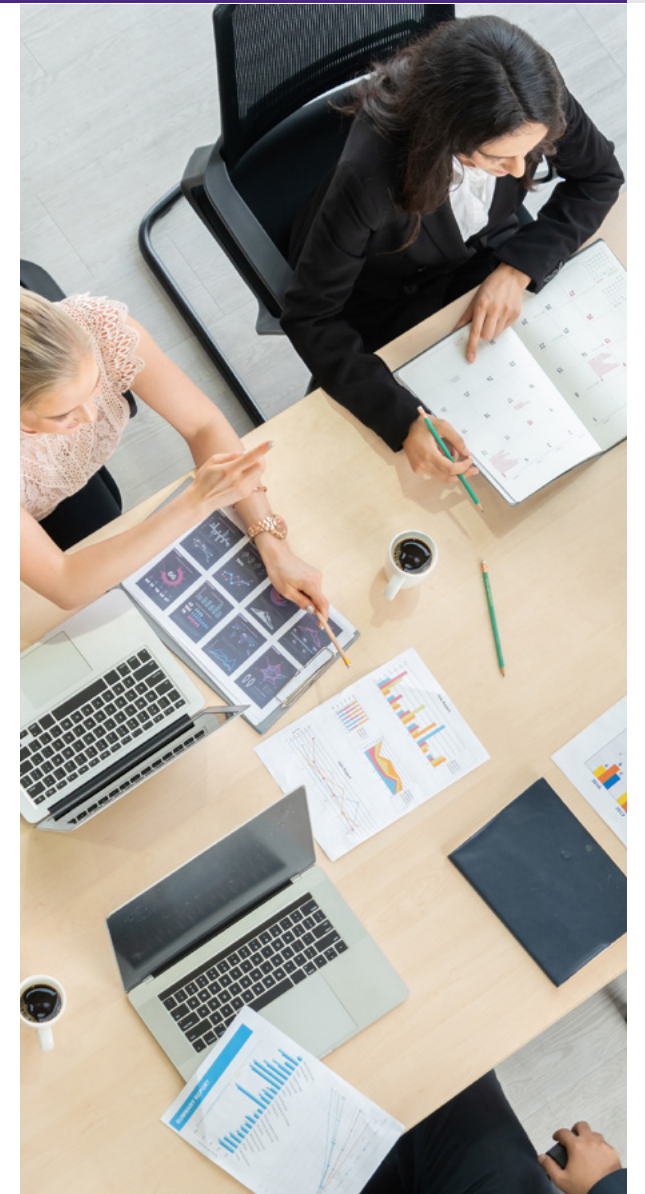
It has been shown that a KPMG audit with the right balance of **effectiveness and efficiency**, performed with **professional scepticism**, making the necessary inquiries of appropriate specialists and based on **established auditing standards**, inspires considerable **trust amongst our clients, regulators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

The firm has various drivers to ensure this objective is met:

- A suitable and timely risk analysis, audit planning and approach.
- An appropriate sizing of the engagement teams depending on the complexity of the work and the expertise and experience required.

- A timely review of work by more senior professionals on the team to improve quality and efficiency and to provide more junior members with continuous on-the-job learning.
- Timely involvement of the engagement quality control reviewer (EQCR) whenever required.

To strike this balance when conducting audits, for some time now the Audit department has been providing various **reinforcement to teams through** professionals with experience and training in highly technical and complex areas. These lines of defence provide support and help teams fulfil their twofold goal of improving quality and striking the aforementioned balance.



## Specialists and consultations

- Involvement of appropriate specialists in the work, as well as any necessary consultations regarding relevant matters, provide teams with key support
- Not all audits are identical or managed in the same way, which is why our specialists, who form part of the audit team, play a significant role in certain areas.
- There are also protocols in place to make inquiries of the Professional Practice and Audit Risk Management areas, as well as the Ethics and Independence department.

Hours billed by  
specialists  
in **FY20** and **FY21**:  
**73.800** and **75.000**,  
respectively

Specialists receiving the greatest number of inquiries and those most directly involved in the audit are integrated into the Audit department:

- Information Technologies
- Financial Instruments
- Pensions
- Taxes
- Corporate Finance

Other specialists

- Lawyers (Tax & Legal)
- Financial Risk Management, among others.

## Network of KPMG Clara workflow (KCw) champions

- Two years ago KPMG created a network of professionals with prior experience in engagements conducted using KPMG Clara workflow (Kcw). They continue to support teams today on the implementation of this new methodology and tool. In addition to the training in this area, these professionals, or champions, provide continuous support and reply online to queries raised all year round. A coherent, continuous and shared learning experience is therefore guaranteed.

Foremost among the tasks assigned to these champions are:



To provide troubleshooting support to the teams taking part in engagements using KPMG Clara Workflow in 2021.



To assist, based on their own experience with KCw in 2019 and 2020, in managing the change process that the new work teams joining the project in 2021 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 need arise.

## Project Atenea

- In June 2020, a task force was created to support the teams at the main audit clients, assisting with administrative management and achievement of milestones, as well as constant monitoring of the resources assigned to these engagements, including specialists.
- This programme is coordinated by the Audit Methodology in the DPP Department and sponsored by the Head of Audit for KPMG in Spain. Its purpose is the efficient management of engagements, which, in turn, enables the teams to focus their efforts on key areas.

The professionals and engagements involved in this programme in FY21 were as follows:

Director 7 managers

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13 key accounts of various offices and sectors

## Audit Independence Group (AIG)

- In June 2017 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 and documentation of audit independence analysis in respect of public interest entities and the Audit department's main clients.
- This team has been of vital importance, especially in 2021 in view of the entry into force of the Regulation implementing Spanish Audit Law 22/2015 of 20 July 2015, as well as all the new stipulations and requirements that must be met.
- The eleven AIG professionals have specific training on independence analysis applicable to our clients and are geographically located at various offices.

## AIG objectives



Contributes added value to audit teams



Has the audit partner's review and approval



Manages independence-related matters



Channels consultations to the E&I team when necessary

The engagement lead partner has ultimate responsibility for the engagement independence analysis

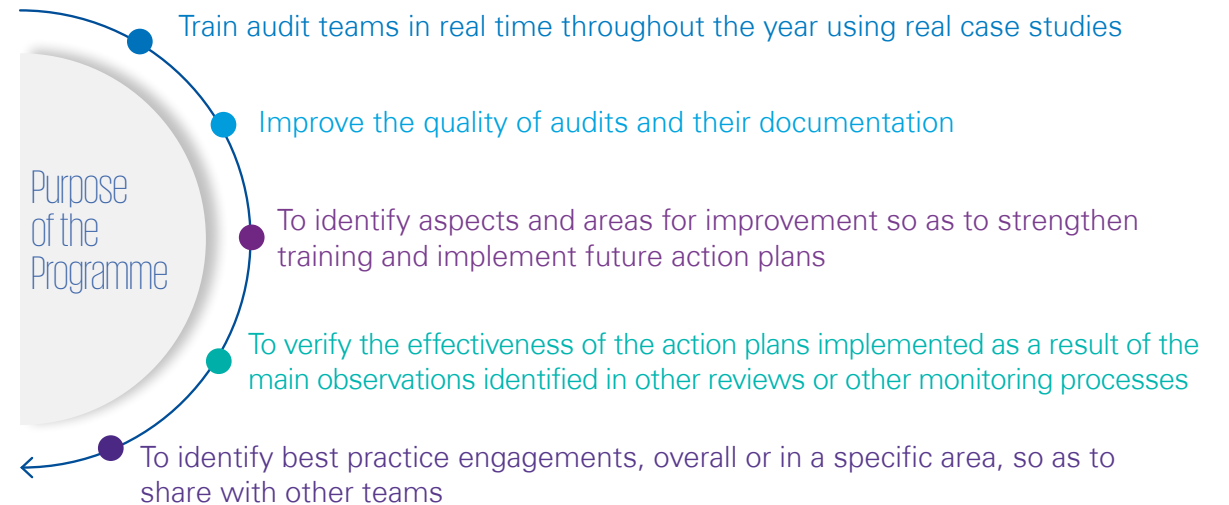


## Second Line of Defence programme or 2LoD

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.

- The engagement selection to receive coaching under this programme each year, is based on a risk based approach, which are approved by the partner in charge of Audit Risk Management, the partner in charge of Audit Quality and the partner in charge of the Audit department. The selection is also approved by KPMG's Audit Quality Partner for the EMA region.

- The more than 30 reviewers selected (mostly partners and directors), who are also duly trained as coaches, are highly experienced professionals independent from the engagement and client, and who do not form part of the team.
- Their role is to review throughout the audit process, help and challenge the teams in respect of their analysis of the risks identified, their responses to such risks, the scope of the tests, conclusions and their impact on the report.
- 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.



2LoD FY 2018 <sup>(*)</sup>	2LoD FY 2019 <sup>(*)</sup>	2LoD FY 2020
18 clients	42 clients	35 clients
45 engagements	64 engagements	51 engagements
62 thousand hours reviewed	67 thousand hours reviewed	81 thousand hours reviewed
2.5 thousand hours incurred	2.9 thousand hours incurred	2.4 thousand hours incurred
19 partners received coaching	25 signing partners / 19 signing directors received coaching	19 signing partners / 18 signing directors received coaching

<sup>(\*)</sup> formerly known as "In-flight Reviews"

# Commitment to continuous improvement

07

At KPMG we focus on ensuring that our work fulfils the needs of our clients and of capital markets. Our actions are focused on performing high-quality audits.

Training at KPMG is a learning resource that fosters and sustains the quality of our work and that enables our professionals to grow.

To this end we use a wide array of internal monitoring mechanisms to harness opportunities to improve the execution of our audit engagements and to strengthen our system of quality control. Applying quality indicators enables us to enhance the quality of our work and serve as an incentive for our professionals by forming part of their quality objectives or goals.

## Training

KPMG provides two types of training:

Firstly, **on-the-job training**, which is what we absorb when working side by side with both clients and more experienced professionals. Formal training, which is the most traditional method, through courses.

However, there is also a more traditional training method that consists of specific courses. This training is sourced from various places: KPMG Global, through the **Mandatory Audit Training Curriculum (MATC)**. As its name suggests, it is obligatory for all KPMG member firms, thereby ensuring **consistency** on a global level. Our DPP department in KPMG in Spain also provides additional training to cover local requirements, accounting news and developments and standards at a country level.

Likewise, another major source of identifying training needs are the areas and issues identified for improvement through the reinforcement programs to teams, which strengthen action plans thanks to targeted training.

We draw up annual Training Plans that combine these different sources, ensuring that our professionals receive **continuous training** so that they are equipped with the knowledge and experience required for their roles.

This year, like the previous one, the COVID-19 pandemic forced us to harness the benefits of technology and to rethink the way we deliver our training. As a result, 91% of courses were delivered online, electronically or remotely, enabling professionals to receive training in a much more flexible manner and helping them to get much more out of it.

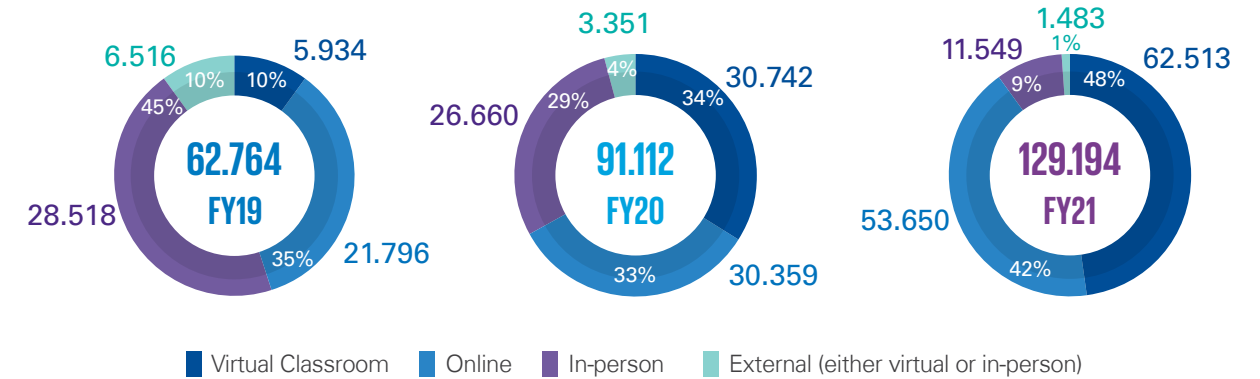
## Learning and development

	FY19	FY20	FY21
Number of professionals trained	1500	1593	1579
% of professionals that received training	96%	97%	98%
% of in-house trainers	10%	11%	15%
Hours of training per professional	50	50	82

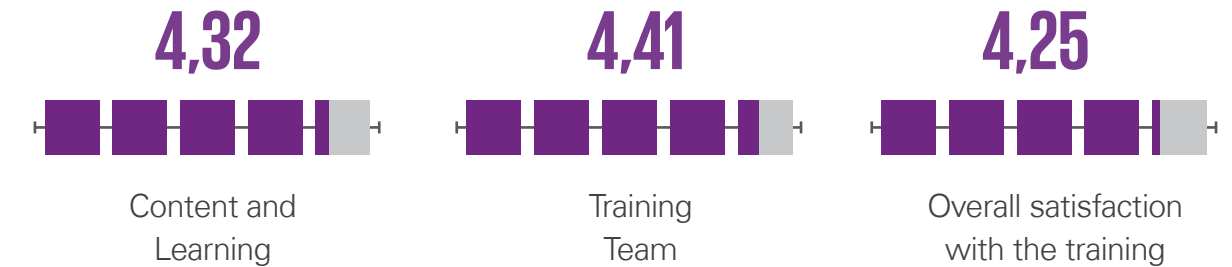
## Training Breakdown

	FY19	FY20	FY21
Training hours	62.764	91.112	129.194
Number of courses	984	1.549	1.766
% of training hours related to technical training	76%	92%	86%
Number of hours of technical training	47.700	83.823	107.770

## Type of training (in hours)



## Score given by our professionals\*\* FY21

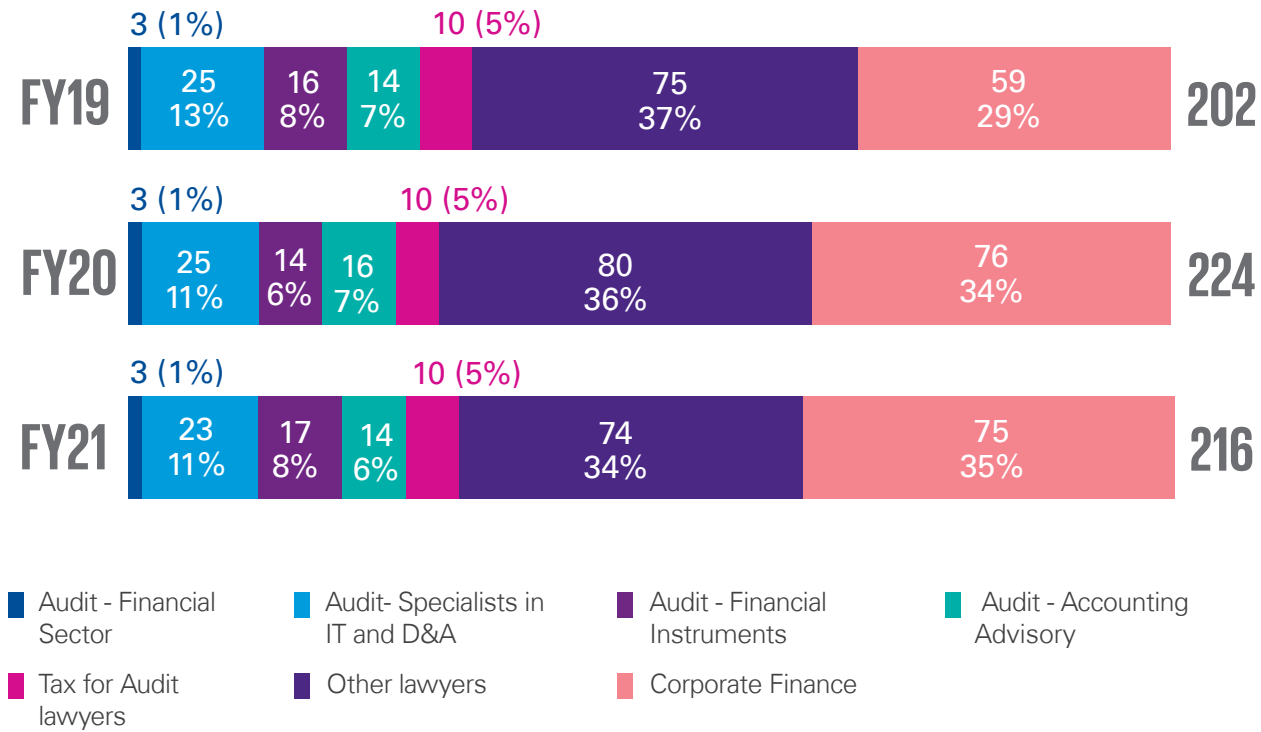


\*\* These scores have been obtained through satisfaction surveys carried out amongst professionals on the training received (1 being the lowest and 5 the highest)

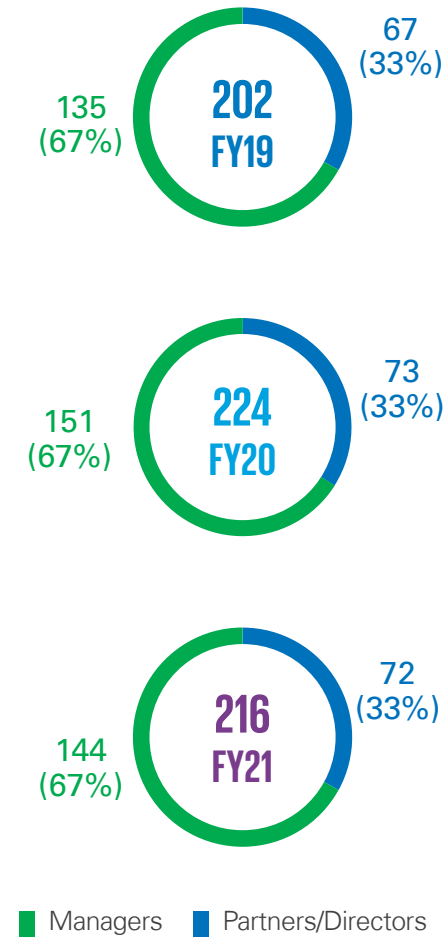
### Accreditation and specialists

At KPMG in Spain we have a **robust accreditation system** that enables us to be certain that the experts (specialists) involved in audits have adequate training to take part in engagements and to correctly 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**.



### Distribution of specialists by category



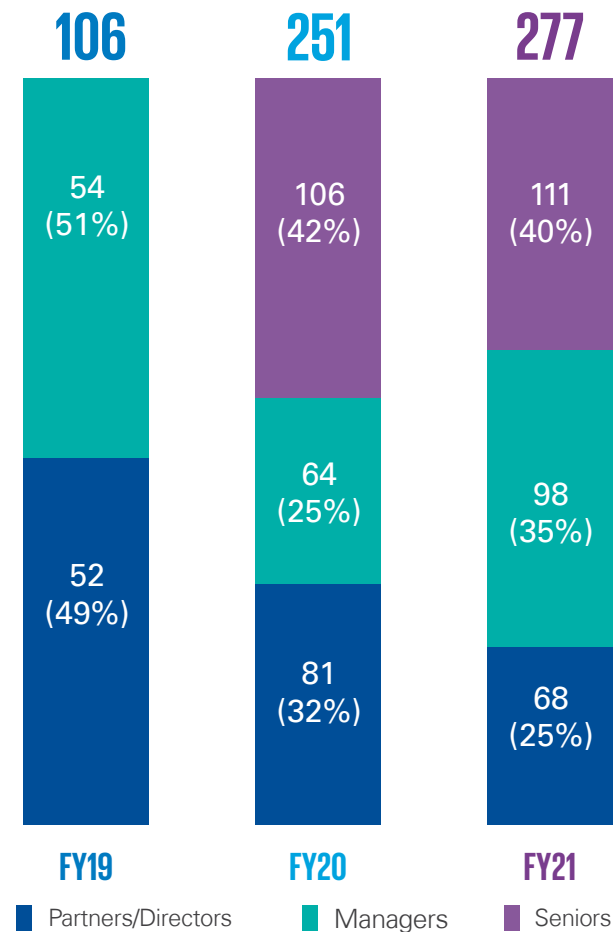
We have an **accreditation system** that enables us to offer our teams the opportunity of working with specialists across multiple fields. We also accredit our professionals so that they can perform audits under **US standards**.

At KPMG in Spain we monitor the training and experience of professionals taking part in audits under US standards through an accreditation system. On average, a professional will have to complete around 55 hours of training to become accredited. To maintain this accreditation approximately 20 hours of further training are required.

This enables us to **ensure that professionals taking part in engagements under US standards have the knowledge and experience required for these engagements**, and therefore **increases the quality of the work**.



### Distribution of professionals with US standards accreditation by category



### Monitoring programmes

The results of our internal monitoring programmes, as well as the results of external inspections are essential in order to identify **opportunities to improve the execution of our audits and strengthen our system of quality control.**

In this respect, at KPMG in Spain we carry out continuous monitoring to assess our performance and ascertain the quality of our audit engagements, which enables us to prioritise possible areas for improvement. To earn the trust of our clients, capital markets, regulators and stakeholders, **learning from the opportunities for improvement identified** is something we take very seriously.

**Our quality performance review (QPR)** programme consists of an annual internal review conducted by our Audit department through the global QPR programme. This programme assesses engagement level performance and identifies opportunities to improve engagement quality.

Every year quality control procedures are applied to the audit work of approximately 35-40% of KPMG in Spain’s designated signing partners and directors.

In addition, our internal compliance review programme also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates efficiently. This programme includes, among others:

- **Risk Compliance Programme (RCP).** During the annual RCP, we perform a robust assessment programme, in accordance with the requirements of International Standard on Quality Control 1 (ISQC1), consisting of documentation of quality controls and procedures, related compliance testing and reporting of exceptions, action plans and conclusions.
- **Global Compliance Review** GCRs assess compliance with selected KPMG International policies and procedures and share best practices among member firms.

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.

## Root Cause Analysis (*Root Cause Analysis*)

Root Cause Analysis (RCA) is a process used to identify the causes of **problems so as to prevent their recurrence in the future**. Root cause analysis (RCA) is based on the belief that problems are better resolved by identifying and resolving the underlying 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**.

RCA is also an excellent way to identify good or **best practices** as part of this continuous improvement.

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



### Key aspects of RCA

1. **Iterative process:** periodically reviewing the decisions and remediation plans.
2. **High degree of judgement required:** determining the scale and severity of the problem.
3. **Cause and effect is not a linear relationship:** not assuming that each audit quality problem has a single root cause.
4. **Being conscious of bias:** not drawing obvious conclusions
5. **Focusing on preventing and solving the problem:** focused on quality
6. **Having the right RCA team:** specialisation

As is the case with International Standard on Quality Control 1 (ISQC1), KPMG's **System of Quality Management (SoQM) requires root cause analysis for all deficiencies detected by it**, which therefore also requires improved

documentation for the RCA process in order to support the identification and testing of relevant RCA process controls.

KPMG in Spain formed an **RCA Committee** within the Audit department that meets periodically throughout the year. There is also an RCA working group tasked with carrying out the various RCA analyses, supported by specialists as needed. In 2021 a **Challenge Panel** was set up that complements and offers an additional point of view on KPMG's response to aspects designed to improve audit quality.

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

	FY20	FY21
RCA in progress (average)	6	9
Average stage of RCA	<b>Monitoring effectiveness</b>	
Inputs considered for data gathering	9	11
Professionals involved in analyses	6	8
Hours incurred during year	222	275
RCA Committee sessions	2	2
Execution of controls SoQM	No	Yes (18)

### Monitoring of Audit Engagement Performance in Real Time

Our firm has approved a new policy this year for the **monitoring of audit engagement performance in real time**. This monitoring of audit performance acts as a support for the system of quality control envisaged in ISQC1 and, therefore, the implementation of engagement monitoring is a mandatory element of our System of Quality Management or SoQM at KPMG.

The purpose of this policy is to undertake real-time monitoring of audit engagements so as to identify certain metrics that enable us to **monitor the stage of engagement completion and identify challenges** during performance of the work **that could compromise audit quality**.

It therefore helps us to adopt support measures for the teams if necessary.

All of this will enable us to perform quality audit engagements that meet generally accepted standards, based on the **key foundations** of which are as follows:



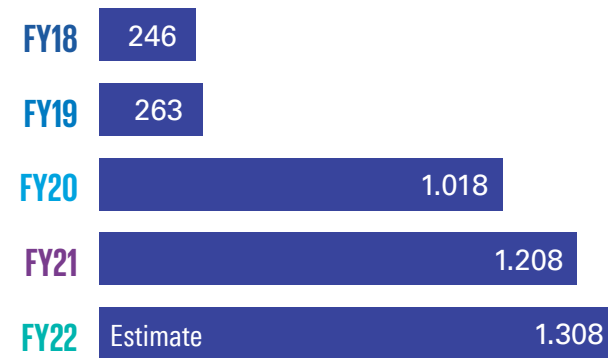
This monitoring and oversight project is being gradually implemented. A number of engagements were selected for this first year, a figure that will be progressively increased until 2024, when **100% of engagements are expected to be monitored**.

The number of metrics will also be expanded gradually until 2024. Monitoring of audit engagements is carried out on a quarterly basis and the **results are reported to the Global Firm** via a centralised process.

## Audit Quality Rating

In 2018 KPMG in Spain put in place a series of indicators designed to assess certain **critical or relevant** aspects in relation to **audit engagement quality**. The aim was to tangibly measure the quality of work performed by our professionals and therefore demonstrate the firm's commitment to reaching maximum quality in all our engagements. These quality indicators are reviewed and measured annually for all professionals involved in audit engagements, including specialists, both those integrated into the Audit departments and those forming part of other KPMG departments, such as Advisory or Legal.

Please find below the number of personnel that have obtained an audit quality rating in recent years:



The 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 or 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 completion 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 they serve as an **incentive** for our professionals by forming part of the quality objectives established each year, while also being an effective means of generally analysing specific aspects of the quality of our work.

The average quality rating obtained has gradually improved in recent years, which attests to the dedication and commitment of our professionals to delivering audit engagements of the highest quality.

The number of points awarded for the internal QPR indicator has risen by 47%

The number of points awarded for the independence analysis quality indicator has risen by 16%

### The firm's quality indicators

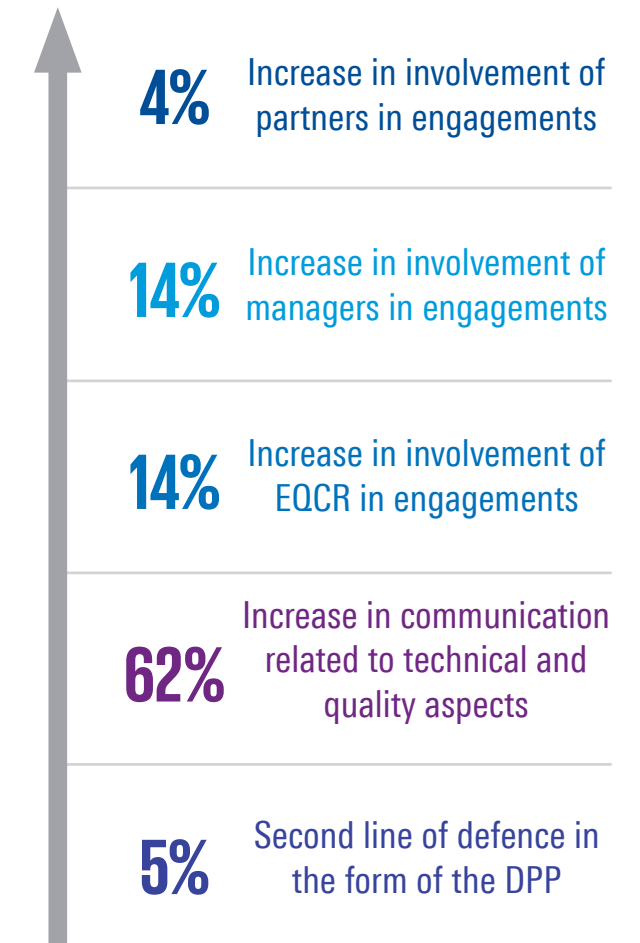
KPMG in Spain has an Audit Quality department comprised of professionals from different categories who have accumulated a wealth of experience and are almost exclusively dedicated to promoting audit engagement quality.

The time assigned 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.

Certain figures are expressed in hours, demonstrating the commitment to quality are as follows:

	FY19	FY20	FY21
Root Cause Analysis	268	222	275
Second Line of Defense	2.185	2.316	3.400
Audit Quality Workshops	-	196	177
Accountabilities, roles and responsibilities	-	112	230
Quality Indicators	1.725	1.978	3.283
Risk Management	1.026	1.389	2.683
Quality Performance Review (QPR)	1.610	3.275	5.560
System of Quality Management (SoQM)	560	2.860	8.421
Other Audit Quality projects	1.892	4.626	2.935
	<b>9.266</b>	<b>16.974</b>	<b>26.964</b>

Please note the performance of certain key indicators with a bearing on the quality of our work:



# Our team

## 08

Our team shares values, professional rigour and the goal of inspiring trust and driving change.

We develop the finest talent to provide our clients and society as a whole with groundbreaking, competitive solutions that help us become the clear choice.

Our roles and responsibilities project consists of a principle-based approach for auditors, including specialists, that interrelates and links audit quality, performance and reward and takes quality issues and the results of internal inspections and regulatory oversight into account.

### Professional excellence

Our professionals at KPMG Auditores, S.L. **share our values** and have the **passion needed** to collaborate with clients, deliver tangible results, and carry out quality audit engagements.

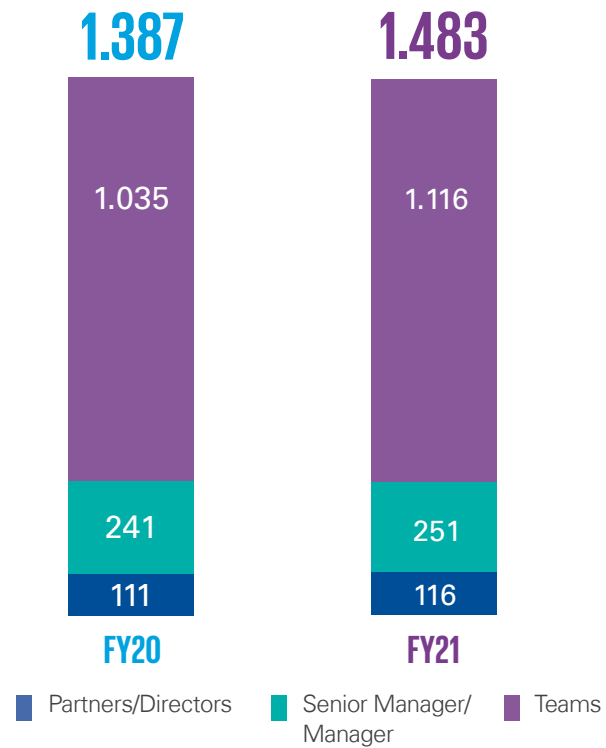
We foster a **development model** at KPMG that is based on **accumulating day-to-day experience**, one that promotes **continuous learning** as the basis to take on future challenges and opportunities for career development and growth. We strive to promote **exceptional experience** that nurtures diverse thought and skills, as well as technical expertise, professional scepticism and personal responsibility. The result of our efforts **is a high quality audit.**

Our internal processes to **identify, attract, assess, develop, promote and retain talent** are applied with the utmost rigour. The ultimate aim is to ensure that our professionals are equipped with the required knowledge and experience to generate the added value in all engagements in which they participate, and deliver the quality expected of us.

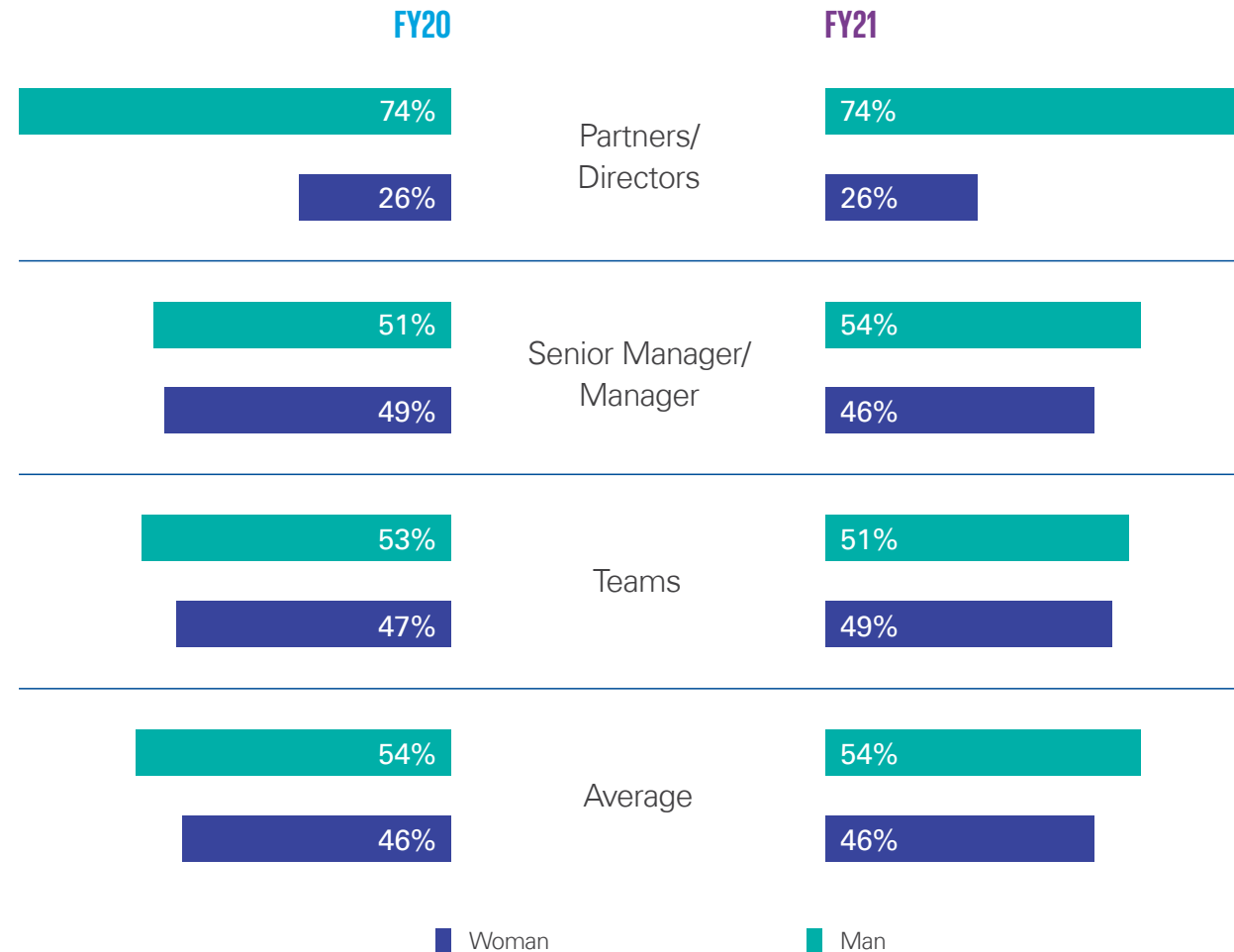
We have programmes that identify, sustain and **ramp up the development of professionals** with real potential, assisting them to attain leadership roles within KPMG.

We also have programmes in place to **drive female talent** so as to increase the presence of women in leadership positions at KPMG.

Please find below some **facts and figures** on our Audit department professionals for FY2020 and FY2021:



The average retention rate in was **73%**



## Roles and responsibilities

At KPMG we have globally defined a series of 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 (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. KPMG member firms have implemented this initiative since 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 levels 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 reviews**, and the corresponding reflection in professional **promotion and rewards**.

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:

## Senior Management

## Audit Management

## Engagement Team

## Firm Specialists Roles

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 indicators (**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.

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



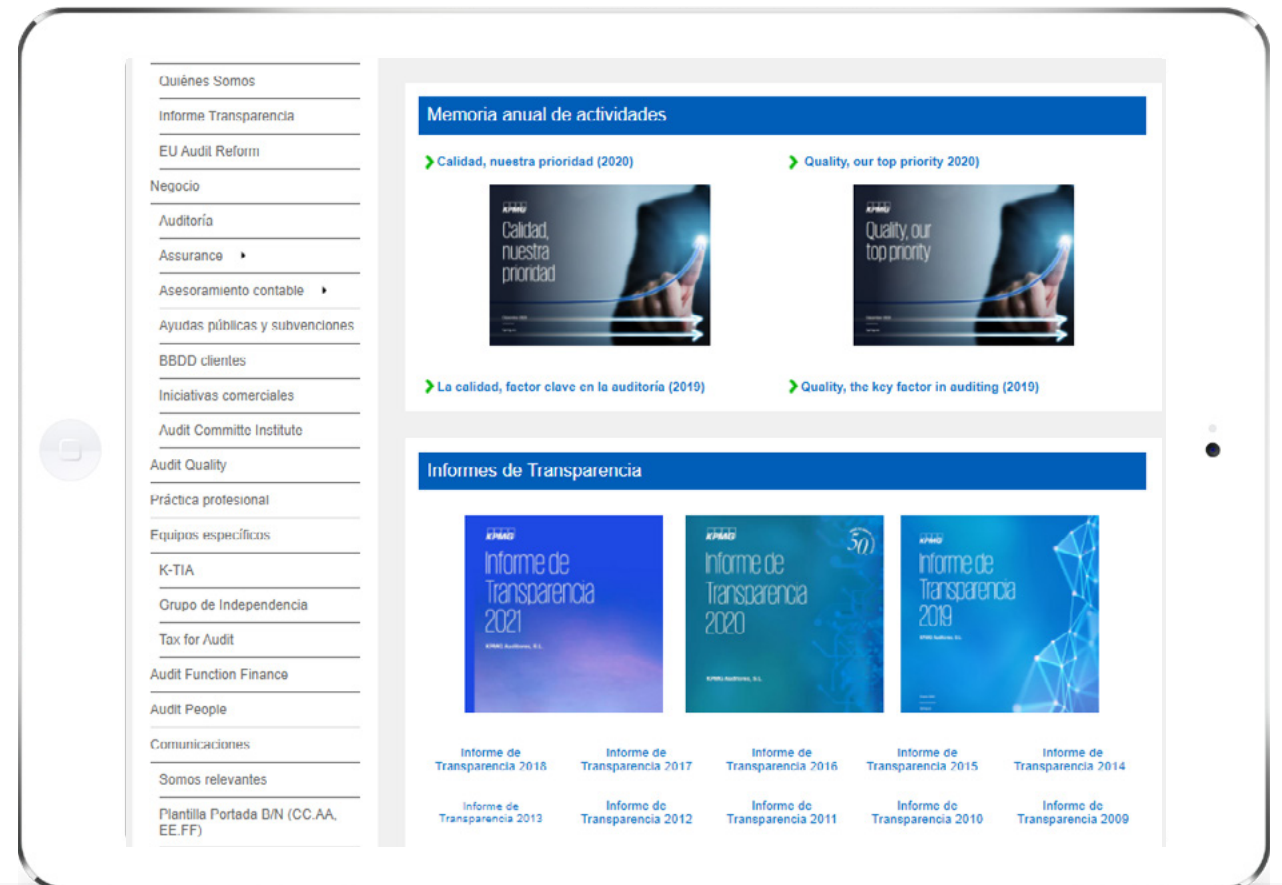
# Transparency Report and other publications

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Since 2009, well before it was legally required to do so by the Spanish Audit Law of 2015, KPMG Auditores, S.L. has published an annual **Transparency Report** which details all the components making up our system of quality control.

The reports covers our corporate governance and leadership structure, the way we execute audit engagements, our mechanisms to ensure independence, our monitoring of engagement quality and the rectification of the issues for improvement that we identify. The Transparency Report also contains a list that details the revenues obtained by KPMG Auditores, S.L. from the audit of public interest entities and their subsidiaries, as well as revenue from other services provided to these entities.

In addition to the Transparency Report, since the creation of the Audit Quality department, we have published this Annual Activity Report. Both documents are yet another example of the commitment of KPMG Auditores, S.L. to quality





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