



Gibraltar Transparency Report 2020



January 2021

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Audit plays a crucial role in Gibraltar's economy



Steph Beavis
Managing Director, KPMG Gibraltar



KPMG has been supporting Gibraltar's businesses, communities and people for many years and throughout that time, audits have played a vital part in the economy. Of course, over time, people's expectations of audit have changed. They're demanding more of the audit product and profession. The UK reviews and inquiries over the past two years have helped identify what needs to change. And KPMG is leading the evolution of audit, with both ideas and action.

Our work this year, which includes doubling down on our efforts to improve audit quality, is part of our response. I'm proud of the progress we've made, particularly given the extra challenges the global pandemic has created.

Our 2020 Transparency Report provides insight into how we uphold our professional obligations and responsibilities. The key to our success is our reputation and we have a responsibility to our people, our audited entities and society to maintain the highest levels of integrity in everything that we do.

I was delighted to take on the role of Managing Director for KPMG Gibraltar in December 2020, and am equally delighted to take on the challenge of ensuring that the UK's quality framework continues to be implemented and reflected in Gibraltar as appropriate.

KPMG Gibraltar is an integral part of KPMG UK and as such references to "We" in this document, where they refer to KPMG UK initiatives, can be taken to include KPMG in Gibraltar.

I trust you will find this report a useful insight into how we strive to enhance the quality of our work. If you would like to discuss any aspect of this report or have any questions or feedback I would be pleased to hear from you.



Navigating the transparency report

How we're improving: our Audit Quality Transformation Programme

An update on the initiatives that form part of our Audit Quality Transformation Programme.

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How we're measuring our progress: audit quality indicators

A summary of the methods used to monitor audit quality internally and externally.

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Our culture and its impact on audit quality

The culture of our firm has a direct impact on audit quality. This section explains some of the work we have done to strengthen our culture during the year.

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How our structure and governance supports audit quality

An explanation of how our firm is structured and its relationships with other firms that are members of the KPMG network.

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Our quality control and risk management systems

This section sets out the principal risks and uncertainties facing our firm and the controls and processes in place to manage these risks.

It includes a statement by the Board on the effectiveness of internal controls and independence.

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Audit quality

We are investing in our auditors, at all stages of their career, so they have the skills and the tools they need to produce high-quality audits.

How we're improving:
our Audit Quality
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How we're improving: our Audit Quality Transformation Programme

We're moving into the 'Embrace' phase of our Audit Quality Transformation Programme and have continued to make significant investment in audit quality with a focus on achieving consistent application of our new procedures. Results from our root cause analysis show that, across our audit practice, the right tools, methodology and guidance are substantially in place. Our challenge, however, is to achieve consistent application.

Our commitment to audit quality, and the related investment, is undiminished.



In the UK we have cumulatively invested £184 million in audit quality across the three years of our Audit Quality Transformation Programme - and Gibraltar enjoys the results of that investment. Significant activities initiated this year include:



Audit governance

- Established the Audit Culture Working Group to form part of Audit's governance process.
- Audit Evolution Board established for our future leaders providing fresh perspective, insight and challenge to our Audit Board.
- Refreshed the risk reporting framework and how it feeds into audit quality.



Banking audit quality improvement project

- We have dedicated significant additional resource as part of our transformation programme to embed consistent and sustainable good practices in banking audits and to facilitate consistent application of our tools, training and guidance.
- Our updated methodology and approach to banking audits will be implemented for our 31 December 2020 year-end audits, including:
 - Simplify – revision and simplification of our banking workpapers, guidance and an improved clarity of approach to risk assessment for key risk areas;
 - Plan – banking specific planning directive with central monitoring and remapping of skillsets to engagement allocations;
 - Challenge – early review of planning by the second line of defence team and challenge panels for IFRS 9, risk assessment and final significant risk conclusions;
 - Execute consistently – additional training and coaching for our engagement teams, additional challenge from our second line of defence team for engagements identified as higher risk, central tracking of milestones, development of centres of excellence and more consistent use of specialists.



Culture change programme

- Appointed a Head of Culture.
- Implementation of a training programme for our audit professionals built around the message of 'Embedding a Culture of Challenge' targeted at embedding the behaviours exemplified by our highest performing teams, reinforcing key elements such as: avoiding potential confirmation bias; assessing alternative scenarios and conflicting evidence; and recording and reporting the impact of audit challenge.
- Increased recognition and sharing of good examples demonstrating Our Values.

How we're improving: our Audit Quality Transformation Programme



Coaching

- Coaching time formally built into planning.
- Coaching given greater emphasis in performance management conversations.



Strengthened controls around the end of audit process

- Two-day audit file close-out period implemented for listed and regulated audits for 31 December 2019 year-ends and all other audit engagements from 31 March 2020.



Root-cause analysis

- Increased the number of individuals trained to perform effective root-cause analysis.
- We have extended the scope of our root-cause analysis beyond those engagements selected for AQR and internal quality performance reviews and this extended scope includes also Gibraltar engagements selected for external review.



Refinement of our key audit quality indicators

- Brought together our key audit quality indicators in a refined Audit Quality Scorecard to provide additional insight and visibility.



Project management

- Embedding of project managers within many of our largest audit engagement teams to improve the way we deliver these engagements.



Issues management framework

- Development of a framework to capture, evaluate and respond to emerging issues, such as the COVID-19 pandemic.
- Prompt sharing of guidance with teams to enable a swift response with a consistent approach across our audit engagement.



Increased standardisation of the approach to the audit of IT

- Standardised approach to our audit of IT bringing greater consistency to our audits.



How we're improving: our Audit Quality Transformation Programme

Technology-based audit tools

We use technology to improve audit quality, create greater consistency in the performance of audits and strengthen monitoring of engagements. We believe that audit quality is best achieved when the power of smart technology is matched with inquiring minds and professional scepticism and our tools support exactly that.

We are replacing our core audit tool with the new KPMG Clara workflow (KCw) application and embedding it in our 'smart' audit platform (KPMG Clara). KPMG Clara unites in a single sharing platform our data and analytics capabilities, innovative new technologies, collaboration capabilities, and audit capabilities and workflow to enhance quality and efficiency.

KPMG Clara gives access to:

- **Predictive analytics** and the ability to create multi-dimensional real-time sensitivity analysis of key assumptions, as well as use inputs from market and industry data. This provides greater capability to challenge management on key judgements.
- **Automation** and the ability to support the validation of the accuracy of a set of financial statements, ensuring all numbers add up and are internally consistent at the click of a button.
- **Powerful data analytics** capabilities giving auditors the ability to analyse every transaction recorded by the entities we audit to help identify high risk and unusual transactions to focus our audit effort.
- **The ability to collaborate securely and efficiently** with the entities we audit, so teams can exchange information and manage projects in real time, in a single location.

KCw is transforming the way we deliver our audits and is a key driver of our journey to improve audit quality. It is part of a global investment in excess of \$400 million in the audit toolkit we provide to our colleagues and provides:

- **A new audit methodology** – delivering auditing standards and audit quality;
- **Global consistency** – with a structured workflow that includes libraries of risks and tests for each of the industries we audit;
- **A more tailored audit approach** – intelligent scoping functionality to ensure a focused audit; and
- **An improved user-experience for our teams** – the workflow is intuitive and includes direct access to relevant guidance.

KCw is delivered using a new technology which is browser based and is fully integrated with the wider KPMG Clara platform.

Following KCw's limited deployment in 2019, we have extended deployment in 2020 to more teams with 1,000 (UK and Gibraltar) individuals now trained and 8% of our UK audit hours being delivered in KCw. In 2021 we aim to train all auditors in KCw (including all Gibraltar-based auditors) and use the tool to deliver approximately half of our audit hours with full deployment in 2022.



How we're improving: our Audit Quality Transformation Programme

COVID-19 and maintaining audit quality

The COVID-19 pandemic has resulted in significant changes in the way we have delivered our audits. Before the first lockdown, the impact on our audits was on assessing the potential consequences of the pandemic on the businesses we were auditing. We issued incremental guidance to audit teams and added consultation requirements focused on the critical areas of going concern, impairment considerations and group audit oversight.

With the advent of the first lockdown, almost overnight, our entire audit practice switched to remote working introducing a range of additional challenges for audit teams. We issued guidance and support around practical areas such as conducting virtual inventory counts; evaluating the risks around the source, quality and reliability of audit evidence obtained virtually; engaging with management teams; and perhaps most importantly, how to continue to work effectively as a team providing appropriate support, coaching and oversight within teams. The coaching and oversight was critical for maintaining audit quality, ensuring continuous development of individuals and supporting wellbeing.

We introduced at least weekly webinars for engagement leaders, held all-audit briefings and formed an extended COVID-19 audit leadership team that met, at times, daily, to ensure we had a proactive response to emerging issues. This was aligned with the wider actions being taken by firm leadership on our COVID-19 response.

At all times our guiding principles were the health, safety and wellbeing of our teams and audit quality. We supported engagement teams in potentially difficult discussions with management and audit committees where we concluded that more work and more time was needed to deliver high-quality audits responsive to the changed circumstances.

Communications

- Regular leadership calls
- Frequent briefings
- Engaged in profession-wide discussions
- Engaged with investors, audit committees and management

Response

- Frequently refreshed guidance and requirements
- Moved training to a virtual environment
- Developed virtual coaching and support mechanisms

Support and challenge

- Expanded specialist support
- Extended consultation requirements including over going concern
- Supported our technical teams



How we're improving: our Audit Quality Transformation Programme

To ensure a consistent approach to our assessment of going concern, we quickly introduced a consultation requirement over all opinions being issued. This was supplemented by baseline assumptions about the impact of the pandemic on all businesses which could be rebutted for less affected entities and enhanced for those more severely challenged by events. We also increased the use of our restructuring and debt advisory specialists recognising the heightened uncertainty faced by many organisations. We have refreshed these assumptions over time, as circumstances changed, and refined our policies and procedures as we gained evidence throughout the year. We continue to require consultations on the majority of opinions issued, with the exceptions related to very low risk entities or certain entities within a wider group structure. Recognising the pressure this introduced on our Department of Professional Practice, we expanded the panel of individuals accredited to perform these reviews to include a selection of senior audit engagement leaders from the field.

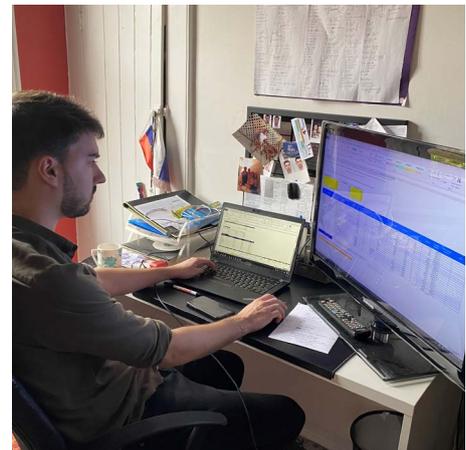
We have actively participated in cross-profession working groups that involved the relevant regulators to support broader initiatives focused on enhancing corporate reporting and audit quality more widely.

Our learning and development professionals made remarkable steps in moving all of our training, including our annual KPMG Audit University flagship event, to a virtual environment. This has allowed us to continue with our deployment of our new audit workflow, KPMG Clara, albeit at a slightly slower pace recognising the other pressures on our engagement teams. Our coaching team has also responded by creating materials that promote and support coaching in a virtual world.

As we progress towards the December 2020 reporting cycle, which we now recognise will be delivered largely virtually, we have refreshed our COVID-19 response materials, including consultation and support arrangements, to ensure our teams have access to both best practices developed during the year and support mechanisms. In particular, we continue to enhance ways of working with overseas teams to access their working papers remotely recognising the expected difficulties with performing overseas visits.

Importantly we are also proactively engaging with management and audit committees on the corporate governance and reporting agenda using our own materials and those issued by the FRC and other parties to challenge for continuous improvement and enhanced disclosures. We are also actively debating reporting timelines where we believe the audited entity is not adequately reflecting the challenges of virtual working.

The response of our teams to the changes in the way we deliver audits has been phenomenal – they have shown resilience, determination and innovation and above all a huge focus on supporting each other as we continue to deliver high-quality audits.



How we're measuring our progress: audit quality indicators

We have engaged with stakeholders, enhanced our governance and invested in our people, culture, controls and technology and KPMG Gibraltar enjoys the benefits of this. This holistic approach supports audit quality.

We are committed to achieving the highest levels of quality in our work. To do that, we not only follow auditing and ethical standards, we also monitor our progress and use feedback to continuously improve.

In addition to those audit quality indicators detailed below, we have enhanced our Audit Quality Scorecard which also considers the key messages from the FRC's thematic review on audit quality indicators published in May 2020. Our Audit Quality Scorecard gives an insight into some of our key audit quality indicators and helps measure our progress across the audit practice.



Monitoring and continuous improvement

We employ a broad range of mechanisms to monitor our performance to identify our opportunities for continuous improvement.

We take what we learn from our monitoring processes and undertake root-cause analysis of issues we uncover in addition to findings from internal and external inspections. We recognise the importance of effective root-cause analysis and continue to invest in our root-cause programme. This involves analysis of findings and our internal processes, then interviewing team members, Engagement Quality Control reviewers, specialists and our second line of defence team across engagements subject to external and internal review. This process helps us to better understand what could have been done differently to achieve the desired outcome. Over the last twelve months we have broadened the scope of our programme and further increased the number of our cohort of trained and accredited individuals supporting the programme. This investment is continuing and we are building on the areas of good practice identified and addressing those areas of our processes where refinements have been suggested by the AQR and, for Gibraltar specifically, the Gibraltar Financial Services Commission.

The outcome of this analysis helps us drive continuous improvement. This independent analysis helps identify the underlying factors that hinder the consistent delivery of high-quality audits. We take the results and use them to focus actions and target investments, which address areas such as mindset, audit delivery, technical knowledge and work allocation. By collecting information from multiple engagements, we can look for correlations between engagement-level inputs and quality review outputs. Our goal is to develop this understanding sufficiently to allow us to determine predictors of audit quality outcomes. Then we can develop control and monitoring processes to manage potential quality outcomes proactively.

How we're measuring our progress: audit quality indicators

External monitoring

In Q3 2020, the Gibraltar firm's audit practice was the subject of a periodic Quality Assurance Review as required under Article 26 of the EU Audit Directive by the Gibraltar Financial Services Commission. Three audit files were reviewed, one of them being an EU Public Interest Entity, and "the quality of the audit work reviewed was of an appropriate standard" with only "minor findings in respect of the detailed audit work".

Internal monitoring

There are three components to our internal monitoring:

- Quality Performance Review (QPR);
- Risk Compliance Programme (RCP); and
- Global Compliance Review (GCR).

Quality Performance Review (QPR)

The QPR programme is the cornerstone of KPMG's efforts to monitor engagement quality. It is also how we make sure that member firms collectively and consistently meet both KPMG International's requirements and professional standards.

All engagement leaders of statutory and non-statutory audits are generally subject to selection for review at least once in a three-year cycle and we have extended the scope of the process to also capture CASS engagements. We tailor the reviews and they're overseen by a lead reviewer, from outside of KPMG in the UK/Gibraltar, and monitored globally. Prior to the finalisation of the review there is a rigorous moderation process to ensure consistency of grading. If the reviewer notes any significant deficiencies, they create a remedial action plan, applicable at an engagement and firm level. We share our findings from the QPR programme in writing, through internal training tools and in periodic partner, manager and team meetings. Any issues are also emphasised in subsequent inspection programmes to gauge the extent of continuous improvement.

Our QPR programme is designed to hold audit teams to quality levels that assess not only compliance with auditing standards but also adherence to internal requirements such as the performance of specified procedures or completion of specific mandated consultations. As such teams that perform audits that are very substantially compliant with auditing standards may receive a rating other than satisfactory in our internal reviews. Accordingly it is difficult to make direct comparisons between the results of our internal and external inspection processes.

In 2020 two files relating to statutory audit opinions of KPMG Limited were selected for QPR. Observations in respect of all file reviews are received by the Board, with a root cause analysis for findings performed - the root cause analysis leading to action plans to ensure improved audit quality. One of the actions arising from the 2019 QPR review was to involve the UK firm's second line of defence team in the review of key working papers on our higher risk audited entities - and that was embedded successfully during the year. Having been established as part of our quality process, we have developed a policy for ongoing involvement based on risk and also coverage following discussions with the Gibraltar Financial Services Commission.

How we're measuring our progress: audit quality indicators

Risk Compliance Programme (RCP)

The RCP is our annual self-assessment programme that monitors, assesses and documents firm-wide compliance with KPMG International's quality and risk management policies and applicable legal and regulatory requirements, including ISQC1.

We categorise levels of compliance as green, yellow or red. Green indicates that the firm is substantially compliant with KPMG's policies and procedures; yellow indicates that the firm is substantially compliant with KPMG policies and procedures and, although there may be several instances of non-compliance with policies or procedures, these do not indicate serious deficiencies within the firm as a whole; and red indicates that there are serious deficiencies. The firm's RCP evaluation also considers the results and status of action plans arising from other reviews assessing risk, quality and compliance, including QPRs and GCRs.

In 2020, our self-assessment finds that our overall level of compliance is yellow (2019: yellow).

The conduct of the UK firm's RCP is designed to provide assurance over compliance by not just the UK firm, but also its other controlled entities and sub-licensees. As Gibraltar and engagements and personnel have been integrated into the UK systems, they are included within the scope of testing performed and during the year ended 30 September 2020 could be selected by the review team within a particular data set being used for sampling. Following the completion of the Gibraltar Financial Services Commission's Quality Assurance Review, it was agreed that the UK firm's RCP team would in 2021 ensure that Gibraltar samples are included as relevant in all testing.

Global Compliance Review (GCR)

The GCR is a triennial review focused on significant governance, risk management (including an assessment of the robustness of the firm's RCP), independence and financial processes. Representatives of KPMG International who are independent of the UK (and Gibraltar) firm, undertake the review. The last GCR inspection was in October 2018, and reviewers identified a small number of opportunities for improvement. The next inspection is due in 2021.



How we're measuring our progress: audit quality indicators

People Survey

We conduct regular surveys to find out how people feel about KPMG and their working environment. The 2020 People Survey results for UK Audit (which includes Gibraltar audit people) are shown below.

Despite the flexibility, adaptiveness and resilience of our audit teams, the COVID-19 pandemic and the move to remote working for a significantly longer period than initially anticipated negatively impacted on the results of the 'I have access to the tools and resources I need to do my job effectively' question. In response to this, we have taken further steps to ensure all our auditors can work safely and effectively. For example, we have provided additional equipment to facilitate remote working.



KPMG's commitment to quality is apparent in what we do on a day-to-day basis

88%

favourable response

(2019: 84% favourable response)



I have access to the tools and resources I need to do my job effectively

48%

favourable response

(2019: 81% favourable response)



I am satisfied with the learning and development available to improve my knowledge and skills

73%

favourable response

(2019: 77% favourable response)

How we're measuring our progress: audit quality indicators

Training delivered in audit

For the year ended 30 September 2020 our formal audit training programme (excluding courses for unqualified colleagues on training contracts) included mandatory audit technical training, industry-specific training and risk courses. From March as a result of COVID-19, our face-to-face learning was converted to a blended learning solution. The annual KPMG Audit University became KPMG Audit University Virtual (KAUV) and consisted of approximately three days of self-study, virtual classroom sessions and assessments, focusing on the audit of estimates, culture of challenge, evidencing and documentation. Training for the new KPMG Clara workflow was delivered virtually to approximately 1,000 people (including some KPMG Gibraltar people) as part of the scaled back deployment.

The average number of hours of formal training undertaken by partners and qualified professionals for the year ended 30 September 2020 was 59 hours (2019: 82 hours). The reduction is a result of a delay in the timing of KAUv which for many attendees fell post September 2020 due to the COVID-19 pandemic (and is therefore not captured in the FY20 hours) and a reduction in the number of qualified joiners starting with the firm.

In addition to this training, partners and audit professionals must complete additional training relevant to their grade and role. This includes mandatory Audit Quality & Risk workshops for all engagement leaders, mandatory training and accreditation for all partners, managers and in-charges providing services on US GAAP and/or US GAAS/PCAOB audits and industry-specific training.

In addition, auditors spend time on core skills programmes to support career and professional development. This includes our Coaching for Quality programme which extended to managers this year.

The equivalent average learning hours for the qualified staff and partners within the technology experts transferred in to audit for the year ended 30 September 2020 was 46 hours (2019: 78 hours). This relates to technical training that they attend, including a KPMG Audit University with content specific for their role. The reduction is a result of a delay in the timing of KAUv which for many attendees fell post September 2020 due to the COVID-19 pandemic (and is therefore not captured in the FY20 hours).

Culture

Our culture is one of open dialogue and constructive challenge.

Our culture and its impact on audit quality

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How our culture reduces risk and improves audit quality

We're working hard to instil a culture of open dialogue and constructive challenge, so our people feel empowered to speak up about ethical concerns and issues and act in the public interest. Key activities this year impacting both KPMG in the UK and KPMG Gibraltar include a global refresh of Our Values and Our Code of Conduct, our Coaching for Quality programme and the creation of the Audit Evolution Board.

Culture has a direct impact on the quality of our work

There's a clear link between culture and audit quality: when auditors are confident to give constructive challenge and show professional scepticism, they're more likely to speak up when they have concerns. Our activities this year, both at a firm-wide and an Audit level, strengthen Our Values-based culture, giving audit colleagues the tools, training and support they need to act in the public interest. Our aim is for all colleagues to feel they are in a safe, open and inclusive environment, one where they have the support they need to do high-quality work.

We continue to work closely with the FRC and behavioural scientists to help us improve our culture. Their observations, insight and advice are invaluable – as is the independent oversight we have from the members of our Public Interest Committee (PIC). This year, we have also worked with whistleblowing charity Protect on a project to benchmark our policies and processes.

Our leaders set the tone from the top

Our commitment to culture starts at the very top of our firm, with leaders encouraged to role model the right behaviours. We appointed a Head of Culture for Audit in December 2019, underlining the importance we place on culture. We also have culture change programmes at both a firm-wide and an audit-capability level.

In June, we announced our plans to accelerate inclusion and diversity in the firm. John Amaechi OBE, a world-leading advisor who sits on our Inclusive Leadership Board is guiding our work. We have also appointed a full-time project lead to deliver our five-point Black Lives action plan.

This year, KPMG International refreshed the values that all member firms share. To make sure our leaders had everything they need to champion them, our Head of People introduced Our Values to the partner group first, before cascading them to colleagues in a message from our Senior Partner. The roll out reached far and wide in the firm, with team sessions, town halls, video messages and updating of training materials, among other activities. That way, colleagues would hear consistent messaging about Our Values from multiple sources.

We've also made it easier for colleagues to share their views with executives. Some of our most senior leaders, including our Senior Partner, Chief Risk Officer, our UK Chair of Audit and Head of Audit, have met regularly with colleagues at 'open forums'. These are hour-long, small-group sessions with no set agenda: colleagues are free to ask the leadership anything. In FY20, 425 colleagues attended 19 forums and the feedback has been very positive. As we moved to remote working in March 2020, these forums have continued virtually.

Our Public Interest Committee brings independent oversight and has a close interest in our culture. Its members planned to visit several of our offices this financial year; the pandemic meant they only managed to meet colleagues in Edinburgh before lockdown came into effect.

Members of the PIC receive quarterly updates from our Ethics Partner on the number of cases reported to our Speak Up hotline (whistleblowing), which is run by an external ombudsman, as well as matters that are reported to our Ethics Champions. In FY20, there were 57 separate matters reported to the Speak Up hotline and 189 reports to Ethics Champions.



I was impressed by the diversity of grades attending the open forum and the fact that everyone was able to be open and honest.

Feedback from an open forum participant

How our culture reduces risk and improves audit quality

Our Values define our culture

Public trust in audit is an issue that affects not just our firm, but all member firms within the KPMG network as well as other professional services firms. We share a global strategy: of trust and growth. We share Our Values across all member firms.

Our heritage also has a part to play in defining our culture. 2020 was the 150th year of KPMG in the UK, so a milestone in the firm's history. Throughout the year, messaging about pioneering individuals and pivotal moments from our past have instilled a sense of pride in the firm. This supports, and reinforces, other messages about culture, quality and trust.

We were the first professional services firm to introduce a Values charter, back in 1998, so when we refreshed Our Values in May 2020, they reflected the changes our firm, and the world we operate in, has experienced since then. Our Values are a statement of intent and a reminder of what we aspire to as a firm. They're also the foundation of Our Code of Conduct, which we refreshed in June 2020.

Throughout the year, we've placed considerable emphasis on the link between how we act and how we work with each other, our clients and our communities. We've done this with email and video messages, while we encouraged teams to run immersion sessions where they explored what Our Values mean to them.

For auditors, we explore Our Values in the 'What do we mean by a culture of challenge?' session in KPMG's Audit University. And in collaboration with our Global Audit Steering Group, we have agreed additional emphasis on what Our Values mean for Audit, so auditors are able to interpret them and use them to demonstrate professional scepticism.

Our Values

Integrity: we do what is right

Excellence: we never stop learning and improving

Courage: we think and act boldly

Together: we respect each other and draw strength from our differences

For Better: we do what matters

We're embedding Our Values by:

- incorporating them into our end-of-year 360 feedback programme appraisals for partners, directors (firm wide) and senior managers and managers (in Audit), so we can assess individuals' compliance with Our Values
- integrating them into performance development and training
- rewarding and recognising employees who role model values-based behaviour
- bringing them to life, with internal and external stories of what Our Values mean to colleagues
- distilling, then sharing, what they mean for colleagues in our Audit practice as part of KPMG Audit University.



How our culture reduces risk and improves audit quality

Creating a strong culture

We're working hard at a firm-wide level to create a culture we can all be proud of. In addition to launching, and embedding, Our Values, we've run other programmes to promote a culture of challenge and support. In FY20, we ran 'Explore' workshops across our firm to allow colleagues to discuss behaviour; created the Audit Evolution Board and rolled out a Coaching for Quality programme.

Our Ethics Champions – colleagues based at each of our UK offices who are available (to both UK and Gibraltar people) should colleagues wish to discuss ethical concerns – have worked hard to raise their profile over the last year. In the year to September 2020 there were 123 Ethics Champions in total and they helped 189 colleagues with concerns that they wished to raise.

Dedicating 10% of their working week to the role, Ethics Champions led on the roll-out of Explore workshops – a 90-minute session to help teams identify great behaviour and discuss the impact of negative behaviour. By March 2020, 18% of colleagues had attended an Explore workshop and feedback has been very positive.

Turning to the Audit capability, in FY19 we started a Coaching for Quality programme, as part of our broader Audit University curriculum. With the support of external behavioural psychologists, it gives colleagues the tools they need to have productive coaching conversations. To date, virtually all of our audit engagement leads have participated, with just under 1,000 managers and senior managers taking part. To keep up the good work, we turned the coaching habits into 'learning nuggets' in August 2020, as part of KPMG Audit University.



The Explore workshops were a great opportunity to reflect and challenge yourself in a safe environment."

Jonathan
People Partner



I've had an extremely good experience of coaching this year ... My manager has always made time to answer my questions and guide me in the right direction so I can produce quality work."

Feedback from a Coaching for Quality participant

How our culture reduces risk and improves audit quality

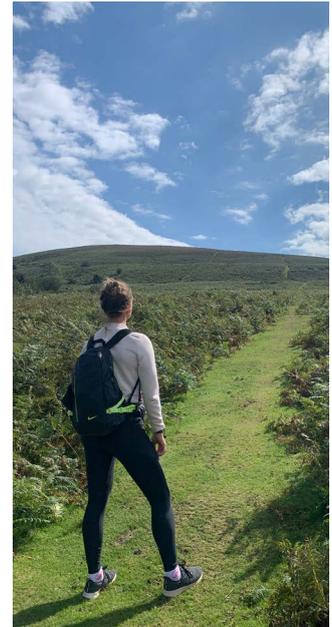
Another development in FY20 has been the creation of a new 'shadow' board: the Audit Evolution Board. Formed in June 2020, its ten members range from graduate trainees to senior managers, bringing diversity of thought – and experience – to the attention of senior leadership.

The Audit Evolution Board acts as a sounding board for the wider business, leads on initiatives to improve audit and contributes to the culture of trust, professional scepticism and quality. A senior leader, one of our Vice Chairs, connects the two. He chairs both the Audit Evolution Board and the Audit Board, creating a direct link between the two. Meeting on a monthly basis, early discussions have centred on performance management, KPMG's Inclusion, Diversity and Social Equality plans, the roll-out of KPMG Clara workflow and the support colleagues need to challenge and demonstrate professional scepticism.



Our objective is simple: to ensure decision making by Audit leadership takes into account the views and experience of those responsible for delivery. "

Jack
Deputy Chair of the Audit Evolution Board



How our culture reduces risk and improves audit quality

Measuring our progress

Every October, we run a Global People Survey, giving colleagues from KPMG member firms an opportunity to express their views on a range of topics about life at KPMG. We use the responses to gather insight and identify issues that affect colleagues globally, at a UK member-firm basis and by Capability.

In FY20, 52% of UK colleagues participated in the survey. The highest-scoring categories were Audit Quality (a new category for FY20), Learning, and Inclusion & Diversity (79%, 76% and 73% respectively). The next Global People Survey is in October 2020, so falls into FY21.

In response to the COVID-19 pandemic, we have also run regular 'pulse' surveys globally, to get a picture of how colleagues have adapted to an extended period of remote working. Led by KPMG International, all member firms had the opportunity to respond to these surveys, conducted in April, May and July 2020. Participation in the three surveys averaged 49% and one of the highest-scoring questions was around trust in leadership during the pandemic (85% trust score).

For FY20, we invited every colleague to include a performance goal related to behaviour. By embedding it in the performance management process, we send a strong message that 'how' colleagues work is just as important as 'what' they do.

We're taking this link between reward and behaviour further. In our FY20 year-end 360 feedback process – where all colleagues are free to give feedback on partners and directors – we've rewritten the questions so that they are aligned with Our Values. In Audit, that 360 feedback process extends to senior managers and managers too. We also included coaching as part of feedback to senior auditors for the first time in FY20.

As part of our firm-wide Culture Change programme, in FY21 we'll launch culture measurement tool, CultureScope. It will help us measure our current culture, identify strengths and areas of focus.

Creating a culture we're proud of

In 2020 we:

- set up the Audit Evolution Board which brings diversity of thought and leads on initiatives to create a better audit business
- ran 19 'open forums', both face-to-face, enabling colleagues to speak frankly to leaders, and virtually
- ran 257 'Explore' workshops, to encourage open, honest discussions about behaviour and culture
- made the theme of KPMG's Audit University 'embedding a culture of challenge'
- rolled out our 'coaching for quality' programme, reaching over 88% of managers and senior managers and nearly all engagement leads in FY20
- appointed a Head of Culture for Audit
- launched our five-point Black Lives action plan and appointed a full-time project lead to deliver change

Our plans for 2021

- Identifying culture strengths and areas of focus with CultureScope
- Running training on Our Code of Conduct at an all-colleague event
- Building a 'high challenge, high support' culture in Audit
- Continuing to embed Our Values across firm-wide activities, policies and processes

Structure & governance

By strengthening our governance structure, we provide greater transparency over our activities. In turn, this makes us easier to regulate.

Structure and governance

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Structure and governance

Legal structure

Since 27 April 2018, KPMG Limited ('the Gibraltar Audit Firm'), the entity licensed to act as external auditor to Gibraltar entities, has been owned directly by KPMG Holdings Limited, with ultimate ownership by KPMG LLP (ie KPMG UK).

KPMG LLP ('the Firm') is incorporated as a limited liability partnership in the UK under the Limited Liability Partnerships Act 2000. The capital in KPMG LLP is contributed by its Members (the Members are referred to as "Partners" within the Firm and the two terms are used interchangeably in this report).

KPMG LLP is affiliated with KPMG International Cooperative (KPMG International), a legal entity which is formed under Swiss law. From 1 October 2020, KPMG LLP also became affiliated to KPMG International Limited, an English company limited by guarantee, which has assumed many of KPMG International's coordinating functions for the KPMG network of member firms. Further details about KPMG International and its business, including our relationship with it, are set out in appendix one.

KPMG is the registered trademark of KPMG International and is the name by which its member firms are commonly known. The rights of member firms to use the KPMG name and marks are contained within agreements with KPMG International.

KPMG Limited has one subsidiary, KPMG Advisory Limited, which provides non-audit services to clients of the Gibraltar office of KPMG.

Consistent with our commitment to build trust, we apply high standards of governance and adopt a legal structure reflective of the nature and extent of our activities.

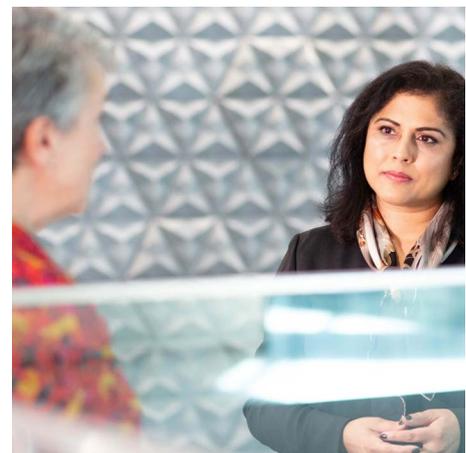
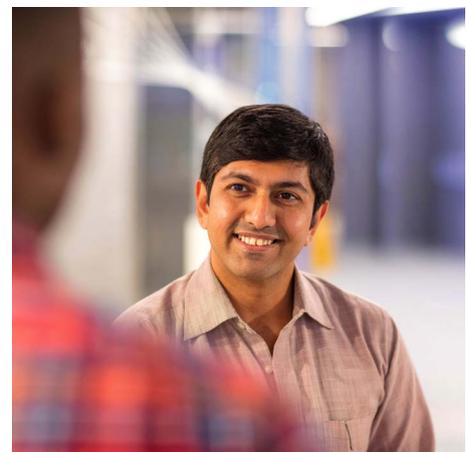
The Firm's governance structures, management team and Members are subject to formal, rigorous and on-going performance evaluation.

The Board of KPMG Limited

The main governance body of the Gibraltar audit firm is the Board of KPMG Limited, which is responsible for growth and long term prosperity, ensuring it keeps with, and is true to, its purpose, its vision and the 'KPMG Values'.

The Board comprises of Stephanie Beavis (who replaced Jonathan Tricker as Managing Director on 16 December 2020), Michael Harper, previously the National Markets Head of Audit for KPMG in the UK and since 1 October 2020 KPMG UK's Chief Operating Officer for Audit, Stuart Crisp, the Financial Services Head of Audit for KPMG in the UK, Simon Lampard (who replaced Sarah Willows on 7 October 2020) and Darren Anton, KPMG Gibraltar's head of tax services and KPMG Limited's compliance officer.

KPMG Limited's Board met formally 4 times during the year to 30 September 2020.



Quality control & risk management

We have many policies and procedures in place to manage risk and we share best practice with other member firms in the KPMG network.

Our quality control and risk management systems

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Statement by the Board on the effectiveness of internal controls and independence

29

Our quality control and risk management systems

There are numerous policies and procedures in place to help the UK and Gibraltar firms, and members of KPMG International, comply with professional standards. Responsibility for complying with these policies, and managing risk, lies with all employees; there are controls and processes in place to help them.

Policies and procedures

KPMG International has policies of quality control based on the International Standard on Quality Control 1 (ISQC1) issued by the International Auditing and Assurance Standards Board (IAASB) and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, relevant to firms that perform statutory audits and other assurance and related services engagements.

These policies and associated procedures help member firms comply with relevant professional standards, regulatory and legal requirements, to help our personnel act with integrity and objectivity, and perform their work with diligence.

Responsibility for risk

Quality control and risk management are the responsibility of all KPMG personnel, whether they are based in the UK, Gibraltar, or in one of our off-shore locations. This responsibility includes the need to understand and adhere to policies and associated procedures in carrying out their day-to-day activities. KPMG UK's Senior Partner assumes ultimate responsibility for KPMG in the UK's system of quality control, in accordance with the principles in the revised ISQC1 issued by the IAASB.

At KPMG audit quality is not just about reaching the right opinion, but how we reach that opinion. It is about the processes, thought and integrity behind the audit report. We view the outcome of a quality audit as the delivery of an appropriate and independent opinion that complies with the auditing standards. This means, above all, being independent, objective and compliant with relevant legal and professional requirements.

The following statements articulate our approach to taking risk responsibly, in the public interest and in the interests of our clients, our people, our regulators and the markets and communities we work in.

We will:

- act in the public interest and be the most trusted professional services firm by of our clients, our people, our regulators and the markets and communities we work in
- have high standards in leadership, accountability, ethics and governance
- act as stewards for the brand, and take proactive steps to ensure that we support one another in achieving our goals
- engage responsibly with a broad range of clients
- deliver high quality services – through experienced teams, integrated solutions and use of robust technology
- set financial targets that are consistent with achieving both the trust and growth elements of our strategy
- manage financial performance and resilience effectively
- work with trusted partners and alliances, as well as engage in M&A to obtain capability, where it meets our trust and growth objectives
- comply with applicable laws, regulations and codes of conduct, including KPMG's global standards and KPMG's tax principles
- manage actual and perceived conflicts of interest
- protect confidential data and ensure business service continuity
- live our values through high standards of behaviour, and promote a culture of Trust, Empowerment, Accountability and Mastery that supports our values
- anticipate and respond to changes in the competitor landscape, macro-economy and clients' needs
- be courageous in undertaking work in the public interest and in support of our wider purpose
- be brave in working together, contributing to important issues in accordance with our values
- develop our diverse, talented and motivated people through inclusive leadership

Our quality control and risk management systems

Risk management

The identification, evaluation, management and monitoring of the most significant risks that face our firm and could threaten the achievement of our strategic objectives are the responsibility of our Board. The principal risks and uncertainties facing our firm are as follows:

Risk	Risk description	Mitigation
Major or multiple audit failures	Issuance of an incorrect audit opinion and/or poor quality auditing resulting in shareholder loss, litigation, regulatory action or lost clients through the resulting reputational damage.	<ul style="list-style-type: none"> — A tone at the top which emphasises quality, ethics and integrity. — Board oversight of both internal and external audit quality reviews, recommendations and actions. — Robust audit quality controls including adoption of all KPMG UK audit policies and procedures. — Use of KPMG UK's second line of defence function to support in the audits of high risk and certain selected other entities as appropriate. — Rigorous client and engagement acceptance procedures and risk policies. — Involvement of UK Engagement Quality Control reviewers on all high risk clients and public interest entities. — Involvement of actuaries on all insurance clients. — Global methodologies and mandatory training.
Major litigation or regulatory investigation	Actual or suspected failure in any of our services potentially resulting in loss for our clients and shareholders, harming our reputation, opening us to increased scrutiny, the prospect of major claims and legal costs or significant remediation costs.	<ul style="list-style-type: none"> — A tone at the top which emphasises quality, ethics and integrity. — General engagement quality and risk management controls, including robust contracts put in place with clients and recipients of our reports. — Rigorous and robust inter-firm contracting protocols when working with other KPMG International Member Firms. — Rigorous client and engagement acceptance procedures.
Data loss	Failure to protect client confidential or personal data, as a result of either cyber attack or through failures in our internal procedures leading to loss for our clients, potential damage to our reputation, loss of key clients, potential litigation and/or regulatory fines.	<ul style="list-style-type: none"> — Migration to KPMG UK IT security policies and processes. — Ongoing training and awareness campaigns. — Our Code of Conduct.

Our quality control and risk management systems

Risk	Risk description	Mitigation
Financial risk	Failure to achieve growth or budget aspirations thereby losing market share and competitor positioning. Poor cost control and ineffective cash management (including significant bad debt losses, failure to control costs such as staff, premises and IT). Reliance on a small number of large clients.	<ul style="list-style-type: none"> — Board role in budget and performance oversight. — Quarterly financial analysis at board level. — Financial support from KPMG UK.
Delivering inappropriate services	Delivery of services which are either illegal, unethical, contravene professional standards or are otherwise perceived by investors, regulators or other stakeholders as inappropriate could damage our or our clients' reputations and potentially result in regulatory sanctions, legal action or damage our relationship with key regulators.	<ul style="list-style-type: none"> — Our internal quality control system, adopted from the UK and overseen by the Board, including (i) Rigorous client and engagement acceptance procedures, (ii) Engagement quality controls (including the involvement of an Engagement Quality Control review), (iii) Robust conflicts checking processes, (iv) Policies and procedures around auditor independence, (v) Robust compliance programmes and (vi) Our Code of Conduct and Values. — Whistle-blowing processes.
Failure of another network firm	Our ability to service our clients or our reputation in the marketplace is severely impacted by the failure of another KPMG Member Firm.	<ul style="list-style-type: none"> — Global processes and procedures including (i) Risk policies and procedures and (ii) Audit methodology and (iii) Quality Review Programmes.
Working with the wrong clients	Working with the wrong clients damages our reputation in the marketplace/ with the regulators or exposes the Firm to litigation.	<ul style="list-style-type: none"> — Robust client acceptance processes, for example with relation to high risk industries such as online gaming and cryptocurrencies. — Speak-Up hotline.
Cultural behaviour	Actual behaviour and actions of individuals not aligned with target culture leading to disengagement and demotivation. Behaviours of Gibraltar people not aligned to KPMG Values / KPMG Way.	<ul style="list-style-type: none"> — A tone at the top which emphasises quality, ethics and integrity - Global People Survey results and actions. — Robust people management process. — Code of Conduct and Values training.

Our quality control and risk management systems

Risk	Risk description	Mitigation
Failure to manage resources	Capability gaps, an inability to retain and recruit appropriate resource and poorly motivated partners and staff adversely impacts the firm’s ability to generate revenue and service clients. A loss of key individuals bringing about short term client service and wider retention problems.	<ul style="list-style-type: none"> — Recruitment plan and investment in recruitment. — Succession planning (including through more Gibraltar resident responsible individuals) and talent development. — Process to identify key skills and capabilities required. — People management processes and remuneration benchmarking.
Failure to achieve strategic plan	Unanticipated national and global market developments (including the impact of Brexit) result in the firm being unprepared for shifts in the marketplace and/or changes in the needs and priorities of clients causing loss of market position.	<ul style="list-style-type: none"> — Diversification of client base and core services. — Ongoing investment in core capabilities. — Ongoing assessment of impact of Brexit and other changes in the market place on Gibraltar and the firm’s client base (for example pressures on Gibraltar from the OECD or EU).



Statement by the Board on the effectiveness of internal controls and independence

Internal controls statement

The Board of KPMG Limited is responsible for the Gibraltar Audit firm's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, loss, or non-compliance with relevant regulatory or legislative requirements.

The key elements of the Board's review of the risk management systems and internal controls during the period under review have been:

- Consideration of the design and operation of the quality control systems as described in this report;
- Consideration of the findings from the various compliance programs operated by our firms (including the KPMG International review programmes as described in this report and findings from oversight provided by the UK Member Firm of KPMG); and
- Findings from regulatory inspections and subsequent follow-up and/or remedial actions.

Conclusions

The Board of KPMG Limited confirms that internal reviews of the effectiveness of internal controls and of independence practices within the Gibraltar Audit Firm have been undertaken. Our compliance programmes identify deficiencies and opportunities for improvement and, in such instances, remediation activities are agreed with subsequent follow up to assess the extent to which the matters identified have been addressed satisfactorily. However, matters arising from these activities are not considered either individually or in the aggregate to undermine the overall system of internal control in place.



Appendices

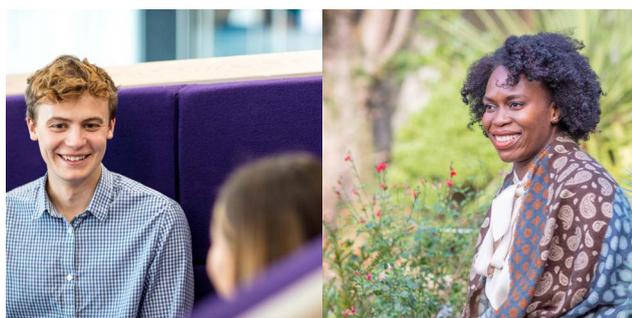
1. Network arrangements	2. Audit Quality Framework	3. Financial information
31	34	50
4. Basis of partner remuneration	5. Public Interest Entities and Major Local Audits listing	
51	52	



Network arrangements

Since 27 April 2018, KPMG Limited ('the Gibraltar Audit Firm'), the entity licensed to act as external auditor to Gibraltar entities, has been owned directly by KPMG Holdings Limited, with ultimate ownership by KPMG LLP (ie KPMG in the UK).

KPMG in the UK is affiliated with KPMG International Cooperative ("KPMG International"). KPMG International is a Swiss cooperative which is a legal entity formed under Swiss law. Prior to 1 October 2020 it was the coordinating entity for the network and the entity with which all the member firms of the KPMG organisation were required to be affiliated with. Further details about KPMG International and its business activities, including our relationship with it for the financial year ending 30 September 2020, are available in the 'Governance and leadership' section of the 2019 KPMG International Transparency Report¹.



KPMG is the registered trademark of KPMG International and is the name by which the member firms are commonly known. The rights of member firms to use the KPMG name and marks are contained within agreements with KPMG International.

Pursuant to their membership agreements with KPMG International, member firms are required to comply with KPMG International's policies, including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes being professionally and financially stable, having an ownership, governance and management structure that ensures continuity and stability and long term success and being able to comply with policies issued by KPMG International, adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools.

Each KPMG firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG Values.

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the firms. A firm's status as a KPMG member firm and its participation in the KPMG global organisation may be terminated if, among other things, it has not complied with the policies set by KPMG International or any of its other obligations owed to KPMG International.

Insurance cover is maintained in respect of professional negligence claims. The cover provides a territorial coverage on a worldwide basis and is principally written through a captive insurer that is available to all KPMG member firms.

KPMG International is an entity that is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture, or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

The name of each audit firm that is a member of the organisation and the EU/EEA countries in which each firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available at the following link².

Aggregated revenues³ generated by KPMG firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.8 billion⁴ during the year ending 30 September 2020.

Governance structure of KPMG International

The key governance and management bodies of KPMG International are the Global Council, the Global Board, and the Global Management Team.

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. Among other things, the Global Council elects the Global Chairman and also approves the appointment of Global Board members.

¹ <https://assets.kpmg/content/dam/kpmg/xx/pdf/2019/12/2019-transparency-report.pdf>

² <https://assets.kpmg/content/dam/kpmg/xx/pdf/2021/01/list-of-kpmg-audit-entities-located-in-eu-eea.pdf>

³ The EU/EEA aggregated statutory audit revenue figures are presented to the best extent currently calculable and translated at the average exchange rate prevailing in the 12 months ended 30 September 2020.

⁴ The financial information set forth represents combined information of the separate KPMG firms from EU and EEA member states that perform professional services for clients. The information is combined here solely for presentation purposes. KPMG International performs no services for clients nor, concomitantly, generates any client revenue.

Network arrangements

It includes representation from 61 KPMG firms that are “members” of KPMG International as a matter of Swiss law. Sublicensee firms are generally indirectly represented by a member⁵.

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include approving global strategy, protecting and enhancing the KPMG brand and reputation, overseeing the Global Management Team, and approving policies with which KPMG firms are required to comply. The Global Board includes the Global Chairman, the Chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)) and a number of senior partners of member firms.

It is led by the Global Chairman, and also includes the Chairman of each of the regions and a number of other member firm senior partners. The list of current Global Board members is set out at the following link¹³. One of the other Global Board members is elected as the lead director by those Global Board members who are not also members of the Executive Committee of the Global Board (“non-executive” members). A key role of the lead director is to act as liaison between the Global Chairman and the “non-executive” Global Board members.

The Global Board has delegated certain responsibilities to the Global Management Team. These responsibilities include developing the global strategy by working together with the Executive Committee, and jointly recommending the global strategy to the Global Board for its approval. The Global Management Team also supports the member firms in their execution of the global strategy and is responsible for holding them accountable against their commitments.

It is led by the Global Chairman and includes the Global Chief Operating Officer, Global Chief Administrative Officer, global function and infrastructure heads, the Global Head of Quality, Risk and Regulatory and the General Counsel. The list of current Global Management Team members is available in the Leadership section on [kpmg.com](https://home.kpmg.com)⁶.

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



Team and together they assist the Global Management Team in discharging its responsibilities. In particular the Global Audit Steering Group and Global Quality Risk Management Steering Group work closely with regional and member firm leadership to:

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

The roles of the Global Audit Steering Group and the Global Quality Risk Management Steering Group are detailed in section ‘Governance and leadership’ of the 2019 KPMG International Transparency Report⁷.

Each firm is part of one of three regions (the Americas, ASPAC, and EMA). Each region has a Regional Board comprising a regional chairman, regional chief operating officer, representation from any sub-regions, and other members as appropriate. Each Regional Board focuses specifically on the needs of member firms within their region and assists in the implementation of KPMG International’s policies and processes within the region.

Further details about KPMG International including the

⁵ Unless otherwise stated, the words ‘member firm’ or ‘KPMG member firm’ when used in this Transparency Report include the following:

- Those entities that are members of KPMG International as a matter of Swiss law because KPMG International is a Swiss cooperative (i.e. similar to shareholders, albeit KPMG International has no share capital and, therefore, only has members not shareholders).
- Those entities (‘sublicensees’) that are not members of KPMG International as a matter of Swiss law but have still entered into legal agreements with KPMG International and also an entity that is a ‘member’.

⁶ <https://home.kpmg/xx/en/home/about/who-we-are/our-leadership.html>

⁷ <https://home.kpmg/xx/en/home/campaigns/2019/12/kpmg-international-transparency-report.html>

Network arrangements

governance arrangements for the financial year ending 30 September 2020, can be found in section 'Governance and leadership' of the 2019 KPMG International Transparency Report⁸.

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders (ARL) who serve a regular and ongoing monitoring and consultation function to assess the effectiveness of a member firm's efforts and processes to identify, manage and report significant risks that have the potential to damage the KPMG brand. Significant activities of the ARL, including member firm issues identified and related member firm response/remediation, are reported to GQ&RM leadership. The objectives of the ARL role are to:

- assist GQ&RM leadership in the monitoring of member firms' quality and risk activities;
- work with GQ&RM leadership and the International Office of General Counsel (IOGC) when significant brand and legal risk issues occur to assist in ensuring that matters are properly handled; and
- assist in monitoring the effectiveness of firm remediation of significant issues, including identification of the root cause(s) of serious quality incidents.

Legal structure of KPMG International from 1 October 2020

On 1 October 2020, KPMG in the UK and all other KPMG firms entered into new membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organisation became members in, or have other legal connections to, KPMG International Limited, an English private company limited

by guarantee. From 1 October 2020, KPMG International Limited acts as the coordinating entity for the overall benefit of the KPMG member firms. It does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

Further detail on the revised legal and governance arrangements for the KPMG global organisation from 1 October 2020 can be found in the 'Governance and leadership' section of the KPMG International Transparency Report⁹.

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



⁸ <https://home.kpmg/xx/en/home/campaigns/2019/12/kpmg-international-transparency-report.html>

⁹ <https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/12/transparency-report-2020.pdf>

Audit Quality Framework

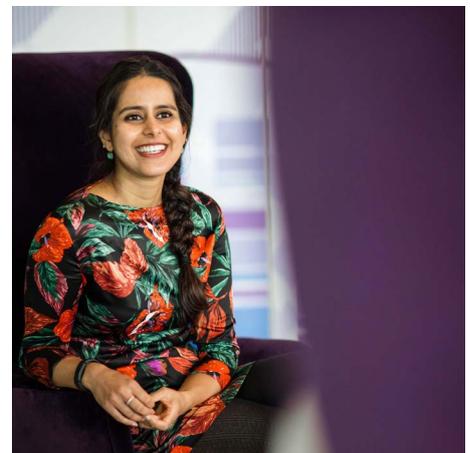
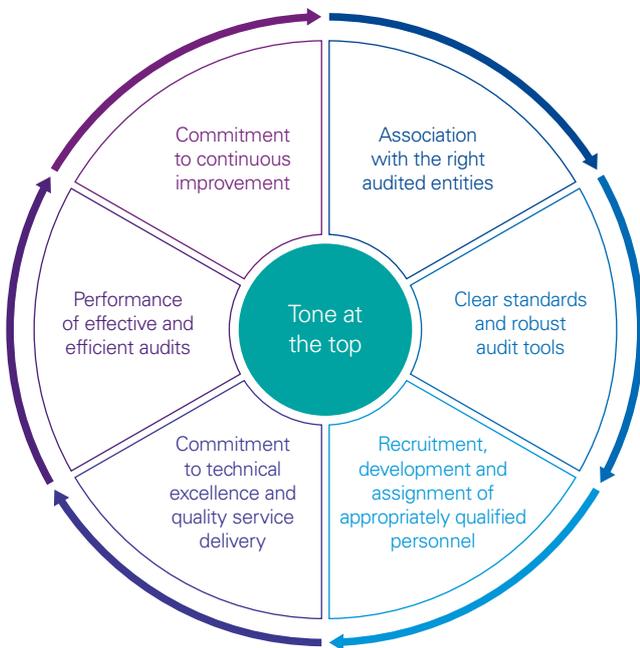
We have a global Audit Quality Framework to help all audit professionals concentrate on the fundamental skills and behaviours required to deliver an appropriate and independent opinion. This framework is used by all KPMG member firms to describe what we believe drives audit quality and to highlight how every audit professional at KPMG contributes to the delivery of audit quality.

Tone at the top sits at the core of the framework and ensures that the right behaviours permeate across our firm. All of the other drivers are presented within a circle with each driver reinforcing the others. Performance metrics linked to each of these drivers and are monitored and reviewed regularly.

The policies and practices set out also ensure that persons eligible for appointment as statutory auditors continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level.

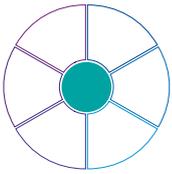


Each driver of audit quality reinforces the others.



Audit Quality Framework

1. Tone at the top



KPMG’s Tone at the top provides a clear focus on quality through:

- culture, Values, and Code of Conduct – clearly stated and demonstrated in the way we work;
- a strategy with quality at its heart;
- standards set by leadership; and
- governance structures and clear lines of responsibility for quality, with skilled and experienced people in the right positions to influence the quality agenda.

Our leadership demonstrates and communicates a commitment to quality, ethics and integrity. Regular communications are released to cover emerging issues, new developments, policies and guidance including key audit technical and quality messages. For us, integrity means upholding the highest professional standards in our work, providing sound, good-quality advice to the entities we audit and rigorously maintaining our independence. Our Values are embedded into our working practices and are considered in our performance appraisal process.

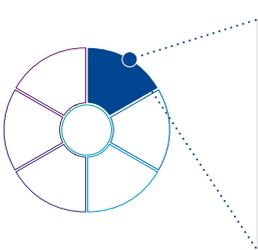


Our Code of Conduct defines the standards of ethical conduct we require from our people. It sets out KPMG’s ethical principles and helps our people understand and uphold those principles emphasising that each partner and employee is personally responsible for following the legal, professional and ethical standards that apply to their job function and level of responsibility. All our personnel are required to confirm their understanding of, and compliance with, the applicable Code of Conduct upon joining the firm, and annually thereafter.

Individuals are encouraged to raise their concerns when they see behaviours or actions that are inconsistent with Our Values or professional responsibilities and required to do so when they see breaches of KPMG policies, laws and regulations and professional standards. The Speak Up hotline operates as a whistleblowing hotline which is available for our personnel, entities we audit and other parties to confidentially report concerns they have relating to how others are behaving (both internally and externally) and concerns regarding certain areas of activity by the firm, its partners or employees. In addition to this, we have Ethics Champions from all parts of the firm that act as a local point of contact for colleagues to raise ethical concerns.

Audit Quality Framework

2. Association with the right audited entities



- Select audited entities within risk tolerance
- Manage audit responses to risk
- Robust engagement acceptance and continuance processes
- Portfolio management

Rigorous engagement acceptance and continuance policies and processes are vitally important to our ability to provide quality professional services and to protect KPMG's reputation and support its brand.

We evaluate all prospective audited entities before accepting them. This involves background checks on the prospective audited entity, its key management and beneficial owners. A key focus is on the integrity of management.

A second partner, as well as the evaluating partner, approves the prospective audited entity evaluation. Where the audited entity is considered to be 'high risk' the Audit Risk Management Partner is involved in approving the evaluation. Each prospective engagement is also evaluated. The engagement leader evaluates this in consultation with other senior personnel and Risk Management leadership as required. Those high-risk audit engagements above certain size thresholds are referred to a risk panel for further consideration of engagement acceptance and audit approach.

A range of factors are considered as part of this evaluation including potential independence and conflict of interest issues (using Sentinel™, KPMG International's proprietary global conflicts and independence checking system) as well as factors specific to the type of engagement. Controls are built into our engagement management system to ensure we complete the audited entity and engagement acceptance process appropriately.

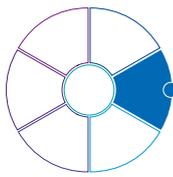
In addition, when taking on a statutory audit for the first time, the prospective engagement team performs additional independence evaluation procedures. These include a review of any non-audit services provided to the entity and of other relevant relationships and matters which may have a bearing on our independence. We perform similar independence evaluations following a change in the circumstances of the entity. Additional safeguards may be introduced to help mitigate any identified risks and potential independence or conflict of interest issues are documented and resolved prior to acceptance. We will decline a prospective audited entity or engagement if a potential independence or conflict issue cannot be resolved satisfactorily.

An annual re-evaluation of all audited entities is undertaken. In addition, audited entities are re-evaluated earlier if there is an indication that there may be a change in their risk profile. Recurring or long-running engagements are also subject to periodic re-evaluation. Audit services are reviewed at least annually.



Audit Quality Framework

3. Clear standards and robust audit tools



- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

All of our professionals adhere to KPMG's policies and procedures (including independence policies) and we provide a range of tools to support them.

Audit methodology

Our global audit methodology is based on the requirements of the International Standards on Auditing (ISAs) and is set out in KPMG International's KPMG Audit Manual (KAM) which all member firms are obliged to follow. KAM includes additional requirements that go beyond the ISAs and which KPMG believes enhance the quality and value of our audits. KPMG in the UK also adds local requirements and guidance in KAM to comply with additional professional, legal or regulatory requirements specific to the UK/Gibraltar and our own internal policies.

Our audit methodology is currently supported by eAudit – KPMG's electronic audit tool. This provides KPMG auditors worldwide with the methodology, guidance and industry knowledge needed to perform effective and focused quality audits. KCw replaces eAudit and has much improved functionality to offer teams new ways of interacting and accessing audit methodology and tools. The transition to KCw brings with it an opportunity to introduce our new methodology which is delivered to teams in the KPMG's Audit Execution Guide. Our new methodology is clear and easy to understand with a real focus on the risk continuum so our audit teams can execute consistently against our quality standards. Our increased focus on audit quality in the UK and Gibraltar means we welcome these enhancements which are being introduced globally. As ever, in the UK we will continue to develop our audit methodology to remain in step with the demands of our UK regulator.

Independence, integrity, ethics and objectivity

We have adopted the KPMG Global Independence Policies which are derived from the IESBA Code of Ethics (the IESBA Code) and incorporate, as appropriate, the US Securities & Exchange Commission, the PCAOB and other applicable regulatory standards. For KPMG in the UK, we supplement these policies with other processes to ensure compliance with the relevant ES.

These policies and processes, which apply equally to KPMG Gibraltar, cover areas such as firm independence, personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services. In the UK, the Ethics Partner is supported by a core team to help ensure that we apply robust and consistent independence policies, processes and tools. Ethics and independence policies are set out in our intranet-hosted Quality & Risk Management Manual and reinforced through training which is delivered twice a year.

Failure to comply with the firm's independence policies, whether identified in the rolling compliance review, self-declared or otherwise, is factored into promotion and compensation decisions and, in the case of engagement leaders and managers, reflected in their individual ethics and compliance metrics. The Ethics Working Group oversees policies and procedures in relation to ethical matters and breaches of the requirements of the relevant ES.

Audit Quality Framework

Personal independence

KPMG International policy extends the IESBA Code restrictions on ownership of audited entity securities to every member firm partner in respect of any audited entity of any member firm. KPMG in UK has a policy whereby all client-facing staff are also prohibited from holding securities in companies audited by KPMG.

Our professionals are responsible for making appropriate inquiries to ensure that they do not have any personal financial, business or family interests that are restricted for independence purposes and we use a web-based independence tracking system (KICS) to assist our professionals in their compliance with personal independence investment policies.

Partners and all client-facing staff are required to use this system prior to entering into an investment to identify whether they are permitted to do so and maintain a record of all of their investments in KICS which automatically notifies them if their investments subsequently become restricted. All partners and client-facing directors (partner equivalents) are required to obtain specific clearance for any investment they or their immediate family propose to make from the Partner Independence Team, who also manage their KICS accounts for them.

We monitor partner and employee compliance with these requirements through undertaking a programme of independence compliance audits on a sample of professionals. In the year ended 30 September 2020, 656 (2019: 991) of our people were subject to these audits (this included approximately 20% of our partners and partner equivalents). In addition, all direct-entry partners are subject to a compliance audit as a condition of their admission, and are subject to a further audit after 12 months in the firm.

The policy which we apply to members of the audit team being recruited by entities we audit goes beyond the requirements of the relevant ES and requires any members of an audit team to inform the Ethics Partner of any potential employment with an entity we audit.

Significant matters not governed by the relevant ES or our internal policy but which are considered to have a bearing on independence are raised with the Ethics Working Group for their consideration.

Firm financial independence

KPMG in the UK maintains a record of its investments (made, for example, through pension and retirement plans and treasury activities) in KICS and that record is also maintained as relevant for Gibraltar. This record is monitored through our compliance process.

Business relationships/suppliers

We have policies and procedures in place to ensure that business relationships are maintained in accordance with the relevant ES and the IESBA Code. Consultation with our ethics and independence professionals is required in any case of uncertainty to ensure that no relationship is entered into with an entity we audit, or its management, which is not permitted for independence purposes and compliance with these policies and procedures is reviewed periodically.

Independence training and confirmations

We provide all relevant personnel (including all partners and client facing professionals) with independence training twice a year appropriate to their grade and business area and provide all new personnel with relevant training when they join the firm.

All personnel are required to sign an independence confirmation upon joining the firm. Thereafter, all personnel confirm annually they have remained in compliance with applicable ethics and independence policies throughout the period. In addition, partners and partner equivalents make an additional confirmation at the mid-year in respect of their personal investment compliance.

Audit engagement leader rotation

All audit engagement leaders are subject to periodic rotation of their responsibilities for entities we audit under applicable laws and regulations and independence rules which limit the number of years that engagement leaders may provide audit services to an audited entity. KPMG rotation policies are consistent with the IESBA Code and also require our firm to comply with the requirements of the relevant ES (and, where applicable for certain engagements, the rules of the PCAOB).

We monitor the rotation of audit engagement leaders and any other key roles where there is a rotation requirement, including the Engagement Quality Control reviewer, and have transition plans to enable us to allocate partners with the necessary competence and capability to deliver a consistent quality of service to audited entities. The rotation monitoring is subject to compliance testing.

Firm rotation

Public Interest Entities (PIEs), as defined in the FRC's relevant ES, are required to rotate their firm of auditors. Mandatory Firm Rotation (MFR) rules in the UK and Gibraltar require that all PIEs must tender their audit contract at least every 10 years and change or rotate their auditor at least every 20 years. We have processes in place to track and manage MFR.

Audit Quality Framework

Non-audit services

We have policies regarding the scope of services that can be provided to companies for whom we are auditors which are consistent with the relevant ES and the IESBA Code, and, where applicable, the rules of the SEC and PCAOB. KPMG policies require the audit engagement leader to evaluate the threats arising from the provision of non-audit services and the safeguards available to address those threats.

Every engagement intended to be entered into by a KPMG member firm is required to be included in our Sentinel™ tool prior to starting work enabling group lead audit engagement partners to review and approve, or deny, any proposed service for those entities worldwide.

Following the introduction in the 2019 ES of the narrow list of permissible non-audit services that may be provided to PIEs, we have undertaken service reviews for these entities to ensure compliance and timely communications with Audit Committees and those charged with governance about the changes. Similar centrally driven reviews are planned for OEPIs in advance of the restricted list becoming effective for those entities in December 2020.

To maintain auditor independence, no individual with the ability to influence the conduct and outcome of an audit can be rewarded for selling non-audit services to entities we audit.

Fee dependency

KPMG International's policies recognise that self-interest or intimidation threats may arise if the total fees from an entity which we audit represent a large proportion of the total fees of the member firm expressing the audit opinion.

During the year ended 30 September 2020 we provided audit services to entities ultimately owned by one individual which accounted for 19.3% of total fees received by KPMG Gibraltar. We also provided audit services to another group which accounted for 10.1% of total fees received in the 2020 financial year. In the year ended 30 September 2019, total fees received from Acromas Insurance Company Limited accounted for 10.2% of KPMG Gibraltar's total revenues, and total fees received from Mulsanne Insurance Company Limited accounted for 10% of KPMG Gibraltar's total revenues. In all cases a UK-based EQCR is involved as appropriate on the audits.

Conflicts of interest

Conflicts of interest may prevent our firm from accepting or continuing an engagement. Sentinel™ is also used to identify and manage potential conflicts of interest within and across member firms. Any potential conflict issues identified are resolved in consultation with other parties as applicable and the outcome is documented.

It may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise or be perceived to arise such as establishing formal dividers between engagement teams serving different audited entities. If a potential conflict issue cannot be resolved, the engagement is declined or terminated.

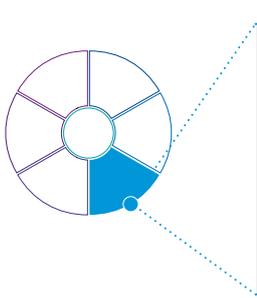
Compliance with laws, regulations, and anti-bribery and corruption

We provide training on compliance with laws (including those relating to anti-bribery and corruption), regulations, professional standards and our Code of Conduct to all client-facing partners and employees on joining the firm, and every two years thereafter. The same training is also provided to certain other non-client-facing personnel (such as those who work in finance, procurement or sales and marketing).



Audit Quality Framework

4. Recruitment, development and assignment of appropriately qualified personnel



- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

We are committed to equipping our people with the skills and tools they need to deliver high-quality work for our stakeholders and for the entities that we audit.

One of the key drivers of quality is making sure we assign people with the right level of skills and experience to the right engagements. This requires a focus on recruitment, development, promotion and retention of our personnel and the development of robust capacity and resource management processes.

Recruitment

All candidates applying for professional positions apply and follow a thorough selection process, which may include application screening, competency-based interviews, psychometric and ability testing and qualification and reference checks.

The firm (KPMG in the UK and KPMG Gibraltar) recruited almost 1,500 new onshore and offshore people into Audit in the year ended 30 September 2020. Upon joining the firm, new joiners participate in an onboarding programme. Induction programmes includes training in areas such as ethics and independence, quality and risk management principles, engagement management and our people management procedures.

Personal development

Attracting, retaining and developing talented individuals is at the very top of our people agenda and is key to KPMG being a magnet for talent. The firm dedicates a significant amount of time, money and other resources to build professional capability, leadership and business skills and technical expertise.

All partners and colleagues are encouraged to think about their career aspirations, progression and personal development needs via regular performance conversations with ongoing feedback and support from their Performance Managers. To support career and professional development there is a range of core skills programmes that support performance improvement and ensure that individuals reach their full potential. Our learning and development framework focus on critical and stretching experiences and learning opportunities are provided through a blend of formal learning for the development of key technical, leadership and business skills; social learning or learning through others; and through their engagement and project work.

A clear focus on setting stretching goals, high performance, regular feedback and investing in annual talent reviews helps our firm identify high performers who have the potential to take on more senior or more complex roles. High performers are further developed through coaching and mentoring on the job, rotation opportunities, global mobility opportunities and secondments.

Our performance is not only about 'what' we do, but 'how' we do things. All Partners, Associate Partners, Directors, Heads of Performance Operations, Performance Leaders, and as part of our continued commitment to audit quality, senior managers and managers grades in our regulated Audit business participate in our annual 360 feedback programme.

Audit Quality Framework

Inclusion, diversity and social equality

Our trust and growth objectives are underpinned by an inclusive culture, which is critical to ensuring that we can thrive as a firm. We embrace and harness diversity of background, diversity of experience and diversity of perspective – as we recognise the value that diverse thinking brings to our organisation and our reputation in the marketplace. We're committed to inclusion at every level in our organisation and acknowledge the role of leaders in driving this from the top through their personal actions and behaviours.

We promote a positive integration between work and life to encourage not only professional achievements but also to provide an environment that enables everyone, regardless of gender, ethnicity, age, disability, religion, socio-economic background or sexual orientation, to reach their full potential. We strive to be an employer of choice by ensuring that all our people are empowered to make decisions and feel proud and motivated to do their best. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and ways of working.

Our established Inclusion, Diversity and Social Equality strategy drives the actions that we believe are necessary to promote inclusive leadership and enhanced accountability to increase diversity. Our employee networks and our calendar of events throughout the year help us to engage all colleagues in conversation and to drive action. We also recognise the importance of enabling people to work in the ways that best suit them so that high performance and increased engagement can lead to better service.

Performance evaluation and compensation

All professionals meet regularly with their performance manager to complete annual goal setting and performance reviews. Partners and colleagues are evaluated on attainment of agreed-upon goals, demonstration of the KPMG Values and global behaviours, technical capabilities and market knowledge. As part of the year-end performance review activity they discuss their achievement of agreed goals, identify strengths and development areas and assess their performance in respect of individual quality, ethics and compliance metrics. The outputs of the performance and talent discussions influence promotion discussions and performance zone which in turn informs reward decisions.

All engagement leaders and managers use standardised metrics as part of the annual performance appraisal process. The approach to ethics and compliance metrics is the same across all areas of the firm with individuals awarded a red, amber or green rating based on outcomes in the year. In 2020, 96.8% of our partner to manager group were awarded green metrics for ethics and compliance, 2.6% received amber ratings and 0.6% red.

Consistent with our focus on audit quality we expanded the number of parameters such as the results of external regulatory reviews, timely completion of training and the outcome of internal monitoring programmes used to assess the quality of auditors. The 2020 approach determined a quality rating for each individual within audit which was overlaid onto a broader assessment to determine a performance zone that in turn determines remuneration. The quality rating has the greatest weighting in this assessment. In 2020, 99.6% of our partner-to-manager group were awarded a quality rating consistent with no or only limited performance improvements necessary. The remaining 0.4% of individuals where other than limited performance improvements were identified were provided with targeted improvement plans and goals.

The quality assessment of audit engagement leaders goes beyond the results of internal and external inspections. It also includes indicators of the individual's personal contribution to the firm's overall audit quality through their participation in quality improvement actions, their involvement in quality monitoring together with other matters, positive and negative, that inform us of the individual's commitment to audit quality. We have enhanced our performance management process with the introduction of a quality scorecard reflecting audit quality as the overarching determinant of performance.

Our IDSE strategy is underpinned by three clear objectives: Inclusive Leadership, Accountability and Equality of Opportunity. As we work towards the four-year targets we set in 2018, we have already exhibited each of these objectives in our approach to making KPMG more inclusive. Our gender-balanced board; the publication of our Black Lives action plan; our Disability Confident Leader status; our top 50 ranking in the Stonewall Employer Index, and our long-standing commitment to improving social mobility are a testament to this.

Audit Quality Framework

Reward and promotion

We have reward and promotion policies that are clear, simple, and linked to the performance evaluation and talent review processes so that our people know what is expected of them and what they can expect to receive in return. Reward decisions are based on consideration of individual, business area and firm-wide performance.

Having people in the right roles at the right time is key to our success. Our transparent promotions process is business case led and is driven by business performance and the outputs from our annual talent reviews.

Partner admissions

Our process for admission to partner is rigorous and thorough for both internal promotes and external hires. This includes a business and personal case for the individual candidate. Our key criteria for admission to partner are consistent with a commitment to professionalism and integrity, quality and being the best choice for our audited entities and people. Attitude to quality and risk is explored for all appointments to partner that we are considering.

In the year ended 30 September 2020, within Audit KPMG UK recruited one new partner from the external market and promoted 10 from within the firm. Females accounted for 0% of the externally recruited partners and 30% of the partners promoted from within during the year ended 30 September 2020.

Assignment

We have procedures in place to assign both engagement leaders and other professionals to a specific engagement based on their skills, relevant professional and industry experience and the nature of the assignment or engagement. Within the Audit capability, key considerations include experience, accreditation and capacity to perform the engagement in view of the size, complexity and risk profile of the engagement and the type of support to be provided. This may include involving local specialists or those from other KPMG member firms.

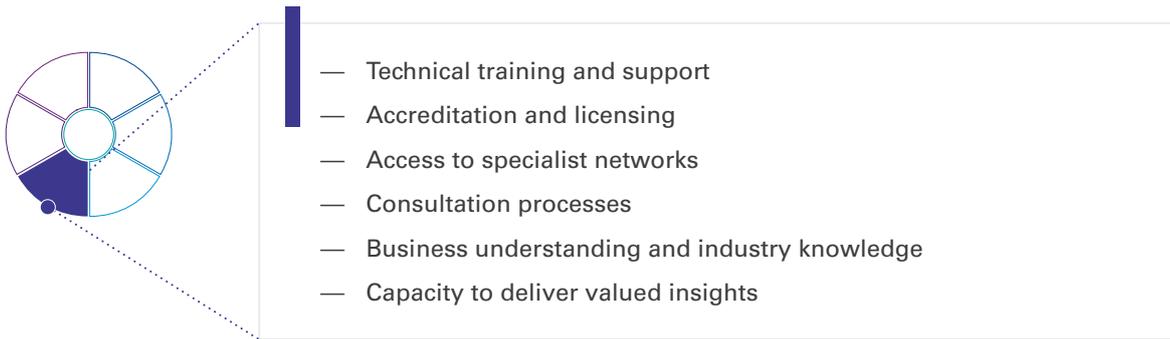
As an additional control in Audit, the Audit Chief Risk Officer oversees an annual review of risks facing the audit capability which involves the UK Head of Audit and each UK Performance Group Leader. Each Performance Group Leader (or their approved delegate) meets every audit engagement leader in their Performance Group to perform a review of their portfolio and workload (the Partner Portfolio Review process).

KGS Audit (KGS) is KPMG Gibraltar and KPMG in the UK's Audit offshoring capability and comprises approximately 1,200 employees located in Delhi and Bangalore, India. KGS employees are an extension of the UK audit team. Where it has been determined by the professional judgement of the individual UK audit teams that KGS has the appropriate skills and experience, audit procedures will be allocated to KGS on the same basis as to UK-based team members and is subject to the same review process and oversight. The training and recruitment process at KGS are based on the UK model and the same high standards are maintained at KGS as in the UK. The firm's system of quality control applies to all our personnel whether based in the UK or at one of our offshore locations.



Audit Quality Framework

5. Commitment to technical excellence and quality service delivery



We provide all professionals with the technical training and support they need. This includes access to networks of specialists and technical experts. At the same time, we use our audit accreditation and licensing policies to require professionals to have the appropriate knowledge and experience for their assigned engagements.

Technical training

Our technical learning curriculum provides a core training programme for all colleagues and differs by grade and experience level. From March as a result of COVID-19, our face to face learning was converted to blended learning solutions. To drive continued focus on audit quality, we deliver Audit Quality & Risk Workshops for engagement leaders (which is extended to all audit managers through live and recorded workshops). These cover key messages regarding quality, and actions in respect of the internal and external monitoring. In addition, all our audit people complete quarterly technical training focusing on performing an effective quality audit with different topic areas included as relevant. The annual KPMG Audit University became KPMG Audit University Virtual and consisted of approximately three days of mandatory self-study, virtual classroom sessions and assessments, focusing on the audit of estimates, culture of challenge, evidencing and documentation. Training for the new KPMG Clara workflow was delivered virtually to approximately 1,000 people (across the UK and Gibraltar) as part of the scaled back deployment.

Audit training includes mandatory courses and completion of these is monitored through a Learning Management System. This allows individuals to monitor their compliance both with their ongoing Continuing Professional Development requirements and with KPMG's mandatory training and accreditation requirements. In addition to structured technical training, we encourage coaching, consultation, on-the-job training and mentoring.

Accreditation and licensing

We are responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge and experience in the local predominant financial reporting framework. We have accreditation requirements for many of our services which ensure that only partners and employees with the appropriate training and experience are assigned to engagements and are appropriately licensed where necessary.

Access to specialist networks

Our engagement teams have access to a network of specialists (including in other KPMG member firms where necessary). Engagement leaders are responsible for ensuring that their engagement teams have the appropriate resources and skills. Annually we assess the availability of specialists to audit teams to ensure that adequate resources are available when required.

Audit Quality Framework

Consultation

Internal consultation, both formal and informal, is a fundamental contributor to quality; it is always encouraged and mandated in certain circumstances. We provide appropriate consultation support to audit engagement professionals through professional practice resources that includes DPP Accounting & Reporting and DPP Audit Support.

Our policies include mandatory consultation requirements on certain matters such as audited entity integrity. We have also established Risk Panels and Going Concern Panels led by an audit quality or risk management partner to enable direct challenge of the approach to the key audit issues on our highest risk audits. In light of the continuing COVID-19 pandemic and the impact on the UK and global economies, we have increased the level of mandated consultation with respect to going concern.

Technical support is also available through the International Standards Group (ISG) as well as the US Capital Markets Group based in New York, for work on SEC registrants, or our US Accounting and Reporting group based in London.

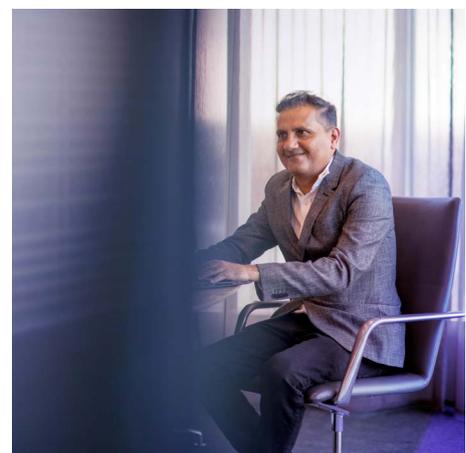
Developing business understanding and industry knowledge

A key part of engagement quality is having a detailed understanding of the audited entity's business and industry. For significant industries global audit sector leads are appointed to support the development of relevant industry information, which is made available to audit professionals within eAudit. This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes).

As discussed on page 8, KPMG Clara provides our audit teams with access to industry knowledge with libraries embedded within the tool. This will allow for a consistent approach, tailored by industry, and focused on key industry audit risks.

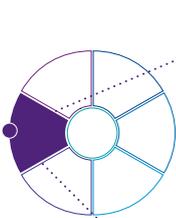
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During the pandemic we increased the level of mandated consultation with respect to going concern.



Audit Quality Framework

6. Performance of effective and efficient audits



- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

Timely partner, manager and second line of defence involvement

The engagement leader is responsible for the overall quality of the audit engagement and therefore for the direction, supervision and performance of the engagement. Involvement and leadership from the engagement leader early in the audit process helps set the appropriate scope and tone for the audit. To reinforce this, we mandate the completion and review of audit planning activities within specified timeframes to evidence completion of the relevant planning activities.

The engagement leader reviews key audit documentation – in particular documentation relating to significant matters arising during the audit and conclusions reached. The engagement manager assists the engagement leader in meeting these responsibilities and in the day-to-day liaison with the audited entity and team.

Our second line of defence team is a group made up of senior auditors which supports our higher risk engagements with a focus on public interest and listed entities. The team performs in-flight reviews of audits to improve the quality of audit execution and documentation, including effective challenge of management in judgemental areas. These senior auditors also help throughout the audit cycle, to identify issues before they impact audit quality. This has a dual purpose, firstly to enable coaching of teams and secondly to act as another level of review and challenge to help engagement teams in the delivery of high-quality audits.

Appropriate and timely involvement of specialists

Our engagement teams have access to a network of specialists and this may include involving local specialists or those from other KPMG member firms. Our audit methodology requires the involvement of relevant specialists in the core audit engagement team when certain criteria are met or where the audit team considers it appropriate or necessary.

Critical assessment of audit evidence, exercise of professional judgement and professional scepticism

We consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence. The analysis of the audit evidence requires each of our team members to exercise professional judgement, maintain professional scepticism and demonstrate appropriate challenge to obtain sufficient appropriate audit evidence.

Professional judgement and scepticism training are embedded in our core audit technical training programme for junior staff and ongoing training for more experienced staff.

Audit Quality Framework

Ongoing mentoring and on-the-job coaching, supervision and review

To invest in the building of skills and capabilities of our professionals we use a continuous learning environment. We support a coaching culture throughout KPMG as part of enabling personnel to achieve their full potential.

In FY19 we started a Coaching for Quality programme for our engagement leaders and managers, as part of our broader Audit University curriculum. With the support of external behavioural psychologists, it gives colleagues the tools they need to have productive coaching conversations.

Ongoing mentoring and on-the-job coaching and supervision during an audit include:

- engagement leader participation in planning discussions;
- tracking the progress of the audit engagement;
- considering the competence and capabilities of individual members of the engagement team;
- helping engagement team members address any significant matters that arise during the audit and modifying the planned approach appropriately; and
- identifying matters for consultation with more experienced team members during the engagement.

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

Appropriately supported and documented conclusions

Audit documentation records the audit procedures performed, evidence obtained and conclusions reached on significant matters on each audit engagement. Our policies require review of documentation by more experienced engagement team members.

Our methodology recognises that documentation prepared at the time the work is performed is likely to be more efficient and effective than documentation prepared later. All work supporting an opinion is required to be completed prior to releasing the audit opinion. Teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period, which for most audits is now two days.

The key principle that engagement team members are required to consider is whether an experienced auditor, having no previous connection with the engagement, will understand:

- the nature, timing, and extent of audit procedures performed to comply with the ISAs;
- applicable legal and regulatory requirements;
- the results of the procedures performed;
- the audit evidence obtained;
- significant findings and issues arising during the audit and actions taken to address them (including additional audit evidence obtained); and
- the basis for the conclusions reached, and significant professional judgements made in reaching those conclusions.

Standardised approaches and workpapers assist our audit teams with appropriately supported and documented conclusions.

Appropriate involvement of the Engagement Quality Control reviewer (EQC reviewer)

Our EQC reviewers are independent of the engagement team and have appropriate experience and knowledge to perform an objective review and challenge of the more critical and judgemental elements of the audit. The audit report can only be released when the EQC reviewer is satisfied that all significant questions raised have been resolved.

An EQC reviewer is appointed for the audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with a high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements¹⁰ as designated by the Audit Risk Management Partner or the UK Head of Audit. The EQC reviewers for individual engagements are ratified by Audit Risk Management and specifically, for high risk engagements, the Audit Risk Management Partner.

¹⁰ With the approval of the Audit Risk Management Partner, for 'other engagements' a Limited Scope Reviewer may be used where appropriate

Audit Quality Framework



Clear reporting of significant findings

In preparing audit reports, engagement leaders have access to extensive reporting guidance and technical support especially where there are significant matters to be reported to users of the audit report.

Auditing standards and the Companies Act or similar legislative requirements largely dictate the format and content of the audit report that includes an opinion on the fair presentation of the entity's financial statements in all material respects. We are also required to provide a long-form report for all listed entities.

Insightful, open and honest two-way communication with those charged with governance

Two-way communication with those charged with governance is key to audit quality. We stress the importance of keeping those charged with governance informed of issues arising throughout the audit and of understanding their views. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings and ongoing discussions with members of the audit committee.

We deliver insights such as the appropriateness of accounting policies, the design and operation of financial reporting systems and controls, key accounting judgements and matters where we may disagree with management's view and any uncorrected audit misstatements. We ensure the content of these reports meets the requirements of auditing standards and we share our industry experience to encourage discussion and debate with those charged with governance.

Focus on effectiveness of group audits

Our audit methodology stresses the importance of effective two-way communication between the group engagement team and the component auditors, which is key to audit quality. The group audit engagement leader evaluates the competence of component auditors, whether or not they are KPMG member firms, as part of the engagement acceptance process. Our guidance and training focuses on the quality of group audit instructions, the oversight of component auditor team structures, the evaluation of their work, communication between group and component audit teams, scoping of components, review and evaluation of the components work and clearly evidencing this, the involvement of the EQC reviewer with group and component auditors and the conclusions reached by the group team on the group file. We have provided engagement teams with support on how to deal with practical and logistical matters resulting from the travel restrictions arising from the COVID-19 pandemic that impact how we deliver group audits.

Confidentiality, information security and data privacy

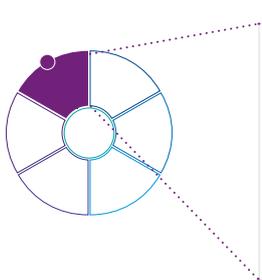
We are committed to providing a secure and safe environment for the personal data and confidential information we hold, as well as protecting the privacy of our audited entities, service providers and other third parties. The importance of maintaining audited entity confidentiality is emphasised through a variety of mechanisms including through regular communications on the topic, the Code of Conduct, training and the annual independence/confirmation process, which all of our professionals are required to complete.

Our information protection requirements are set out in the Global Information Security Policy published by KPMG International. Compliance monitoring against these standards and policies is carried out through our internal information security audit programme and is supplemented by annual checks by the Global Information Protection Group.

In addition, KPMG LLP is certified to ISO27001, the international standard for Information Security Management. The scope of our certification includes our IT processes, IT business assets, audited entity data in core systems, offices and physical locations. During the year, the Information Governance Oversight Committee oversees and steers all aspects of information governance within the UK firm including the setting of policies and procedures, monitoring the effectiveness of key information protection controls, and providing strategic direction on the information protection programme.

Audit Quality Framework

7. Commitment to continuous improvement



- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

We focus on ensuring our work continues to meet the needs of participants in the capital markets. To achieve this goal, we employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for continuous improvement.

Internal monitoring

Details of internal monitoring including the Quality Performance Review, Risk Compliance Programme and Global Compliance Reviews processes are included on page 12.

KPMG UK's Internal Audit function is led by a partner from the firm's Risk Consulting practice and provides independent and objective assurance on the adequacy and effectiveness of our governance, risk management and internal control processes. The Internal Audit plan was approved at the start of the year and was updated during the year to ensure that it remained appropriate and reflected changes to business and emerging risks

including the heightened risks presented by the COVID-19 pandemic. The plan is devised by understanding the risk profile of the firm (whether strategic, operational, or change risks), considering other risk management, compliance and assurance activities and, therefore, agreeing what internal audit work is required. In reviewing and approving the internal audit plan, the Audit Committee ensured a balance between coverage of the highest priority risks and maintaining appropriate coverage of the core business processes. The Internal Audit plan in place for 2020, included areas of focus such as information protection recognising the importance of this area in the current environment.

Audit Quality Framework

FRC thematic reviews

The AQR team also undertakes thematic reviews to supplement their annual programme of audit inspections of individual firms. In a thematic review, firms' policies and procedures in respect of a specific aspect of auditing, and their application in practice, are reviewed.

During the year ended 30 September 2020, the FRC published thematic reviews in respect of The Use of Technology in the Audit of Financial Statements in March 2020 and Audit Quality Indicators in May 2020.

We have considered the findings and examples of best practice within each of these reports and determined actions where appropriate. We have included further detail on our technology based audits tools on page 8.

Post 30 September 2020, the FRC published its Climate Thematic Review. We will set out the findings from this review in next year's report.

Audited entity feedback

Understanding the needs of audited entities and what they value is of critical importance. Audited entity feedback helps us to develop strong relationships and ensure delivery of services that not only meet, but exceed, expectations. Senior leadership has visibility of all feedback to identify trends and ensure appropriate response.

Monitoring of complaints

We have procedures in place for monitoring and addressing complaints received relating to the quality of our work. These procedures are detailed on our website and are also included in our general terms of business. All formal complaints are investigated under the authority of the Chief Risk Officer.

Interaction with regulators

At a global level KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss issues identified and actions taken to address such issues at a network level. In the UK, we have regular meetings and ongoing dialogue with the AQR team of the FRC which is responsible for the monitoring of the audits of all listed and other major public interest entities.

In Gibraltar representatives of KPMG Limited attend periodic meetings with the Financial Services Commission to discuss emerging matters with respect to EU public interest entities as required by EIOPA.



Senior leadership has visibility of all feedback. They use it to identify trends and respond appropriately.

Financial information

Relative importance of statutory audit work

2020	KPMG Limited £k	KPMG Advisory Limited, £k	Total £k
Revenue			
Audit and directly related services	1,219	-	1,219
Other assurance work	3	3	6
	1,222	3	1,225
Tax and other non-audit services	-	183	183
	1,222	186	1,408

Total KPMG Gibraltar revenues can be further analysed on the following basis:

2020	Total £k
Revenue	
Audit and directly related services for audited entities	1,219
Non-audit services for audited entities	41
Non-audit services for non-audit clients	148
	1,408

Audit and directly related services reflects revenue of £380k in respect of Gibraltar-registered EU public interest entities and their subsidiaries and £839k audit and related services provided to other entities.

Basis of partner remuneration

The remuneration model drives and rewards behaviour consistent with our strategy and values, reflects an individual's medium-term value as well as current year performance against their goals, and promotes clarity and transparency amongst partners as members of the LLP, regarding their own remuneration and that of other members.

A member's remuneration generally comprises three elements as described below based on benchmark pay. Benchmark pay is determined in relation to an individual's medium-term value to the group.

Each member's benchmark pay is determined with quality (as the primary factor within Audit), past performance, market value of skill set, individual capability, leadership qualities and overall contribution to the group taken into account.

Profit allocated to members is distributed as follows:

- Basic profit share – each member will receive 60% of their benchmark pay;
- One firm profit share – each member will receive an agreed percentage of their benchmark pay (the same percentage applies to all members) which is determined by reference to the firm's overall profitability;
- Discretionary profit share – paid from a pool of profit that is equal to the aggregate of the one firm profit shares and is allocated to members on the basis of their relative in-year performance against their balanced scorecard goals.

The LLP Partnership Agreement requires that 90% of the group profits, excluding the results of certain overseas subsidiaries (adjusted group), must be allocated to members. The Board's discretion in respect of amounts not allocated is subject to a maximum retention of 10% of the accounting profits of the group for the period. Any proposal of the Board to retain more than 10% of the accounting profits of the group for the period is subject to a member vote.

During the year members receive monthly drawings and, from time to time, additional profit distributions. The level and timing of the additional profit distributions are decided by the Executive Board, taking into account the partnership's cash requirements for operating and investing activities. Both the monthly drawings and profit distributions are reclaimable from members until the date on which profits are allocated.

Putting quality at the core of remuneration

Audit quality is the most important metric for measuring the performance – and by extension, the reward – of audit partners and audit professionals. The Quality and Performance Matrix we use to assess an individual's performance looks at quality and how it interacts with other factors. Their overall rating depends on the interaction of both.

We use a quality scorecard to collate both objective and subjective evidence of an auditor's performance. Evidence includes indicators from reviews and inspections, and feedback on the auditor's engagement with the quality process.

The Head of Audit Quality, Chief Auditor and Audit Risk Management Partner contribute to the assessment of performance in respect of risk and quality matters and this assessment is factored into the remuneration discussions for audit partners. The governance of this process is overseen by the Audit Board.

Auditors must be independent to do their jobs effectively. As such, everyone in the Audit practice, and staff from other areas of the firm that contribute to audit, are not evaluated, promoted or remunerated for the selling of non-audit services to companies we audit. There are no incentives for auditors to do this.

Public Interest Entities listing

Disclosures in accordance with Article 13.2 (f) of the EU Audit Regulation

The list below has been prepared in accordance with Article 13 of the EU Audit Regulation and is in respect of the year ended 30 September 2020. The list includes the entities which meet all of the following conditions: i) the entity is incorporated/established in Gibraltar; ii) KPMG Limited signed an audit report on the entity's annual financial statements during the year ended 30 September 2020; iii) on the date the audit report was signed the entity was an EU PIE; and iv) the audit was a statutory audit within the meaning of section 257 of the Gibraltar Companies Act.

Pursuant to the EU Audit Regulation, the definition of a PIE includes: i) Companies with transferable securities listed on EU regulated markets (as opposed to all markets in the EU) and governed by the law of an EU member state; ii) Credit institutions authorised by EU member states authorities; iii) Insurance undertakings authorised by EU member state; and iv) Other entities a member state may choose to designate as a PIE.

Acromas Insurance Company Limited

Advantage Insurance Company Limited

Argus Insurance Company Limited

Lighthouse General Insurance Company Limited

Lighthouse Life Assurance Company Limited

Mulsanne Insurance Company Limited



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