



# Momentum, Trust & Growth

**Transparency Report 2018**

January 2019

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[www.kpmg.com.mt](http://www.kpmg.com.mt)

# Contents

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Introducing the Transparency Report	4
Who we are	7
Our structure and governance	8
System of quality control	12
Financial information	40
Partner remuneration	41
Network arrangements	42
Statement by the Partnership Board	46
Public Interest Entities (PIEs)	48
Appendix - Partners & Directors	50

# Introducing the Transparency Report

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**This Transparency Report contains information in accordance with the disclosure requirements of Section 18 of the Accountancy Profession Act (CAP, 281 Laws of Malta) relevant to audit firms which carry out statutory audits of public interest entities. This report provides information as to how we are organised, managed and how we ensure quality across all our service lines with a particular focus on audit.**

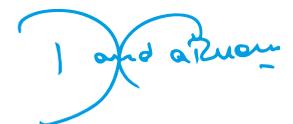
This Transparency Report covers the period from January 2018 to September 2018, as the result of the change in the firm's financial year end from 31 December to 30 September in order to coincide with the KPMG International financial year end.

KPMG is committed to maintain the highest professional and ethical standards of work. Our dedication to these values is not only manifested in KPMG's Code of Conduct or internal policies, but first and foremost it is reflected in our daily actions. We are continuously striving to enhance audit quality and this responsibility remains our absolute priority. We are truly dedicated to meet our obligations to the stakeholders as well as the companies subject to audit, and society as a whole. Our culture of 'doing the right thing' means the way we work is just as important as the work itself.

Commitment to quality and service excellence is present in every project we undertake. It begins with the outstanding people we recruit and the

values promoted by our leaders and embraced by each and every one of our employees. The starting point for the business is the professionalism and integrity of our people. As part of our responsibility to stakeholders, we aim to be transparent and open in communicating how we address audit quality. Examples of corporate failure and fraud in the last decade have highlighted a gap between what society expects of an audit and what an audit has been designed to do. We continue to work hard to contribute positively to this debate and identify ways of closing this expectation gap.

We believe that this report is a useful insight into how we manage our firm and uphold the principles of quality and good corporate governance. We expect that this report creates the opportunity for feedback from our stakeholders and we would very much welcome your views as to how we can continue to improve the quality of the information presented herein in future years.



**David Caruana**  
Compliance Principal



**Hilary Galea-Lauri**  
Head of Audit - Technical & Quality Matters

25 January 2019



## 2

# Who we are

### 2.1 Our business

KPMG in Malta is a professional services firm that delivers a range of Audit, Tax and Advisory services to a broad range of domestic and international clients across all sectors of business and the economy. We operate from Portico Building, Marina Street, Pietà, Malta and

employed an average of 372 people during the 9 month period to 30 September 2018.

Full details of the services offered by KPMG in Malta can be found on our website [www.kpmg.com.mt](http://www.kpmg.com.mt)

### 2.2 Our strategy

Our strategy is determined by the Firm's Partnership Board. We have set out our ambition to be the clear choice professional service firm in Malta. We recognise in achieving this that our commitment to quality in everything we do is the most important element of

our strategy, our reputation depends on it, as does our ability to achieve all other elements of our strategy.

# Our structure and governance

## 3.1 Legal structure

**KPMG in Malta is affiliated with KPMG International Cooperative (“KPMG International”). KPMG International is, a Swiss cooperative which is a legal entity formed under Swiss law. It is the entity with which all the member firms of the KPMG network are affiliated. Further details about KPMG International and its business activities, including our relationship with it, are available in section ‘Governance and Leadership’ to the KPMG International Transparency Report.**

KPMG in Malta is part of a global network of professional services firms providing Audit, Tax, and Advisory services to a wide variety of public and private sector organisations. KPMG International’s structure is designed to support consistency of service quality and adherence to agreed values wherever its member firms operate.

KPMG in Malta is a civil partnership constituted under the laws of Malta and is registered as an audit firm with the Accountancy Board in terms of the Accountancy Profession Act (CAP. 281). The Compliance Principal in terms of the Accountancy Profession Act (CAP. 281) is David Caruana.

KPMG in Malta is wholly owned, and its voting rights are fully held, by its partners all of whom are professionals actively involved in the provision of audit, tax and advisory services to the firm’s clients.

At 30 September 2018 KPMG in Malta had two wholly-owned subsidiaries, namely KPMG Holding Limited and KPMG Advisory Services Limited. Most services, including all audit services, are provided by KPMG. KPMG Holding Limited acts as the “paymaster” for the practice whilst KPMG Advisory Services Limited is licensed to provide recruitment services under the Employment and Training Services Act. KPMG Holding Limited also owns 100% holding of KPMG Talent (P5+) Limited.

KPMG and its subsidiary undertakings in Malta are collectively referred to as KPMG in this report, unless the context clearly indicates otherwise. The contents of this report apply to the whole KPMG practice in Malta including that of its subsidiary undertakings.

During the period from 1st January 2018 to 30th September 2018 there were 13 partners in KPMG in Malta.

## 3.2 Name, ownership and legal relationships

**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.**

Member firms are generally locally owned and managed. Each member firm is responsible for its own obligations and liabilities. KPMG International and other member firms are not responsible for a member firm’s obligations or liabilities.

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

## 3.3 Responsibilities and obligations of member firms

**Under agreements with KPMG International, member firms are required to comply with KPMG International’s policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools.**

Each member firm takes responsibility for its management and the quality of its work.

Member firms commit to a common set of KPMG Values (see section 4.1).

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

### 3.4 Governance structure

KPMG in Malta applies high standards of corporate governance. KPMG's governance structure as reflected in the Partnership Agreement is summarised in the figure below.

## Governance Structure - Partners

### Executive Management Committee

#### Chair:

Senior Partner

#### Members:

Head of Audit – Operations  
Head of Audit – Technical & quality matters  
Head of Tax  
Head of Advisory (Head of Business Development)  
Quality & Risk Management Partner  
Head of Finance  
People Performance Culture (PPC) Partner

### Quality and Risk Management Committee

#### Chair:

Quality & Risk Management Partner  
(Compliance Principal)

#### Members:

Senior Partner  
Head of Audit - Technical & quality matters  
Tax Partner  
Head of Finance  
Head of IT Services

### EMC Sub-Committees

#### PPC Committee

Chair: PPC Partner

#### Business Development Committee

Chair: Head of Markets

#### Audit Committee

Co-chair: Heads of Audit  
Members: Audit partners  
& directors

#### Tax Committee

Chair: Head of Tax  
Members: Tax partners  
& directors

#### Advisory Committee

Chair: Head of Advisory  
Members: Advisory  
partners & directors

### Partnership Board

The key governance and management body of KPMG in Malta is the Partnership Board which is made up of all the partners of KPMG in Malta. The Senior Partner chairs the Partnership Board. All the voting rights of the firm are held by the partners. The Partnership Board is responsible, amongst others, for setting the policies,

direction and strategy of the firm as well as for the appointment of partners and staff to carry out the managerial roles within the firm's governance structure. 9 partners' meetings were held during the period ending 30 September 2018.

### Executive Management Committee

The Executive Management Committee (EMC) is responsible for formulating concrete proposals for the consideration of the partners' meeting on a variety of issues including the firm's vision and strategy, financial management, and human resources strategies and policies. It is also responsible for co-ordinating

financial reporting and control, including working capital management on a day-to-day basis as well as co-ordinating the performance of the firm on a cross-functional basis. The EMC, which is chaired by the firm's senior partner, met 27 times during the period ending 30 September 2018.

### The Quality and Risk Management Committee

The principle role of the Quality and Risk Management Committee is to provide oversight of quality and risk management matters across the firm. As part of its role it oversees that a culture of quality and integrity is maintained within the firm and, where required, it will act as a sounding board to the Risk Management Partner on the policies and procedures

relating to professional risk management, ethics and independence, quality control and compliance. The Committee also considers the impact of the key findings from our compliance quality monitoring programmes and the adequacy of proposed remedial actions.

### Functional partners' committees

The partners and directors working within each of the firm's three functions form part of a partners' committee for that function, chaired by the respective head of function. The objective of these committees is to ensure the effective management of each respective function within the firm.

# 4

# System of quality control

## Overview

**A robust and consistent system of quality control is an essential requirement in performing high quality services. Accordingly, KPMG International has quality control policies that apply to all member firms.**

These are included in KPMG’s Global Quality and Risk Management Manual (Global Q&RM Manual) available to all KPMG personnel. These policies and associated procedures are designed to assist member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances as well as help member firm personnel act with integrity and objectivity and perform their work with diligence.

These policies and procedures are based on the International Standard on Quality Control (ISQC 1) issued by the International Auditing and Assurance Standards Board (IAASB), and on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). Both of these are relevant to member firms that perform statutory audits and other assurance and related services engagements.

KPMG in Malta is required to implement KPMG International policies and procedures and also adopts additional policies and procedures that are designed to address rules and standards issued by the Accountancy Board in Malta and other relevant regulators as well as applicable legal and regulatory requirements<sup>1</sup>.

Amendments to risk and quality policies, including ethics and independence policies, are included in quality and risk management alerts and are communicated by email. KPMG in Malta is required to implement changes specified in the email alerts and this is checked through internal monitoring.

Quality control and risk management are the responsibility of all KPMG personnel. This responsibility includes the need to understand and adhere to firm policies and associated procedures in carrying out their day-to-day activities. The system of quality control applies to KPMG personnel wherever they are based.

While many KPMG’s quality control processes are cross-functional, and apply equally to tax and advisory work, the remainder of this section focuses on the delivery of quality audits.

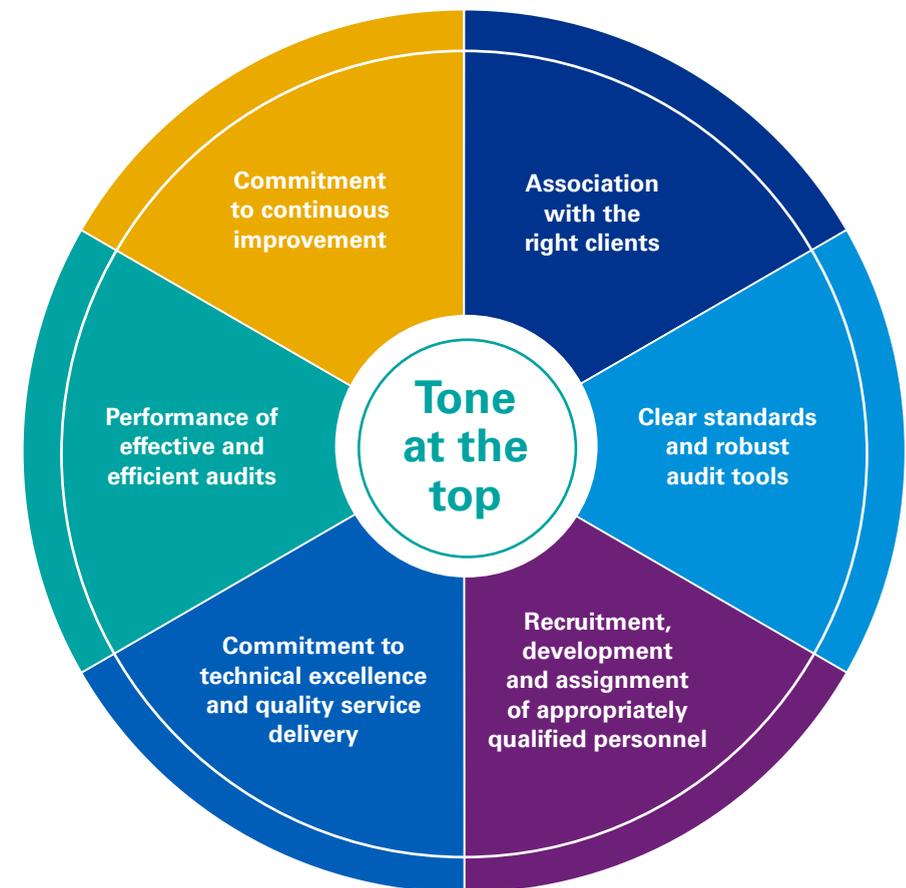
## Audit Quality Framework

At KPMG in Malta, audit quality is not just about reaching the right opinion, but how that opinion is reached. It is about the processes, thought and integrity behind the auditor’s report. The outcome of a quality audit is the delivery of an appropriate and independent opinion in compliance with relevant professional standards and applicable legal and regulatory requirements.

To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver a quality audit, KPMG International has developed the Audit Quality Framework. This framework uses a common language that is adopted by all KPMG member

firms, including KPMG in Malta to describe what the KPMG network believes drives audit quality, and to highlight how every audit professional at each KPMG member firm contributes to the delivery of audit quality.

‘Tone at the top’ sits at the core of the Audit Quality Framework’s seven drivers of audit quality and helps ensure that the right behaviors permeate across the entire KPMG network. All of the other drivers create a virtuous circle because each driver is intended to reinforce the others. Each of the seven key drivers is described in more detail in the following sections of this report.



## 4.1 Tone at the top

**The culture of KPMG International and KPMG member firms is underpinned by a strong set of values and supporting policies and processes and enables the right attitudes and behaviours to permeate throughout the KPMG network.**

Our global leadership, working with regional and member firm leaderships, plays a critical role in establishing our commitment to quality and the highest standards of professional excellence. A culture based on quality, integrity and ethics is essential in an organisation that carries out audits and other services on which stakeholders and investors rely.

At KPMG in Malta we promote a culture in which consultation is encouraged and recognised as a strength.

Tone at the top means that leadership of KPMG in Malta demonstrates quality, ethics and integrity and communicates its commitment to clients, stakeholders and society at large.

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG value: "Above all, we act with integrity." Integrity means constantly striving to uphold the highest professional

standards, providing sound good-quality advice and rigorously maintaining our independence.

The KPMG values, which have been explicitly codified for a number of years, are embedded into the working practices and values-based compliance culture at KPMG in Malta. The KPMG values form the foundation of our culture set the tone at the top. They also form the foundation of the KPMG approach to audit and shape how we work together.

We communicate the KPMG values clearly to our people and embed them into our people processes – induction, performance development and reward. Specific consideration is given to our KPMG values for more senior promotion.

KPMG people work together to deliver value to clients. We believe strongly in a common set of shared values which guide our behaviour when dealing with both clients and each other.

## KPMG Values



### We lead by example

At all levels we act in a way that exemplifies what we expect of each other and our clients



### We work together

We bring out the best in each other and create strong and successful working relationships



### We respect the individual

We respect people for who they are and for their knowledge, skills and experience as individuals and team members



### We seek the facts and provide insight

By challenging assumptions and pursuing facts, we strengthen our reputation as trusted and objective business advisers



### We are open and honest in our communication

We share information, insight and advice frequently and constructively and manage tough situations with courage and candour



### We are committed to our communities

We act as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities and protecting the environment



### Above all, we act with integrity

We constantly strive to uphold the highest professional standards, provide sound advice and rigorously maintain our independence

## KPMG Global Code of conduct

**KPMG’s commitment to integrity and quality is enshrined in the KPMG values that lie at the heart of the way we do things. They define KPMG’s diverse and inclusive culture and our commitment to the right personal and professional conduct.**

The KPMG values emphasise that, above all, KPMG personnel act with integrity, uphold the highest professional standards and provide sound advice while rigorously maintaining independence and complying with laws, regulations, and professional standards. The KPMG values are communicated clearly to all people and are embedded into member firms’ people

## KPMG in Malta Code of Conduct

**KPMG in Malta has fully adopted the KPMG Global Code of Conduct.**

The KPMG Global Code of Conduct lays out the expectations of ethical behavior for all partners and employees at KPMG and is built on the foundation of the KPMG values, the shared set of beliefs and principles at KPMG. The KPMG Global Code of Conduct emphasises that each partner and employee is personally responsible for following the legal, professional, and ethical standards that apply to his or her job function and level of responsibility. The KPMG Global Code of Conduct sets out our commitments and includes provisions that require KPMG in Malta personnel, in summary to:

- comply with all applicable laws, regulations, professional standards and KPMG in Malta policies
- work with the right clients and third parties
- focus on quality
- maintain our objectivity and independence
- not tolerate any illegal or unethical acts, committed within KPMG in Malta, by clients or suppliers, or public officials with whom we deal
- protect information
- compete fairly
- help our people to be extraordinary
- be responsible corporate citizens
- build public trust.

processes — induction, performance development and reward.

Building on the KPMG Values is the KPMG Global Code of Conduct. Member firms, including KPMG in Malta are required to adopt, as a minimum, the Global Code of Conduct.

All KPMG in Malta personnel are required to:

- comply with the Global Code of Conduct and confirm their compliance with the Code of Conduct upon joining the firm, and annually thereafter; and
- complete regular training covering the Code of Conduct upon joining the firm and on a biennial basis thereafter.

Individuals are encouraged to speak up when they see something that makes them uncomfortable or that is inconsistent with the KPMG values. Moreover, everyone at KPMG is responsible for reporting, and is required to report, any activity that could potentially be illegal or in violation of the KPMG values, KPMG policies, applicable laws, regulations or professional standards.

We have procedures and established channels of communication so that our personnel can report ethical and quality issues. Retaliation is prohibited against individuals who ‘raise their hand’ and speak up in good faith.

In addition, the [KPMG International hotline](#) is a mechanism for all KPMG partners, employees, clients and other external parties to confidentially report concerns they have relating to certain areas of activity by KPMG International itself, KPMG member firms or the senior leadership or employees of a KPMG member firm.

At KPMG in Malta, we regularly monitor the extent to which our people feel we live the KPMG values through the Global People Survey (refer to section 4.5.6).

## 4.2 Leadership responsibilities for quality and risk management

KPMG in Malta demonstrates commitment to quality, ethics and integrity, and communicates our focus on quality to clients, stakeholders and society. Our leadership plays a critical role in setting the right tone and leading by example – demonstrating an unwavering commitment to the highest standards of professional excellence and championing and supporting major initiatives.

Our leadership team is committed to building a culture based on quality, integrity and ethics, demonstrated through their actions – written and video communications, presentations to teams and one-to-one discussions.

The following individuals have leadership responsibilities for quality and risk management at KPMG in Malta.

### Senior Partner

In accordance with the principles set out in ISQC1, our Senior Partner, Tonio Zarb, has assumed ultimate responsibility for KPMG in Malta’s system of quality control. Details of some of the measures that he and the rest of the Partnership Board have taken to ensure that a culture of quality prevails within KPMG in Malta, are set out in this section of the report.

### Risk Management Partner

Operational responsibility for the system of quality control, risk management and compliance in KPMG in Malta has been delegated to the Risk Management Partner (RMP) who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for KPMG in Malta. The RMP has a seat on the firm’s Executive Management Committee, chairs the Quality and Risk Management Committee, and has a direct reporting line to the Senior Partner. The RMP consults with the appointed Area Quality and Risk Management Leader. This underlines the importance that the group places on risk and quality issues. The Risk Management Partner is supported, as appropriate, by partners and professionals in each of the functions.

### Ethics and Independence Partner

The Ethics and Independence Partner has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG in Malta and reports on ethics and independence issues to the Senior Partner.

### The Audit, Tax and Advisory functions

#### – Function Heads

The three heads of the client service functions (Audit, Tax and Advisory) are accountable to the Senior Partner for the quality of service delivered in their respective functions. Between them, they determine the operation of the risk management, quality assurance and monitoring procedures for their specific functions within the framework set by the Risk Management Partner. These procedures make it clear that at the engagement level, risk management and quality control is ultimately the responsibility of all professionals.

KPMG in Malta’s Heads of Audit are responsible for leading a sustainable high-quality Audit practice that is attractive to KPMG personnel. This includes:

- setting the right ‘tone at the top’ by demonstrating an unwavering commitment to the highest standards of professional excellence, including scepticism, objectivity, and independence
- developing and implementing strategies to monitor and maintain knowledge and skills required of partners and employees to fulfil their professional responsibilities
- working with the Risk Management Partner to monitor and address audit quality and risk matters as they relate to the Audit practice, including an annual evaluation of activities considered to be key to audit quality.

### Investing in continuous improvement

At a global level, KPMG International has introduced a number of changes as the KPMG network continues to invest in continuous improvement. These include the creation of the Global Audit Quality Committee of the Global Board, comprised of Senior Partners from the largest firms in the KPMG network, and the appointment of a dedicated Global Head of Audit Quality who reports to the committee.

## 4.3 Association with the right clients

### 4.3.1 Acceptance and continuance of clients and engagements

One of the keys of managing audit quality is to understand the nature of our clients and the issues they face and build a robust audit response to the identified risks.

We understand our clients are linked to the quality of our work and our reputation. Rigorous client and engagement acceptance and continuance policies and processes help protect KPMG's reputation, support the

KPMG brand and are an important part to our ability to provide high-quality professional services.

Accordingly, KPMG International has established policies and procedures which all member firms are required to implement in order to decide whether to accept or continue a client relationship, and whether to perform a specific engagement for that client.

### 4.3.2 Client and engagement acceptance process

#### Client evaluation

KPMG in Malta undertakes an evaluation of every prospective client.

This involves obtaining sufficient information about the prospective client, its key management and significant beneficial owners and then properly analysing the information to be able to make an informed acceptance decision. This evaluation includes completion of a questionnaire to assess the client's risk profile and obtaining background information on the client, its key

management, directors and owners. In addition, we obtain additional information required to satisfy our local legal and regulatory requirements.

A second partner, as well as the evaluating partner, approves each prospective client evaluation. Where the client is considered to be 'high' risk the Risk Management Partner or a sufficiently skilled and experienced delegate is involved in approving the evaluation.

#### Engagement evaluation

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors are considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel™, KPMG's conflicts and independence checking system), intended purpose and use of engagement deliverables, as well as factors specific to the type of engagement. For audit services, these include the competence of the client's financial management team and the skills and experience of personnel assigned to staff the engagement. The evaluation is made in consultation with other senior KPMG in Malta personnel and includes review by the quality and risk management leadership as required.

Where audit services are to be provided for the first time, the prospective engagement team is required to perform additional independence evaluation procedures including a review of any non-audit services provided to the client and of other relevant business and personal relationships.

Similar independence evaluations are performed when an existing audit client becomes a public interest entity or additional independence restrictions apply following a change in the circumstances of the client.

We follow specific procedures (detailed further in section 4.4.2.7) to identify and evaluate threats to independence for prospective audit clients that are public interest entities.

Depending on the overall risk assessment of the prospective client and engagement, additional safeguards may be introduced to help mitigate the identified risks. Any potential independence or conflict of interest issues are required to be documented and resolved prior to acceptance.

A prospective client or engagement will be declined if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional standards and our policies, or if there are other quality and risk issues that cannot be appropriately mitigated.

### 4.3.3 Continuance process

KPMG in Malta undertakes an annual re-evaluation of all its audit clients. The re-evaluation identifies any issues in relation to continuing association and mitigating procedures that need to be put in place (this may include the assignment of additional professionals such as an Engagement Quality Control (EQC) reviewer or the need to involve additional specialists on the audit).

Recurring or long running non-audit engagements are also subject to re-evaluation.

In addition, clients and engagements are required to be re-evaluated if there is an indication that there may be a change in the risk profile.

### 4.3.4 Withdrawal

Where we obtain information that indicates that we should withdraw from an engagement or from a client relationship, we consult internally and identify any required legal, professional and regulatory

responsibilities. We also communicate as necessary with those charged with governance and any other appropriate authority.

### 4.3.5 Client portfolio management

Our leadership appoints engagement leaders that have the appropriate competence, capabilities, time and authority to perform the role for each engagement.

We review each audit engagement leader's client portfolio at least annually in individual discussions with the audit leader. The reviews consider the industry, nature and risk of the client portfolio as a whole along with the competence, capabilities and capacity of the leader to deliver a quality audit for every client.

## 4.4 Clear standards and robust audit tools

**All KPMG International and KPMG in Malta professionals are expected to understand, apply and adhere to KPMG policies and procedures (including independence policies) and are provided with a range of tools and guidance to support them in meeting these expectations. The policies and procedures we set for audit engagements incorporate the relevant requirements of accounting, auditing, ethical, and quality control standards, and other relevant laws and regulations.**

### 4.4.1 Our approach to audit

KPMG has been investing significantly in evolving the network's audit capabilities and will continue to do so in the coming years including a new global electronic audit workflow delivered through KPMG Clara platform – KPMG's smart, modular audit platform – capable of continually integrating new and emerging technologies, with advanced capabilities embedded that leverage

data, automation, and visualization. Data & Analytics (D&A) is integral to the way how KPMG member firms obtain audit evidence and interact with clients in the digital era.

KPMG's high-quality audit process will continue to include:

- **timely partner and manager involvement** throughout the engagement
- **access to the right knowledge** including involvement of specialists, training and experience requirements and relevant industry expertise
- **critical assessment of all audit evidence obtained during the audit**, exercising appropriate professional judgment
- **ongoing mentoring, supervision and review** of the engagement team
- managing and documenting the audit.

#### 4.4.1.1 Consistent audit methodology and tools

Significant resources are dedicated to keeping KPMG's standards and tools complete and up to date. The KPMG audit methodology, developed by the Global Services Centre (GSC), is based on the requirements of International Standards on Auditing (ISAs). The KPMG audit methodology is set out in the KPMG Audit Manual ("KAM") and includes additional requirements that go beyond the ISAs and which KPMG International believes enhance the quality of the audit. The methodology emphasises applying appropriate professional skepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence. Enhancements to the audit methodology, guidance and tools are made regularly to be in compliance with standards, emerging auditing areas of focus and audit quality results (internal and external). Key topics include accounting estimates, internal control, revenue recognition, group audits, audit sampling and risk assessment.

KPMG member firms may add local requirements and/or guidance in KAM to comply with additional professional, legal, or regulatory requirements.

KAM contains examples and guidance for, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks.

The KPMG audit methodology encourages use of specialists when appropriate and also requires 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.

The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures

set out in the Global Q&RM Manual that is applicable to all KPMG member firms, functions and personnel and is tailored by KPMG in Malta for any local policies and procedures.

The KPMG audit workflow is enabled through eAudit's, an activity-based workflow and electronic audit file. eAudit is KPMG's audit documentation workflow that allows 75,000+ professionals to complete high quality and consistent audits. eAudit integrates KPMG's audit methodology, guidance and industry knowledge, and the tools needed to execute and document the audit work performed.

eAudit can be "scaled" to present the relevant requirements and guidance, depending on the nature of the entity to be audited and in accordance with professional standards and applicable legal and regulatory requirements. It provides direct access to our audit guidance, professional standards and documentation templates.

Significant investments are underway to revise and enhance the KPMG audit methodology (KAM) and workflow tool (eAudit), with the deployment of KPMG Clara Workflow which is being piloted in 2018, planned for initial deployment globally in 2019, and full deployment beginning in 2020.

#### KPMG Clara, KPMG Clara Workflow and Audit Data & Analytics (D&A)

KPMG International is making significant investments to improve audit quality, drive consistency in execution of audits and strengthen both the member firm and global monitoring of engagements.

##### KPMG Clara

In 2017, KPMG International commenced the global launch of KPMG Clara – KPMG's Smart Audit Platform, bringing together KPMG's Audit Data & Analytics (D&A) capabilities, innovative new technologies, collaboration capabilities and audit workflow.

This represents KPMG's ambition to:

- transform audit execution for our people and clients through new, modern technology-enabled interfaces and collaboration functionality;
- integrate the required capability to digitize the audit and deliver new D&A routines;
- enable an enhanced and re-designed workflow;
- incorporate the development of monitoring capabilities at the engagement-level and across engagement portfolios for use by engagement teams and member firms;
- support Global's leadership's monitoring of the effectiveness of member firm systems of quality control; and
- develop an extendable audit platform to enable member firm customisation and scale, as well as future capabilities.

KPMG Clara also encompasses the tracking of selected engagement-level indicators by engagement teams for an individual engagement and across an engagement portfolio. This provides a summary and visualisation of these indicators to:

- measure audit engagement progress and ensure timely issue resolution;
- facilitate audit execution by providing key indicators for prioritising tasks; and
- highlight unexpected results/relationships that may require further investigation.

KPMG Clara will be enriched over time as emerging technologies continue to transform the audit, with areas like cognitive and predictive technology being channelled through KPMG Clara to deliver ever greater capabilities. Through alliances with some of the world's most advanced technology companies such as Microsoft, KPMG is building the future of audit, aligning with technology leaders to bring new insights faster and, with growing capabilities, deliver

even more value through KPMG member firm audits. KPMG International's investment strategy also includes innovation, working with universities on important applied audit research and working with member firms as they develop advanced technologies.

##### KPMG Clara Workflow

Building on the launch of KPMG Clara in 2017, KPMG International is creating a new workflow tool that will be used by KPMG audit teams to execute and document KPMG audits. It will be intuitive, user-friendly and modern. The new system will genuinely be a workflow – guiding audit teams through a series of steps in a logical sequence, with clearer display of information and visuals, knowledge and guidance available at the moment of need, and with embedded advanced D&A capabilities. The workflow and methodology will also be scalable – adjusting the requirements to the size and complexity of the audit engagement. This globally-driven project will significantly overhaul and redesign the execution of an audit by KPMG professionals and drive improvements in audit quality.

KPMG Clara Workflow will incorporate the development of monitoring capabilities (e.g. data mining) at the engagement level for use by member firms. The KPMG Clara Workflow is being piloted in 2018, with initial deployment globally in 2019 and full deployment beginning in 2020. The predecessor audit workflow tool, eAudit, is expected to be decommissioned in the 2021 fiscal year.

##### Audit data & analytics (D&A)

KPMG's audit, powered by D&A:

- **enhances audit quality;** by providing a deeper understanding of data populations, giving focus to higher risk transactions;
- **is secure;** by restricting access to data both in transit and within KPMG's IT environments; and
- **is transparent;** by facilitating detailed analysis to uncover the reasons behind, and root causes of, outliers and anomalies and provide increased visibility into higher risk transactions and process areas.

D&A tools and routines are built on principles and professional standards underlying an audit and do not relieve auditors of their responsibilities.

## 4.4.2 Independence, integrity, ethics and objectivity

### 4.4.2.1 Overview

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

KPMG International has detailed independence policies and procedures, incorporating the requirements of the IESBA Code of Ethics. These are set out in KPMG's Global Q&RM Manual. Automated tools facilitate compliance with these requirements.

These policies are supplemented by other processes to ensure compliance with the standards issued by the Accountancy Board. These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services.

KPMG International has a Partner-in-Charge of the Global Independence Group, who is supported by a core team of specialists to help ensure that robust and consistent independence policies and procedures

are in place at KPMG member firms and that tools are available to help them and their personnel comply with these requirements.

KPMG in Malta has a designated Ethics and Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG in Malta.

Amendments to KPMG International's ethics and independence policies in the course of the year are included in regular quality and risk communications. Member firms are required to implement changes as specified in the email alerts, and this is checked through the internal monitoring programs.

KPMG in Malta personnel are required to consult with the EIP on certain matters as defined in the Global Q&RM Manual. Consultations may also be required with the Global Independence Group, depending upon the facts and circumstances.

### 4.4.2.2 Personal financial independence

KPMG International policies require that KPMG member firms and KPMG professionals are free from prohibited financial interests in, and prohibited relationships with, KPMG member firm audit clients, their management, directors, and significant owners. The policies also extend the IESBA Code of Ethics restrictions on ownership of audit client securities to every KPMG member firm partner in respect of any audit client of any member firm.

KPMG in Malta professionals are responsible for making appropriate inquiries and taking other appropriate actions on an ongoing basis to ensure that they do not have any personal financial, business or family interests that are restricted for independence purposes.

In common with other KPMG member firms, we use a web-based independence compliance system (KICS) to assist our professionals in complying with personal

independence investment policies. This system contains an inventory of publicly available investments.

Partners and all manager grade and above client-facing personnel are required to use the KICS system prior to entering into an investment to identify whether they are permitted to do so. They are also required to maintain a record of all of their investments in KICS, which automatically notifies them if any investments subsequently become restricted. Newly restricted investments must be disposed of within five business days of the notification. KPMG monitors partner and manager compliance with this requirement as part of our program of independence compliance audits of a sample of professionals.

In 2018, 38 of KPMG personnel were subject to these audits - this included approximately one third of our principals (partners and directors).

### 4.4.2.3 Employment relationships

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

Former members of the audit team or former partners of KPMG in Malta are prohibited from joining an audit client in certain roles unless they have disengaged from all significant connections to KPMG in Malta, including payments which are not fixed and determined and/or would be material to KPMG in Malta and

ceased participating in KPMG in Malta business and professional activities.

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

We communicate and monitor requirements in relation to employment of KPMG in Malta professionals by audit clients.

### 4.4.2.4 Firm financial independence

KPMG member firms must also be free from prohibited interests in, and prohibited relationships with, audit clients, their management, directors and significant owners.

In common with other KPMG member firms, KPMG in Malta uses KICS to record its own investments in SEC entities and affiliates (including funds), locally listed companies and funds, direct and material indirect investments held in pension, and employee benefit

plans (including non-public entities and funds).

Additionally, KPMG in Malta is required to record in the system all borrowing and capital financing relationships, and custodial, trust and brokerage accounts that hold member firm assets.

On an annual basis, KPMG in Malta confirms compliance with independence requirements as part of the Risk Compliance Program.

### 4.4.2.5 Business relationships/suppliers

KPMG in Malta has policies and procedures in place that are designed to ensure its business relationships are maintained in accordance with the IESBA Code

of Ethics and other applicable local independence requirements.

### 4.4.2.6 Business acquisitions, admissions and investments

If KPMG in Malta is in the process of considering the acquisition of, or investment in, a business, it is required to perform sufficient due diligence procedures on the prospective target to identify and address any potential independence and risk management issues

prior to closing the transaction. Specific consultation requirements are applied to enable independence and other issues to be addressed when integrating the business into KPMG in Malta and the wider KPMG network.

#### 4.4.2.7 Independence clearance process

KPMG in Malta follows specific procedures to identify and evaluate threats to independence related to prospective audit clients that are public interest entities; these procedures, also referred to as 'the

independence clearance process,' must be completed prior to accepting an audit engagement for these entities.

#### 4.4.2.8 Independence training and confirmations

All KPMG in Malta Partners and client service professionals as well as certain other individuals, must complete independence training that is appropriate to their grade and function upon joining KPMG Malta and on an annual basis thereafter.

to complete this training within three months of joining the firm.

In addition, certain non-client-facing personnel who work in finance, procurement or sales and marketing departments, and who are at the manager level and above, are also required to undertake anti-bribery training.

New personnel who are required to complete this training must do so by the earlier of (a) thirty days after joining KPMG in Malta or (b) before providing any services to, or becoming a member of the chain of command for, any audit client, including any of its related entities or affiliates.

Upon acceptance of employment, all KPMG personnel are required to confirm that they are in compliance with, and will abide by applicable ethics and independence rules and policies. Thereafter, all KPMG personnel are required to sign an annual confirmation stating that they have remained in compliance with applicable ethics and independence policies throughout the year covered by the confirmation as well as their understanding of, and compliance with, the applicable Code of Conduct. This confirmation is used to evidence the individual's compliance with and understanding of KPMG's independence policies.

We also provide all personnel with training on the Global Code of Conduct and ethical behaviour, including KPMG's anti-bribery policies, compliance with laws, regulations, and professional standards and reporting suspected or actual non-compliance with laws, regulations, professional standards and KPMG's policies on a biennial basis. New personnel are required

#### 4.4.2.9 Non-audit services

We have policies that are consistent with the IESBA principles, Directive 2, Code of Ethics for Warrant Holders issued in terms of the Accountancy Profession Act (CAP 281) and Article 18 in terms of the Accountancy Profession Act (CAP 281) which address the scope of services that can be provided to audit clients.

In addition to identifying potential conflicts of interest, Sentinel™, facilitates compliance with these policies. Certain information on all prospective engagements including service descriptions and fees must be entered into Sentinel™ as part of the engagement acceptance process. Lead audit engagement leaders are required to: maintain group structures for their publicly traded and certain other audit clients as well as their affiliates in Sentinel™, and they are also responsible for identifying and evaluating any independence threats that may arise from the provision of a proposed non-audit service and the safeguards available to address those threats. Sentinel™ enables lead audit engagement leaders for those entities for which group structures are maintained, to review and approve, or deny, any proposed service for those entities worldwide.

We are required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG in Malta. KPMG in Malta's EIP is involved in the review of potential independence issues, and the Global Independence Group is involved in the case of services developed which are intended to be delivered to audit or assurance clients in more than one jurisdiction.

#### 4.4.2.10 Fee dependency

KPMG International's policies recognise that, self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the member firm expressing the audit opinion. They require that, in the event that the total fees from a public interest entity audit client and its related entities represent more than 10 percent of the total fees received by a particular member firm for two consecutive years.

- This would be disclosed to those charged with governance at the audit entity.
- A Senior Partner from another KPMG member firm would be appointed as the EQC reviewer.

No audit client accounted for more than 10 percent of the total fees received by KPMG in Malta over the last two years.

#### 4.4.2.11 Avoiding conflicts of interest

Conflicts of interest can arise in situations where KPMG in Malta personnel have a personal connection with the client which may interfere or be perceived to interfere with their ability to remain objective, or where they are personally in possession of confidential information relating to another party to a transaction. Consultation with the RMP or the EIP is required in these situations.

KPMG in Malta has risk management resources ('Resolvers') who are responsible for reviewing an identified potential conflict and working with the affected member firms to resolve the conflict, the outcome of which must be 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 so that the confidentiality of all clients' affairs is maintained. Such procedures may, for example, include establishing formal dividers between engagement teams serving different clients and making arrangements to monitor the operation of such dividers.

All KPMG member firms and personnel are responsible for identifying and managing conflicts of interest, which are circumstances or situations that have, or may be perceived by a fully informed, reasonable observer, to have an impact on a member firm or its personnel in their ability to be objective or otherwise act without bias.

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

All KPMG member firms must use Sentinel™ for potential conflict identification so that these can be addressed in accordance with legal and professional requirements.

#### 4.4.2.12 Breaches of independence policy

All KPMG in Malta personnel are required to report an independence breach as soon as they become aware of it to the EIP. In the event of failure to comply with our independence policies, whether identified in the compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy.

and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations. Any breaches of auditor independence regulations are reported to those charged with governance at the audit client, on the basis agreed with them – but at a minimum on an annual basis.

KPMG in Malta has a documented disciplinary policy in relation to breaches of independence policies. The disciplinary policy is communicated to all professionals

Matters arising are factored into promotion and compensation decisions and, in the case of engagement leaders and managers, are reflected in their individual quality and risk metrics.

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

Compliance with laws, regulation and standards is a key aspect for all KPMG in Malta personnel. In particular, in KPMG in Malta we have zero tolerance of bribery and corruption.

We prohibit involvement in any type of bribery - even if such conduct is legal or permitted under applicable law or local practice. We also do not tolerate bribery by

third-parties, including by our clients, suppliers or public officials.

Further information on KPMG International anti-bribery and corruption policies can be found on the anti-bribery and corruption site:

<https://home.kpmg/mt/en/home/about/citizenship/anti-bribery-corruption.html>

#### 4.4.2.14 Partner and firm rotation

##### Partner rotation

KPMG International partner rotation policies are consistent with the IESBA Code of Ethics and require all member firms to comply with any stricter local applicable rotation requirements.

KPMG in Malta leaders are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG International policy. These requirements place limits on the number of consecutive years that leaders in certain roles may provide statutory audit services to a client, followed by a 'time-out' period during which time these leaders may not participate in the audit, provide quality

control for the audit, consult with the engagement team or the client regarding technical or industry-specific issues or in any way influence the outcome of the audit.

KPMG in Malta monitors the rotation of audit engagement leaders (and any other key roles, such as the Key Audit Partner and EQC Reviewer, where there is a rotation requirement) and develops transition plans to enable allocation of leaders with the necessary competence and capability to deliver a consistent quality of service to clients. The leader rotation monitoring is subject to compliance testing.

##### Firm rotation

In terms of the 2016 changes to the Companies Act (CAP 386) subject to transitional requirements, a public interest entity shall appoint an auditor for a maximum period of 10 years extended to a maximum period of

20 years subject to a public tender process being held after 10 years. KPMG in Malta has processes in place to track and manage audit firm rotation.

## 4.5 Recruitment, development and assignment of appropriately qualified personnel

**One of the key drivers of quality is ensuring that our professionals have the appropriate skills and experience, passion and purpose to deliver the highest quality in audit. This requires appropriate recruitment, development, promotion, retention and assignment of professionals. The KPMG performance development approach, linked to the KPMG values, and is designed to articulate what is required for success – both individually and collectively. Ensuring Audit quality is an essential element of the training, planning and development underway to support the KPMG Clara Workflow roll-out and the associated updated KPMG audit methodology, with processes embedded in all KPMG learning programs.**

### 4.5.1 Recruitment

KPMG in Malta strives to be an employer of choice by creating an environment where our people can fulfil their potential and feel proud and motivated to give their best.

Our recruiting strategies are focused on drawing entry-level talent from a broad talent base, including working with established universities, colleges and business schools, but also working with secondary schools, helping build relationships with a younger, diverse talent pool at an early age. KPMG in Malta also recruits significant numbers at an experienced hire and Director level.

All candidates submit an application and are employed following a variety of selection processes, which may

include application screening, competency-based interviews, psychometric and ability testing, and qualification/reference checks.

KPMG in Malta recruited over 62 new people (excluding students and trainees) in the period ending 30 September 2018.

Where individuals are recruited for senior grades, a formal independence discussion is conducted with them by the Ethics and Independence Partner or a delegate. KPMG in Malta does not accept any confidential information belonging to the candidate's former firm/employer.

### 4.5.2 Personal development

It is important that all our professionals have the necessary business and leadership skills in addition to technical skills to be able to perform quality work.

KPMG is launching a new Performance Development process which will apply to all member firms called 'Everyone a Leader', where stretching goals should be set and reviewed regularly throughout the year. Leadership competencies will include 'driving quality', 'advancing an ethical environment' and 'making sound decisions'. A goals library is available for colleagues to gain inspiration around what goals they want to set, with one category of goals focussed specifically around quality.

As part of the open approach, stretching goals should be set and reviewed regularly throughout the year. To support this, a goal library is available for colleagues to gain inspiration around what goals they want to set, with one category of goals focussed specifically around quality.

A culture of continuous improvement is encouraged to drive feedback, both positive and developmental, from both junior and senior colleagues, as well as peers. In our performance development approach feedback can be sought and received through two mechanisms, informal feedback, which should be regular and owned by the individual for their own development and growth, and formal feedback through an engagement review form. The engagement review form specifically requests feedback on quality and is required quarterly, and inputs into performance evaluations.

Partners and certain professionals are also required to be evaluated on key quality and compliance metrics. KPMG in Malta monitors quality incidents and maintains quality and compliance metrics for the purpose of partner assignments and also for the purposes of partner evaluation, promotion and remuneration.

In relation to audit, opportunities are provided for professionals to develop the skills, behaviors, and personal qualities that form the foundations of a successful career in auditing. Courses are available to enhance personal effectiveness and develop technical, leadership and business skills.

#### 4.5.3 Inclusion and diversity programmes

KPMG in Malta works hard to foster an inclusive culture. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and perspectives.

Our leadership and management teams also need to reflect the diversity within our firm and the diversity of our clients.

#### 4.5.4 Performance and reward

##### Evaluation process including quality and compliance metrics

KPMG in Malta professionals, including partners, have annual goal-setting and performance reviews. Each professional is evaluated on their agreed-upon goals, demonstration of our leadership competencies, technical capabilities and market knowledge. A culture of continuous improvement is encouraged to drive feedback, both formal and informal, from junior and senior colleagues, as well as peers. Feedback gathered forms an integrated part of performance reviews.

KPMG in Malta monitors quality and compliance incidents and maintains quality metrics in assessing the overall evaluation, promotion and remuneration of partners, directors and managers. These evaluations are conducted by performance managers and partners who are in a position to assess performance.

KPMG in Malta's policy prohibits audit partners from being evaluated on or compensated based on their success in selling non-assurance services to audit clients.

KPMG in Malta professionals are also developed for high performance through access to coaching and mentoring on the job, stretch assignments and rotational and global mobility opportunities.

We believe that the established Global Inclusion and Diversity strategy of KPMG International provides the framework to drive the actions that are necessary to promote inclusive leadership at KPMG in Malta and across the KPMG network.

Formal evaluation of performance is conducted and documented annually. All partners and staff have a suitably qualified performance manager assigned who is in a position to assess performance and propose a performance rating on the basis of their evaluation based on: (i) attainment of agreed-upon goals, (ii) demonstration of the KPMG skills and behaviours for their level, and (iii) technical capabilities and market knowledge. This is achieved through our global performance management process, which is supported by a web-based application.

Assessed skills and behaviours relating to quality include: quality focus and professionalism, technical knowledge, accountability, business and strategic focus, leading and developing people, continuous learning and relationship building. An individual's accountability in achieving quality is a core benchmark used to assess performance and progression within the firm. The result of their annual performance evaluation directly affects compensation of personnel and in some cases their continued association with the firm.

#### Reward

We have compensation and promotion policies that are clear, simple, and linked to the performance review process, which for partners and directors includes the achievement of key audit quality and compliance metrics. This helps our partners and employees know what is expected of them, and what they can expect to receive in return.

Reward decisions are based on consideration of both individual and organisational (member firm) performance. The extent to which our people feel

their performance has been reflected in their reward is measured through the Global People Survey, with action plans developed accordingly.

Partners are remunerated solely out of the profits of the whole firm and are personally responsible for funding pensions and other benefits. Audit partner remuneration setting takes no account of the level of non-audit services provided to the partner's audit clients.

#### Promotion

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

#### Partner admissions

The KPMG in Malta process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. Our criteria for admission to the KPMG in Malta partnership are

consistent with our commitment to professionalism and integrity, quality, and being an employer of choice. These are strongly aligned to KPMG's behavioural capabilities and are based on consistent principles.

#### 4.5.5 Assignment of Professionals

KPMG in Malta has procedures in place to assign both the engagement leaders and other professionals to a specific engagement on the basis of their skill sets, relevant professional and industry experience, and the nature of the assignment or engagement.

Function heads are responsible for the engagement leader assignment process. Key considerations include leader experience and capacity - based on an annual leader portfolio review, to perform the engagement taking into account the size, complexity and risk profile of the engagement and the type of support to be provided (i.e. the engagement team composition and specialist involvement).

Audit engagement leaders are required to be satisfied that their engagement teams have appropriate competencies, training and capabilities including time, to perform audit engagements in accordance with KAM, professional standards and applicable legal and regulatory requirements. This may include involving specialists from our own firm or other KPMG member firms.

When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement leader's considerations may include the following:

- an understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation
- an understanding of professional standards and legal and regulatory requirements
- appropriate technical skills, including those related to relevant information technology and specialised areas of accounting or auditing
- knowledge of relevant industries in which the client operates
- ability to apply professional judgment
- an understanding of KPMG in Malta's quality control policies and procedures
- QPR results and results of regulatory inspections.

#### 4.5.6 Insights from our people – Global People Survey (GPS)

Biennially KPMG in Malta invites all its people to participate in an independent Global People Survey to share their perception about their experience working for KPMG. The GPS provides an overall measure of our people's engagement through an Employee Engagement Index (EEI) as well as insights into areas driving engagement which may be strengths or opportunities. The survey also identifies opportunities to strengthen those level of engagement. Results can be analysed by functional or geographic area, grade, role, gender to provide additional insight. Additional insight is provided on how we are faring on categories known to impact employee engagement.

related to audit quality, upholding the KPMG Values, employee and partner attitudes to quality, leadership and tone at the top.

KPMG in Malta participates in the GPS, monitors results and takes appropriate actions to communicate and respond to the findings of the survey. This includes monitoring GPS results including those related to audit quality and tone at the top, and employee engagement through the EEI. The results of the GPS are also aggregated for the KPMG network and are presented to the Global Board each year and appropriate follow-up actions agreed.

The survey also specifically provides KPMG in Malta leadership and KPMG global leadership with results

### 4.6 Commitment to technical excellence and quality service delivery

All KPMG in Malta professionals are provided with the technical training and support they need. This includes access to specialists and the professional practice department which are made up of senior professionals with extensive experience in audit, reporting and risk management, either to provide resources to the engagement team or for consultation. Where the

right resource is not available within KPMG in Malta, access is provided to a network of highly skilled KPMG professionals in other KPMG member firms.

At the same time, audit policies require professionals to have the appropriate knowledge and experience for their assigned engagements.

#### 4.6.1 Lifetime learning strategy

In addition to personal development, our lifetime learning strategy is underpinned by policies requiring all professionals to maintain their technical competence

and to comply with applicable regulatory and professional development requirements.

#### Formal training

Annual training priorities for development and delivery are identified by the Audit Learning and Development steering groups at global, regional and where applicable, KPMG in Malta. Training is delivered using blend of classroom, digital learning and performance support to assist auditors on the job. Audit Learning and

Development teams work with subject matter experts and leaders from the GSC, the ISG and member firm Department of Professional Practice (DPP), as appropriate, to ensure the training is of the highest quality, is relevant to performance on the job and is delivered on a timely basis.

#### Mentoring and on the job training

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

profiles and learning paths. All classroom courses are reinforced with appropriate performance support to assist auditors on the job.

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

##### Licensing

All KPMG professionals are required to comply with applicable professional license rules and satisfy the Continuing Professional Development requirements in the jurisdiction where they practice. Policies and procedures are designed to facilitate compliance with licence requirements.

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, IFRS.

We require that all client service professionals maintain accreditation with their professional body and satisfy the continuing professional development requirements of the respective body and, where applicable, that they satisfy the Continuing Professional Education

requirements as referred in Directive 1 Accountancy Profession (Continued Professional Education) issued in terms of the Accountancy Profession Act (CAP 281) as holders of the warrant of Certified Public Accountants of the Malta Institute of Accountants. Our policies and procedures are designed to ensure that those individuals that require a license to undertake their work are appropriately licensed.

We have specific accreditation requirements for many of our services (including Deal Advisory services) which ensure that only engagement leaders and employees with the appropriate training and experience are assigned to clients and are appropriately licensed where necessary.

##### Mandatory requirements – IFRS and U.S. GAAP engagements

In addition, we have specific requirements for partners, managers and EQC reviewers working on IFRS engagements in countries where IFRS is not the predominant financial reporting framework.

Similar policies apply to engagements performed outside the U.S. to report on financial statements or financial information prepared in accordance with U.S. GAAP and/or audited in accordance with U.S auditing

standards, including reporting on the effectiveness of the entity's internal control over financial reporting (ICOFR). These require that the partner, manager, and EQC reviewer have completed relevant training and that the engagement team, collectively, has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

#### 4.6.3 Access to specialist networks

KPMG in Malta engagement teams have access to a network of local KPMG specialists as well as specialists in other KPMG member firms.

Specialists who are members of an audit team and have overall responsibility for specialist involvement on an audit engagement have the competencies, capabilities and objectivity to appropriately fulfill their role. Training on audit concepts is provided to these specialists.

The need for specialists (e.g. information technology, tax, valuation, treasury, actuarial, forensic, valuation) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process.

#### 4.6.4 Culture of Consultation

KPMG encourages a strong culture of consultation that supports member firm teams throughout their decision-making processes and is a fundamental contributor to audit quality. KPMG in Malta promotes a culture in which consultation is recognised as a strength and that encourages personnel to consult on difficult or contentious matters.

To assist audit engagement professionals in addressing difficult or contentious matters, protocols have been established for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. In addition, the KPMG Global Q&RM Manual includes mandatory consultation requirements where certain matters are identified such as concerns over client integrity.

#### Technical consultation and global resources

Technical auditing and accounting support is available to all member firms and their professionals through the GSC and the ISG as well as the US Capital Markets Group for SEC foreign registrants.

#### Global Services Centre (GSC)

The GSC's mission is to drive success for KPMG's global network of Audit practices through collaboration, innovation and technology. The GSC develops, maintains and deploys KPMG's audit methodology and technology-based tools used by KPMG audit professionals to facilitate effective and efficient audits.

With three global locations, one in each region, the GSC Audit team is made up of professionals with backgrounds in audit, IT, data science, mathematics, statistics, and more from around the world who bring diverse experiences and innovative ways of thinking to further evolve KPMG's audit capabilities.

#### International Standards Group (ISG)

The ISG works with Global IFRS and ISAs topic teams with geographic representation from around the world to promote consistency of interpretation of IFRS and auditing requirements between member firms, identify emerging issues, and develop global guidance on a timely basis.

Further details about the GSC and ISG and its activities are available in the [KPMG International Transparency Report](#).

#### Member firm professional practice resource

Appropriate consultation support on auditing and technical accounting matters is provided to audit engagement professionals through our professional practice resources (referred to as Department of Professional Practice or DPP). DPP also assists engagement teams where there are differences of opinion either within teams or with the EQC reviewer.

Unresolved differences are required to be escalated to senior partners for final resolution. The ISG is also available for consultation when required.

KPMG International policies include minimum requirements for member firm DPPs.

#### 4.6.5 Developing business understanding and industry knowledge

A key part of quality is having a detailed understanding of the client'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 through the KPMG audit workflow. This

knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes). In addition, industry overviews are available that provide general and business information in respect of particular industries, as well as, a summary of the industry knowledge provided in the KPMG audit workflow.

### 4.7 Performance of effective and efficient audits

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

#### 4.7.1 Ongoing mentoring, supervision and review

We understand that skills build over time and through exposure to different experiences. To invest in the building of skills and capabilities of KPMG professionals, without compromising on quality, KPMG in Malta promotes a continuous learning environment and supports a coaching culture.

The engagement leader, supported by the engagement manager, is responsible for driving a culture of coaching and continuous learning throughout the audit process and setting an example in the performance of the audit to drive a culture of continuous audit quality improvement.

Ongoing mentoring, coaching and supervision during an audit involves:

- engagement leader participation in planning discussions
- tracking the progress of the audit engagement

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

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

#### 4.7.1.1 Timely engagement quality control (EQC) reviewers

EQC reviewers are independent of the engagement team and have the appropriate experience and knowledge to perform an objective review of the more critical decisions and judgments made by the engagement team. They are experienced audit professionals who are independent of the engagement team. They provide an objective review of the more critical and judgmental elements of the audit and appropriateness of the financial statements.

An EQC reviewer is required to be appointed for 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 engagements as designated by the Risk Management Partner or country Head of Audit.

The EQC review takes place before the date of the auditor's report and includes, among other matters:

- Review of selected audit documentation relating to significant judgments the engagement team made and the conclusions it reached
- Review of the financial statements and proposed auditor's report and
- Evaluation of the conclusions reached in formulating the auditor's report and considerations of whether the proposed report is appropriate.

Although the engagement leader is ultimately responsible for the resolution of financial reporting and auditing matters, the EQC reviewer must be satisfied that all significant questions raised have been resolved before an audit can be considered complete.

KPMG in Malta is continually seeking to strengthen and improve the role that the EQC reviewer plays in audits as this is a fundamental part of the system of audit quality control. In recent years a number of actions have been taken to reinforce this, including:

- issuing leading practices guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EQC reviewers
- incorporating specific procedures in the KPMG audit workflow to facilitate effective reviews
- implementing policies relating to recognition, nomination and development of EQC reviewers, as well as monitoring and assessing the nature, timing and extent of their involvement.

#### 4.7.1.2 Reporting

Auditing standards and the requirements of the Companies Act (CAP 386) largely dictate the format and content of the auditors' report that includes an opinion on the fair presentation of the clients financial statements in all material respects.

In preparing auditors' reports, engagement leaders have access to extensive reporting guidance and technical support through consultations with our DPP, especially where there are significant matters to be reported to users of the auditors' report (e.g. a modification to the opinion or through the inclusion of an 'emphasis of matter' or 'other matter' paragraph, as well as key audit matters to be communicated).

#### 4.7.1.3 Insightful, open and honest two-way communication

Two-way communication with those charged with governance, often identified as the audit committee is key to audit quality and a key aspect of reporting and service delivery.

At KPMG in Malta, we stress the importance of keeping those charged with governance informed of issues arising throughout the audit, the need to listen and understand their views. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings, and when appropriate, ongoing informal discussions with management and members of the audit committee.

Communications with audit committees include:

- an overview of the planned scope and timing of the audit, which includes communicating significant risks identified

- significant findings from the audit which may include control deficiencies and audit misstatements
- an annual written communication that states the engagement team and KPMG in Malta has complied with relevant independence requirements; describes all relationships and other matters between KPMG in Malta and the audit client that, in our professional judgment, may reasonably be thought to bear on independence; and states related safeguards we have applied to eliminate (or reduce to an acceptable level) identified threats to independence.

We ensure such communications meet the requirements of professional standards.

#### IFRS Institute

KPMG's Global IFRS Institute provides information and resources to help the KPMG in Malta Board and Audit Committee members, executives, management, stakeholders and government representatives gain insight and access thought leadership about the evolving global financial reporting framework.

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

We take the issue of client confidentiality very seriously. The importance of maintaining confidentiality is continually emphasised through a variety of mechanisms included in Global Code of Conduct, training and the annual affidavit/confirmation processes that all KPMG professionals are required to complete.

We have a formal document retention policy concerning the retention period for audit documentation, and other records relevant to an engagement in accordance

with the relevant IESBA requirements as well as other applicable laws, standards and regulations.

We have clear policies on information security and the protection of confidential information which cover a wide range of areas. Data privacy policies are in place governing the handling of personal information, and associated training is required for all KPMG in Malta personnel.

## 4.8 Commitment to continuous improvement

KPMG commits to continually improve the quality, consistency and efficiency of our KPMG audits. Integrated quality monitoring and compliance programs enable member firms to identify quality deficiencies, to perform root cause analysis and develop, implement and report remedial action plans both in respect of individual audit engagements and our system of quality control. KPMG International's integrated quality and monitoring programs include the Quality Performance Review (QPR) program, the Risk Compliance Program

(RCP) and the Global Compliance Review (GCR) program.

The quality monitoring and compliance programs are globally administered and consistent in their approach across all member firms, including the nature and extent of testing and reporting. KPMG in Malta compares the results of internal monitoring programs with the results of those of any external inspection programs and take appropriate action.

### 4.8.1 Internal monitoring and compliance programs

Our monitoring programs evaluate both:

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

regional and global levels. Our internal monitoring program also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively.

Two KPMG International developed and administered inspection programs are conducted annually across the Audit, Tax, and Advisory functions: QPR and RCP. Additionally all member firms are covered at least every three years by the cross-functional GCR program. Participating in QPR, RCP and GCR is a condition of ongoing membership of the KPMG network.

The results and lessons from the integrated monitoring programmes are communicated internally and the overall results and lessons from the programmes are considered and appropriate action is taken at local,

#### Audit Quality performance reviews (QPRs)

The QPR program assesses engagement level performance and identifies opportunities to improve engagement quality.

#### Risk-based Approach

Each engagement leader is reviewed at least once in a three-year cycle. A risk-based approach is used to select engagements.

The reviews are performed at KPMG in Malta level and are monitored regionally and globally. Member firm Audit QPR reviews are overseen by a senior experienced lead reviewer independent from the member firm.

KPMG in Malta conducts the annual QPR program in accordance with KPMG International QPR instructions.

#### Reviewer selection, preparation and process

There are robust criteria for selection of reviewers. Review teams include senior experienced lead reviewers that are independent of the member firm under review.

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

## Evaluations from Audit QPR

Consistent criteria are used to determine engagement ratings and member firm Audit practice evaluations.

Audit engagements selected for review are rated as 'Satisfactory', 'Performance Improvement Needed' or 'Unsatisfactory'.

### Reporting

Findings from the QPR program are disseminated to member firm professionals through written communications, internal training tools, and periodic partner, manager and staff meetings. These areas are also emphasised in subsequent inspection programs to gauge the extent of continuous improvement.

Lead audit engagement leaders are notified of less than satisfactory engagement (defined as 'Performance Improvement Needed' or 'Unsatisfactory') ratings on their respective cross-border engagements. Additionally, lead audit engagement leaders of parent companies / head offices are notified where a subsidiary/ affiliate of their client group is audited by a member firm, where significant quality issues have been identified during the QPR.

### Risk Compliance Programme ("RCP")

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

control with Global Quality & Risk Management policies and key legal and regulatory requirements relating to the delivery of professional services

- provide the basis for KPMG in Malta to evaluate that the firm and its personnel comply with relevant professional standards and applicable legal and regulatory requirements.

The objectives of the RCP are to:

- monitor, document and assess the extent of compliance of KPMG in Malta system of quality

Where deficiencies are identified, we are required to develop appropriate action plans and monitor the status of each action item.

### Global Compliance Review (GCR) programs

Each member firm is subject to a GCR conducted by KPMG International's GCR team, independent of the member firm, at least once in a 3 year cycle.

financing support and reinforce this commitment

- a member firm's compliance with key KPMGI policies and procedures; and
- the robustness with which the member firm performs its own compliance program (RCP).

The GCR team performing the reviews is independent of the KPMG member firm and is objective and knowledgeable of Global Quality and Risk Management policies. GCRs assess compliance with selected KPMG International policies and procedures and share best practices among member firms. The GCR provides an independent assessment of:

- a member firm's commitment to quality and risk management (tone at the top) and the extent to which its overall structure, governance and

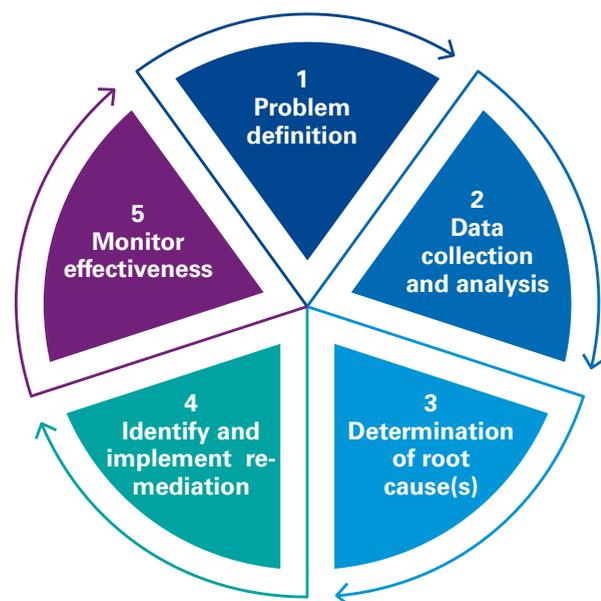
We develop action plans to respond to all GCR findings which are then agreed upon by the GCR team. Our progress on action plans is monitored by a global GCR central team. Results are reported to the Global Quality & Risk Management Steering Group (GQ&RMSG), and where necessary to appropriate KPMG International and regional leadership, to help ensure timely remedial actions taken by the member firm.

## Root Cause Analysis (RCA)

KPMG in Malta performs root cause analysis to identify and address audit quality issues in order to prevent them from recurring and help identify good practices as part of continuous improvement. In 2018, RCA training based on our Global RCA 5 Step Principles was attended by those individuals at KPMG in Malta who

will be performing RCA or directing those performing RCA. The training provides a common platform for advancing the practices and skills associated with resourcing, planning and conducting RCA.

The Global RCA 5 Step Principles are as follows:



It is the responsibility of member firms to perform RCA and thereby identify and subsequently develop appropriate remediation plans for the audit quality issues identified.

KPMG in Malta's Heads of Audit is responsible for the development and implementation of action plans as a result of RCA including identification of solution owners. The Risk Management Partner monitors their implementation.

## 4.8.2 Recommendations for improvements

At a global level, through the GAQSC and the GQ&RMSG, KPMG International reviews the results of the quality monitoring programs, analyses member firm root causes and action plans and develops additional global actions as required.

To date, Global remediation plans developed by KPMG International have been aimed at changing culture and

behaviour across the KPMG network and at driving consistent engagement team performance within KPMG member firms. The remediation plans have been implemented through the development of global training, tools and guidance to drive consistency, ensure the fundamentals are right and that best practice is shared across the KPMG network.

## 4.8.3 External feedback and dialogue

### 4.8.3.1 Regulators

The Quality Assurance Oversight Committee forming part of the Accountancy Board within the Ministry of Finance, the Economy and Investment, performs quality reviews of audit practitioners in Malta. Our firm was reviewed in 2015 and the final report was issued in the first quarter of 2016. No issues were identified that have a material impact on the conduct of our statutory audits.

KPMG International has regular two-way communication with The International Forum of Independent Audit Regulators (IFIAR) to discuss quality, findings and actions taken to address such issues at a network level.

### 4.8.3.2 Client feedback

We proactively seek feedback from clients through in-person conversations and third-party surveys to monitor their satisfaction with services delivered. We endeavour to take this feedback and make dynamic changes at both the engagement level and firm level to meet clients' needs.

In addition we have procedures in place for addressing complaints relating to the quality of our work.

### 4.8.3.3 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 in our contractual agreements.

## 5

# Financial information

## 5.1 Revenue

Fee revenue (including disbursements) earned by the firm for services provided during the nine month period ending 30 September 2018 are summarised in the table below.

2018 Revenue		
January to September 2018		
	€'000	%
Revenue from audit services	6445	38%
Revenue from tax and advisory services	10386	62%
	16831	100%

The total revenue is divided as follows:

	January to September 2018 € '000
Revenues from the statutory audit of annual and consolidated financial statements of public interest entities and entities belonging to a group of undertakings whose parent undertaking is a public interest entity	€1562
Revenues from the statutory audit of annual and consolidated financial statements of other entities	€3918
Revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm	€3493
Revenues from non-audit services to other entities	€7859

Note that Revenue earned from the secondment of audit professionals to the audit function of other KPMG member firms are included as part of revenue from audit services. All other secondment revenue is included under the revenue from tax and advisory services.

## 6

# Partner remuneration

## 6.1 Partners' profit share

Partners are remunerated solely out of the whole profits of the firm and are personally responsible for funding pensions and most other benefits.

There are three elements to partner remuneration:

- Base component – a proportion of the firm's budgeted profits are allocated to partners as base component. The amount of base component reflects the role and seniority of each partner
- Performance related remuneration – rewards

performance in the year by each partner against individual objectives previously agreed

- Residual profit share – the residual profits are shared by the partners in accordance with the terms of the partnership agreement.

There is transparency among partners over the total income allocated to each partner.

## 6.2 Drawings

During the year, partners receive monthly drawings (the amount being dependent on their level of base component) together with additional distributions of

profits from time to time. The timing of the additional distributions of profits is dependent on the firm's working capital requirements.

## 6.3 Remuneration of directors

Directors are salaried employees of the firm and receive a fixed salary plus performance related bonuses.

# Network arrangements

## 7.1 Legal Structure

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law.

KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

One of the main purposes of KPMG International is to facilitate the provision by member firms of high-quality Audit, Tax, and Advisory services to their clients. For example, KPMG International establishes and facilitates the implementation and maintenance of uniform policies, standards of work and conduct by member firms, and protects and enhances the use of the KPMG name and brand.

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 network and the EU/EEA countries in which each network member firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available on <https://assets.kpmg/content/dam/kpmg/xx/pdf/2018/08/eu-and-eea-audit-entities-list-30-06-2018.pdf>

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

Aggregated revenues generated by KPMG audit firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.8 billion during the year ending 30th September 2018. The EU/EEA aggregated

statutory audit revenue figures are presented to the best extent calculable and translated at the average exchange rate prevailing in the 12 months ended 30th September 2018.

\*The financial information set forth represents combined information of the separate KPMG member 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.

## 7.2 Responsibilities and obligations of member firms

Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and is able to adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools.

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

## 7.3 Professional Indemnity Insurance

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.

## 7.4 Governance structure

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

### Global Council

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. It includes representation from 58 member firms that are "members" of KPMG International as a matter of Swiss law. Sublicenses are generally indirectly represented by a member.

It performs functions equivalent to a shareholders' meeting (albeit KPMG International has no share capital and only has members, not shareholders).

## Global Board

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The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International, and approving policies and regulations. It also admits member firms.

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, who is supported by the Executive Committee, consisting of the Global Chairman, the Chairman of each of the regions and currently three other senior partners of member firms. The list of Global Board members, as at 1 October 2018 is available in the [KPMG Global Review](#).

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.

## Global Management Team

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

It is led by the Global Chairman and includes the Global Chief Operating Officer, Global Chief Administrative Officer, global function and infrastructure heads, and the General Counsel.

The list of Global Management Team members as at 1 October 2018 is available in the [KPMG Global Review](#).

## Global Steering Groups

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The Global Steering Groups work closely with regional and member firm leadership to:

- establish and communicate appropriate audit and quality/risk management policies;
- enable effective and efficient risk processes to promote audit quality;
- proactively identify and mitigate critical risks to the network.

The Global Steering Groups act under the oversight of the Global Management Team. 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 [KPMG International Transparency Report](#).

Each member 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 governance arrangements, can be found in section 'Governance and leadership' of the [KPMG International Transparency Report](#).

## 7.5 Area Quality and Risk Management Leaders

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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 activity;
- 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
- monitor the effectiveness of member firm remediation of significant issues, including identification of the root cause(s) of serious quality incidents.

# Statement by the Partnership Board of KPMG in Malta on the effectiveness of quality controls and independence

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**The measures and procedures that serve as the basis for the system of quality control for KPMG in Malta outlined in this report aim to provide a reasonable degree of assurance that the statutory audits carried out by our firm comply with the applicable laws and regulations. Because of its inherent limitations, the system of quality controls is not intended to provide absolute assurance that non-compliance with relevant laws and regulations would be prevented or detected.**

The Partnership Board of KPMG in Malta has considered:

- the design and operation of the quality control systems as described in this report;
- the findings from the various compliance programs operated by our firm (including the KPMG International Review Programs (as described in section 4.8.1) and our local compliance monitoring programs); and
- findings from regulatory inspections and subsequent follow up and/or remedial actions.

Taking all of this evidence together, the Partnership Board of KPMG in Malta confirms with a reasonable level of assurance that the systems of quality control within our firm have operated effectively during the nine month period ending 30 September 2018.

Further, the Partnership Board of KPMG in Malta confirms that an internal review of independence compliance within our firm has been conducted during the nine month period ending 30 September 2018.

Pieta, 25 January 2019

# Public Interest Entities (PIEs)

The list of public interest entity audit clients for which KPMG in Malta has signed an audit opinion during the nine-month period ending 30 September 2018 is given below. The definition of public interest for this purpose is that given under the provisions of the Accountancy Profession Act (cap. 281) issued by the Accountancy Board. In accordance with this definition, public interest entities comprise (a) those entities whose transferable securities are admitted to trading on a regulated

market of any Member State; (b) credit institutions; (c) insurance undertakings; and (d) any other entity as may be prescribed by the Accountancy Board (the Accountancy Board has to date not specified any such additional entities). In addition, the firm carries out audits for several other entities, which though not PIEs by definition are nevertheless entities of significant public interest.

## Notes

(a) Based in Gibraltar operating a branch in Malta.

(b) Audit report for 30 September 2018 signed on 29 November 2018.

(c) Audit report for 30 September 2018 signed on 30 November 2018.

(d) Audit report for the financial year ended 30 June 2018 signed on 30 October 2018.

(e) Audit report for 31 August 2018 signed on 7 November 2018.

(f) Audit report for 31 December 2017 was signed on 25 April 2018 following which we were rotated out because of mandatory rotation rules.

(g) Based in Istanbul, Turkey operating a branch in Malta.

## List of PIE audit clients

Name	Audit Report issued from January to September 2018	Listed Equities	Listed Bonds	"Listed Funds"	Credit Institutions	Insurance Companies
ACL Fund SICAV p.l.c.	✓			✓		
Alpha Quest Funds SICAV p.l.c.	✓		✓			
Argus Insurance Company (Europe) Limited (a)	✓					✓
Bank of Valletta p.l.c.	✓	✓	✓		✓	
Bavaria Reinsurance Malta Ltd	✓					✓
ECCM Bank Plc (b)					✓	
FIMBank p.l.c.	✓	✓			✓	
Grand Harbour Marina p.l.c.	✓	✓	✓			
Hillwood Limited (c)						✓
Izola Bank p.l.c.	✓		✓		✓	
Liberty Global Insurance Company Limited	✓					✓
Mapfre Middlesea p.l.c.	✓	✓				✓
Mapfre MSV Life p.l.c.	✓					✓
Medserv p.l.c.	✓	✓	✓			
Metatron Capital SICAV plc (d)				✓		
Munich Re of Malta p.l.c.	✓					✓
Munich Re PCC Limited	✓					✓
Pilatus Bank p.l.c.					✓	
Platinum Insurance Ltd (e)						✓
R&Q Insurance (Malta) Limited	✓					✓
RS2 Software p.l.c. (f)	✓	✓				
Satabank P.L.C.					✓	
Turkiye Garanti Bankas AS - Malta Branch (g)	✓				✓	
Vilhena Funds SICAV plc	✓			✓		

# Appendix - Partners & Directors as at 1 January 2019

## Partners



**Juanita Brockdorff**  
Partner, Tax Services

Juanita, a lawyer, is a partner in the tax function and focuses on international and European taxation. She is a council member of the Institute of Financial Services Practitioners.



**David Caruana**  
Partner, Advisory Services  
Risk Management and Ethics and Independence Partner  
Member of the EMC  
Compliance Principal

David leads the firm's Deal Advisory and the Accounting Advisory Services teams. A partner for 16 years, he is the firm's Risk Management and Ethics and Independence Partner. David is the Compliance Principal in terms of the Accountancy Profession Act (CAP 281) as well as the firm's Money Laundering Reporting Officer (MLRO). David is also Head of Ethics & Independence for KIG.



**Jonathan Dingli**  
Partner, Advisory Services

Jonathan was appointed Director with effect from 1 January 2015 and Partner with effect from 1 October 2018. He leads a team of professionals within the Accounting Advisory Services (AAS) Team at KPMG in Malta.



**John Ellul Sullivan**  
Partner, Tax Services

John has been appointed Partner with effect from 1 January 2017. John advises a variety of multinationals and high net worth individuals on their international corporate structures, as well as focuses on advising retirement scheme administrators on their operations in Malta. He has been employed with the firm since 2007.



**Doreen Fenech**  
Tax Services & PPC Partner  
Member of EMC

Doreen was appointed partner with effect from 1 January 2015. She has 19 years of experience in domestic and international tax. On 1 October 2018 she was appointed Partner responsible for People, Performance & Culture (PPC).



**Hilary Galea-Lauri**  
Head of Audit – Technical and Quality Matters  
Member of the EMC

Hilary is an audit partner and the lead technical partner on IFRS and the KPMG audit methodology. Hilary chairs the firm's Department of Professional Practice (DPP) and Professional Practice Committee (PPC). He sits on the Quality and Risk Management Committee, and has been a partner for 20 years.



**Noel Mizzi**  
Head of Audit – Operations  
Member of the EMC

Noel is an audit partner specialising in financial services. He forms part of the firm's DPP and PPC Committee. He has been a partner for 20 years.



**Eric Muscat**  
Partner, Advisory Services

Eric is the partner responsible for IT Advisory services. He has been a partner for 20 years.



**Anthony Pace**  
Partner, Tax Services  
Head of Finance  
Member of the EMC

Anthony is a partner in the tax function, particularly specialising in Family Business and Indirect Taxation. He has been a partner for 16 years.



**David Pace**  
Partner, Advisory Services  
Head of Advisory Services  
Member of the EMC

David was appointed partner with effect from 1 January 2015 within the Deal Advisory team, which he joined in 2002. With effect from 1 October 2018, David has been appointed as the Head of Advisory. He is actively involved in assisting with business negotiations and has a lead role in the firm's Merger and Acquisition service offering.



**Giles Schembri**  
Partner, Audit Services

Giles is a partner in the audit department. Over the past 22 years he has principally practiced within the firm's audit function in Malta and in Milan. He forms part of the firm's PPC (area specialist).



**Marco J. Vassallo**  
Partner, Emerging Technologies

Marco was appointed Director with effect from 21 July 2017 and Partner with effect from 1 October 2018. Marco joined KPMG in 1995, and over the years, progressively moved into IT Administration, Management, Security and Strategy. He also worked in Information Security for more than 18 years. Marco has now joined the advisory team offering expertise within the software development field across the whole project life cycle to clients



**Simon Xuereb**  
Partner, Tax Services

Simon was appointed Director with effect from 1 January 2016 and Partner with effect from 1 October 2018. He has been actively involved in the ongoing development of KPMG in Malta's Private client and Global Mobility Services offering and today leads a multi-disciplinary team of professionals. He is also actively involved in the development of this service offering at a global level and currently chairs the High-Net worth Migration working group for KPMG.



**André Zarb**  
Head of Tax Services  
Member of the EMC

André assumed responsibility for the tax function in Malta in 1993, followed by making partner in 1994.



**Tonio Zarb**  
Senior Partner  
Chairs EMC

Tonio was appointed as the firm's Senior Partner with effect from October 2012 and chairs the Executive Management Committee. He has been a partner for 30 years.

## Directors



**Hermione Arciola**  
Director, Advisory Services

Hermione is a director in the advisory function, focusing principally on corporate finance and transaction services. She joined the Deal Advisory team in 2007 and was appointed director in January 2014.



**Alex Azzopardi**  
Director, Advisory Services

Alex was appointed director with effect from 1 January 2016. He currently leads the firm's provision of Internal Audit Services to a diversified portfolio of local and international clients. He is also involved in the provision of regulatory advisory services to a number of banking and insurance clients. Alex serves as secretary to the committee of the Malta Forum for Internal Auditors.



**Giselle Borg**  
Director, Advisory Services

Giselle was appointed director with effect from 16 December 2017. She is currently working with the Risk Consulting Insurance Advisory Services team. She assists insurance clients from establishing an insurance set-up in Malta to ongoing regulatory and compliance matters, including Solvency II services. Giselle has experience in the insurance market through her previous role as a director in KPMG Malta's audit department.



**Vanessa Borg**  
Director, Advisory Services

Vanessa joined KPMG in Malta as director within Advisory function with effect from 1st October 2018. Vanessa has been active within the international management field for over 20 years.



**Norbert Bugeja**  
Director, Audit Services

Norbert has been a director in the audit department since 2010 specialising in financial services and forms part of the firm's PPC (area specialist). He has been employed with the firm since 1989.



**Mark Curmi**  
Director, Advisory Services

Mark was appointed director with effect from 1 October 2018. He joined KPMG in 2014, to drive the Banking Service offering across Audit, Tax and Advisory within the firm.



**Clifford Delia**  
Director, Accounting Support Services

Clifford was appointed director with effect from 1 January 2017. He currently leads the firm's accounting and payroll support service lines. Clifford joined the Accountancy Support Services team in 2008 following a number of years working within the Audit function in Malta and Ireland. His major focus is now centred on advising and assisting international and local clients in financial reporting, indirect taxation and payroll.



**Claude Ellul**  
Director, Audit Services

Claude was appointed director with effect from 1 January 2016. He joined the audit function in 2003. He is specialised in the financial services sector.



**Thomas Galea**  
Director, Audit Services

Thomas was appointed director with effect from 1 October 2017. He joined the audit function in 2005. During the past 13 years, other than in Malta, Thomas has also worked within the audit function of the Irish and US KPMG offices gaining experience in a number of industries, particularly Banking and Middle-Market.



**Darren Govus**  
Director, Audit Services

Darren is a director in the financial services audit department. He forms part of the firm's PPC (area specialist) and provides accounting training, particularly in relation to financial instruments. Darren has been with the firm for 22 years.



**Kevin Mifsud**  
Director, Audit Services

Kevin is a director in the audit department, with expertise in financial services, telecommunications and software development and forms part of the firm's PPC (area specialist). He has been employed with the firm since 1998.



**Adrian Mizzi**  
Director, Advisory Services

Adrian was appointed director with effect from 1 January 2018. He has over 20 years' experience in various senior Information Technology (IT) functions. Adrian has worked extensively in the strategy formulation and management of information technology in various industries, including telco, public service, financial services, manufacturing and logistics.



**Malcolm Pace Debono**  
Director, Advisory Services

Malcolm was appointed director with effect from 1 January 2017. He has over 12 years of experience in recruitment and talent management. In 2010 Malcolm established P5+ Management, a consultancy firm specialising in Talent Management, Recruitment Consultancy, Management Consulting and Project Management Services. P5+ Management is based upon the P5+ core values that include Passion, Perseverance, Positivity, Performance and Pride.



**Paul Pace Ross**  
Director, Tax Services

Paul was appointed Director with effect from 1 January 2015, forming part of the firm's Tax services. Over the years he led numerous cross-border engagements and he now leads a multi-disciplinary team of professionals advising clients on corporate restructuring, mergers, continuations, exit strategies and other reorganisation projects. He has been employed with the firm since 2002.

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Pierre Portelli retired from the Partnership group on 30 September 2018.

## **KPMG**

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### **Follow KPMG in Malta:**



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