



# Communicating Audit Quality

# KPMG International Transparency Report

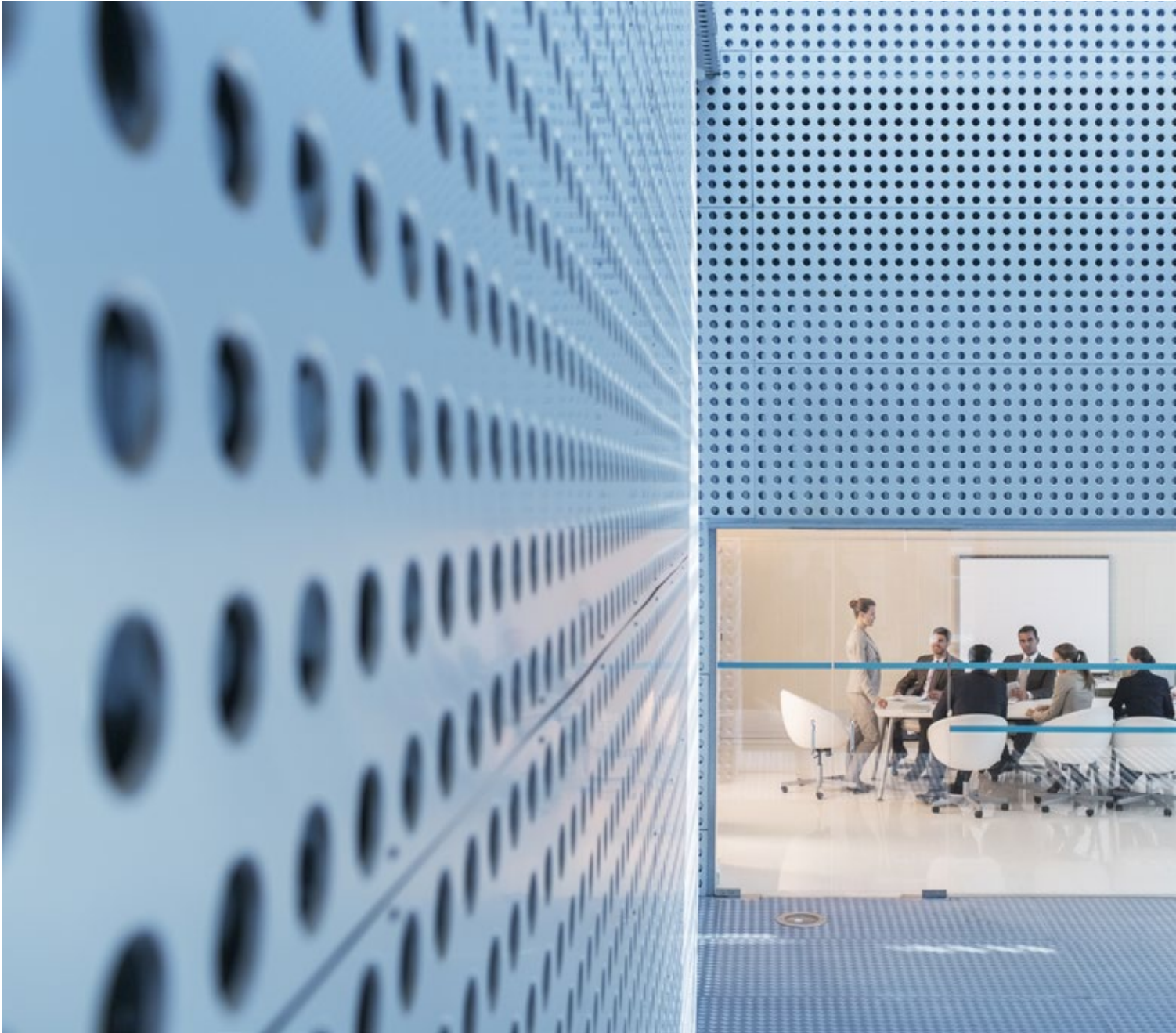
An annex to the  
2015 KPMG International Annual Review

KPMG International

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[kpmg.com/transparency](http://kpmg.com/transparency)







# Foreword

Each year, as a supplement to our International Annual Review, we publish a KPMG International Transparency Report.

This year we are taking the opportunity to use our Transparency Report to provide a wide range of stakeholders with a more succinct description of how:

- we demonstrate our commitment to audit quality, ethics and integrity
- we address international and local professional standards.

This summary is supplemented by a more detailed document that incorporates more technical descriptions addressing KPMG International's system of quality control, its structure and governance.

Audit quality is a key strategic imperative for us. As part of our overall strategy we:

- drive a relentless focus on quality and excellent service
- take a long term view
- deploy talented staff globally to deliver insights and innovative ideas
- build public trust.

We aim to compete on quality by making clients and regulators aware of our continuing commitment to enhance audit quality.

Audit quality relies on our culture of integrity and on employing extraordinary people, supported by our methodologies and processes.

We are committed to working closely with regulators, audit committees, investors and businesses to meet expectations of audit quality.

**John Veihmeyer**  
Chairman, KPMG International

Unless the context otherwise requires, throughout this document "KPMG" and "KPMG network" ("we," "our," and "us") generally refers to the member firms of the KPMG network of independent firms affiliated with KPMG International, a Swiss entity that services as a coordinating entity for the KPMG network. KPMG International provides no client services.



# Contents

Introduction	5
Culture of integrity	7
People	9
Performance	10
Monitoring	12
Communications	14

# Introduction

## What this document covers

KPMG's results and aspirations can be read in the KPMG International Annual Review.

This document summarizes KPMG's approach to audit quality. It also serves as KPMG International's Transparency Report for the year to 30 September 2015.

As part of our commitments to stakeholders — including regulators, investors, audit committees, clients, our people and the public — we aim to be transparent and open in communicating how we address audit quality to foster public trust, inspire confidence and empower change.

This document may also be useful for stakeholders who are interested in our non-audit services because many of the procedures referred to in this document to maintain audit quality are equally applicable to how we maintain quality for our other services.

The annexed supplement to this document provides additional detail on many of the areas discussed. The supplement also gives more detail on our system of quality control consistent with International Standard of Quality Control 1.

## About KPMG

KPMG is a global network of professional services firms providing Audit, Tax and Advisory Services.

KPMG International is a Swiss co-operative formed under Swiss law. It licenses the KPMG trademark and conducts activities for the overall benefit of KPMG network. It facilitates audit quality across the network by establishing common policies, processes and standards to be applied by member firms. It does not provide professional services itself.

KPMG member firms — all of which are affiliated with KPMG International — provide professional services to clients and their Heads of Audit have direct responsibility for audit quality.

More information on KPMG International and its relationship with member firms can be found here.

## How KPMG is governed

KPMG International has a number of governance bodies:

- Global Council
- Global Board
- Global Management Team.

The Global Board is supported by a number of committees, including an Executive Committee.

A number of Global Steering Groups support and drive the execution of strategy with a focus on audit quality, including the Global Audit Steering Group (GASG) and the Global Quality & Risk Management Steering Group (GQRMSG).

The overall governance structure of KPMG International is discussed in more detail in the supplement.

“Quality ranks first, second and third.”

— **Bill O'Mara,**  
Global Head of Audit, KPMG International

What is an audit? An audit provides an independent opinion on whether financial statements prepared by an organization for use by stakeholders, including investors, give a fair presentation of an entity's financial position and performance when evaluated against a globally accepted set of criteria, e.g. International Financial Reporting Standards.

## What we mean by audit quality

Audit quality is not just about reaching the right opinion but how we reach that opinion. It is the processes, thought and integrity behind that audit report. A quality audit means the delivery of an appropriate and independent opinion that is properly supported in compliance with applicable auditing standards, laws and professional requirements.

## How we embed audit quality

Audit quality is driven from the top by our leadership, both across the network and within each member firm. This is what we call our culture of integrity.

It is also driven by our people.

To help ensure everyone has a common understanding of what drives audit quality within KPMG we use an Audit Quality Framework to communicate and illustrate our approach to audits.

## Build public trust

One of our key priorities is to have a respectful and trusted relationship with audit and other regulators across the world as we have a joint interest in building public trust by promoting audit quality and, in consequence, the health of the capital markets.

We act in the public interest which is also in the long-term best interests of clients, and our brand.

A system of quality control provides the member firm with reasonable assurance that it and its personnel comply with applicable laws, regulations and professional standards and that reports issued by the firm and its partners are appropriate in the circumstances.



# Culture of integrity

Our culture of integrity and its supporting policies and processes form a bedrock for providing quality services and maintaining public trust.

## Who is responsible for audit quality?

It is essential that everyone involved in performing audits recognizes that audit quality is their responsibility. However, leadership plays a critical role. KPMG's tone at the top drives the relentless pursuit of audit quality for every engagement at a member firm and at a global level.

### Member firm

The leadership of each member firm is responsible for quality and for the firm's system of quality control.

Within each member firm there is a Head of Audit who has primary responsibility for audit quality and is assisted by the member firm Risk Management Partner in maintaining the member firm's system of quality control. Part of the selection criteria for these individuals is that they have sufficient and appropriate experience and ability and have the necessary authority to properly discharge their roles.

### Network

From an audit quality perspective the most important of the Global steering groups are the Global Audit Steering Group (GASG) and the Global Quality & Risk Management Steering Group (GQRMSG).

At a global level, GASG and GQRMSG work closely with regional and country 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.

## Ethics/Integrity

### Our Values and Code of Conduct

We have a set of core Values — which every individual across KPMG is measured against — the most important of which is integrity.

Building on our Values, we have a Global Code of Conduct that all member firms and their personnel have to comply with. This embodies our commitments to our people, our network, our communities and the clients of KPMG member firms. The Global Code of Conduct is either used by each member firm directly or by incorporating its elements within a local firm code of conduct.

Under the Global Code of Conduct, KPMG commits, among other things, to deliver a high quality service, to act lawfully, ethically and in the public interest, to maintain independence and objectivity, to avoid conflicts of interest and to protect clients' confidentiality.

We also commit to acting as a responsible corporate citizen and to following high standards of ethical conduct.

### KPMG has a zero tolerance approach to bribery

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.

On joining and every 2 years, all our people are required to take training covering our Code of Conduct, compliance with laws and regulations and anti-bribery and corruption.

“Our people are committed to a relentless focus on quality, ethics and integrity.”

‘Tone at the top’ is the general ethical climate of an organization established by its leadership.

## Accepting the right clients and engagements

A key aspect of making sure we deliver high quality engagements is only taking on the right clients and engagements.

Every prospective client is evaluated using a consistent methodology to assess aspects critical to our association with them, including the integrity of management and how the business operates. The evaluation is always reviewed by a second partner.

Every prospective engagement is likewise evaluated to make sure that we can properly undertake the assignment, this includes:

- addressing relevant independence and conflict of interest issues
- allocating the appropriately experienced and skilled personnel
- assessing whether KPMG is the best service provider.

Audit clients and engagements are re-evaluated annually. Changes in the risk profile of a client or engagement (for example, new information) also trigger re-evaluation.

## Ensuring independence

Independence of an auditor from its client is critical and is a cornerstone of external professional standards and regulatory requirements.

We have detailed independence policies and procedures, incorporating the requirements of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics, together with automated tools that facilitate compliance with these requirements.

These tools include our web-based application Sentinel™ which must be used for every prospective engagement to identify potential independence (and conflict of interest) issues.

Where there are applicable additional independence standards locally, specific procedures are added to network-wide processes by member firms.

More detail on our independence policies and procedures is available [here](#).

We instill our independence policies and procedures in our people through mandatory and monitored training, both when they join and annually thereafter. The training includes case studies and real life examples and covers personal and firm independence.

Independence is an increasingly complex area. In addition to online tools, we provide leadership and guidance on independence issues to our people through experienced and knowledgeable professionals both within each member firm (through its Ethics & Independence Partner) and through our Global Independence Group.

We monitor the operation of independence policies and processes through annual independence confirmations, compliance audits, as well as the network's wider monitoring programs described below.

## Avoiding conflicts of interest

We avoid conflicts of interest by using Sentinel™ for each prospective engagement to identify and manage potential conflicts both within and across member firms.

We allocate resources to resolve potential conflict issues, and have escalation procedures to follow when agreement on a way forward cannot be reached.

We decline a prospective engagement if a potential conflict issue cannot be resolved.

## Keeping information confidential

We have information security policies and procedures governing the handling of client confidential and of personal information. Our global Information Technology Services impose minimum technical requirements on member firm IT systems to enhance the protection of such information.

## Raising and addressing ethics and quality issues

Each member firm has a complaints procedure. Where someone may not feel comfortable using this, we have an International Hotline that can be used by anyone inside or outside KPMG. Member firms often also operate their own hotlines.

We require our people to report suspected and actual breaches of KPMG policy or of law, regulation or standards.

When issues are raised through these channels, we have procedures to enable them to be properly documented and addressed on a timely basis and to be communicated to those charged with governance or to any other appropriate authority as required by professional standards or law and regulation.



# People

We recruit, develop and assign talented people, who have passion and purpose as well as deep expertise and innovative minds to deliver quality audits.

Extraordinary people are the foundation of our business — and of high quality services.

## Attracting the best talent

### Employer of choice

We strive to be an employer of choice by creating an environment where our people can fulfill their potential, generating pride and motivation.

We invest in people initiatives throughout our member firms. We focus on performance development, coaching and mentoring, reward and recognition, flexible benefits, visible leadership, and open and honest employee communications.

We aspire to create a culture of learning, collaboration and inclusivity, all underpinned by a shared set of values and a common purpose.

We measure our people's attitudes and their overall level of engagement through the Global People Survey. All member firms are required to participate and to take appropriate actions to communicate and respond to the findings.

### Diversity programs

We work hard to foster a diverse and inclusive culture which assists in building teams with the broadest range of skills, experiences and perspectives in a work environment that is inclusive,

fair and ethical. We also promote inclusive leadership across KPMG's global network.

## Recruitment

Member firm recruiting strategies are focused on drawing entry-level talent from a broad talent base, both from established centers of learning and from other sources to build a diverse talent pool.

Across our member firms we are regularly recognized as an established and reputable employer. This is a reflection on our presence in both the early career and experienced hire candidate markets.

## Development

We deploy a variety of learning solutions to reinforce our values and ensure our professionals get the fundamentals right and develop the necessary skills and attitudes to make judgments that enhance audit quality and the value of audit.

We provide actual and virtual classroom training, coaching and just in time learning, available at the click of a mouse and aligned with job specific role profiles and learning paths. Coaching guides are available on judgmental audit topics — these are used by audit teams and are embedded within audit learning solutions.

We have also developed professional judgment tools designed to reinforce the importance of and stress independence and objectivity to assist engagement teams to demonstrate professional skepticism.

## Evaluating and rewarding for quality

The KPMG global behaviors include 'Delivering Quality' and are designed to articulate to our people what is required for success individually and collectively.

All professionals, including partners, have annual goal-setting and performance reviews and are evaluated on agreed-upon goals, demonstration of the KPMG global behaviors, technical capabilities and market knowledge. Partners and certain personnel are also evaluated on key quality and compliance metrics.

All member firms are encouraged to have compensation and promotion policies that are clear, simple and linked to the performance review process. This helps our people know what is expected of them, and what they can expect to receive in return.

“To deliver the quality of services that the markets and investors rightly need and demand, we have to have the best and brightest people.”

# Performance

Performing high quality effective audits is assisted by clear standards and robust audit tools as well as a commitment to technical excellence and quality service delivery.

## Applying clear, consistent and up to date audit standards

We drive consistent application of audit standards across the global network through centrally managed groups of global professionals.

Our audit methodology and tools, developed by our Global Services Center (GSC) are:

- globally consistent and fully compliant with International Standards on Auditing (ISAs)

- designed to be effective in all types of risk environments and economic circumstances
- made available to and required to be used by all KPMG audit professionals — even where local auditing standards are less demanding than the ISAs.

Our International Standards Group interprets international audit and accounting standards and facilitates consistent application by issuing practical guidance. Our Global Topic Teams act as a central contact point for technical assistance to ensure consistent application and reporting practices.

We track developments from the International Audit and Assurance Standards Board (IAASB) and/or

International Accounting Standards Board through our Global IFRS and ISA Panels of seasoned industry and technical professionals. We communicate developments and consequent changes in guidance or requirements to national Departments of Professional Practice that support member firm engagement teams.

## Use of tools and technology

Each of our auditors around the world has access to the full suite of KPMG's industry expertise through our electronic audit workflow tool, eAuditIT. This leads KPMG engagement teams smoothly and consistently through the audit process. This tool continues to evolve to keep pace with the changing demands of the audit environment.



We are rolling out data & analytics tools designed to assist engagement teams by analyzing client financial data in new ways to provide greater insights in our identification and evaluation of key audit matters.

## Deploying the right talented people on engagements

As a key part of the evaluation and planning of new engagements we identify partners and personnel who have sufficient and appropriate experience, ability and time to properly perform the audit engagement. Member firms are also required to monitor partner workload.

We also assess whether KPMG specialists will be required on the engagement and identify whether they have the competencies, capabilities and objectivity to appropriately fulfill their role.

Where the right resource is not available within the member firm, we provide access to a network of highly skilled KPMG specialists in other member firms.

## Managing and documenting the audit

We use the KPMG Audit methodology and the eAudit tool to provide guidance, mechanisms for and documentation of, the supervision and control of the audit engagement.

In addition to formal document management and retention policies, our electronic audit tool, eAudit, supports engagement teams in fully assembling the final audit file, within the required document completion timeframe following the date of the auditors' report(s).

## A culture of consultation

We promote a culture in which consultation is recognized as a strength and that encourages personnel to consult on difficult or contentious matters.

Our member firms have professional practice and risk management resources to assist engagement teams where there are differences of opinion either within teams or with the EQCR. Unresolved differences are escalated to senior partners for final resolution. Our International Standards Group is also available for consultation where required.

## Appropriate audit reports

Applicable auditing standards largely dictate the content of the audit report. In anticipation of the new IAASB requirements on auditor reporting that are effective for December 2016 year ends, we are enhancing auditor reporting for some of our audit clients to give users more insight into the audit and to improve transparency.

For further information click here.

## Group audits

We use consistent approaches, methodology and tools across the network.

We provide lead audit engagement partners with information on component auditors within the KPMG network to help them evaluate their competence and capabilities including, where appropriate, the results of relevant inspection results.

Lead audit engagement partners may review component auditor engagement documentation in person or obtain electronic access.

## Using an EQCR

An Engagement Quality Control Reviewer (EQCR) is a person, with sufficient and appropriate experience and authority to independently and objectively evaluate the significant judgments the engagement team made and the conclusions they reached in formulating the audit report. We require an EQCR to be appointed for a broad range of audit engagements over and above that required by applicable laws and regulations.

We are continually seeking to reinforce the role and effectiveness of the EQCRs, who act as a fundamental control over audit quality, through enhancements of tools, procedures and guidance available to them. In addition, member firm leadership reviews EQCRs' commitments on an annual basis to ensure that they have the time and experience to perform this key role.

“We continue to invest in developing the best teams, the right resource allocation and the efficient deployment of resources globally.”

# Monitoring

“We focus on improving audit quality.”

## How we monitor audit quality

We commit to continually improve our audits through our integrated quality monitoring and compliance programs.

These enable member firms to identify quality control deficiencies, to perform root cause analysis and develop, implement and report remedial action

plans both in respect of individual audit engagements and the member firm's system of quality control.

These quality monitoring and compliance programs are globally administered and consistent in their approach across member firms, including the nature and extent of testing and reporting.



## Quality monitoring and compliance programs

### Quality Performance Reviews (QPR)

The international QPR Program is the cornerstone of our efforts to monitor engagement quality, and one of our primary means of ensuring that member firms are collectively and consistently meeting KPMG International's requirements and applicable professional standards. The QPR Program assesses engagement level performance in the Audit, Tax, and Advisory functions and identifies opportunities to improve engagement quality. All engagement partners are generally subject to selection for review at least once in a three-year cycle. The reviews are tailored to the relevant function, performed at a member firm 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.

### Risk Compliance Program

The Risk Compliance Program (RCP) is a self-assessment exercise undertaken annually by each member firm. The RCP is designed to monitor, assess and to document the firm-wide system of quality controls established through KPMG International's quality and risk management policies and applicable legal and regulatory requirements.

### Global Compliance Reviews

Independent central teams conduct the Global Compliance Reviews (GCR) for every member firm at least once

every 3 years. These reviews evaluate the completeness and robustness of the member firm's RCP and status of action plans.

### Root Cause Analysis and action plans

Member firms conduct a root cause analysis for pervasive audit quality issues as well as other systems of quality control issues that are identified, taking into account any results from external inspections as well as those identified by QPR, RCP, GCR or by the member firm's internal quality incidents process.

A robust root cause analysis ensures that deficiencies are appropriately identified and tailored timely action plans are developed and deployed to address issues.

### Recommendations for improvements

Our Global Audit Quality Issues Council established by the GASG:

- Considers network wide trends arising from internal quality control reviews and external inspections.
- Monitors progress being made in addressing audit quality issues.
- Makes recommendations to the GASG on audit quality issues.

### Area Quality & Risk Management Leaders

Area Quality & Risk Management Leaders are each assigned a number of member firms to monitor for quality and risk purposes and report to the Global Vice Chair — Quality, Risk and Regulatory.

# Communications

Those charged with governance may be the audit committee or board of directors or a committee of management depending on the governance structure of the client.

“We share information, insights and advice openly and honestly.”

## Two-way communication with those charged with governance

We stress the importance of two-way communication with those charged with governance, informing them of issues that are important to them, and understanding their views.

This includes both reporting as required by law, regulation and professional standards as well as broader communication.

We also deliver insights related to the audit engagement, and share our industry experience to encourage discussion and debate.

## Client feedback

We proactively seek feedback from clients through in-person conversations and third-party surveys to monitor their satisfaction with our services.

We endeavor to take this feedback and make dynamic changes at both the engagement level and firm level to meet clients' needs.

## Audit Committee Institute

We provide audit committee and board members with practical insights, resources and peer-exchange opportunities focused on strengthening oversight of financial reporting and audit quality.

Our offerings cover the array of challenges facing boards and businesses today — from risk management and emerging technologies to strategy and global compliance.

## Accounting and Reporting Online

In today's dynamic regulatory environment, KPMG's Accounting and Reporting Online (ARO) helps our clients and others stay up to date with accounting and financial reporting requirements.

With an emphasis on IFRS and US and UK GAAP, ARO provides easy access to a full range of authoritative literature from regulatory and standard-setting bodies, as well as practical guidance and interpretations from KPMG.



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