Our year in numbers

Incremental investment in audit quality in 2019
£45m

Cumulative investment in audit quality in the 3 years to end-2020
£200m

FTSE 350 audit engagements rated 1 or 2a by the FRC’s AQR
80% ↑ 30%

Ethics champions
113

Women in audit
44%

BAME colleagues in audit
29%

Revenue from audit and directly related services
£631m

Experienced auditors hired in 2019
700

Average training for audit professionals
82 hrs ↑ 26%

Number of audit engagements that have been subject to the firm’s Quality Performance Reviews
124

People Survey respondents that say our commitment to quality is apparent on a daily basis
84% ↑ 6%

Ranking in the Times Top 100 Graduate Employers 2019
#6
Audit Quality Review (AQR) results

### All reviewed engagements

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<tr>
<th>Category</th>
<th>2018/19</th>
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<td>8 (35%)</td>
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<tr>
<td>Significant improvement required</td>
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### FTSE 350 engagements

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<td>Significant improvement required</td>
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</tr>
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</table>

This year saw 80% of our FTSE 350 audits reviewed achieve a rating of 1 or 2a. That’s up from 50% in 2018. We are pleased with our progress but we are not complacent.

Jon Holt  
Head of Audit
Contents

Opening statements
Pages 5 - 13

Audit quality
Pages 15 - 30

Culture
Pages 31 - 34

Structure & governance
Pages 35 - 46

Quality control & risk management
Pages 47 - 53

Appendices
Pages 54 - 91
Opening statements

UK Chair and Senior Partner’s statement 6
Audit Chair’s statement 7
Head of Audit’s statement 8
Chief Risk Officer’s statement 9
Chair of the Independent Non-Executives’ statement 10
Building a stronger and more trusted audit sector

Audit has been at the heart of our firm for many decades and, as our profession faces increased scrutiny, it’s only right that we respond to the calls for change. And that’s exactly what we have done.

KPMG has introduced changes such as stopping the provision of non-audit services to FTSE 350 companies that we audit and offering ‘graduated findings’, ahead of our peers. And this year, we have continued to engage with government reviews of our sector, while pressing on with our internal efforts to drive audit quality. This investment is considerable. In 2019 we set aside an additional £45 million for audit quality initiatives – including increasing the number of hours dedicated to training, hiring experienced auditors from outside of our firm and strengthening our risk function. It’s an investment in our future and, by extension, an investment in the future of well-functioning capital markets. That’s because our firm, and the quality audits we produce, make a valuable contribution to the health of the UK’s economy.

We have changed our governance structure to make our firm easier to navigate. This means, from June 2019, we now have separate governance over aspects of our audit practice. These changes make it easier for us to respond to challenges that relate to audit and audit quality. It’s a bold move for our firm and we’re confident it’s the right one. This new structure will make the way we work more transparent. You can find more about our governance on page 35.

Michelle Hinchcliffe joined the UK Board this year as Chair of Audit. She explains more about her new role, and how it means she can work more closely with stakeholders on the future of audit, on page 7. Then Jon Holt, our newly appointed Head of Audit, talks about our focus on quality and the changes we’ve made on page 8. Improvements to our audit quality review scores are evidence of our progress. And our Chief Risk Officer, Mary O’Connor, explains more about the links between our culture, trust and transparency on page 9.

The role of our Public Interest Committee and independent non-executives is crucial too. They provide independent oversight of what we do and you can find their insights on the progress we’ve made on page 10. Their contribution is invaluable: they help give us perspective on the steps we’re taking to improve audit quality.

I’m proud of the progress we’ve made over the past year. I think it will make it easier for stakeholders to hold us to account – and that can only be a good thing. As we look to 2020, the 150th anniversary of our firm, we will continue to make audit quality a priority.
Trust is our licence to operate

Michelle Hinchliffe, UK Chair of Audit

This past year has been one of huge scrutiny and even greater change for our profession. Central to that have been a number of reviews that seek to answer what stakeholders want from audit and how we as a profession deliver on that.

As a firm, we have actively contributed to those reviews. At the same time, we have made sweeping reforms to our own business. We did this because we believe change is necessary. And we recognise that we will not restore trust in what we do by waiting to be forced into action.

We understand the calls for greater independence, and the passionate manner in which many of those calls have been made. We have also seen a growing understanding in the market of the benefits a multidisciplinary firm can bring to audit quality. It is vital now that we find solutions which balance those two things. As and when we do, we’ll deliver audits of the quality and scope required by our regulator and our stakeholders.

We are working hard to achieve greater operational separation between audit and the rest of the business while still retaining the benefits of a multidisciplinary firm. Our Public Interest Committee has taken a close interest in our efforts in this area, giving us both support, and challenge, as we make these changes. These benefits are critical to achieving continued enhancements in audit quality.

We’ve also taken steps like introducing a Coaching for Quality programme, delivered by external behavioural psychologists, to strengthen our culture and drive high audit quality. Audit quality has been a consistent thread through our decisions all year – from the ban on non-audit services for FTSE 350 entities through to the introduction of a new governance structure. Looking ahead, we are creating a separate Board for Audit. The members of this new Audit Board will give us external perspectives and challenge. In addition, we have created the role I now occupy – Chair of Audit.

Since taking on my new role, I’ve been actively engaging with external stakeholders. By spending time with investors, regulators and chairs of audit committees, I gain valuable insights about what they expect from an audit and how we can meet their needs. These conversations often cover topics like audit quality and reform, regulatory changes and areas like Environmental, Social and Governance matters.

We know that the expectation gap remains wide and that’s why we’re working hard to address the big questions around conflict, competition, choice and quality. We also understand that it is down to us, as a firm and as a profession, to close that gap. Trust is our licence to operate and audit is too important to the continued health of the capital markets and wider global economy for us to settle for the status quo. I am focused on ensuring KPMG remains at the forefront of the change in the audit sector.
We’ve invested in our teams and we’ve invested in technology

We’ve hired 700 experienced auditors from outside the firm and more than 900 graduates and apprentices have joined us this year. I’m particularly proud of this, given the highly competitive nature of the market. I’m also proud that our firm ranked sixth in The Times Top 100 Graduate Employers list in 2019. And schemes like Return to Audit are making it easier for experienced auditors to return to the workplace after a career break. Investing in our teams, we have increased the amount of dedicated training we provide to our people to more than 82 hours. You can read more about that training on page 28.

We have moved 500 technology experts from the advisory side of our business into audit and begun the rollout of KPMG Clara Workflow (KCW) – the single biggest software deployment in the history of the firm. KCW is quicker, more intuitive and has a more robust methodology. Once in place it will fundamentally change the processes underpinning our audit work.

The sector-leading reforms we have delivered this year empower our auditors to focus entirely on what they’re good at: forensically understanding businesses.

2019 has been a transformative year of development and growth for our audit practice. We invested an additional £45 million this year, as part of a programme that will see, cumulatively, more than £200 million injected by the end of 2020, all focused on one thing: improving audit quality and the experience of our people.

Our focus on people and technology

Our progress on audit quality

The Financial Reporting Council’s (FRC) Audit Quality Review is one of the means of tracking audit quality. This year saw 80% of our FTSE 350 audits reviewed achieve a rating of 1 or 2a. That’s up from 50% in 2018. We are pleased with our progress but we are not complacent. We recognise that there is more to do if we are to meet the FRC’s benchmark of 90%.

In 2019 our audit revenue grew by 10%. While it is audit quality that remains our focus, strong growth is vital to the continued sustainability of our business. Growth allows us to continue our ambitious programme of investment for the future.

The sector-leading reforms we have delivered this year empower our auditors to focus entirely on what they are good at: forensically understanding businesses, challenging the estimates made by management and making judgements on some of the world’s largest and most complex organisations. There is a clear desire from our stakeholders for more assurance and an increase in the scope of audit. We will continue to support our auditors as they rise to this challenge.

What we do matters to society. As Head of Audit, I understand the responsibility we have in building an audit practice ready for a very different future. To do this, I have three goals: excellent quality; sustainability for our business and our people; and leading the way in helping shape the future of audit for our entire profession.
Transparency and trust go hand in hand

Mary O’Connor, Chief Risk Officer

Trust has been a major area of focus for our firm this year. External inquiries about audit, our sector and our regulator have put firms like ours under the spotlight. And the more questions they’re asking, the more questions they’ve raised. It is not surprising there is a gap between what the public thinks audit should do and what it actually does.

We are working hard to rebuild trust and one of the ways we’re doing that is by strengthening our approach to risk management. By simplifying policies and processes, introducing new training, and centralising our acceptance process, we’re making it easier for colleagues to manage risks appropriately. I believe that clearer policies, processes and frameworks actually help protect us, and reinforce a culture where we do the right thing.

The work we accept and how we allocate it matters too, in fact, the sustainability of our audit practice depends on it. As part of our portfolio risk analysis, we have strengthened our processes and evidencing of how we look at the complexity and risks of individual audits and consider whether individuals have the time, experience and sufficient support to perform a high-quality audit. We have clear criteria to help us consider which audits to take on and the risks they pose.

We’re also making it easier for people to speak up when something isn’t right. I’m particularly proud of the difference our new ‘ethics champions’ are making. There are over 100 of them, across every UK office. I meet with them regularly and when I do, I’m always impressed by their energy and enthusiasm. They’re here to make it easier for colleagues to have conversations about culture and behaviour.

Our work is making a difference. It’s making risk management a core part of our culture and that will not only help us build trust, it’ll also help us be more transparent too. You can read more about our efforts to strengthen our culture on page 31.

We’re making it easier for colleagues to manage risk appropriately.
Report of the Public Interest Committee

As Independent Non Executives (INEs) within KPMG we undertake our independent role in a number of complementary ways. The INEs together comprise the Public Interest Committee (PIC), which is integrated into the overall governance of the firm. Individual INEs also attend the other governance bodies within the firm that are relevant to public interest matters, including the Board.

We regularly meet with those who rely on high-quality audits. In particular, we meet formally and informally with investors, the regulator and other policymakers.

**Developments in the audit profession**

This year has seen a number of important developments in the audit profession and its regulation, including the Department for Business, Energy and Industrial Strategy (BEIS) Select Committee’s Audit Inquiry, Sir John Kingman’s report into the FRC and the Competition and Markets Authority (CMA) report on the functioning of the audit market. Each of these reports bears directly on how KPMG undertakes audits, and in each case the Board and the Senior Partner have sought our views.

We are confident that KPMG recognises the seriousness of the issues raised and applaud the positive role it is playing in addressing them. While not all of the reforms are within KPMG’s power to deliver, we welcome the fact that KPMG has taken immediate action on a number of fronts. These include its decision not to undertake non-audit services (other than where closely related to audit) for FTSE 350 companies which the firm audits; investment to improve audit quality; a new governance structure; and the promotion of graduated audit findings.

We regard Sir Donald Brydon’s review into the purpose and effectiveness of audit as extremely important, not least because it considers one of the issues that we raised in our last report: the purpose of audit. This year, many overlapping views as to the purpose of audit have emerged, particularly the degree to which the implementation of International Financial Reporting Standards can be considered adequate. If the Brydon Review achieves clarity on this issue, it will facilitate the overall functioning of the profession, its regulation and, most importantly, the trustworthiness of operation of limited liability companies.
Changes to the firm’s governance structure

This year has seen the bedding down of revised governance arrangements in KPMG following an external review. The firm has adopted virtually all the recommendations of this review. It now has a clearer separation of the roles of the Board and the senior executive leadership, a simplified structure for Board committees, revised terms of reference and a tighter Board focus on oversight. Our position, as a Public Interest Committee, is clearer now too: we are a peer committee to the Board, rather than subordinate to it.

Alongside the revised Board arrangements, the firm has also changed the structure of its executive and regional governance. It is the decisions and messaging of senior leaders that ultimately determine whether public interest questions really count in the firm, so as INEs we have taken a close interest in these changes.

Audit quality and future of the profession

KPMG has also strengthened oversight of its audit practice through the creation of an Audit Oversight Committee (AOC). As INEs, we have encouraged this change. It recognises that audit is a different type of business, whose ‘client’ is the body of shareholders, not the entity which is audited. While still functioning as a part of the whole firm’s governance, the AOC ensures that the firm considers issues such as purpose, audit acceptance, independence, quality and resources specifically from the perspective of the audit business. As a central part of our role is the oversight of audit quality issues, the Chair of Audit attends the PIC and an INE attends the AOC.

Throughout the year we have seen the firm’s commitment to investment in its audit practice and senior time dedicated to the leadership of audit work. We have noted that the firm did not bid for some audit engagements as to have done so would have stretched available staff resources too far. In competition terms this is regrettable. However, we and KPMG have discussed this with the regulator and agree it is a necessary side effect of ensuring consistent high-quality audits. During the year the firm further strengthened its procedures for accepting audit engagements and we continue to take a close interest in engagement selection procedures.

Measuring progress in audit quality

KPMG’s AQR results last year were a considerable improvement on the disappointing outcome the previous year. In the light of the significant investment in audit quality in the intervening period, it would have been very disappointing had there been no visible improvement, and indeed given the time it takes to implement change, there should be a continuing improvement.

We remain concerned, though, that the precise criteria that determine a quality audit for AQR purposes are not sufficiently consistent and that the sample size and selection can lead to unpredictable variations in outcome. We have raised this issue with the FRC. We agree that the AQR is only one aspect of audit quality but note it is the only one made public. The FRC has decided to raise the target for FTSE 350 audits assessed as good or requiring limited improvements from 90 to 100%.

We and KPMG have discussed this with the regulator and agree it is a necessary side effect of ensuring consistent high-quality audits. During the year the firm further strengthened its procedures for accepting audit engagements and we continue to take a close interest in engagement selection procedures.

To ensure that consistent high quality can be delivered, the firm did not bid for some audit engagements.
We welcome the appointment of Ethics Champions in all local offices.

The importance of risk management
KPMG has invested heavily in an improved enterprise-wide risk management framework in the last two years. We are pleased to see the progress that has been achieved, even though the framework is not yet fully implemented. The Risk Committee, which is attended by one INE, has dedicated a great deal of time and effort to understanding the risk position across the firm, both through regular reporting and a series of deep dives into particular business areas and risks. In the course of the year cyber security has been a priority as the UK firm ensured that it meets increasingly demanding global standards for KPMG member firms.

Culture and people
Quality, risk and reputation all rest on the underpinnings of culture in a firm. The Head of People presents a regular report to the PIC and an INE attends the People Committee. In addition, INEs have taken several opportunities to speak formally and informally to partners and staff about the importance of an open culture.

Where serious issues have arisen during the year, action has been taken. The leadership of the firm has acted when problems have been identified and the Senior Partner has personally invested a lot of time engaging with staff at all levels. We have seen evidence of renewed commitment from leaders to develop a safe, open and challenging culture. This has encouraged a greater willingness to speak up and call out unacceptable behaviours. We welcome the appointment of Ethics Champions in all local offices, several of whom we have met. We see this as further evidence of the leadership’s commitment to strengthening the culture.

We have also welcomed the additional recruitment into the audit practice, the second year of the compulsory Audit University and the focus on training and developing all partners and engagement leaders in coaching and project management skills. This focus will support both a stronger culture and will support all leaders as they continue to improve audit quality.

Through attendance at the People Committee, we have observed the firm’s policies and procedures being applied and, where necessary, being improved to reduce risks and improve consistency in people leadership, culture and management. For example, improvements in integrating culture and values more rigorously into 360° partner reviews, performance management and reward. An INE chairs the committee for its evaluation of the Senior Partner’s performance and determination of his remuneration. Several INEs also participated in the selection panel for the two most recent appointments to the Executive Board and the candidates for the partners’ election of two new Board members.

While we have not had a separate report at the PIC on diversity and inclusion, it has been high on the Senior Partner’s agenda and we have observed the commitment of the board to this issue.

Environmental and social issues
We are aware of the growing and legitimate demand that business organisations take environmental and social issues seriously. KPMG has recently begun a consultation with investors and audit chairs on the reporting of these issues. This is an issue to which the PIC will increasingly be turning its attention in the coming months.
Global
KPMG is a global network of independent member firms, of which KPMG in the UK is a part. This network enables the firm to achieve global reach and to service the needs, including audit needs, of those who depend on the audit, as well as other global clients. From a PIC perspective, the global network offers both benefits and risks. We have welcomed the emphasis that KPMG International has given to risks such as cyber resilience, where only a network approach will be effective and KPMG in the UK has benefited from this global emphasis. Conversely the reputation of KPMG in the UK can be adversely affected by events elsewhere in the network over which KPMG in the UK has no direct control. We therefore welcome the strengthened risk management that KPMG International has been implementing across the global network.

We welcome the strengthened risk management that KPMG International has been implementing across the global network.

Looking ahead
The PIC has an important role in the firm’s governance and we will continue to set an independent agenda on how best to promote audit quality, reduce the risk of firm failure and develop an open challenge culture. We are developing a programme of greater INE engagement with people at all levels across the firm to ensure that we can monitor the effectiveness of change management in the firm. We will also monitor and contribute to developments in the audit profession and its regulation in this time of rapid change for the profession.
Navigating the Transparency Report

Our commitment to audit quality
An explanation of why audit quality matters to our firm.
page 15

How we’re improving: our Audit Quality Transformation Programme
An update on the initiatives that form part of our Audit Quality Transformation Programme.
page 19

How we’re measuring our progress: audit quality indicators
A summary of the methods used to monitor audit quality internally and externally, incorporating the results of internal Quality Performance Reviews and external reviews performed by the AQR, the QAD and the PCAOB.
page 22

Our culture and its impact on audit quality
The culture of our firm has a direct impact on audit quality. This section explains some of the work we have done to strengthen our culture during the year.
page 31

How our structure and governance supports audit quality
An explanation of how our UK firm is structured and its relationships with other firms that are members of the KPMG network, the changes to our structure introduced in 2019 and the roles that internal and independent committees play. This section also includes the reports of the activities of the Board, the Audit Oversight Committee, the Audit Committee, the People Committee, the Risk Committee and the Public Interest Committee during the year.
page 35

Our quality control and risk management systems
Details of where the responsibility for risk sits within the firm. It also sets out the principal risks and uncertainties facing our firm and the controls and processes in place to manage these risks. It includes a statement by the Board on the effectiveness of internal controls and independence and the confirmation of the firm’s compliance with the Audit Firm Governance Code.
page 47
Audit quality

Our commitment to audit quality 16
External reviews of the audit profession 18
How we’re improving: our Audit Quality Transformation Programme 19
How we’re measuring our progress: audit quality indicators 22
Our commitment to audit quality

Audit is at the heart of our firm. We know that quality audits play an important part in a well-functioning market. We also know that, in the aftermath of high-profile corporate failures, we have a responsibility to regain the public’s trust in audit. That is a responsibility we take very seriously.

Robust quality audits are key to the successful working of the capital markets, providing objective assurance over the data on which investors and others can rely. Quality essentially means doing the right thing, and it remains our highest priority.

Bill O’Mara
Global Head of Audit
We’re already taking steps to improve audit quality. We realise there is much more to do, though. We are engaging with stakeholders, answering their questions about audit and its purpose more frequently and more clearly. We also have to consider if the audit product is fit for purpose. We believe that audits would better serve their users if they were to evolve from a binary audit opinion and give deeper insight. Graduated findings, which we introduced in 2014, are one answer to this and something we would like to see offered industry wide. We’re also exploring what audit’s role could be in the future. For example, could we give assurance on Environmental, Social and Governance metrics too?

This report outlines our commitment to audit quality and the steps we are taking to enhance it. It explains how we monitor the quality of audits, how we evaluate our progress and gives details of our progress. We also explain how, and where, we are investing in audit.

Many factors drive audit quality, some are direct and others are indirect and harder to control. Our global Audit Quality Framework focuses on the areas that we can control. Appendix five gives more detail as to how it supports the work our auditors do and explains our areas of focus. This framework has also influenced the changes we’re making, as part of our multi-year Audit Quality Transformation Programme.

### Steps we’re taking to build trust and improve audit quality

1. Investing an incremental £200 million in audit quality over three years
2. Strengthening the governance of our audit practice through the creation of an Audit Board
3. Pioneering the use of ‘graduated findings’ in our audit opinions
4. Banning the provision of non-audit services other than those closely related to the audit of FTSE 350 entities we audit
5. Offering a new type of independent report for inclusion in preliminary announcements
6. Strengthening procedures for accepting audit engagements, composition of audit portfolio and work allocation
7. Introducing a Coaching for Quality programme for all audit engagement leads and managers

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**Divya**

Manager, Audit

Improving audit quality has been a prime focus of leadership. They’ve introduced reformative programmes and technologies that are transforming the audit practice.
External reviews of the audit profession

**The Kingman Review**

The Kingman Review looked at the role of the FRC. We are advocates of the new regulator it recommended – the Audit, Reporting and Governance Authority (ARGA). We share the view that a strong and effective regulator should have clarity of purpose, independence and the ability to enforce the rules. It should also be able to hold directors to account.

**The Competition and Markets Authority review**

The CMA published its review in April. It looked at the operations and resilience of the audit sector. In particular, it addressed the question of choice in the market. It recommended the introduction of joint audits, greater regulatory scrutiny and an operational split of the big four firms’ audit practices.

**The Business, Energy and Industrial Strategy Select Committee inquiry**

The BEIS Select Committee concluded its inquiry with a call for a full, legal and structural separation of audit and non-audit businesses.

**The Brydon Review**

Sir Donald Brydon is looking at the scope, quality and effectiveness of audit. Among other things, Brydon is examining the ‘expectation gap’: the difference between what people think an audit does and what it actually does. The Review is expected to conclude in early 2020.
How we’re improving: our Audit Quality Transformation Programme

We’re now in the third year of our Audit Quality Transformation Programme. We’re concentrating our efforts on standardising the way we do audits, giving auditors additional support, training and greater confidence to challenge management of the entities we audit. KPMG International is significantly enhancing our global audit methodology and is creating a new automated audit workflow. It is in limited deployment in 2019 and full deployment is planned from 2020. This will embed the changes already made as part of our audit quality transformation plan into our audit workflow.

We began our multi-year Audit Quality Transformation Programme in October 2017 and have continued to invest in, and expand, the programme. In 2019 we invested an incremental £45m in our audit quality initiatives, in addition to the incremental £24m invested in 2018.

Pull quote:
The Audit University is not a ‘typical’ training course. All colleagues, and partners, came together to learn about ways to improve audit quality. It was great to hear so many different perspectives.

Yasmin
Assistant Manager, Audit
Our Audit Quality Transformation Programme

Standardisation
A standardised approach brings greater consistency to our audits.

Challenge and support
Audit teams have greater support, and challenge, from senior auditors, including:

— increasing the strength and depth in our second line of defence team and other technical experts to support delivery of audit quality;

— increasing investment in technology and data analytics to enhance audit quality;

— the Audit Centres of Excellence – establishing centres in specialist areas to support and challenge teams in complex or emerging areas, starting with the audit of pension balances;

— Risk Panels led by an audit quality or risk management partner to enable direct challenge of the approach to the key audit issues on our highest risk audits.

Training
In-depth practical training to all our experienced auditors at the KPMG Audit University – our annual three-day immersive course, supporting the existing training and coaching programmes.

Reporting
We are encouraging the companies we audit to engage us to include graduated findings in our audit reports – allowing us to communicate more of our audit findings and balancing between what stakeholders want to know and the reporting standards we are held to.

Governance
Strengthening the governance of our Audit practice through the creation of an Audit Board and the Chair of Audit role.

Coaching
We have rolled out a bespoke coaching programme to be attended by all our audit engagement leaders and managers. It is supported by external behavioural psychologists and coaching experts and provides our people with the tools to coach and support each other.

Project management
Improving the way we deliver audits by:

— creating a specialist project management support team;

— extending the depth and timeliness of planning and risk assessment on all audits with an expansion of mandatory planning deadlines to accelerate audit execution;

— embedding project management skills as a theme in KPMG Audit University.
Technology-based audit tools

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

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

Introduced in 2019 – with a broader roll out planned in 2020 – KPMG Clara Audit Workflow will transform the way our people deliver audits and gives the entities we audit a better user experience.

KPMG Clara gives access to:

— **Predictive analytics** and the ability to create multifaceted real-time sensitivity analysis of key assumptions, as well as use inputs from market and industry data. This provides greater capability to challenge management on key judgements.

— The **Inventory Count Tool** which provides our auditors with a user-friendly step-by-step workflow to capture inventory count results in an efficient and digital fashion.

— **Sentiment analysis** providing real-time feedback on issues, using social listening tools in multiple languages.

— **The ability to collaborate securely** with the entities we audit, so teams can share information and manage projects in real time, in a single location.

We’re encouraged to develop bright ideas that support the firm’s strategy. I feel empowered to take my vision of Regulatory Technology Assurance growth and quality forward.

*Aditya*  
Manager, Audit

The team have been really positive about the new approach. KPMG Clara Workflow has created a great buzz of energy and a lively discussion. It’s great to be a part of it.

*Stephanie*  
Director, Audit

The introduction of KPMG Clara Workflow will be truly revolutionary across the audit practice. It’ll drive quality consistently on each engagement. These are really exciting times to be an auditor!

*Becky*  
Manager, Audit
How we’re measuring our progress: audit quality indicators

We measure the quality of our audits based on the results of both internal and external reviews. In 2019, 80% of our FTSE 350 audits reviewed by the FRC achieved a rating of 1 or 2a; a marked improvement on 2018. Internally, we have increased the number of ‘satisfactory’ scores in our Quality Performance Review. Our investment in formal training for auditors has also increased during 2019, to 82 hours per person, on average. We also give details of our work with the investor community and other stakeholder groups.

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

In addition to those detailed below, we regularly review the audit quality indicators we use and are developing further such indicators. We will build the key messages from the FRC’s thematic review on audit quality indicators (currently in-progress) into our plans and will update in next year’s report as necessary.

Monitoring and continuous improvement

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

We take what we learn from the monitoring process and undertake root-cause analysis of any issues we uncover. This involves interviewing team members and Engagement Quality Control Reviewers across engagements subject to external and internal review. The outcome of this analysis helps us drive continuous improvement. We have increased the number of individuals trained to perform root-cause analysis. Their independent analysis helps identify the underlying factors that hinder the consistent delivery of high-quality audits. We take the results and use them to focus actions and target investments, which address areas such as technical knowledge and work allocation.

By collecting information from multiple engagements, we can look for correlations between engagement-level inputs and quality review outputs. Our goal is to develop this understanding sufficiently to allow us to determine predictors of audit quality outcomes. Then we can develop control and monitoring processes to manage potential quality outcomes proactively.

We have shared the lessons we have learned with other KPMG member firms, to contribute to global quality initiatives.
External monitoring

We are subject to external annual reviews, primarily by the Audit Quality Review (AQR) team of the Financial Reporting Council (FRC) and the Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW).

All reviewed engagements

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<tr>
<th></th>
<th>2018/19</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good or limited improvement required</td>
<td>22 (76%)</td>
<td>14 (61%)</td>
</tr>
<tr>
<td>Improvement required</td>
<td>7 (24%)</td>
<td>8 (35%)</td>
</tr>
<tr>
<td>Significant improvement required</td>
<td>0 (0%)</td>
<td>1 (4%)</td>
</tr>
</tbody>
</table>

FTSE 350 engagements

<table>
<thead>
<tr>
<th></th>
<th>2018/19</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good or limited improvement required</td>
<td>16 (80%)</td>
<td>8 (50%)</td>
</tr>
<tr>
<td>Improvement required</td>
<td>4 (20%)</td>
<td>7 (44%)</td>
</tr>
<tr>
<td>Significant improvement required</td>
<td>0 (0%)</td>
<td>1 (6%)</td>
</tr>
</tbody>
</table>

We launched our audit quality transformation plan in October 2017 and are currently in the second phase of the plan, which focuses on embedding the changes we have made. The latest inspection results show that this investment in audit quality is working, although we recognise that there is more to be done to consistently achieve high-quality audits. We are committed to making the financial investments and other changes necessary to sustain the improvements achieved, including ensuring that we have sufficient resources to deliver our plan and to embed a culture of continuous improvement in audit quality.

QAD review

<table>
<thead>
<tr>
<th></th>
<th>2018/19</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory or generally acceptable</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>Some improvement required</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Significant improvement required</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>
The Quality Assurance Department (QAD) of the ICAEW undertakes inspections of those audits which are outside the remit of the AQR team. The firm receives a private annual report from the QAD, documenting its findings.

We are also subject to review by the US Public Company Accounting Oversight Board (PCAOB) and an inspection was performed during 2018. The PCAOB published the results of the inspection of the UK firm in May 2019. The 2018 inspection considered two issuer audits performed by the firm and the firm’s audit work on one other issuer audit engagement in which it played a role but was not the principal auditor. The full report can be found on the PCAOB website. The review identified a number of specific deficiencies principally in relation to the procedures to test the design and operating effectiveness of certain controls with resulting impacts on the sufficiency of related substantive testing. We have already taken a number of actions in relation to the findings in the report and we will work with the PCAOB to ensure our overall action plan meets its requirements.

**Internal monitoring**

There are three components to our internal monitoring:

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

**Quality Performance Review (QPR)**

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

All engagement leaders are generally subject to selection for review at least once in a three-year cycle. We tailor the reviews and they’re overseen by a lead reviewer, from outside of KPMG in the UK, and monitored globally. If the reviewer notes any significant deficiencies, they create a remedial action plan, applicable at an engagement and firm level. We share our findings from the QPR Programme in writing, through internal training tools and in periodic partner, manager and team meetings. Any issues are also emphasised in subsequent inspection programmes to gauge the extent of continuous improvement.

In the UK we have established a consistent process that is designed to be at least as challenging as those conducted by our external regulators.

---

**Quality Performance Review assessment levels**

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Satisfactory** | When both:  
  i) the audit work performed, the evidence obtained and documentation fully comply with internal policies, auditing standards and legal and regulatory requirements; and  
  ii) key judgements concerning significant matters in the audit and audit opinion are appropriate. |
| **Performance improvement necessary** | When the auditor’s report is supported by evidence, but the independent reviewer required additional information to reach the same conclusion as the auditor; or where supplementary information obtained as part of the audit but not sufficiently documented in the audit or where specific requirements of our audit methodology were not embedded.  
  A ‘PIN’ rated engagement does not indicate concerns about the appropriateness of the audit opinion issued or the financial statements to which the opinion referred. |
| **Unsatisfactory** | When the auditor did not perform the engagement in line with KPMG’s professional standards and policies in a more significant area, or where there are deficiencies in the related financial statements. |

We have assessed each engagement rated Unsatisfactory and are satisfied that the opinions issued in respect of the audits were appropriate and the related financial statements were not materially misstated. We believe that the standards to which we are holding engagement teams through this process is in many areas stricter than those applied by our audit regulators: we now assess ‘how’ evidence was obtained in addition to ‘what’ evidence was obtained.

Where appropriate, in a limited number of cases we remediate engagement files to ensure the audit evidence obtained is adequately documented. Engagement teams undertake specific incremental or remedial training. In addition, engagement leaders receiving a PIN or Unsatisfactory grading are considered for either full follow-on reviews of other engagements or reviews focused on the specific areas of findings. We take the ratings from the annual OPR programme into account when assessing the performance and remuneration of all engagement leaders and managers. Partners’ quality scorecard takes into account the results from internal and external quality reviews in addition to other quality features with a direct link to reward.

Risk Compliance Programme (RCP)

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

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

In 2019, our self-assessment finds that our overall level of compliance is yellow (2018: yellow).

Global Compliance Review (GCR)

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

Quality Performance Review scores

<table>
<thead>
<tr>
<th>Rating / Satisfactory</th>
<th>2019</th>
<th>61%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>53%</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>51%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rating / Performance Improvement Necessary</th>
<th>2019</th>
<th>24%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>28%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rating / Unsatisfactory</th>
<th>2019</th>
<th>15%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>27%</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>21%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percentage of engagement leaders reviewed</th>
<th>2019</th>
<th>35%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>42%</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>33%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of engagements reviewed</th>
<th>2019</th>
<th>124</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>138</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>113</td>
</tr>
</tbody>
</table>

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Regulatory investigations and sanctions

FRC matters closed in the year

In April 2019, the report of the FRC Disciplinary Tribunal, held in December 2017 and October 2018, was published in relation to KPMG Audit Plc’s audits of Equity Red Star Motor Syndicate 218 for the years ended 31 December 2008 and 2009. The Tribunal made findings of misconduct and KPMG Audit Plc was fined £6 million, severely reprimanded and agreed to undertake an additional internal quality review on certain aspects of its 2018 audits of insurance undertakings, with reporting to the FRC. A current partner was fined £100,000, severely reprimanded and agreed to a second partner review of his audits until the end of 2020, and a former partner was also fined £100,000 and severely reprimanded.

We continue to work with the FRC to resolve open matters and, as publicly announced during the year, the following two matters were closed following admissions to the FRC in relation to the underlying conduct:

— in May 2019, in relation to the audit of The Co-operative Bank plc for the year ended 31 December 2009, KPMG Audit Plc was fined £4 million (after a settlement discount of 20%), severely reprimanded and agreed that all audit engagements with credit institutions for audits with 2019-2021 year ends will be subject to an additional internal quality review with reporting to the FRC and the engagement partner fined £100,000 (after a settlement discount of 20%) and severely reprimanded; and

— in August 2019, in relation to reports to the FCA on compliance with client assets regulations by The Bank of New York Mellon (International) Limited and The Bank of New York Mellon London Branch for the year ended 31 December 2011, and following a hearing by the FRC Tribunal in May 2019 to determine sanctions, KPMG Audit Plc was fined £3.5 million (after an admissions discount of 30%), severely reprimanded and required to conduct an internal quality review over a three year period in respect of each person who signs a Client Assets Report on behalf of KPMG, with reporting to the FRC. The engagement partner was fined £52,500 (after a settlement discount of 30%) and severely reprimanded.

ICAEW matters closed in the year

KPMG LLP agreed to pay fines of £3,500 and £7,000 respectively following admissions to the ICAEW during the year in connection with:

— a loan in the form of disbursements made on an audited entity’s behalf, which were recovered from the audited entity within six weeks, contrary to APB Ethical Standard 2; and

— issuing unqualified audit reports on the financial statements of an entity without obtaining sufficient appropriate audit evidence that related party relationships and transactions had been appropriately identified, accounted for and disclosed.

Ongoing FRC matters

FRC investigations into three matters announced in previous years remain ongoing:

— the audit by KPMG Audit Plc of Rolls-Royce Group Plc for the year ended 31 December 2010 and Rolls-Royce Holdings Plc for the years ended 31 December 2011 to 31 December 2013 (announced May 2017);

— the audit by KPMG LLP of Carillion plc for the years ended 31 December 2014, 2015 and 2016, and additional audit work carried out during 2017 (announced January 2018); and

— the audit by KPMG LLP of Conviviality plc for the 52 weeks ended 30 April 2017 (announced July 2018).

New FRC matters or developments on ongoing FRC matters during the year

In November 2018, following matters self-reported by KPMG LLP, the FRC announced an investigation relating to the provision of materials to the FRC by KPMG LLP in connection with the FRC’s Audit Quality Review into aspects of the audit of Carillion for the year end 2016.

In November 2018, the FRC also announced a Formal Complaint against KPMG LLP and the relevant engagement partner relating to a restructuring engagement between January and April 2011 for companies trading under the name “Silentnight”.

In February 2019, the FRC announced that its investigation of Carillion plc had been extended to include certain matters relating to KPMG Audit Plc’s audit of Carillion plc for the year ended 31 December 2013.
Breaches of the FRC Ethical Standard

Our systems and processes help our people and our firm comply with the requirements of the FRC Ethical Standard (ES). Very occasionally our compliance processes identify breaches of the ES requirements. Where we identify such breaches we take prompt action: we assess the significance of the breach and how it has impacted on our independence and objectivity as auditor of the entity concerned, and we report our conclusions to those charged with governance. The Ethics Working Group considers the sanctions to be applied in respect of the breaches arising (including both financial sanctions and any additional remedial measures necessary). Every six months we submit a report of breaches to the FRC. In the year ended 30 September 2019 we identified 35 breaches of the FRC Ethical Standard (2018: 42 breaches).

People Survey

We conduct regular surveys to find out how people feel about KPMG and their working environment. The results from the People Survey conducted during 2019 for our UK Audit function are shown below (results from the previous People Survey performed in 2018 are included in brackets):

- **KPMG’s commitment to quality is apparent in what we do on a day-to-day basis.**
  - 84% favourable response (2018: 78% favourable response)

- **I have access to the tools and resources I need to do my job effectively.**
  - 81% favourable response (2018: 77% favourable response)

- **I am satisfied with the learning and development available to improve my knowledge and skills.**
  - 77% favourable response (2018: 75% favourable response)
Training delivered in audit

For the year ended 30 September 2019 our formal audit training programme (excluding courses for unqualified colleagues on training contracts) included mandatory audit technical training, industry-specific training and risk courses. This year our audit professionals attended the second KPMG Audit University. This is a three-day immersive training course covering all aspects of the audit process.

The average number of hours of formal training undertaken by partners and qualified professionals for the year ended 30 September 2019 was 82 hours (2018: 65 hours).

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

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

The equivalent average learning hours for the qualified staff and partners within the technology experts transferred in to audit for the year ended 30 September 2019 was 78 hours. This relates to technical training that they attend including the three-day KPMG Audit University.

<table>
<thead>
<tr>
<th>Metric</th>
<th>2019 (financial year)</th>
<th>2018 (financial year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The minimum number of hours of mandatory training for audit partners and audit professionals.</td>
<td>39.5 hours per person</td>
<td>37 hours per person</td>
</tr>
<tr>
<td>The range of hours an audit partner or audit professional could spend on mandatory training.</td>
<td>39.5 - 200 hours per person</td>
<td>37 - 191.5 hours per person</td>
</tr>
<tr>
<td>The average number of hours of mandatory training completed by audit partners and audit professionals.</td>
<td>82 hours per person</td>
<td>65 hours per person</td>
</tr>
<tr>
<td>The total number of hours of training completed by audit partners and audit professionals. This includes learning undertaken by colleagues working towards a qualification.</td>
<td>1,073k</td>
<td>943k</td>
</tr>
</tbody>
</table>
Stakeholder interactions

Investor engagement

To meet our ambition of being the most trusted professional services firm we must be trusted by investors. Investing shareholders are the ‘client’ in the context of our audit reports, and audit is at the heart of our firm.

Our engagement with investors is sponsored by the Board and Audit Leadership, reported to (and challenged by) our Public Interest Committee and delivered with the support of a number of our most experienced audit partners. In the current year, we have continued to extend our engagement with investors and investor organisations to better understand their needs and to inform how we can best respond.

Over the course of 2019, we’ve held over 40 meetings and discussion sessions with institutional investors and their representative bodies that manage over £7 trillion of assets in total on a global basis.

We also hold an annual meeting with the Corporate Reporting Advisory Group (CRAG) which is also attended by the INEs. The CRAG comprises portfolio managers and corporate reporting specialists from several UK investment managers – it engages with companies, regulators and the accounting profession on financial reporting matters on behalf of long-term institutional investors. At these meetings, we discuss the measures we are taking to push audit quality to the high standards expected of us by regulators and users of financial statements, and evaluate the areas where investors could benefit from greater insight into the auditor’s findings.

At the core of our engagement with investors has been a consensus that high-quality audits are vital. They generate confidence in our capital markets because of the independent assurance they provide over financial statements – a key document of record for investors.

Looking ahead, the ongoing initiatives to reform corporate governance regulation, corporate reporting and audit have been a rich vein to explore in our conversations with investors, generating valuable insight into how a future audit might change to better meet investors’ needs.

Investors tell us they want auditors to:

— **safeguard their independence** from the companies that they audit – both in fact and appearance. In response, we were the first audit firm to voluntarily restrict the provision of non-audit services (other than those services closely related to the audit) to FTSE 350 companies that we audit.

— **produce audits that better reflect investors’ concerns**. In response, we have shared investors’ areas of focus through our training for partners and audit professionals and sought investors’ views on the companies we audit as an input into our audit planning.

— **give more insight into management judgements than a binary audit opinion can give them**. In response we continue to offer ‘graduated findings’ in audit reports – where the auditor provides an independent view of the relative caution or optimism of management’s key judgements, rather than presenting merely a binary conclusion on the acceptability of those judgements.

— **share insights sooner**. In response we have reminded companies we audit of the requirements concerning timely publication of annual reports and introduced a report containing extracts of our signed audit report that companies can publish with preliminary announcements.

— **explain their role in considering areas of key importance to investors**, such as going concern and capital maintenance. In response, we have enhanced the explanations in our audit reports of our work on going concern and laws and regulations and are engaging with regulators on possible reforms to this area.
We have incorporated that feedback into our responses to the various reviews of the audit profession and, in advance of regulatory changes, we will continue to advocate for the market-wide adoption of ‘graduated findings’ that KPMG already offers, a recommendation echoed by the Kingman Review. We will also work towards enhancing independent assurance over information that matters to investors such as value-relevant KPIs, internal controls and Environmental, Social and Governance (ESG) information.

We greatly value the insight and challenge provided by investors over the course of this year and invite investors to continue to engage with us as we help share the future of audit.

**Political engagement**

As a leading professional services firm, policymakers and politicians are important stakeholders for us and we believe the knowledge and insights we obtain through our work can provide valuable insight for policymaking. While we are active participants in public policy debates we seek to maintain a position of political neutrality. Our political engagement is based on principles of integrity, legitimacy, accountability and oversight, consistency and transparency.

**Audit Committee Institute**

Audit committees play an important and demanding role for capital markets. They also face challenges in meeting their responsibilities. In recognition of this, our Audit Committee Institute (ACI) helps audit committee members enhance their awareness, commitment and ability to implement effective processes. It provides impartial guidance and resources to help members carry out their role more effectively. The ACI provides audit committee members with thought leadership and tools in the form of technical updates and topical deep dives.3

We hosted 40 events in 2019 which were attended by over 700 individual audit committee members. These events addressed issues facing audit committees, including Environmental, Social and Governance information, regulatory change, geopolitical risk, the lack of public trust in business and the audit reform agenda as well as providing opportunities to interact with peers and investors. In addition to this, we provide our members with results and findings of surveys into areas such as auditor quality and global audit committee challenges and priorities. We supplement our dialogue with audit committees with updates detailing changes to rules and regulations as well as best practice guidance.

In 2019

- We hosted 40 events...
- ...which were attended by over 700 individual audit committee members.
- The ACI in the UK has over 2,800 members.
- Membership of our FTSE 100 Audit Committee Chair’s group is represented by around 80% of the FTSE 100.

The ACI in the UK has more than 2,800 members across both the private and public sectors and membership of our FTSE 100 Audit Committee Chairs’ group includes representatives from around 80% of the FTSE 100.

**Interaction with regulators**

At a global level KPMG International has regular two-way communications with the International Forum of Independent Audit Regulators (IFIAR) to discuss issues identified and actions taken. In the UK, the Head of Audit and Head of Audit Quality participate in global meetings to ensure alignment across the network.

In the UK, we have regular meetings with the FRC as part of its Audit Firm Monitoring and Supervision (AFMAS) and with the AQR team of the FRC which is responsible for the monitoring of audits of all listed and other major public interest entities.

3 [https://home.kpmg/uk/en/home/misc/board-leaders/hp-centre/audit-committee-institute.html](https://home.kpmg/uk/en/home/misc/board-leaders/hp-centre/audit-committee-institute.html)
Our culture and its impact on audit quality

Our culture promotes consultation, challenge and open discussion of issues and is a fundamental contributor to audit quality. This encourages partners and colleagues to debate and discuss difficult or contentious matters. We have engaged with the FRC proactively, to understand the link between culture and audit quality and update the regulator of steps we’re taking to strengthen our culture. These include running ‘safety & trust’ workshops with junior colleagues and rolling out a network of Ethics Champions.

A clear link between culture and high-quality audits

We know that the right culture has a positive impact on the quality of audits, which is why we have placed increased emphasis on reinforcing that culture. Our decision to ban non-audit services for FTSE 350 entities we audit is one example of this. It’s a decision we took ahead of our competitors and removes perceptions of conflict of interest. And we know that moves like these will help promote quality, independence, objectivity and professional scepticism.

This year we have actively engaged with the FRC, updating the regulator on our progress, and we will continue to do so in 2020. We know how important it is that the FRC, and our wider stakeholders, have confidence that our efforts to improve audit quality are delivering the right outcomes. As a result, we welcomed the FRC’s assessment of our audit practice, supported by Allen & Overy Consulting. The review supports the FRC’s supervision of the sector as part of its new Audit Firm Monitoring and Supervision (AFMAS), consistent with enhancements recommended by Sir John Kingman.

Getting the right tone at the top

Our emphasis on ‘doing the right thing’ starts at the very top of our firm. In firm-wide messages, and in targeted messages to the partner and director population, our leadership places considerable focus on culture and the importance of living the firm’s values. Our leadership, including our Senior Partner, have taken time to speak to colleagues from across the firm about culture. And where problems have been identified, they have been addressed.

As we move into 2020, KPMG International will share work it has done to update the values that all member firms share. When we communicate that with colleagues in the UK, it will come with strong endorsement from leadership and will be closely linked to our trust agenda.

The way we reward our auditors is linked to both audit quality and behaviour. This year, we have changed the way in which we measure partners’ performance, to reflect the need for a stronger culture. This extends to our Board and Executive Board members as, since mid-2018, they have all had at least one goal that reflects the role they play in supporting audit quality.

We held 60 workshops with our junior colleagues earlier in the year to discuss safety and trust. We also held four pilot workshops with some of our partners about psychological safety, its importance and how to create it. Having heard feedback, we are now planning to roll out further training in FY20, on ways to make conversations about behaviours easier. This training also addresses ways to create and run teams in which there are high levels of trust.

We also have independent oversight of our actions around culture in the form of our Public Interest Committee (its full report is on page 10). They have taken great interest in our culture plans. Members of the PIC also met employees during the year, to gain first-hand experience of our culture work. The PIC sees regular reports on the number of cases reported to, and being investigated by, our Speak Up hotline (whistleblowing). It is operated by an external ombudsman. In FY19 there were 52 separate matters reported to the hotline for investigation and 47 matters raised to Ethics Champions which led to an investigation.
Connecting our culture to audit quality

The culture we aspire to supports both the firm’s audit quality objectives and our wider ‘trust and growth’ strategy. This strategy is also shared by other member firms in the KPMG network, underlining its importance. Trust is a global issue, which is why it is part of our global strategy. Internally, we have grouped our efforts and communications under the campaign Trust. It starts with us to reiterate the importance of individuals: they are the first line of defence in our firm.

The culture we aspire to is underpinned by Our Values and defines what it’s like to feel part of a TEAM at KPMG.

- **Trust** – we have an open, inclusive, safe environment where we can speak up and be our best.
- **Empowerment** – we are clear about our roles and responsibilities.
- **Accountability** – we are responsible for our decisions, behaviours and performance.
- **Mastery** – we are supported to own our development and build our personal brand.

Audit quality depends on a culture where colleagues, whatever their level of experience, can speak out if they have concerns. Between January and April 2019, we ran safety & trust workshops for nearly 600 junior colleagues, to understand how they thought we could improve the way we work in teams. Their feedback, particularly around a reluctance to ask for help and point out mistakes, has helped us design our culture action plan.

One of the steps we’ve taken is to introduce Ethics Champions. They are volunteers from all parts of the firm who act as local points of contact for colleagues to discuss ethical concerns. They dedicate up to 10% of their working week to the role and any colleague can speak to any Ethics Champion. We launched the programme officially in May 2019. By the end of September 2019, there were 113 Champions, with a minimum of one in each of our UK offices.

Being a part of the Ethics Champion initiative has been one of the most rewarding aspects of my career at KPMG. I am able to tangibly support our colleagues and contribute to a more open environment.

Diana
Ethics Champion
Taking action to put the right culture in place

We have worked hard to simplify processes and policies, to make it easier for individuals to do the right thing. In FY19, we introduced ‘policies on a page’ and have made our policy library more prominent on our intranet. We have also rolled out our Speak Up (whistleblowing) app; as well as an app where anyone in the firm can give feedback on partners and directors. This is in addition to our iComply app to make it easier for people to get answers to personal independence questions. Our Values and Code of Conduct are also visible on our website.

To encourage greater accountability, we have extended our audit quality scorecards to all auditors – in FY18 it was only for partners and partner equivalents. These scorecards put audit quality as the primary criterion for the evaluation of performance and promotion. And elsewhere in the firm, managers are embedding behaviour into the performance management process, so there is a direct link between how you behave and reward.

For colleagues that have spoken up, or raised a concern about unethical behaviour, we have introduced greater clarity over who they can speak to, what each process entails and the timelines. Ethics Champions are also able to advise colleagues on which route is available to them, depending on the nature of their concern.

Keeping track of our progress

In a firm of our size and geographic reach – we have nearly 17,000 colleagues in 23 offices – maintaining a consistent culture is a challenge. This is why we have several mechanisms in place to keep track of our progress.

We conduct a firm-wide Global People Survey every October, which gives colleagues a chance to share their views. As it is conducted across the KPMG global network, it also gives us insights of issues that other member firms are facing. Completion of the survey is good: in FY19, over two-thirds of colleagues shared their views.

In August 2019, our pulse survey – which went to a third of colleagues – focused on our values. Of those that responded 93% said that ‘we act with integrity’ was the value they considered to be most important to them, and most important to the culture of the firm.

These efforts sit alongside our continued investment in audit quality, in particular, with coaching and project management. This helps maintain our culture of delivering high-quality audits.

Changing our culture for the better

In 2019, we:

- listened to the views of 600 junior colleagues and acted on their feedback
- trained 113 Ethics Champions: there’s at least one in each of our offices
- used technology, like apps, to make it easier for colleagues to speak up
- ran four workshops on psychological safety with partners
- simplified our policies (including those relating to our Code of Conduct) and made them easier to find
Structure & governance

How our structure and governance supports audit quality 36
Report on the Board’s activities during the year 41
Report on the Audit Oversight Committee’s activities during the year 42
Report on the Audit Committee’s activities during the year 43
Report on the People Committee’s activities during the year 44
Report on the Risk Committee’s activities during the year 45
Report of the Public Interest Committee’s activities during the year 46
How our structure and governance supports audit quality

During this year we have been evolving and strengthening our governance structures both at the firm-wide level and at the regional level. These changes, together with further changes planned for January 2020, provide more robust management and governance arrangements for our audit practice. In addition, they will make our firm easier to regulate and our activities more transparent. This section also explains our relationship with other firms in the KPMG network and the roles that internal and independent committees play.

Legal structure

KPMG LLP (the firm) is incorporated as a limited liability partnership under the Limited Liability Partnerships Act 2000. The capital in KPMG LLP is contributed by its members (the members are referred to as partners).

KPMG Audit Plc, a public limited company registered in England and Wales, is wholly owned (through two intermediate holding companies) by KPMG LLP.

A list of the key entities owned by KPMG LLP (together KPMG in the UK or the group), and details of their legal structure, regulatory status, principal activity and country of incorporation are set out in note 27 to the financial statements.

KPMG LLP is affiliated with KPMG International Cooperative (KPMG International), a legal entity which is formed under Swiss law. Further details about KPMG International and its business, including our relationship with it, are set out in Appendix one.

Ownership

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

During the year to 30 September 2019, there was an average of 621 partners in KPMG LLP (2018: 603 partners).
Governance structure

Consistent with our commitment to build trust, we apply high standards of governance. The firm’s governance structures, management team and leaders are subject to formal, rigorous and on-going performance evaluation.

During the course of this year we have implemented a number of important changes to our governance driven by a combination of our own triennial board effectiveness review and our ongoing desire to ensure that the firm’s leadership structure support our public interest objectives most effectively.

The most important changes are:

- rationalising our Board’s composition and its committees
- enhancing the Audit Practice governance with the appointment of a Chair of Audit who sits on the Board
- strengthening our Audit Oversight Committee which is proposed to be reconstituted as an Audit Board in January 2020
- establishing an Executive Board with focus on firm-wide strategic priorities, supported by four executive committees
- formalising an augmented regional governance structure with focus on consistency, accountability and audit quality
**Senior Partner**

The firm is led by an elected Chair and Senior Partner, Bill Michael, who was appointed in July 2017 following a competitive election campaign and confidential vote of all partners (administered by the Electoral Reform Society).

The Senior Partner is responsible for leading the Board and ensuring that the Board members receive accurate, timely and clear information and ensuring effective communication and relationships with the partner group. The Senior Partner also regularly meets with Elected and Nominated Board members (without Executive members present). The Senior Partner chairs the Executive Board which oversees execution of the strategy on a firm-wide basis.

**The Board**

The main governance body of the firm is the UK Board, which is responsible for the growth and long-term prosperity of the firm ensuring it keeps with, and is true to, its purpose and vision. The Senior Partner leads the Board, which provides leadership to the organisation, approves the firm’s strategy and oversees its implementation, monitoring performance against business plan. The Board also ensures that there is a satisfactory process for managing cultural, ethical, risk and reputational matters affecting KPMG in the UK business including compliance with laws, other regulations relevant to our business and global KPMG's policies.

The Board is attended by the Chair of the Public Interest Committee and by other Independent Non-Executives (INES). The Audit Chair is also a member of the Board.

Partners at large are elected as members of the Board for fixed terms. The current elected members are serving three-year terms, extendable up to a maximum of five years, to maintain relevant skills and breadth of experience on the Board.

An in-depth effectiveness review of the Board is performed every three years, led by independent consultants. This was last undertaken in 2018. The review resulted in recommended modifications including a rationalisation of the Board’s composition and committee arrangements, a clarification of leadership responsibilities and relationships, and continual improvements in transparency and accountability taking account of the Audit Firm Governance Code. From 1 January 2019 the number of Board Committees reduced to include the following, with revised terms of reference: Audit Committee, People Committee, Audit Oversight Committee and Risk Committee.

**The Executive Committee**

Until 31 May 2019, management of the day-to-day activities of the firm was undertaken by the Executive Committee (ExCo). Its responsibilities included the development and implementation of business plans, monitoring operating and financial performance, prioritisation and allocation of resources, investment and managing the risk profile of KPMG in the UK.

The ExCo was chaired by the Managing Partner, Philip Davidson, who was appointed by the Senior Partner, and its members were all KPMG partners. The members of ExCo were appointed by the Senior Partner and Managing Partner. When the Managing Partner stepped down the Executive Committee was replaced by an Executive Board, with revised membership, operating with effect from 1 June 2019.
The Executive Board

An Executive Board was established on 1 June 2019 and is chaired by the Senior Partner, Bill Michael. The Executive Board includes the Senior Partner, the Chief Operating Officer, the Head of Clients and Markets, the Chief Risk Officer, the Head of People, the Head of Regions and the Head of Audit. At the same time the following Executive Board sub-groups were established: Operations Executive, Clients and Markets Executive, Risk Executive and Audit Executive. Together the Executive Board and its sub-groups manage the day-to-day activities of the firm.

The Public Interest Committee

In accordance with the Audit Firm Governance Code, the firm has a Public Interest Committee (PIC), comprising Independent Non-Executives (INEs). We consider the INEs, not being otherwise connected with KPMG in the UK, to be independent. The Senior Partner, on recommendation of the People Committee and approval of the Board, appoints the INEs. They are chosen to provide specific insights considered to be relevant to the activities of the PIC and the development of the firm, including expertise in financial and corporate matters, and governance and investor needs. Their appointments are for a fixed term, of two or three years. This may be renewed up to a maximum of three terms, or nine years. As at 30 September 2019, the PIC consisted of five voting members.

The key responsibilities of the PIC are to provide comment and recommendations relevant to the public interest purposes of the Audit Firm Governance Code in the context of KPMG’s UK business. Within the governance of KPMG in the UK, it is important for the INEs to remain in a position of independence from the leadership decision making of the firm and outside its chain of command. As such, although they may vote on recommendations as a PIC, they do not carry votes on the Board or on its other committees. Notwithstanding this, the INEs have access and a full opportunity to question and challenge KPMG in the UK at the Board level and at the Board Committee level. They are also able to represent the activities of KPMG in the UK to external stakeholders, including our regulators, in an objective and dispassionate way in furtherance of their public interest role under the Audit Firm Governance Code.

Members of the PIC attended Board committees during the year, including the Risk, People and Audit Oversight Committees in order to have greater visibility into the operations of KPMG in the UK, and to share perspectives gained with fellow members of the PIC.

KPMG has considered the UK Audit Firm Governance Code and the FRC’s Ethical Standard in drawing up criteria for appointment of the members of the PIC. These criteria recognise the need for INEs to maintain appropriate independence from the firm and its partners and have due regard to the impact of any external financial and business relationships held by the INEs on the firm’s independence of its audited entities. Our INEs are not considered to be part of the chain of command for the purposes of auditor independence requirements. In addition, none of them hold Board or senior management positions at entities that we audit which are public interest entities. They are, as a condition of their appointment, under a continuing obligation to disclose any matters which may constitute a potential conflict of interest as soon as they become aware of them.

The annual remuneration of each Independent Non-Executive is £100,000. The Chair of the PIC receives an additional amount of £25,000 in respect of chairing duties.

At 1 October 2018 there were three Members of the Public Interest Committee: David Pitt-Watson (Chair), Lord Evans of Weardale and Oonagh Harpur. Anne Bulford was appointed as a Member on 1 May 2019 and Kathleen O’Donovan on 1 July 2019. On 1 October 2019 Lord Evans of Weardale was appointed Chair of the PIC and David Pitt-Watson stepped down as an Independent Non-Executive on 31 October 2019, having served the maximum number of terms.

A report on the activities of the Public Interest Committee in the year is on page 46.
The Audit Committee

The Audit Committee monitors the integrity of KPMG in the UK’s financial reporting system, internal controls, overseeing the relationship with our statutory auditors (including recommending their appointment, removal and remuneration as well as monitoring their independence and effectiveness) and reviewing the effectiveness of the group’s internal audit function.

The Members of the Audit Committee are appointed by the Board for a period of three years with the option for this to be renewed for an additional two-year period.

A report on the activities of the Committee in the year to September 2019 is on page 43.

The Audit Quality Committee

The Audit Quality Committee was established in March 2018 and remained in place until the end of January 2019. The purpose of the Committee was to oversee, on behalf of the Board, all relevant matters pertaining to audit quality including dialogue with key regulatory bodies, inspection results, and relevant audit brand and regulatory risks. The Audit Quality Committee was replaced by the Audit Oversight Committee in February 2019.

The Audit Oversight Committee

The Audit Oversight Committee was established in February 2019 to oversee the Audit practice and review the firm’s responsiveness to challenges in the audit profession specifically in relation to audit quality, actual or perceived conflicts of interest, independence, market dynamics and choice for audited entities, regulation, strategy and investment. The Committee also oversees how KPMG discharges its public interest obligations to investors, and other key stakeholders, such as regulators and audited companies.

A report on the activities of the Committee in the year to September 2019 is on page 42.

The People Committee

The People Committee provides oversight of the processes for the appointment of leadership positions and INEs; oversees leadership succession planning; reviews and approves remuneration policies for partners and senior leadership; oversees the effective execution of the People strategy by the Executive; and oversees the effectiveness of the firm’s programmes pertaining to culture and ethics.

A report on the activities of the Committee in the year to September 2019 is on page 44.

The Risk Committee

The Committee assists the Board in its oversight of current risk exposures and determination of risk appetite and risk strategy. The Committee also oversees the effectiveness of the firm’s risk management framework, the prevailing risk culture in the organisation, the firm’s capability to identify and manage new risk types and the adequacy of risk and assurance resources for first, second and third lines of defence.

A report on the activities of the Committee in the year to September 2019 is on page 45.

Communication with partners as members of KPMG LLP

The Senior Partner, former Managing Partner and members of the Executive Board had primary responsibility for communication with the partners in the UK. They used different channels to do this, including face-to-face meetings, weekly emails on external and operational matters and webinars. Where there is an immediate need to communicate matters then an all-partner email is used or, exceptionally, conference calls or roundtable meetings convened. In addition, all members are invited to two partner conferences annually to discuss a range of topics including the firm’s results and business planning.
Report on the Board’s activities during the year

One of the main areas of focus this year has been developing and agreeing the firm’s response to policymakers and regulators and engaging in the debate to formulate solutions to address long-standing issues facing the audit profession.

Our role

The Board oversees the long-term stewardship of the firm and the accountability of management, approving a strategy aligned to our vision and our long-term values and purpose. In doing so, the Board seeks to balance the interests of the various stakeholders in order for the firm to have a successful and sustainable future.

Setting strategic direction and maintaining oversight

During the year the Board’s activities have included:

— monitoring the firm’s relationship with its regulators;
— approving material decisions as regards the firm’s response to regulatory investigations, enforcement actions and allegations;
— maintaining oversight of the Audit Quality Transformation Programme and its effectiveness;
— monitoring the firm’s Brexit preparedness;
— agreeing the culture and associated programmes to support the successful implementation of the firm’s Trust and Growth strategy;
— discussing the findings of the people survey undertaken in autumn 2018 which provided data on engagement and other key metrics about partners’ and employees’ relationships with the firm; and
— overseeing financial performance.

The Board is supported in its oversight by four Board committees (People Committee, Audit Committee, Risk Committee and Audit Oversight Committee) and receives regular reports from each.

Responding to consultations and regulatory reviews

The Board has overseen the firm’s engagement and response to:

— the Kingman Review of the Financial Reporting Council;
— the Competition and Markets Authority study of the statutory audit market;
— The Brydon Review – an independent review commissioned by the government to review the quality and effectiveness of audit; and
— the Department for Business, Energy & Industrial Strategy’s consultation on the implementation of the Kingman recommendations.

Our priorities for 2020

In 2020 we will:

— continue to oversee the stewardship, accountability and leadership of the firm
— approve strategic direction of the firm and the alignment to its Vision, Values and Purpose
— oversee financial performance and cultural governance

Bill Michael
UK Chair & Senior Partner
Report on the Audit Oversight Committee’s activities during the year

From January 2019 the Audit Oversight Committee took over from its predecessor, the Audit Quality Committee, with a wider remit overseeing the Audit practice and the interaction of the Audit practice with the rest of the firm, providing independent judgement through its composition and involvement of Independent Non-Executives.

Our role
The Audit Oversight Committee oversees and reviews the adequacy of the firm’s responsiveness to challenges in the audit profession; specifically in relation to:

— audit quality;
— actual or perceived conflicts of interest;
— independence;
— market dynamics and choice for audited entities;
— the regulation of the Audit Profession;
— strategy; and
— investment.

The Committee also oversees and challenges the KPMG Audit practice to ensure that KPMG robustly discharges its public interest obligations to investors, and other key stakeholders such as regulators, as well as to those entities which it audits.

Primary focus: audit quality
The Committee’s activities focused on the assessment and monitoring of the Audit Quality Transformation Plan, investment in audit quality, including technology and people development, building capacity to deliver and monitor quality audit work and interactions with the Audit Quality Review team at the FRC. During the year representatives from the FRC joined two Committee meetings.

Our priorities for 2020.
In 2020 we will:

— monitor the implementation of the Audit Quality Transformation Programme
— oversee the deployment of the new digital platform for executing audits
— respond proactively to the results of external reviews
— focus on improving the wellbeing and job satisfaction of our people

Areas of oversight
During the year Committee maintained oversight of:

— the Audit Quality Transformation Programme;
— risk management;
— key quality and performance indicators;
— engagement with the FRC, including in relation to supervision under AFMAS as well as enforcement matters;
— KPMG Clara Workflow deployment;
— the firm’s portfolio of audited entities and tendering approach and decisions;
— financial performance;
— people matters including learning and development, promotions, wellbeing, culture and retention;
— development of the Audit practice’s three year strategy; and
— investments in the Audit practice.

James Stewart
Chair of the Audit Oversight Committee

Audit Oversight Committee in numbers
— Four members
— Ten formal meetings in FY19 (including its predecessor the Audit Quality Committee); four additional formal meetings for specific matters

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Report on the Audit Committee’s activities during the year

One of the main areas of focus this year has been overseeing the process of the preparation of the firm’s financial statements.

Our role
The purpose of the Audit Committee is to assist the Board in its oversight of the integrity of the LLP’s financial reporting, including supporting the Board in meeting its responsibilities regarding financial statements and the financial reporting systems and internal controls.

Audit Committee in numbers
— Two members
— Five formal meetings in FY19

Our priorities for 2020
In 2020 we will:
— continue to exercise governance over internal controls to comply with the requirements of the Audit Firm Governance Code
— oversee the governance of the programme to implement the requirements of ISQM1
— consider the key accounting policies and judgement in the financial reports
— oversee and review the work of KPMG’s internal audit department

Internal audit
The Committee undertook an effectiveness review of Internal Audit including a review of Internal Audit’s conformance with the IIA’s International Standards for the Professional Practice of Internal Auditing (Standards). The review identified minor areas for improvement to reflect best practice and the Committee will continue to retain oversight of completion of these. The Committee also approved a revised Internal Audit Charter which sets out the mission, authority and responsibility of the Internal Audit function within KPMG. The Committee annually approves the internal audit plan and monitors its progress over the year as well as reviewing the resulting internal audit reports and management’s response to recommendations.

Financial statements and year-end matters
During the year, the Committee considered accounting policies and significant judgements relating to the external audit including the impairment of intangibles, professional indemnity provisions, contract reviews and IFRS 15 and IFRS 16. The Committee reviewed management evidence to support the Board’s statement on the effectiveness of internal controls and independence to satisfy the requirements of the Audit Firm Governance Code.

Tony Cates
Chair of the Audit Committee
Report on the People Committee’s activities during the year

From January 2019 the People Committee took over from its predecessor, the Nomination and Remuneration Committee, with a wider remit which includes monitoring culture and ethical behaviour.

Our role

The purpose of the People Committee is to assist the Board through its oversight of the implementation of the Executive’s People Strategy. The Committee oversees policies and practices associated with the strategy, reviewing them for consistency with the firm’s values, prescribed culture and inclusion and diversity objectives.

People Committee in numbers

- Three members
- Nine formal meetings in FY19

Our priorities for 2020

In 2020 we will:
- continue with leadership development and the strategy to become a ‘magnet for talent’
- focus on culture and behaviours
- consider effective performance management and related reward
- focus on inclusivity, diversity and social equality, as well as health and wellbeing and agile working

Partnership Matters

During the year the Committee oversaw developments in:
- partner bandings and reward principles, reviewing and approving remuneration policies for partners to recognise in-year performance and to support the long term business strategies and values of the firm;
- total partner numbers in light of retirements, promotions and new recruits;
- leadership succession planning; and
- culture levers and associated programmes.

The Committee also monitored data to assess the culture and ethical health of the firm and the effectiveness of interventions to support improvements.

Elected members

In summer 2019 the Committee led the process to select a shortlist of candidates for two vacant Board positions which were then put to a members’ vote. Two were subsequently elected by members as Elected Board members.

Sue Bonney
Chair of the People Committee
Report on the Risk Committee’s activities during the year

The Committee’s activities since its inception in June 2018 have focused on reviewing and overseeing the enhancement of the firm’s Enterprise-Wide Risk Management Framework.

Our role

The purpose of the Risk Committee is to assist the Board in its oversight of current risk exposures and determination of risk appetite and risk strategy. The Committee also oversees the effectiveness of the firm’s risk management framework.

Risk Management Framework

During the year the Committee has maintained strategic oversight of an extensive programme to enhance the firm’s risk management arrangements, under the leadership of the Chief Risk Officer. The Board delegated oversight of the programme to the Committee and this included the Committee overseeing key developments, including:

- the target operating model for the risk function and associated resource requirements;
- the refreshed risk reporting infrastructure, ownership and oversight;
- the delivery of training and resources to support the embedding of the revised arrangements;
- output and outcomes from the risk reporting; and
- lessons learned from the implementation of the programme.

Business deep dives

During the year the Committee undertook a number of deep dives into business areas including Consulting, Solutions and Digital, Restructuring, Deal Advisory and KPMG Business Services. The focus of these sessions was to review the impact and effectiveness of risk management arrangements within the business area. These deep-dive sessions involved:

- an overview of the business;
- how risk is managed;
- the risk landscape, risk themes and the escalation framework within the business area;
- the current risk assessment; and
- the forward view on risks.

Our priorities for 2020

In 2020 we will:

- continue to monitor and oversee the effectiveness of the Enterprise-Wide Risk Framework
- develop firm-wide risk appetite further
- scan the horizon for emerging risks, evaluating their potential impact and available mitigations

Melanie Richards
Chair of the Risk Committee
The Committee’s activities focused on the oversight of the firm’s strategy, initiatives, policies, controls and processes in support of Audit Quality, risk management and culture.

Our role
The purpose of the Public Interest Committee is to provide independent oversight of the firm in the context promoting audit quality, securing the firm’s reputation and reducing the risk of firm failure. This mandate is derived from the requirements of the Audit Firm Governance Code.

The Committee also advises the firm on its strategic positioning as a provider of audit services. This is in response to the current challenges surrounding the future of audit and the way it is regulated.

Our areas of oversight
During the year the Committee exercised oversight in respect of:
— the Audit Quality Transformation Programme;
— risk management;
— governance changes related to the Audit practice;
— culture initiatives;
— ethics matters and whistleblowing;
— engagement with the FRC; and
— engagement with the investor community.

The firm’s open approach to the INEs helps us do our jobs effectively and reiterates leadership’s support of the public interest role.

Our involvement with the firm and wider stakeholders
During the year, members of the Committee attended meetings of the Board and each of its committees, as well as holding private meetings with the Senior Partner and other senior members of the firm’s leadership to discuss current issues and their impact on the public interest. For example, both the Ethics Partner and Chief Risk Officer join our meetings regularly. And we met with the whistleblowing ombudsman, to understand that any issues raised are dealt with appropriately.

INEs take considerable interest in the day-to-day running of the firm. During the year, members took part in regular discussions with staff at a variety of levels across the country and we were invited to all partner meetings, which are held twice a year. We also actively participated in the selection process of candidates for election to the Board.

Externally, INEs attended both formal and informal meetings with representatives of the investor community, the regulator and policymakers.

Our priorities for 2020
In 2020 we will:
— set an independent agenda on how to promote audit quality
— monitor developments in the audit profession and how it is regulated closely
— engage with people across all levels of the firm

Jonathan Evans
Chair of the Public Interest Committee
Quality control and risk management

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our quality control and risk management systems</td>
<td>48</td>
</tr>
<tr>
<td>Statement by the Board on the effectiveness of internal controls and independence</td>
<td>53</td>
</tr>
</tbody>
</table>
Our quality control and risk management systems

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

The Board also shares its thoughts on the effectiveness of internal controls and independence and the confirmation of the firm’s compliance with the Audit Firm Governance Code. The Board states that the firm has complied with the provisions of the Audit Firm Governance Code in the year ending 30 September 2019.

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

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

KPMG in the UK supplements KPMG International policies and procedures with additional policies and procedures that address rules and standards issued by the FRC and other relevant regulators, such as the US Public Company Accounting Oversight Board.

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

During the year, operational responsibility for the system of quality control, risk management and compliance was delegated to the Chief Risk Officer who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for KPMG in the UK. She has a direct reporting line to the Senior Partner and a seat on both the Board and Executive Board of KPMG in the UK, underlining the importance of the role.

The Audit Chief Risk Officer was supported directly by a team of partners and professionals covering each of the client service functions. During the year the heads of Markets (International Markets and Government and National Markets) and Functions (Audit and Solutions) oversaw the quality of service delivered in their respective areas of the business assisted by function management teams and function Risk Management partners.

While many of our quality control processes are cross-functional and apply equally to tax and advisory work, the primary focus of the Transparency Report requirements relates to audit. Appendix five gives more detail of how the Audit Quality Framework helps ensure the delivery of quality audits.

In the case of the Audit function, the Audit Executive met on a monthly basis during the year and these meetings addressed current and emerging audit quality issues, queries raised by engagement teams and other quality matters. The team then agreed which actions were necessary and how to communicate them. These communications also included progress on the actions agreed with the AQR team and the ICAEW’s QAD in response to their quality findings.

The UK Audit function is also a key contributor to our global thinking with representatives on all major global audit quality and development councils and teams. We use these forums to understand how other member firms have tackled similar issues, share our experiences and facilitate common solutions.

At KPMG audit quality is not just about reaching the right opinion, but how we reach that opinion. It is about the processes, thought and integrity behind the audit report. We view the outcome of a quality audit as the delivery of an appropriate and independent opinion that complies with the auditing standards. This means, above all, being independent, objective and compliant with relevant legal and professional requirements.
The following statements articulate our approach to taking risk responsibly, in the public interest and in the interests of our clients, our people, our regulators and the markets and communities we work in.

We will:

— act in the public interest and be the most trusted professional services firm by of our clients, our people, our regulators and the markets and communities we work in

— have high standards in leadership, accountability, ethics and governance

— act as stewards for the brand, and take proactive steps to ensure that we support one another in achieving our goals

— engage responsibly with a broad range of clients

— deliver high quality services – through experienced teams, integrated solutions and use of robust technology

— set financial targets that are consistent with achieving both the trust and growth elements of our strategy

— manage financial performance and resilience effectively

— work with trusted partners and alliances, as well as engage in M&A to obtain capability, where it meets our trust and growth objectives

— comply with applicable laws, regulations and codes of conduct, including KPMG’s global standards and KPMG’s tax principles

— manage actual and perceived conflicts of interest

— protect confidential data and ensure business service continuity

— live our values through high standards of behaviour, and promote a culture of Trust, Empowerment, Accountability and Mastery that supports our values

— anticipate and respond to changes in the competitor landscape, macro-economy and clients’ needs

— be courageous in undertaking work in the public interest and in support of our wider purpose

— be brave in working together, contributing to important issues in accordance with our values

— develop our diverse, talented and motivated people through inclusive leadership
**Risk management**

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

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<tr>
<th>Risk</th>
<th>Risk description</th>
<th>Mitigation</th>
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| Major or multiple audit failures                                     | Issuance of an incorrect audit opinion and/or poor quality auditing resulting in shareholder loss, litigation, regulatory action or lost engagements through the resulting reputational damage. | — A tone at the top which emphasises quality, ethics and integrity.  
— Board oversight of both internal and external audit quality reviews, recommendations and actions.  
— Robust audit quality controls.  
— Rigorous engagement acceptance procedures and risk policies.  
— Global methodologies and mandatory training.  
— Development and implementation of the KPMG Clara Audit Workflow.  
— KPMG Audit University.  
— Audit Quality Transformation Programme. |
| Major litigation or regulatory investigation                         | Actual or suspected failure in any of our services potentially resulting in loss for our stakeholders and shareholders, harming our reputation, opening us to increased scrutiny, the prospect of major claims and legal costs or significant remediation costs. | — A tone at the top which emphasises quality, ethics and integrity.  
— General engagement quality and risk management controls, including robust contracts put in place with stakeholders and recipients of our reports.  
— Rigorous and robust inter-firm contracting protocols when working with other KPMG International member firms.  
— Rigorous engagement acceptance procedures. |
| Major regulatory change impacting on our business model              | Unforeseen change in the regulatory and/or political landscape impacting on the demand for professional services. | — Robust account planning strategy.  
— Executive Board oversight of account plans on major accounts.  
— Efficient and effective engagement take on processes, allowing us to proactively manage audit independence for audit targets.  
— Improved governance for Audit, including the Audit Oversight Committee. |
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<tr>
<th>Risk</th>
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| Data loss                     | Failure to protect client confidential or personal data, as a result of either cyber attack or through failures in our internal procedures leading to loss for our stakeholders, potential damage to our reputation, loss of key engagements, potential litigation and/or regulatory fines. | — Robust IT security policies and processes.  
— ISO27001 accreditation.  
— Ongoing training and awareness campaigns.  
— Our Code of Conduct.  
— Introduction of Data Champions.  
— Widespread use of Information Protection Plans.                                                                                                                                                                                                                                         |
| Financial risk                | Failure to achieve growth or budget aspirations thereby losing market share and competitor positioning. Poor cost control and ineffective cash management.                                                                 | — Board role in budget and performance oversight and Executive Board budgetary challenge.  
— Monthly financial analysis at firm and functional level.  
— Pricing panels.  
— Challenge of headcount levels.                                                                                                                                                                                                                                                                                                                                 |
| Delivering inappropriate services | Delivery of services which are either illegal, unethical, contravene professional standards or are otherwise perceived by investors, regulators or other stakeholders as inappropriate could damage our or our stakeholders’ reputations and potentially result in regulatory sanctions, legal action or damage our relationship with key regulators. | — Our internal quality control system, overseen by Executive Board, including (i) Rigorous engagement acceptance procedures, (ii) Engagement quality controls (including the involvement of an Engagement Quality Control Review), (iii) Robust conflicts checking processes, (iv) Policies and procedures around auditor independence, (v) Robust compliance programmes and (vi) Our Code of Conduct and Values.  
— Whistleblowing processes and Speak Up hotline.                                                                                                                                                                                                                                                                 |
| Failure of another network firm | Our ability to service our clients or our reputation in the marketplace is severely impacted by the failure of another KPMG member firm.                                                                                           | — Global processes and procedures including (i) Risk policies and procedures and (ii) Audit methodology and (iii) Quality Review Programmes.                                                                                                                                                                                                 |
| Working with the wrong clients | Working with the wrong clients damages our reputation in the marketplace/ with the regulators or exposes the firm to litigation.                                                                                           | — Robust acceptance processes.  
— Whistleblowing processes and Speak Up hotline.  
— Introduction of Ethics Champions.                                                                                                                                                                                                                                                                                                                                |
| Change overload               | We attempt to achieve too much change in one year and (i) do not achieve the transformation we require or (ii) do not focus on business-as-usual growth.                                                                                                             | — Realistic budgets.  
— Board input into strategy.  
— Executive Board sponsorship of strategic growth initiatives.                                                                                                                                                                                                                                                                                                         |
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<tr>
<th>Risk</th>
<th>Risk description</th>
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<tbody>
<tr>
<td>Cultural behaviour</td>
<td>Actual behaviour and actions of individuals not aligned with target culture leading to disengagement and demotivation.</td>
<td>— A tone at the top which emphasises quality, ethics and integrity.</td>
</tr>
<tr>
<td></td>
<td>Not understanding future needs of our people in relation to purpose, inclusion, wellbeing, working styles and interactions with technology.</td>
<td>— Robust people management process.</td>
</tr>
<tr>
<td></td>
<td>Failure to achieve the desired level of inclusion and diversity within the firm.</td>
<td>— Code of Conduct and Values training.</td>
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<td></td>
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<td>— Annual People Survey and regular Pulse Surveys.</td>
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<td></td>
<td></td>
<td>— Introduction of Ethics Champions.</td>
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<td></td>
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<td>— Ethics and independence training.</td>
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<td></td>
<td></td>
<td>— Inclusion, diversity and social equality strategic plan.</td>
</tr>
<tr>
<td>Failure to achieve strategic plan</td>
<td>Insufficient communication of the strategic plan to the wider firm resulting in limited engagement and support, insufficient investment to support key initiatives and technology development and a failure to manage new service offerings resulting in a failure to achieve strategic goals.</td>
<td>— Robust and comprehensive communications and engagement plan.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— Robust investment allocation and governance process to prioritise and monitor investment.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— New product and services evaluation and approval process.</td>
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<td>— Review of Client Insights programme feedback.</td>
</tr>
<tr>
<td>Failure to manage resources</td>
<td>Capability gaps, an inability to retain and recruit appropriate resource and poorly motivated people adversely impacts the firm’s ability to generate revenue and service clients.</td>
<td>— Recruitment plan and investment in recruitment.</td>
</tr>
<tr>
<td></td>
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<td>— Succession planning and talent development.</td>
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<td></td>
<td></td>
<td>— Process to identify key skills and capabilities required.</td>
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<td>— People management processes and remuneration benchmarking.</td>
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<td></td>
<td></td>
<td>— Focus on coaching.</td>
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<tr>
<td></td>
<td></td>
<td>— Focus on wellbeing and career development.</td>
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<tr>
<td>Failure to respond to changes in marketplace</td>
<td>Unanticipated national and global market developments (including the impact of Brexit) result in the firm being unprepared for shifts in the marketplace and/or changes in the needs and priorities of clients causing loss of market position.</td>
<td>— Pipeline monitoring.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— Ongoing investment in core capabilities.</td>
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<tr>
<td></td>
<td></td>
<td>— Market assessment and analysis.</td>
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<tr>
<td></td>
<td></td>
<td>— Review of Client Insights programme feedback.</td>
</tr>
<tr>
<td>Increasing complexity of technology and contracting</td>
<td>Investment in more complex and sophisticated technology services and assets increases the risk of failing to properly manage the engagement acceptance, contracting and due diligence processes.</td>
<td>— Rigorous client and engagement acceptance procedures, contracting controls and risk policies.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— New services and asset approval processes.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— Employee training and recruitment.</td>
</tr>
</tbody>
</table>
Statement by the Board on the effectiveness of internal controls and independence

Internal controls statement

The Board is responsible for the firm’s system of internal controls and for reviewing its effectiveness. Such a system manages, rather than eliminates, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, loss, or non-compliance with relevant regulatory or legislative requirements. The day-to-day responsibility for managing our operations rests with the Executive Board (formerly the Executive Committee to 31 May 2019).

In accordance with the Audit Firm Governance Code, the Board has reviewed the effectiveness of its systems of internal control. In reviewing the systems of internal control and their effectiveness, it has adopted the approach prescribed within the UK Corporate Governance Code.

This monitoring covers risk management systems and all key controls, including those relating to finance, operations, quality, compliance and culture. It is based principally on the consideration and review of reports from relevant Executive Members and reports from the Audit, Audit Oversight, Risk, Public Interest and People committees to consider whether significant risks are identified, evaluated, managed and controlled.

During 2019, the Board has:

— reviewed our risk assessment process, (including the Enterprise Wide Risk Management Framework);
— reviewed regular reports by the Managing Partner to the Board (until 31 May 2019) and the Chief Operating Officer and Head of Clients & Markets (from 1 June 2019) on the firm’s financial performance and on any emerging financial risks and issues;
— approved enhanced Executive governance arrangements from 1 June 2019, including the establishment of the Executive Board and four Executive committees which in turn are supported by a number of working groups;
— reviewed regular reports from the Risk Management Partners of Audit, Consulting, Deal Advisory and Tax, Pensions & Legal to the Risk Executive; and regular reports from the Chief Risk Officer to the Risk Committee and thereafter by the Chair of the Risk Committee to the Board on regulatory, risk and compliance matters, including the findings and associated action plans arising from:

— the various compliance programmes operated by the firm (including the Quality Performance Reviews and Risk Compliance Programme as described on pages 24 to 25 and Appendix five); and
— external regulatory inspections and reviews.
— considered reports to the Board made by the People, Audit, Risk and Audit Oversight Committees on how each committee has discharged its duties in the year which included:

— results of Internal Audit work commissioned as part of the approved annual internal audit plan, including progression on the resolution of weaknesses identified. In the reporting period reviews have been completed covering key internal controls; and
— reports from the group’s external auditors, Grant Thornton UK LLP, on the progress of their annual audit and discussions with them on any control weaknesses or issues identified by them.

Conclusions

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

Compliance with requirements of Audit Firm Governance Code

The Board has reviewed the provisions of the Audit Firm Governance Code and confirms that the firm complied with these provisions throughout the year ended 30 September 2019.
Appendices

<table>
<thead>
<tr>
<th>Appendix</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Network arrangements</td>
<td>55</td>
</tr>
<tr>
<td>2</td>
<td>Key Performance Indicators for the governance system</td>
<td>57</td>
</tr>
<tr>
<td>3</td>
<td>UK Corporate Governance Code</td>
<td>59</td>
</tr>
<tr>
<td>4</td>
<td>Details of committee membership</td>
<td>61</td>
</tr>
<tr>
<td>5</td>
<td>Audit Quality Framework</td>
<td>64</td>
</tr>
<tr>
<td>6</td>
<td>Financial information</td>
<td>82</td>
</tr>
<tr>
<td>7</td>
<td>Basis of partner remuneration</td>
<td>84</td>
</tr>
<tr>
<td>8</td>
<td>Public Interest Entities and Major Local Audits listing</td>
<td>85</td>
</tr>
<tr>
<td>9</td>
<td>Our tax strategy and contribution</td>
<td>90</td>
</tr>
</tbody>
</table>
Appendix 1 - Network arrangements

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. 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 implements and maintains 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 at the following link:


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 ended 30 September 2018. An updated statement of aggregated EU/EEA statutory audit revenues for the 12 months to 30 September 2019 will be available within Appendix two to the 2019 KPMG International Transparency Report.

6 The aggregated EU/EEA statutory audit revenue figures are presented to the best extent currently calculable and translated at the average exchange rate prevailing in the 12 months ended 30 September 2018 and 30 September 2019 for the updated numbers to be published in the KPMG International Transparency Report.

7 The financial information set forth represents combined information of the separate KPMG member firms 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.
Responsibilities and obligations of member firms

Under agreements with KPMG International, member firms 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.

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.

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.

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 – focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. It performs functions equivalent to a shareholders’ meeting (albeit KPMG International has no share capital and, only has members, not shareholders). The Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 59 member firms that are members of KPMG International as a matter of Swiss law.

— Global Board – 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.

— Global Management Team – supports the member firms in their execution of the global strategy and is responsible for holding them accountable for commitments. It develops global strategy by working together with the Executive Committee.

Further details about KPMG International including the governance arrangements, can be found in the Governance and leadership section of the KPMG International Transparency Report.
Appendix 2 - Key performance indicators for the governance system

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Board should meet at least six times each year with a minimum attendance target of 80% over a 12-month rolling period.</td>
<td>The Board had eight business-as-usual meetings over the year and one joint meeting with the Executive with members’ average attendance of 96%.</td>
</tr>
<tr>
<td>The gender diversity of the Board should be composed of a minimum one third women.</td>
<td>At 30 September 2019 the Board composition included 46% female members.</td>
</tr>
<tr>
<td>There should be a diverse range of skills represented in the composition of the Board (by reference to each triennial evaluation of Board effectiveness).</td>
<td>There is a diverse range of skills represented on the Board. The appointment of nominated Board members provides a mechanism for maintaining appropriate diversity of skills.</td>
</tr>
<tr>
<td>As part of the firm’s culture assessment, the firm should hold an annual People Survey or Pulse Survey, with the Board acting upon the findings.</td>
<td>A Global People Survey (GPS) was undertaken in autumn 2019. The Board discussed the UK findings which provided data on engagement and other key metrics about partners’ and employees’ relationships with the firm and has taken action where appropriate. In addition to this, three Pulse Surveys were undertaken during 2019 to explore key themes. A further GPS survey was undertaken in autumn 2019 which will enable the Board to identify and consider the initial impact of changes implemented in response to the 2018 Survey and where further action is necessary.</td>
</tr>
<tr>
<td>There should be at least three UK INEs, and the Public Interest Committee should meet at least four times each year. On an annual basis, the Board must satisfy itself that the INEs remain independent from the firm.</td>
<td>At 1 October 2018 there were three UK INEs in the Public Interest Committee. Two further appointments were made during FY19 and at 30 September 2019 there were five UK INEs appointed (with one INE standing down on 31 October 2019). There were four meetings during the year. The Board has considered and determined that the INEs remain independent from the firm.</td>
</tr>
<tr>
<td>The Audit Quality Committee should meet at least six times each year to oversee the focus on audit quality.</td>
<td>The Audit Quality Committee was replaced with an Audit Oversight Committee with effect from 1 January 2019. Between 1 October 2018 and 31 December 2018, the Audit Quality Committee met three times and considered matters relating to maintaining and improving audit quality. Subsequently the Audit Oversight Committee met seven times between 1 February and 30 September 2019 for business-as-usual meetings with an additional four meetings held related to specific matters.</td>
</tr>
<tr>
<td>The Board should review the annual Transparency Report to satisfy itself that it is fair, balanced and understandable, and complies with the Audit Firm Governance Code, or explains otherwise.</td>
<td>The Board has considered the disclosures within the Transparency Report and considers the report to be fair, balanced and understandable and in compliance with the Audit Firm Governance Code.</td>
</tr>
</tbody>
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8 For the year ended 30 September 2018, the KPI was a minimum of 10 meetings per annum. Following the independent board evaluation concluded in September 2018 and a recommendation to reduce the number of meetings, the KPI was adjusted to a minimum of six meetings per annum.
<table>
<thead>
<tr>
<th>Requirement</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>The terms of reference for all Board Committees are reviewed annually as a minimum.</td>
<td>The terms of reference were reviewed during the year.</td>
</tr>
<tr>
<td>There is an annual self-assessment of Board and Committees’ effectiveness (unless external review is undertaken).</td>
<td>An annual self-assessment of Board Committees’ effectiveness has been undertaken.</td>
</tr>
<tr>
<td>Board comprises a minimum of two practising audit partners.</td>
<td>The Board includes three practising audit partners: Michelle Hinchliffe, Paul Korolkiewicz and Tony Cates.</td>
</tr>
<tr>
<td>Board comprises at least 50% members who are qualified auditors (per s.1219 of the Companies Act 2006 or equivalent).</td>
<td>During the year the Board comprised at least 50% members who were qualified auditors.</td>
</tr>
<tr>
<td>External Board evaluation conducted tri-annually.</td>
<td>A review was undertaken in 2018. The next review is scheduled to take place in 2021.</td>
</tr>
<tr>
<td>The Board should satisfy itself on at least an annual basis that a formal programme of investor dialogue is occurring.</td>
<td>The Board has assessed that an appropriate level of investor dialogue is in place as summarised in our Audit Quality Indicators on page 22.</td>
</tr>
</tbody>
</table>
## Appendix 3 - UK Corporate Governance Code

Under the Audit Firm Governance Code, the firm should give details of any additional provisions from the UK Corporate Governance Code which it has adopted within its own governance structure.

KPMG in the UK has adopted governance processes that comply with the following provisions of the UK Corporate Governance Code, above and beyond the requirements of the Audit Firm Governance Code:

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Response</th>
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<tbody>
<tr>
<td><strong>A1.1</strong> The board should meet sufficiently regularly to discharge its duties effectively. There should be a formal schedule of matters specifically reserved for its decision. The annual report should include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management.</td>
<td>The Board held eight business-as-usual Board meetings over the year; one joint meeting with the Executive; and additionally nine times for specific urgent business. The firm’s constitutional documents set out matters reserved for its decision. Details of the Board’s operations are set out in the Governance section on page 35.</td>
</tr>
<tr>
<td><strong>B.2.2</strong> The nomination committee should evaluate the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.</td>
<td>The role of a nomination committee is included in the People Committee’s terms of reference. The People Committee’s role and activities are set out in the Governance section on page 35.</td>
</tr>
<tr>
<td><strong>B.2.3</strong> Non-executive directors should be appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a director. Any term beyond six years for a non-executive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board.</td>
<td>Elected Members of the Board do not have Executive responsibilities and are appointed for terms of either two or three years, subject to an aggregate maximum of five years.</td>
</tr>
<tr>
<td><strong>B.3.1</strong> For the appointment of a chairman, the nomination committee should prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises.</td>
<td>The Nomination Committee prepared a job description for the role of Chair and Senior Partner in advance of the Senior Partner election process in 2017.</td>
</tr>
<tr>
<td><strong>B.4.1</strong> The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board.</td>
<td>New Members of the Board complete an induction programme upon appointment to the Board.</td>
</tr>
<tr>
<td><strong>B.6.2</strong> Evaluation of the board […] should be externally facilitated at least every three years.</td>
<td>External facilitators are appointed every three years to evaluate the Board’s effectiveness. Such an evaluation took place in 2018.</td>
</tr>
<tr>
<td><strong>B.6.2</strong> The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors.</td>
<td>The People Committee (comprising Elected Members of the Board) evaluate the Chair’s performance. The INE who attends the Committee chairs the discussion while the Senior Elected Member of the Board gathers feedback and data, and makes recommendations for consideration by the Committee.</td>
</tr>
<tr>
<td>Requirement</td>
<td>Response</td>
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<td>----------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>C.3.1 The board should establish an audit committee of at least three, or</td>
<td>The Audit Committee is comprised of a minimum of two KPMG Partners who are Board members (not being executive members) and an INE attended the Committee in the spirit of this provision of the UK Corporate Governance Code. A minimum of one member has recent and relevant financial experience.</td>
</tr>
<tr>
<td>in the case of smaller companies two, independent non-executive directors.</td>
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<td>In smaller companies the company chairman may be a member of, but not chair,</td>
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<tr>
<td>the committee in addition to the independent non-executive directors,</td>
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<td>provided he or she was considered independent on appointment as chairman.</td>
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</tr>
<tr>
<td>The board should satisfy itself that at least one member of the audit</td>
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<tr>
<td>committee has recent and relevant financial experience.</td>
<td></td>
</tr>
<tr>
<td>C.3.6 The audit committee should monitor and review the effectiveness of the</td>
<td>The Audit Committee’s role includes the monitoring and review of the plan and activities of the internal audit function and oversight of an effectiveness review of internal audit.</td>
</tr>
<tr>
<td>internal audit activities.</td>
<td></td>
</tr>
<tr>
<td>C.3.6 The audit committee should have primary responsibility for making a</td>
<td>The Audit Committee has primary responsibility for recommending the appointment, reappointment and removal of the external auditors.</td>
</tr>
<tr>
<td>recommendation on the appointment, reappointment and removal of the</td>
<td></td>
</tr>
<tr>
<td>external auditors.</td>
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</tbody>
</table>
Appendix 4 - Details of committee membership

The Executive Board was established on 1 June 2019 and all appointments below took effect on that date.

**Bill Michael**  
UK Chair & Senior Partner  
Bill has been a partner since 2000. He took up the position of Senior Partner in July 2017.

**Chris Hearld**  
Head of Regions  
Chris has been a partner since 2004.

**Jon Holt**  
Head of Audit  
Jon has been a partner since 2005.

**Tim Jones**  
Chief Operating Officer  
Tim has been a partner since 2005.

**Mary O’Connor**  
Chief Risk Officer  
Mary has been a partner since joining KPMG in 2018.

**Scott Parker**  
Head of Clients and Markets  
Scott has been a partner since 2004.

**Anna Purchas**  
Head of People  
Anna has been a partner since 2016.

**Chairman, Executive, Elected and Nominated Members of the Board as at 30 September 2019**

As at 30 September 2019 the Board comprised the Chair and Senior Partner, the Deputy Chair, Chief Operating Officer, the Chief Risk Officer, the Head of Clients and Markets, four Nominated Members (including the Chair of Audit) and four Elected Members (with one vacant position).

**Bill Michael**  
Chair  
Bill has been a partner since 2000 and joined the UK Board as Chair and Senior Partner on 1 July 2017.

**Melanie Richards**  
Deputy Chair  
Melanie has been a partner since 2002 and joined the UK Board on 14 September 2012. From 1 October 2014 until 30 September 2017, Melanie held the position of Vice Chair of the firm and sat on the Board in that capacity. With effect from 1 October 2017, she has held the position of Deputy Chair and continues to sit on the Board in that capacity. She is also Chair of the Risk Committee.

**Michelle Hinchliffe**  
Chair of Audit  
Michelle has been a partner since 1997 and joined the Board on 1 May 2019. Michelle is a member of the Audit Oversight Committee.

**Sue Bonney**  
Elected member  
Sue has been a partner since 1995 and joined the Board on 14 October 2017. She chairs the People Committee and is a member of the Risk Committee.

**Tony Cates**  
Nominated member  
Tony has been a partner since 1998 and joined the Board on 14 October 2017. Tony chairs the Audit Committee and is a member of the Audit Oversight Committee.

**Christine Hewson**  
Elected member  
Christine has been a partner since 2006 and joined the Board on 14 October 2017. Christine is a member of the Risk Committee.

**Tim Jones**  
Chief Operating Officer  
Tim has been a partner since 2005 and joined the Board on 1 June 2019.

**Paul Korolkiewicz**  
Senior Elected member  
Paul has been a partner since 2001 and joined the Board on 14 October 2017. He chaired the Audit Quality Committee up until the end of October 2018 and is a member of the People Committee and Audit Committee.

**Jane McCormick**  
Nominated member  
Jane has been a partner since 1996 and joined the Board on 14 October 2017.

**Mary O’Connor**  
Chief Risk Officer  
Mary has been a partner since joining KPMG in 2018. Mary joined the Board on 27 November 2018.

**Scott Parker**  
Head of Clients & Markets  
Scott has been a partner since 2004 and joined the Board on 1 June 2019.

**Mark Raddan**  
Elected member  
Mark has been a partner since 2010 and joined the Board on 14 October 2017. Mark is a member of the People Committee.
James Stewart
Nominated member
James has been a partner since 2011 and joined the Board on 14 October 2017. James chaired the Audit Quality Committee from November 2018 and still chairs its replacement the Audit Oversight Committee. He is also a member of the Risk Committee.

Changes after the year end
The following changes have occurred subsequent to year end:
— Christine Hewson left the Board with effect from 1 October 2019;
— Linda Main has joined the Board as an Elected Member with effect from 1 October 2019;
— Melissa Geiger has joined the Board as an Elected Member with effect from 14 October 2019.

Members of the Public Interest Committee as at 30 September 2019

Lord Evans of Weardale
Independent Non-Executive
Jonathan Evans joined the Public Interest Committee on 23 March 2017 and became its Chair on 1 October 2019. Jonathan was Director General of MI5 from 2007 to his retirement in 2013, having spent his career in the UK Security Service. From 2013 to 2019 he was a Non-Executive Director of HSBC Holdings. Jonathan is currently Chair of the Committee on Standards in Public Life, a Non-Executive Director of Ark Data Centres Limited, an advisor to several small tech companies and Chairman of Kent Search and Rescue.

David Pitt-Watson
Independent Non-Executive
David Pitt-Watson has been a member of the Public Interest Committee since 1 November 2013 and was Chair of the Committee to 30 September 2019. He is a leading thinker and practitioner in the field of responsible investment and he was CEO of Hermes Focus Asset Management and the founder of Hermes Equity Ownership Service, which now advises over £200 billion of investments. He is an Executive Fellow at Cambridge University and a Trustee at NESTA, the innovation charity.

Anne Bulford OBE
Independent Non-Executive
Anne joined the Public Interest Committee on 1 May 2019. She is a Chartered Accountant, a Non-Executive member of the Executive Committee of the Army Board, a Non-Executive Director of Reach plc and Chair of GOSH Children's Charity. Anne was previously a member of the BBC Executive Board, Channel 4's Chief Operating Officer, Director of Finance and Business Affairs at the Royal Opera House, Chair of Ofcom’s Audit Committee and Finance Director at Carlton Productions.

Oonagh Harpur
Independent Non-Executive
Oonagh Harpur joined the Public Interest Committee on 30 April 2018. Oonagh has over 30 years’ experience in the boardroom including 14 years in CEO roles in the private, public and third sectors. She is currently a trustee of the Scientific and Medical Network.

Kathleen O’Donovan
Independent Non-Executive
Kathleen O’Donovan joined the Public Interest Committee on 1 July 2019. Kathleen is a Founder Partner and Mentor of Bird & Co Executive Search. Kathleen trained as a Chartered Accountant and her previous roles include CFO of BTR plc/Invensys plc and partner at Ernst & Young. Formerly she has held Non-Executive Director roles at DS Smith plc, Prudential plc, Great Portland Estates plc, O2 plc, EMI Group plc and the Bank of England. Kathleen was also co-Chair of International Rescue Committee UK, a charity supporting conflict zone refugees. She is currently Invensys Pension Scheme Chair.

Changes after the year end
The following changes have occurred subsequent to year end:
— On 1 October 2019 Lord Evans of Weardale was appointed Chair of the PIC and David Pitt-Watson stepped down as an Independent Non-Executive on 31 October 2019, having served the maximum number of terms.
Meeting attendance for the year ended 30 September 2019

(Meetings eligible to attend in brackets)

<table>
<thead>
<tr>
<th>Name</th>
<th>Board</th>
<th>Exco</th>
<th>Audit Committee</th>
<th>Audit Quality Committee</th>
<th>Nomination &amp; Remuneration Committee</th>
<th>People Committee</th>
<th>Public Interest Committee</th>
<th>Risk Committee</th>
<th>Audit Oversight Committee</th>
<th>Executive Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bill Michael</td>
<td>9 (9)</td>
<td>6 (7)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2 (2)</td>
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Appendix 5 - Audit Quality Framework

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

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

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

KPMG’s Tone at the top provides a clear focus on quality through:
— culture, Values, and Code of Conduct – clearly stated and demonstrated in the way we work;
— a strategy with quality at its heart;
— standards set by leadership; and
— governance structures and clear lines of responsibility for quality, with skilled and experienced people in the right positions to influence the quality agenda.

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

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

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

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

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

A second partner, as well as the evaluating partner, approves the prospective audited entity evaluation. Where the audited entity is considered to be “high risk” a risk management partner is involved in approving the evaluation. Each prospective engagement is also evaluated. The engagement leader evaluates this in consultation with other senior personnel and Risk Management leadership as required.

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

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

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

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

Audit methodology and tools

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

Our audit methodology is supported by eAudit – KPMG’s electronic audit tool. This provides KPMG auditors worldwide with the methodology, guidance and industry knowledge needed to perform effective and focused quality audits.

Technology and innovation are changing the way we execute our audit engagements, empowering our people to deliver greater quality and value. Making data and analytics (D&A) a core part of the KPMG audit is critical to our mission of driving audit quality. KPMG Clara builds on our existing eAudit platform to offer teams new ways of interacting, accessing audit methodology and tools and also providing access to collaboration solutions. Our new KPMG Clara Workflow automated audit workflow has been in limited deployment in 2019 and full deployment is planned from 2020. We have included further details in respect of KPMG Clara and the development of our audit tools on page 21.
Independence, integrity, ethics and objectivity

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

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

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

Personal independence

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

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

Partners and all client-facing staff are required to use this system prior to entering into an investment to identify whether they are permitted to do so and maintain a record of all of their investments in KICS which automatically notifies them if their investments subsequently become restricted. Partners and our client-facing directors (partner equivalents) are required to obtain specific clearance from the Partner Independence Team for any investment they or their immediate family propose to make.
We monitor partner and manager compliance with these requirements as part of a programme of independence compliance audits of a sample of professionals. In the year ended 30 September 2019, 991 (2018: 452) of our people were subject to these audits (this included approximately 16% of our partners and 71% of our partner equivalents). The increase in compliance audits in 2019 was driven by an exercise to cover all partner equivalents during 2019 with the aim to cover 100% of partner equivalents prior to the end of 2019. In addition to these, all direct-entry partners are subject to a compliance audit as a condition of their admission, and are subject to a further audit after 12 months in the firm.

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

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

**Firm financial independence**

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

**Business relationships/suppliers**

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

**Independence training and confirmations**

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

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

**Audit engagement leader rotation**

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

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

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

Non-audit services

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

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

In 2018, we announced that the firm was discontinuing the provision of non-audit services (other than those required by law or regulation or closely related to the audit) to the FTSE 350 companies we audit. This goes beyond the requirements of the ES and is a step we have taken to remove even the perception of a possible conflict.

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

Fee dependency

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

No entity to whom we provide audit services accounted for more than 10% of the total fees received by the firm in either of the last two years.

Conflicts of interest

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

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

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

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

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

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

Recruitment

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

The firm recruited over 2,000 new people into Audit in the year ended 30 September 2019. Upon joining the firm, new joiners participate in an onboarding programme. Induction programmes includes training in areas such as ethics and independence, quality and risk management principles, engagement management and our people management procedures.

Personal development

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

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

A clear focus on high performance and regular feedback helps our firm identify high performers who have the potential to take on more senior or more complex roles. High performers are further developed through coaching and mentoring on the job, rotation opportunities, global mobility opportunities and secondments.
Inclusion, diversity and social equality

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

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

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

Performance evaluation and compensation

All professionals meet regularly with their performance manager and undergo annual goal-setting and performance reviews and are evaluated on attainment of agreed-upon goals, demonstration of the KPMG global behaviours, technical capabilities and market knowledge. As part of the year-end performance review activity they discuss their achievement of agreed goals, identify strengths and development areas and assess their performance in respect of individual quality, ethics and compliance metrics. The outputs of the performance discussion influences their reward and promotion discussions.

All engagement leaders and managers use standardised metrics as part of the annual performance appraisal process. The approach to ethics and compliance metrics is the same across all areas of the firm with individuals awarded a red, amber or green rating based on outcomes in the year. 96.3% of our partner to manager group were awarded green metrics for ethics and compliance in 2019, 3.3% received amber ratings and 0.4% red.

Consistent with our focus on audit quality we expanded the number of parameters such as the results of external regulatory reviews, timeliness completion of training and the outcome of internal monitoring programmes used to assess the quality of auditors. The 2019 approach determined a quality zone for each individual within audit which was overlaid onto a broader assessment to determine a performance zone that in turn determines remuneration. The quality zone has the greatest weighting in this assessment. 99.2% of our partner-to-manager group were awarded a quality zone rating consistent with no or only limited performance improvements necessary. The remaining 0.8% of individuals where other than limited performance improvements were identified were provided with targeted improvement plans.

The quality assessment of audit engagement leaders goes beyond the results of internal and external inspections. It also includes indicators of the individual’s personal contribution to the firm’s overall audit quality through their participation in quality improvement actions, their involvement in quality monitoring together with other matters, positive and negative, that inform us of the individual’s commitment to audit quality. We have enhanced our performance management process with the introduction of a quality scorecard reflecting audit quality as the overarching determinant of performance.
Reward and promotion
We have reward and promotion policies that are clear, simple, and linked to the performance evaluation process so that our people know what is expected of them and what they can expect to receive in return. Reward decisions are based on consideration of individual, business area and firm-wide performance.

Partner admissions
Our process for admission to partner is rigorous and thorough. This procedure includes a business and personal case for the individual candidate. Our key criteria for admission to partner are consistent with a commitment to professionalism and integrity, quality and being the best choice for our audited entities and people. Similarly, attitude to quality and risk is explored for any external partner hires that we are considering.

In the year ended 30 September 2019, within Audit we recruited three new partners from the external market and promoted eight from within the firm. 33% of the externally recruited partners and 37.5% of the partners promoted from within during the year ended 30 September 2019 are female.

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

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

KGS Audit (KGS) is KPMG in the UK’s Audit offshoring capability and comprises more than 1,000 employees located in Delhi and Bangalore, India. KGS employees are an extension of the UK audit team. Where it has been determined by the professional judgement of the individual UK audit teams that KGS has the appropriate skills and experience, audit procedures will be allocated to KGS on the same basis as to UK-based team members and is subject to the same review process and oversight. The training and recruitment process at KGS is based on the UK model and the same high standards are maintained at KGS as in the UK. The firm’s system of quality control applies to all of our personnel whether based in the UK or at one of our off-shore locations.
5. Commitment to technical excellence and quality service delivery

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

Technical training

Our technical learning curriculum provides a core training programme for all colleagues and differs by grade and experience level. To drive continued focus on audit quality, we deliver Audit Quality Workshops for engagement leaders (which is extended to all audit staff through Audit Quality Department Workshops). These cover key messages regarding quality, and actions in respect of the internal and external monitoring. In addition all our audit people complete quarterly technical training focusing on performing an effective quality audit with different topic areas included as relevant. KPMG Audit University is an annual three-day compulsory immersive training course in which participants cover all aspects of the audit process with a practical focus on how to evidence effectively designed and executed audit procedures.

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

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

Access to specialist networks

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

Consultation

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

Our policies include mandatory consultation requirements on certain matters such as audited entity integrity. We have also established Risk Panels and Going Concern Panels led by an audit quality or risk management partner to enable direct challenge of the approach to the key audit issues on our highest risk audits.

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

Developing business understanding and industry knowledge

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

As discussed on page 21, KPMG Clara provides our audit teams with access to industry knowledge with libraries embedded within the tool. This will allow for a consistent approach, tailored by industry, and focused on key industry audit risks.
6. Performance of effective and efficient audits

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

Timely partner, manager and second line of defence involvement

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

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

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

Appropriate and timely involvement of specialists

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

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

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

Professional judgement and scepticism training are embedded in our core audit technical training programme for junior staff and ongoing training for more experienced staff.
Ongoing mentoring and on-the-job coaching, supervision and review

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

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

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

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

Appropriately supported and documented conclusions

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

Our methodology recognises that documentation prepared at the time the work is performed is likely to be more efficient and effective than documentation prepared later. Teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period – the period during which teams are required to complete audit documentation is a maximum of 15 days from the date of the audit report unless dispensation is provided by the Head of Audit Risk or Head of Audit Quality. For audit year ends from December 2019 onwards, we have changed this policy for listed and other Public Interest Entities such that audit files will need to be closed within two days of the audit report date. For all other audited entities, this will apply for year ends from March 2020.

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

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

Standardised approaches and workpapers assist our audit teams with appropriately supported and documented conclusions.
Appropriate involvement of the Engagement Quality Control reviewer (EQC reviewer)

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

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

Clear reporting of significant findings

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

Auditing standards and the Companies Act 2006 or similar legislative requirements largely dictate the format and content of the audit report that includes an opinion on the fair presentation of the entity's financial statements in all material respects. The existing requirement to include a key audit matters section in the auditor’s report for entities that are required, or choose voluntarily, to report on how they have applied the UK Corporate Governance Code has now been extended to include PIES and listed entities. We are also required to provide a long-form report for all listed entities.
Insightful, open and honest two-way communication with those charged with governance

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

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

Focus on effectiveness of group audits

Our audit methodology stresses the importance of effective two-way communication between the group engagement team and the component auditors, which is key to audit quality. The group audit engagement leader evaluates the competence of component auditors, whether or not they are KPMG member firms, as part of the engagement acceptance process. Our guidance and training focuses on the quality of group audit instructions, the oversight of component auditor team structures, the evaluation of their work, communication between group and component audit teams, scoping of components, review and evaluation of the components work and clearly evidencing this, the involvement of the EQC reviewer with group and component auditors and the conclusions reached by the group team on the group file.

Confidentiality, information security and data privacy

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

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

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

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

Internal monitoring
Details of internal monitoring including the Quality Performance Review, Risk Compliance Programme and Global Compliance Reviews processes are included on page 24.

Our Internal Audit function is led by a partner from the firm’s Risk Consulting practice and provides independent and objective assurance on the adequacy and effectiveness of our governance, risk management and internal control processes. The internal audit plan was approved at the start of the year and was updated during the year to ensure that it remained appropriate and reflected changes to business and emerging risks. The plan is devised by understanding the risk profile of the firm (whether strategic, operational, or change risks), considering other risk management, compliance and assurance activities and, therefore, agreeing what internal audit work is required. In reviewing and approving the internal audit plan, the Audit Committee ensured a balance between coverage of the highest priority risks and maintaining appropriate coverage of the core business processes. The internal audit plan in place for 2019, included areas of focus such as information protection recognising the importance of this area in the current environment.

External monitoring
Detail of external reviews including on the findings from the Audit Quality Reviews, the Quality Assurance Department and the PCAOB can be found in the Audit Quality section of this report on page 22.

We are also required to be registered with the Jersey, Guernsey and Isle of Man Financial Services Commissions in respect of Crown Dependency registered Market Traded Companies. As part of this registration the AQR is required to include in its annual inspection one or more of the audit engagements meeting these criteria. We were notified that our re-registration with the Jersey, Guernsey and Isle of Man Financial Services Commissions were successful during 2019.

Our firm is also registered with the US PCAOB, the Japanese Financial Services Authority, the Canadian Public Accountability Board (CPAB) and the Hong Kong FRC.

Regulatory investigations and sanctions
Information on regulatory investigations and sanctions are detailed in the Audit Quality Indicators section on page 26 of this report.
**FRC thematic reviews**

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

During the year ended 30 September 2019, the FRC published a thematic review in respect of transparency reporting focusing primarily on the 2017 reports of audit firms. The key messages from the FRC were that there is lack of awareness of Transparency Reports by investors and audit committee chairs and members and that the reports are too long and overly positive with a need for more clarity on the challenges and risks firms face in delivering consistently high-quality audits. We made significant changes to our Transparency Report for 2018 which addressed a number of the findings in the report and have incorporated further changes in our 2019 Transparency Report to address the comments raised by the FRC in its report.

The FRC has announced further thematic inspections covering Audit Quality Indicators and Use of Technology in the Audit. We will set out the findings from these reviews in next year’s report.

**Audited entity feedback**

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

**Monitoring of complaints**

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

**Interaction with regulators**

At a global level KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss issues identified and actions taken to address such issues at a network level. In the UK, we have regular meetings and ongoing dialogue with the AQR team of the FRC which is responsible for the monitoring of the audits of all listed and other major public interest entities.
Appendix 6 – Financial information

Under Article 13.2 of the EU Audit Regulation we are required to disclose certain financial information in respect of statutory audit work. In addition, the Consultative Committee of Accountancy Bodies issued the Voluntary Code of Operative Practice on Disclosure of Audit Profitability in March 2009 requiring disclosures in respect of audit and directly related services, where audit and directly related services meet the definition of ‘reportable segment’ as set out in the Voluntary Code. The disclosures below meet both requirements.

The information below is extracted from KPMG UK financial reporting systems incorporating both KPMG LLP and KPMG Audit Plc.

**Relative importance of statutory audit work**

<table>
<thead>
<tr>
<th>2019</th>
<th>KPMG Audit Plc £m</th>
<th>KPMG LLP £m</th>
<th>Other entities and adjustments, £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit and directly related services</td>
<td>-</td>
<td>625</td>
<td>6</td>
<td>631</td>
</tr>
<tr>
<td>Other assurance work</td>
<td>-</td>
<td>15</td>
<td>-</td>
<td>15</td>
</tr>
<tr>
<td>Tax, Pensions and Legal</td>
<td>-</td>
<td>547</td>
<td>2</td>
<td>549</td>
</tr>
<tr>
<td>Deal Advisory</td>
<td>-</td>
<td>454</td>
<td>37</td>
<td>491</td>
</tr>
<tr>
<td>Consulting</td>
<td>1</td>
<td>629</td>
<td>82</td>
<td>712</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,398</td>
</tr>
<tr>
<td>Operating Profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit and directly related services</td>
<td>67</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2018</th>
<th>KPMG Audit Plc £m</th>
<th>KPMG LLP £m</th>
<th>Other entities and adjustments, £m</th>
<th>Total £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit and directly related services</td>
<td>1</td>
<td>568</td>
<td>3</td>
<td>572</td>
</tr>
<tr>
<td>Other assurance work</td>
<td>-</td>
<td>15</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>Tax, Pensions and Legal</td>
<td>-</td>
<td>545</td>
<td>3</td>
<td>548</td>
</tr>
<tr>
<td>Deal Advisory</td>
<td>-</td>
<td>403</td>
<td>38</td>
<td>441</td>
</tr>
<tr>
<td>Consulting</td>
<td>1</td>
<td>670</td>
<td>90</td>
<td>761</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,338</td>
</tr>
<tr>
<td>Operating Profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit and directly related services</td>
<td>82</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Total KPMG UK revenues can be further analysed on the following basis:

<table>
<thead>
<tr>
<th>Total, £m</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit and directly related services for audited entities</td>
<td>631</td>
<td>572</td>
</tr>
<tr>
<td>Non-audit services for audited entities</td>
<td>185</td>
<td>216</td>
</tr>
<tr>
<td>Non-audit services for non-audit clients</td>
<td>1,582</td>
<td>1,550</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,398</strong></td>
<td><strong>2,338</strong></td>
</tr>
</tbody>
</table>

Audit and directly related services reflects revenue of £178 million (2018: £137 million) in respect of EU public interest entities and their subsidiaries and £453 million (2018: £435 million) audit and related services provided to other entities.

Revenue and operating profit have been recognised for the reportable period based on the firm’s unaudited consolidated financial statements:

— Revenue represents amounts recovered or recoverable from clients and the entities we audited during the year, exclusive of Value Added Tax. Recoverable amounts reflect the fair value of the services provided to those entities based on the stage of completion of each engagement including expenses and disbursements, as at the balance sheet date.

— Operating profit for the reportable segment is calculated based on an allocation of direct costs and an allocation of overheads (such as property and IT costs) on a pro rata basis. The basis of allocation is primarily on headcount as well as an allocation of costs directly attributable to the reported segment based on information in our management accounts. No cost is included for the remuneration of members of KPMG LLP, including partner annuities. This is consistent with the treatment of partners’ remuneration in the firm’s consolidated financial statements. The cost allocation methodology is subject to ongoing review and refinement in line with operational changes in the reportable segments.

In accordance with the Local Auditors (Transparency) Instrument 2015 (as defined in The Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014), KPMG LLP issued audit opinions on the Major Local Audits detailed in Appendix eight. The audit fees for Local Audits are £6m.
Appendix 7 - Basis of partner remuneration

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

A member’s remuneration generally comprises three elements as described below based on benchmark pay. Benchmark pay is communicated to members in November/December each year and is determined in relation to an individual’s medium-term value to the group. Each member’s benchmark pay is determined with quality as the primary factor and with others factors such as past performance, market value of skill set, individual capability, leadership qualities and overall contribution to the group also taken into account.

Profit allocated to members is distributed as follows:

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

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

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

Putting quality at the core of remuneration

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

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

The Head of Audit Quality, Chief Auditor and Audit Chief Risk Officer contribute to the assessment of performance in respect of risk and quality matters. They are also involved in the remuneration discussions for audit partners to make sure that the process complies with the firm’s policies. The governance of this process is overseen by the Audit Oversight Committee.

Auditors must be independent to do their jobs effectively. As such, everyone in the Audit practice, and staff from other areas of the firm that contribute to audit, are not evaluated, promoted or remunerated for the selling of non-audit services to companies we audit. There are no incentives for auditors to do this.
Disclosures in accordance with (1) Article 13.2 (f) of the EU Audit Regulation and (2) the schedule of The Local Auditors (Transparency) Instrument 2015

1. Article 13.2 (f) of the EU Audit Regulation

The list below has been prepared in accordance with Article 13 of the EU Audit Regulation and is in respect of the year ended 30 September 2019. The list includes the entities which meet all of the following conditions: i) the entity is incorporated/established in the United Kingdom or Ireland; ii) KPMG LLP or KPMG Audit Plc signed an audit report on the entity’s annual financial statements during the year ended 30 September 2019; iii) on the date the audit report was signed the entity was an EU PIE; and iv) the audit was a statutory audit within the meaning of section 1210 of the Companies Act 2006.

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

<table>
<thead>
<tr>
<th>Entity name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen Japan Investment Trust Plc</td>
</tr>
<tr>
<td>Aberdeen New Dawn Investment Trust Plc</td>
</tr>
<tr>
<td>Aberdeen New India Investment Trust Plc</td>
</tr>
<tr>
<td>Aberdeen New Thai Investment Trust Plc</td>
</tr>
<tr>
<td>Aberdeen Standard Equity Income Trust</td>
</tr>
<tr>
<td>Aberdeen Standard European Logistics Income PLC</td>
</tr>
<tr>
<td>Aetna Insurance Company Limited</td>
</tr>
<tr>
<td>AEW UK Long Lease REIT plc</td>
</tr>
<tr>
<td>AEW UK REIT Plc</td>
</tr>
<tr>
<td>Affinity Sutton Capital Markets Plc</td>
</tr>
<tr>
<td>Ageas Insurance Limited</td>
</tr>
<tr>
<td>AGF Insurance Limited</td>
</tr>
<tr>
<td>Aggreko Plc</td>
</tr>
<tr>
<td>Air Berlin Plc</td>
</tr>
<tr>
<td>A &amp; J Muckle Group Plc</td>
</tr>
<tr>
<td>Alba 2005 - 1 Plc</td>
</tr>
<tr>
<td>Alba 2006 - 1 Plc</td>
</tr>
<tr>
<td>Alba 2006 - 2 Plc</td>
</tr>
<tr>
<td>Alba 2007 - 1 Plc</td>
</tr>
<tr>
<td>All Saints Asset Management plc</td>
</tr>
<tr>
<td>Alikianz Insurance plc</td>
</tr>
<tr>
<td>Allied Minds Plc</td>
</tr>
<tr>
<td>Alpha Bank London Limited</td>
</tr>
<tr>
<td>Alu Midco Limited</td>
</tr>
<tr>
<td>Amati VCT Plc</td>
</tr>
<tr>
<td>Ambac Assurance UK Limited</td>
</tr>
<tr>
<td>Amigo Holdings PLC</td>
</tr>
<tr>
<td>AMT Mortgage Insurance Limited</td>
</tr>
<tr>
<td>AmTrust Europe Limited</td>
</tr>
<tr>
<td>Annes Gate Property Plc</td>
</tr>
<tr>
<td>Annington Funding Plc</td>
</tr>
<tr>
<td>ANZ Bank (Europe) Limited</td>
</tr>
<tr>
<td>AO World Plc</td>
</tr>
<tr>
<td>Arbuthnot Latham &amp; Company Limited</td>
</tr>
<tr>
<td>Arlington No.3 Bond Issuer PLC</td>
</tr>
<tr>
<td>Arlington Securities Limited</td>
</tr>
<tr>
<td>Arrow Global Group Plc</td>
</tr>
<tr>
<td>Artemis Alpha Trust Plc</td>
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<tr>
<td>Artemis VCT Plc</td>
</tr>
<tr>
<td>Ascential Plc</td>
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<td>Aster Treasury plc</td>
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<td>B T GROUP PLC</td>
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<td>BAE Systems Plc</td>
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<td>Bailfour Beatty Plc</td>
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<td>Bank of England</td>
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<td>Cardiff Property Plc</td>
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John Wood Group Plc
Johnson Matthey Plc
Just Group Plc
Just Retirement Limited
Karta II Plc
Katanalotika Plc
Kaz Minerals Plc
Keller Group Plc
Kenrick No.2 Plc
Kensington Mortgage Securities PLC
Kestrel Acquisitions Limited
LiveWest Capital Plc
LAB Investments Plc
Ladbrokes Group Finance Plc
Lancashire Insurance Company (UK) Ltd
LANDMARK MORTGAGE SECURITIES NO.2 PLC
LANDMARK MORTGAGE SECURITIES NO.1 PLC
LANDMARK MORTGAGE SECURITIES NO.3 PLC
Leek United Building Society
LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LTD
Legal & General Finance PLC
LEGAL & GENERAL GROUP PLC
Legal and General Assurance Society Limited
LGS Investments Plc
The Local Shopping REIT Plc
Lock Midco 1 Limited
Logistics UK 2015 Plc
Lomrin Plc
Low & Bonar Plc
Luceco Plc
LUCECO PLC
Manchester Airport Group Funding Plc
Markel International Insurance Company Limited
Marsden Building Society
Martin Currie Asia Unconstrained Trust plc
Masthaven Bank Limited
McKay Securities Plc
MEL Midco Limited
Mercantile Indemnity Company Limited
Merlin Entertainments Plc
Methodist Insurance Plc
Micro Focus International Plc
Midland Heart Capital Plc
Milan Midco Limited
Millennium & Copthorne Hotels Plc
Mitsui Sumitomo Insurance Company (Europe) Limited
Moneysupermarket.com Group Plc
Monmouthshire Building Society
Moody’s Group (Holdings) Unlimited
Morgan Advanced Materials Plc
Motors Insurance Company Limited
Myriad Capital Plc
N Brown Group Plc
National Casualty Company Of America Limited
National Counties Building Society
Navigators International Insurance Limited
NCC Group Plc
Newbury Building Society
NewDay Funding 2015-1 Plc
NewDay Funding 2015-2 Plc
NewDay Funding 2016-1 PLC
NEWDAY FUNDING 2017-1 PLC
NewDay Funding 2018-1 PLC
NewDay Partnership Funding 2014-1 Plc
NewDay Partnership Funding 2015-1 Plc
NewHospital (St. Helens and Knowsley) Finance Plc
NFT Distribution Holdings Limited
The North American Income Trust Plc
North Atlantic Smaller Companies Investment Trust Plc
North of England Protecting and Indemnity Association Limited
Northern 2 VCT Plc
Northern 3 VCT Plc
Northern Investors Company Plc
Northern Venture Trust Plc
Northgate Public Services Limited
Octagon Healthcare Funding Plc
Odyssean Investment Trust plc
Old Mutual Wealth Life Assurance Limited
Old Mutual Wealth Life & Pensions Limited
Olive Debtco Limited
On the Beach Group Plc
OneSavings Bank Plc
Orbit Capital Plc
Oxford BioMedica plc
Oxford Instruments Plc
PA Group Holdings Limited
Pacific Assets Trust Plc
Paddy Power Betfair Plc
Paragon Bank Plc
Paragon Mortgages (No.10) Plc
Paragon Mortgages (No.11) Plc
Paragon Mortgages (No.12) Plc
Paragon Mortgages (No.13) Plc
Paragon Mortgages (No.14) Plc
Paragon Mortgages (No.15) Plc
Paragon Mortgages (No.16) Plc
Paragon Mortgages (No.7) Plc
Paragon Mortgages (No.9) Plc
Paragon Mortgages (No.23) Plc
Paragon Mortgages (No.24) Plc
PARAGON MORTGAGES (NO.25) PLC
Paragon Mortgage (No.22) Plc
Paragon Treasury plc
Partnership Life Assurance Company Limited
PayPoint plc
Peabody Capital No 2 Plc
Peabody Capital Plc
Pedigree Livestock Insurance Limited
Pendragon Plc
Penrhyn Building Society
Pension Insurance Corporation Plc
Personal Assurance Plc
Pets at Home Group Plc
Pist 2010-1 Plc
Places for People Capital Markets Plc
Places for People Finance Plc
Places for People Homes Limited
Places for People Treasury plc
Polar Capital Technology Trust PLC
Premier Foods Plc
Premier Global Infrastructure Trust PLC
Proactics Holdings Plc
Prudential Pensions Limited
Prudential Plc
R Raphael & Sons Plc
Rathbone Investment Management Limited
Reckitt Benckiser Group plc
RECKITT BENCKISER TREASURY SERVICES PLC
REDWOOD BANK LIMITED
Renew Holdings Plc
Rentokil Initial Plc
Rentokil Insurance Limited
Repono Holdco 2 Limited
2) Local Auditors (Transparency) Instrument 2015 (as defined in The Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014)

The organisations below are those which a) constitutes a ‘major local audit’ for the purposes of Regulation 12 of The Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014 (SI 2014/1627), and b) for which KPMG LLP or KPMG Audit Plc signed an audit report on its annual financial statements during year ended 30 September 2019.

Local Audit engagements follow the same quality control system as the wider audit function and therefore the remaining disclosure requirements of The Local Auditors (Transparency) Instrument 2015 are consistent with those provided in this report for the wider audit function.

Entity name

- Barking, Havering and Redbridge UH NHS Trust
- Leicester City Council
- NHS Barnet CCG
- NHS Bradford Districts CCG
- NHS Bromley CCG
- NHS Doncaster CCG
- NHS East Berkshire CCG
- NHS Lambeth CCG
- NHS Leeds CCG
- NHS Lewisham CCG
- NHS Morecambe Bay CCG
- NHS Newham CCG
- NHS North West Surrey CCG
- NHS Nottingham City CCG
- NHS Sandwell and West Birmingham CCG
- NHS Sheffield CCG
- NHS Southern Derbyshire CCG
- NHS Southwark CCG
- NHS Wakefield CCG
- Northumbria Healthcare NHS Foundation Trust
- Nottingham University Hospitals NHS Trust
- Royal Devon and Exeter NHS Foundation Trust
- Sandwell Metropolitan Borough Council
- The Royal Wolverhampton Hospitals NHS Trust
- University Hospitals Coventry and Warwickshire NHS Trust
Appendix 9 - Our tax strategy and contribution

As a major UK business – whose activities include providing tax advice to companies large and small, at a time when transparency over tax affairs is the subject of such intense public scrutiny – we think it is very important to spell out our tax strategy and the tax we pay.

This demonstrates the way we manage our own tax affairs.

**Tax strategy and governance**

KPMG in the UK is committed to full compliance with all statutory obligations and full disclosure to tax authorities. The firm’s tax affairs are managed in a way which takes into account the firm’s wider corporate reputation in line with KPMG in the UK’s overall high standards of governance.

KPMG in the UK has published its Tax Strategy on its website in accordance with the requirements of Schedule 19, Finance Act 2016.

Ultimate responsibility for the tax strategy and tax compliance rests with the Board of KPMG LLP with the COO assuming executive responsibility for tax matters.

KPMG in the UK manages all of its tax affairs in a way which seeks to ensure compliance with legal requirements in a manner which ensures payment of the right amount of tax.

KPMG LLP expects its members to adopt a corresponding approach in relation to their individual tax obligations and liabilities. It is a condition of membership of the firm that members provide KPMG in the UK with full visibility of their personal tax affairs. By requiring this transparency KPMG LLP seeks to ensure that members comply fully with their obligations in respect of UK taxation.

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**KPMG in the UK: summary of cash taxes paid in the years to 30 September 2019 and 2018**

<table>
<thead>
<tr>
<th>£m</th>
<th>2019</th>
<th>2018</th>
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<tbody>
<tr>
<td></td>
<td>Cost to firm</td>
<td>Collecting agent</td>
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<td>Employment items</td>
<td>66.5</td>
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<td>Partners</td>
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<tr>
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<td>VAT</td>
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<td>Property taxes</td>
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<tr>
<td>Other items</td>
<td>10.5</td>
<td>3.5</td>
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<tr>
<td></td>
<td><strong>106.1</strong></td>
<td><strong>808.8</strong></td>
</tr>
</tbody>
</table>

Notes: All figures represent cash taxes paid during the relevant year by KPMG and subsidiaries. All figures in £ millions.
Our taxes paid and collected

As a limited liability partnership, KPMG in the UK does not pay corporation tax on the majority of its profits. Those profits are instead subject to income tax in the hands of the individual partners.

Total partner income tax and national insurance during the year totalled £175.0 million compared with £125.6 million in the preceding year. In accordance with tax legislation, the tax we pay on behalf of the partners refers to the profits earned in the previous two years and is based upon the statutory rates of 20% and 40% on the first £150,000 of profit, and then at 45% thereafter (2018: 45%), plus a further 2% in national insurance. Tax rates for Scottish partners are 1% higher. Capital gains tax is paid in a year on gains realised in the previous year. Tax paid during 2019 was higher than the 2018 level as the taxable profits for the year to 30 September 2018 were higher than those in 2017 and capital gains tax was paid on the 2018 sale and leaseback of the firm’s London office.

KPMG in the UK makes a significant contribution each year to the public finances through the taxes paid by our partners on our profit, the taxes we bear as an organisation such as employers’ national insurance, corporation tax (which is paid on the small proportion of profit earned in subsidiary companies), business rates and property and environmental taxes, and those we collect on behalf of the exchequer, such as employees’ national insurance, employment tax and VAT.

Taken together the total paid and collected by us in 2019 was £914.9 million (2018: £894.1 million). The table shows the split between taxes borne by us directly, and those we collect for the public purse in the course of our day-to-day business.

It shows that our largest contribution comes through the tax paid in respect of and on behalf of our employees. We are proud of the contribution this level of employment makes to the overall economy. The amount of employee-related tax increased as we had more employees in 2019 than 2018.

Taken together, the tax borne by us and collected on behalf of the government gives a clear picture of our economic activity, the contribution we make to the UK economy and the value we add to society at large.