



# UK Transparency Report 2020



February 2021

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# Our year in numbers

 <p>Audit engagements rated 1 or 2a by the FRC's AQR</p> <p>61%</p> <p>(2019: 76%)</p>	 <p>Audit engagements that have been subject to the firm's Quality Performance Review</p> <p>144</p> <p>(2019: 124)</p>	 <p>Revenue from Audit and directly related services</p> <p>£639m</p> <p>(2019: £631m)</p>
 <p>Women in Audit</p> <p>45%</p> <p>(2019: 44%)</p>	 <p>BAME colleagues in Audit</p> <p>29%</p> <p>(2019: 29%)</p>	 <p>Ethics Champions</p> <p>123</p> <p>(2019: 113)</p>
 <p>Members of our UK Audit Committee Institute</p> <p>2,800</p> <p>(2019: 2,800)</p>	 <p>FTSE 100 companies who attend our Audit Committee Institute events</p> <p>68</p>	 <p>'Explore' workshops to encourage open, honest discussions about behaviour and culture</p> <p>257</p>
 <p>People Survey respondents that say our commitment to quality is apparent on a daily basis</p> <p>88%</p> <p>(2019: 84%)</p>	 <p>Audit professionals working in transformation, data &amp; analytics, and information risk</p> <p>810</p> <p>(+20% on prior year)</p>	 <p>Number of colleagues trained to use the new KPMG Clara workflow</p> <p>1,000</p>

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# Audit plays a crucial role in the UK's economy



**Bill Michael**  
UK Chair and Senior Partner

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We're responding to the changing expectations of audit and auditors, and in many areas, we're leading the way. In doing so, we're creating a stronger, more resilient, audit business, one that will support the UK's economic recovery.

Our firm has been supporting the UK's businesses, communities and people for 150 years now and throughout that time, audits have played a vital part in the UK's economy. Of course, over time, people's expectations of audit have changed. They're demanding more of the audit product and profession. The reviews and inquiries over the past two years have helped identify what needs to change. And we're leading the evolution of audit, with both ideas and action.

Our work this year, which includes changing our governance structure and doubling down on our efforts to improve audit quality, is part of our response. This report describes how we're restoring trust in audit – and by extension – trust in capital markets.

I'm proud of the progress we've made, particularly given the extra challenges the global pandemic has created. In areas like corporate governance, our firm has been a first mover. With the creation of our Audit Board, we've charged a group of experts with managing our audit business.

We've also taken the lead in terms of performance management: audit quality and values-based behaviour are the metrics we use to measure success. The support of our Public Interest Committee – which brings independent challenge and oversight – has been invaluable.

Of course, there is still a lot more to do to enhance public trust in audit. As a firm, we support operational separation of the audit practice from the rest of the firm in the UK and we are well prepared for it.

Audits play a vital role in the UK economy and they'll continue to do so. We have a once-in-a-generation opportunity to redefine the audit product and its purpose and I for one am excited at what this means for the UK.

A handwritten signature in black ink, appearing to be 'Bill Michael', written in a cursive style.

**Bill Michael**  
UK Chair and Senior Partner

Approved by the Board  
on 22 December 2020



# Creating confidence in capital markets



**Michelle Hinchliffe**  
Chair of UK Audit



Now, more than ever, the markets need confidence. And this is something high-quality audits can provide. We're engaging with stakeholders to make sure that audit reports give investors the insights they need, as they deal with uncertainty.

Change in the UK's corporate sector continues at pace. The global pandemic is creating a new social contract between society and big business: people want businesses to be socially responsible and put purpose above profit. The public's expectations are higher than ever before. And while all stakeholders agree reform is necessary, any reform has to make sure the UK remains an attractive location for corporations – particularly in a post-Brexit, post-pandemic world.

## Audits that are fit for purpose

Against this backdrop, audit, and auditors, have an important role to play in raising deserved confidence in business. In my role as Chair of Audit, one of my priorities has been to increase engagement with stakeholders. We're addressing their demands to expand the scope of audit and speak regularly to regulators and investors, among others. I know that, by working together, we can restore trust in our profession.

Recent reviews and inquiries into audit propose options such as businesses producing resilience statements or reporting on internal controls, in what could become a UK version of Sarbanes-Oxley. We support these proposals and want them to go a step further, adding assurance. In doing so, this would give users even greater confidence in their contents. Similarly, we plan to offer assurance of Environmental, Social and Governance metrics to all the companies we audit. We know that audit could, and should, 'do more'.

## We're shaping the future of the audit profession

Where we have made changes to our audit practice, these have often been ahead of regulatory change. We've made considerable progress on operational separation and as a firm, we support it. For example, we already have a separate Audit Board and plan to bring external Audit Non-Executives on this Board soon.

We know, though, that for operational separation to have a significant impact on audit quality it needs to be part of a package of other changes across the UK's corporate reporting ecosystem. Timing is key and audit reform alone will not achieve this. Government, regulators and others need to prioritise the actions they want to take, and think carefully about the order they take them in.

It is an exciting time for our profession. If we get these reforms right – and we are working closely with the Financial Reporting Council to help shape the future of the profession – collectively, we will strengthen the UK's corporate sector.



# Creating a sustainable audit business



**Jon Holt**  
Head of Audit



We're one year into a three-year strategy for our audit practice, built on the pillars of high audit quality, a sustainable business and rewarding careers. Audit is grappling with multiple once-in-a-generation challenges all at the same time. Through it all, we're building a bright future for audit, founded on investment in people, culture and innovation.

This year of turmoil has reminded everyone how essential audit is to the whole financial system. Despite unprecedented challenges in 2020, the investments in our transformation programme enabled us to continue delivering high-quality audits whilst working remotely.

### **Giving auditors the skills, and the tools, they need**

This year we've consistently rolled out new technology and better ways of working. Our new Centres of Excellence are helping front-line auditors focus on what they do best. Our specialist teams, in areas like data analytics and climate risk, are growing and are more deeply embedded in Audit.

We've got 150 audit teams using KPMG Clara workflow – the most modern audit platform and methodology in the big 4 and our biggest technology investment ever. We have year-round training for auditors, building on our annual KPMG Audit University. Culture and coaching are key to delivering quality every time, so we have a comprehensive programme to strengthen our culture.

We know that having the right culture in place is crucial if we are to deliver quality, every time. In internal training and coaching, we describe this as a 'high challenge, high support' culture; it describes what we expect of auditors and what they can expect of each other.

Audit is increasingly an innovation and technology business. And innovation relies on diversity in our people. This year, we've diversified our recruitment more than ever before, with a better mix of graduates, apprentices and offshore roles. I am personally sponsoring our Black Lives action plan to ensure that we make our Audit practice a place for every talented auditor, regardless of their background or identity.

### **We're transparent about our progress**

This year we released our Audit Quality Scorecard – a window into the holistic measures and metrics we use to track the quality of our audits across the practice. Audit quality is improving, and you can read more about the Scorecard on page 19.

In the FRC's 2019/20 Audit Quality Review, we received no "significant improvements required" grades for the second year running. But despite all our investment and focus, we still have room for improvement. We will not be satisfied until we consistently achieve AQR scores that reflect the progress we're making.

I'm proud of the 6,000 auditors at KPMG. They've continued to deliver complex audits with high quality despite the challenges of this year. The strong culture of mutual support and commitment to challenge give me great confidence in the future of audit.



# Trust starts with us



**Mary O'Connor**  
Chief Risk Officer (FY20)



This year has been extraordinary and I'm incredibly proud of the way my colleagues have responded. Even in the face of a global pandemic, we've marked our 150th year, refreshed Our Values, embedded Our Code of Conduct and have made real progress in our risk transformation agenda.

The global pandemic has added to the challenges, and risks, we face as a firm. It's forced us to work differently and has tested the robustness of our policies and processes. Remote working has also reiterated the importance of trust, too.

### Risk in a world of remote working

Like so many others, we had to adapt. We created virtual workshops that teams could run to understand and apply Our Code of Conduct to everyday dilemmas. Remote working created new risks around information security, so we reminded colleagues of those risks with a series of videos.

Of our refreshed values, it is Courage that resonates most strongly with me. It takes courage for people to speak up when they see something that isn't quite right. To help people have open and honest conversations about behaviour in the workplace, our Ethics Champions facilitated 'Explore' workshops over the winter; the feedback from colleagues who took part has been very positive.

We have many routes for people to speak up. They include a direct conversation with an Ethics Champion, senior people leaders and via the SpeakUp hotline. To make sure they're as effective as they can be, we're working with whistleblowing charity Protect on a project to benchmark our policies and processes. We want to make it as easy as possible for people to do the right thing and – by extension – deliver high-quality work.

### Listening and learning from colleagues

On a personal note, I've really enjoyed hearing from colleagues directly in open forums. They're a chance for everyone to speak honestly about what's on their mind and ask leadership anything. The forums I've hosted have given me valuable insight into how people are feeling.

As I move into a new role at KPMG and hand over to John Bennett, an experienced audit partner, I feel very proud of the progress we've made in risk this year. Our people have shown how to live Our Values at a time when we need them most.



# Report of the Public Interest Committee



**Jonathan Evans**  
Chair of the Public Interest Committee



Our responsibility as Independent Non-Executives (INEs) and members of the Public Interest Committee (PIC) is to provide independent oversight on issues that are of public interest. Given the additional challenges created by the global pandemic this year, our role has never been more important.

I am pleased to provide my annual report as Chair of KPMG's Public Interest Committee.

The COVID-19 crisis, coinciding with important developments such as the publication of the FRC's principles on operational separation of audit practices, has brought to the fore a number of public interest issues at KPMG. As a result, the level of engagement between the firm and the Independent Non-Executives (INEs) who form the Public Interest Committee (PIC) has been higher than ever. As the firm focuses on growing sustainably and excelling through quality in the new operationally separated model, the public interest will continue to guide everything we do as a PIC.

## Engaging with the firm, the regulator and those that depend on high-quality audits

In last year's Transparency Report, we said that greater INE engagement with people at all levels of the firm was a key priority. This year we have implemented a comprehensive INE engagement plan, involving both face-to-face and virtual activity.

The PIC has met quarterly and received regular updates on audit quality, regulatory developments, key people topics and investor engagement. We also conducted deep dives on topics including ESG, recovery and resolution, audit culture and the firm's Black Lives action plan. Individual INEs also attended the other governance bodies within

the firm that are relevant to public interest matters, including the Board, Audit Committee, Audit Board, Risk Committee and People Committee. The INEs reported back the key topics to the PIC. At the height of the COVID-19 crisis we also participated in the additional crisis governance arrangements, including weekly Board and Audit Board meetings, as well as briefing sessions for partners.

To ensure we remained connected to leadership following the move to remote working in the second half of the year we introduced a comprehensive programme of bilateral meetings between the individual INEs and members of the Board and Executive Board.

As well as connecting with leaders, we have expanded our engagement activities with people at all levels of the firm. We introduced quarterly roundtable sessions with groups of our Audit partners (three have been held to date), covering subjects including the attractiveness of the audit profession, culture in audit and ongoing developments in the profession. Prior to lockdown we also visited KPMG's Edinburgh office, meeting employees from different groups, of different levels of seniority, over a two-day period. We look forward to continuing to expand our regional engagement, leveraging the virtual collaboration tools available to us.



# Report of the Public Interest Committee

We continue to meet regularly with the FRC and participated in the roundtable event hosted by them on INE independence. We have also maintained our dialogue with investors by participating in 'Investor Insights' and Audit Committee Institute events held by the firm, as well as presenting at the first Annual Audit Review meeting held in April. Further, we met with the Chair and members of the Board of the Audit Committee Chairs' Independent Forum and we hope to continue our engagement with them in the year ahead.

## Audit quality and the future of the profession

Excelling through audit quality remains a central focus for the firm. We continue to see significant investment in the audit business, including specifically relating to audit quality and the culture that underpins it. We note that further investment is planned for the year ahead and that the firm is protecting these investments, so they are not adversely impacted by any decisions made as a result of COVID-19.



We were disappointed that this investment, and the significant level of senior management attention which we have observed, did not translate into improvement in the firm's AQR results. We note that the FRC also acknowledged in its report the investment and management attention that KPMG had put into audit quality. Nevertheless, we were pleased that the FRC did not rate any engagement files as requiring significant improvements and that the report highlighted a number of areas of good practice. We are confident that the firm has conducted a robust root-cause analysis process and that it has incorporated the required activities into the Audit Quality Transformation Programme. We believe that there would still be benefit in developing more comprehensive metrics for audit quality than can be provided by the AQR alone, we consider that these would be valuable for all audit stakeholders.

The Audit Board, attended by an INE representative, oversees the KPMG Audit practice, its delivery of audit quality and the interaction of the Audit practice with the rest of the firm. We have observed its stature grow during the year and expect this to continue to strengthen in the year ahead.

We are encouraged by the firm's additional focus on engaging with key audit stakeholders, including on those areas which are most important to investors (e.g. ESG). We have seen a significant increase in the number of institutional investors and investor associations attending KPMG meetings and events and there are now 2,800 members of the UK Audit Committee Institute (with 68% of FTSE 100 companies attending these events). As INEs we attended a number of investor engagement events during the year and we welcome these opportunities to further improve connectivity with the broader stakeholder community.

In July, the FRC announced its principles for operational separation of the audit practices of the big four firms with implementation required by June 2024. In last year's Transparency Report, we said that monitoring regulatory developments in the audit profession was a key priority. For that reason, as INEs we played an active role in contributing to the development of these principles. We are supportive of operational separation in the UK, as is the KPMG leadership. We have provided oversight of the development of the firm's implementation plan and are confident that the firm is putting appropriate resource into delivering in line with the FRC's timelines. The FRC's objective of operational separation is to improve audit quality. For that reason, we consider it critical that the regulator gives appropriate consideration to topics such as the ongoing attractiveness of the audit profession. We are also keen to see continuing industry-wide discussion on improving audit quality beyond the implementation of the operational separation principles.

# Report of the Public Interest Committee

## The firm's financial resilience, risk management framework and reputation

The PIC has reviewed the key components of the firm's approach to preventing firm failure, in particular, in the context of the additional challenges and uncertainties presented by COVID-19. As part of these discussions, the PIC considered upcoming changes to the firm's recovery and resolution plan, financial metrics (including cash flow forecasts) and the results of stress testing exercises. The PIC also took a close interest in the firm's investment process.

The firm continues to implement its enterprise-wide risk management framework. It has made good progress this year, including the setting of a risk appetite and improved risk reporting. Focus is now on embedding the framework, a process that is overseen by the Risk Committee on which there is INE representation.

The reputation of the firm, both as a provider of audit services and more broadly, is of particular interest to the PIC. As well as ensuring the firm continues to improve from an audit quality perspective, we consider a number of other topics to be important from a reputation perspective: (i) COVID-19, (ii) the Black Lives action plan and broader Inclusion, Diversity and Social Equality (IDSE) agenda and (iii) the ESG strategy. How the firm responds will have a major impact on its reputation. We have been impressed with the level of focus on each of these topics to date and encourage the firm to maintain this.

## Progress on the people and culture agenda

Ensuring an appropriate culture exists throughout the organisation underlies all the principal objectives of the Audit Firm Governance Code. This year we have actively engaged with staff at all levels to inform our independent view of culture. An INE representative also attends the People Committee and INEs were involved in the 2020 Board election process.

The COVID-19 crisis presented several challenges from a people perspective, most notably with regards to wellbeing and we have been encouraged to see the firm's response. We welcome the introduction of the firm's Black Lives action plan with initiatives being driven across progression, education, leadership and accountability. We were also pleased to see the firm engage John Amaechi to provide independent, market-leading advice and challenge. The firm refreshed its values during the year and attention is now turning to how to measure the behaviours which drive the firm's culture, a topic we consider of great importance.

From an audit perspective specifically, we have observed a number of tangible areas of progress during the year including the appointment of a Head of Culture for Audit and the establishment of an Audit Culture working group. In June 2020, the firm also established an Audit Evolution Board. It consists of individuals who have been identified as 'future leaders' who will provide fresh perspective, insight and challenge to the Audit Board. There has been a significant investment made in the coaching programme for audit and we welcome the continuance of this into the year ahead. The theme of the 2020 KPMG Audit University, delivered virtually, was 'embedding a culture of challenge' to support the improvement in audit quality.



We welcome the introduction of the firm's Black Lives action plan.



# Report of the Public Interest Committee



## Engagement with KPMG International

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 global clients. From a PIC perspective, the global network offers both benefits and risks. We welcome the focus KPMG International has been placing on implementing improved structures to ensure high-quality audits and high-quality leaders of the Audit business, enhanced risk management oversight, policy enforcement, intervention and remediation levers as well as more robust governance and accountability of both member firms and their leaders across the global network. During the year we met with the Chair of the PIC for KPMG in Ireland and look forward to engaging with more of our counterparts globally in the year ahead.

## Looking ahead

Looking ahead, the PIC will continue to be a key component of the firm's governance structure and our focus will remain on audit quality, reputation and the risk of firm failure. The far-reaching impacts of COVID-19 are driving a heightened period of public scrutiny and we will stay actively involved in ensuring public interest considerations are at the centre of the firm's response to this. We will also continue to monitor and contribute to developments in the audit profession at this time of rapid change, including the implementation of the FRC's principles on operational separation and other initiatives intended to improve audit quality. We look forward to seeing how the approach to measuring audit quality evolves across the industry. We will also continue to engage with people across the firm, leveraging virtual engagement opportunities and providing oversight on key initiatives from a people and culture perspective, including the inclusion and diversity agenda.

## Membership throughout the year

The INEs together comprise the PIC and membership of the PIC has remained unchanged throughout the year. Lord Evans of Weardale has chaired the PIC throughout the year. There has been regular attendance at the PIC meetings from the Senior Elected Board Member, Chair of the Audit Board, Chair of Audit, Chief Risk Officer, General Counsel and Ethics Partner.

# Navigating the transparency report

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

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

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## How we're measuring our progress: audit quality indicators

A summary of the methods used to monitor audit quality internally and externally, incorporating the results of internal Quality Performance Reviews and external reviews performed by regulators.

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## Our culture and its impact on audit quality

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

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## How our structure and governance supports audit quality

An explanation of how our UK firm is structured and its relationships with other firms that are members of the KPMG network. It also explains the roles that internal and independent committees play.

This section includes reports of the activities of the Board, the Audit Board, Audit Evolution Board, the Audit Committee, the People Committee, the Risk Committee and the Public Interest Committee during the year.

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## Our quality control and risk management systems

This section includes 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.

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# Audit quality

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



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

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

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



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



## Audit governance

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



## Banking audit quality improvement project

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



## Culture change programme

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

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



## Coaching

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



## Strengthened controls around the end of audit process

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



## Root-cause analysis

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



## Refinement of our key audit quality indicators

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



## Project management

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



## Issues management framework

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



## Increased standardisation of the approach to the audit of IT

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



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

## Technology-based audit tools

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

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

KPMG Clara gives access to:

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

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

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

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

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



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

## COVID-19 and maintaining audit quality

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

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

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

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

### Communications

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

### Response

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

### Support and challenge

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



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

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

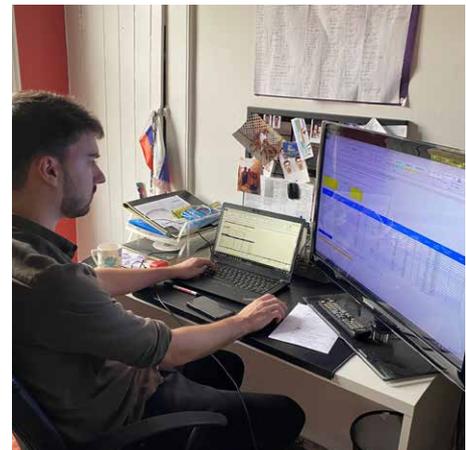
We have actively participated in cross-profession working groups that involved the relevant regulators to support broader initiatives focused on enhancing corporate reporting and audit quality more widely.

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

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

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

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



# How we're measuring our progress: audit quality indicators

We have engaged with stakeholders, enhanced our governance and invested in our people, culture, controls and technology. This holistic approach supports audit quality.

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

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



## Monitoring and continuous improvement

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

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

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

# How we're measuring our progress: audit quality indicators

## External monitoring

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).

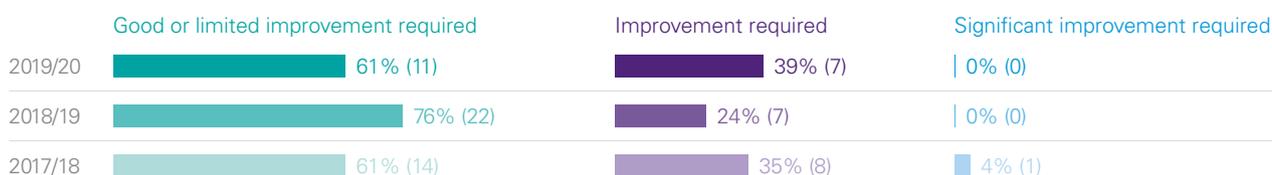
We launched our Audit Quality Transformation Programme in 2017 and are currently in the third phase of the plan, which focuses on embracing the changes we have made. We are committed to making the financial investments and other changes necessary to sustain the improvements achieved, including ensuring that we have sufficient resources to deliver our plan and to embed a culture of continuous improvement in audit quality.

The FRC has publicly recognised the investment that is being made in audit quality and the difference that it is making. Inevitably, there is a time lag in that investment being reflected in inspection results as a consequence of the historic nature of published inspection results and the time it takes to embed change to deliver consistently.

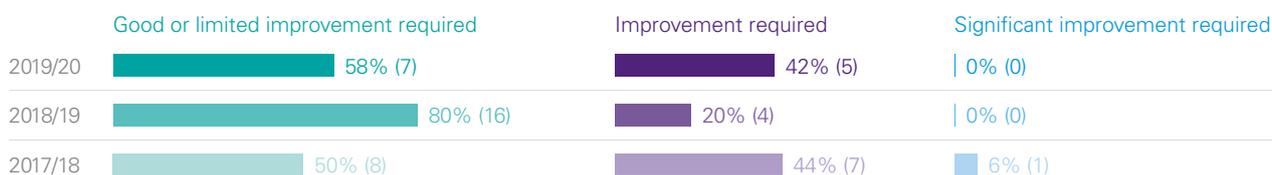
The QAD of the ICAEW undertakes inspections of those audits which are outside the remit of the AQR team. The firm receives a private annual report from the QAD, documenting its findings.

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<sup>1</sup>. The review identified 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 actions in relation to the findings in the report and have submitted our final action plan to the PCAOB for its review.

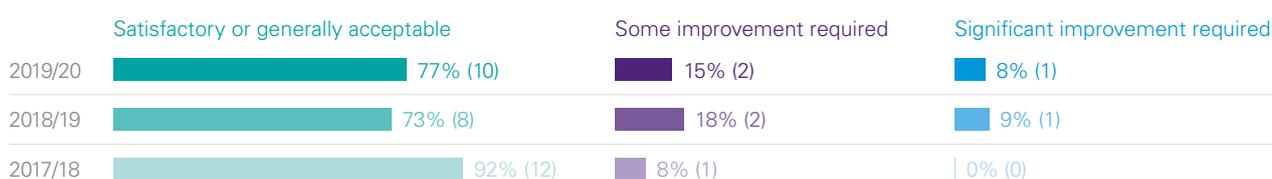
## AQR review: all reviewed engagements



## AQR review: FTSE 350 engagements



## QAD review<sup>2</sup>



<sup>1</sup> <https://pcaobus.org/Inspections/Reports/Documents/104-2019-102-KPMG-LLP-UK.pdf>

<sup>2</sup> Also includes the results of the limited scope follow-up reviews

# How we're measuring our progress: audit quality indicators

## Internal monitoring

There are three components to our internal monitoring:

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

## Quality Performance Review (QPR)

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

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

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

## 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.

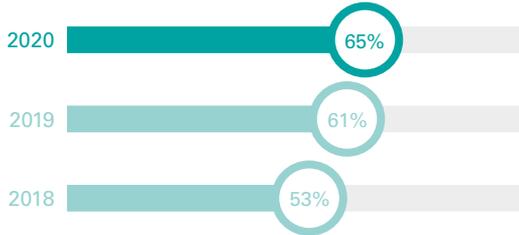
We have assessed each engagement rated Unsatisfactory and are satisfied that the opinions issued in respect of the audits were appropriate and the related financial statements were not materially misstated. We believe that the standards to which we are holding engagement teams through this process is in many areas stricter than those applied by our audit regulators: we 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 rating are considered for a follow-up review. This is mandatory after an Unsatisfactory rating. We take the ratings from the annual QPR programme into account when assessing the performance and remuneration of all engagement leaders and managers. Partners', directors' and managers' quality scorecards take into account the results from internal and external quality reviews in addition to other quality features with a direct link to reward.

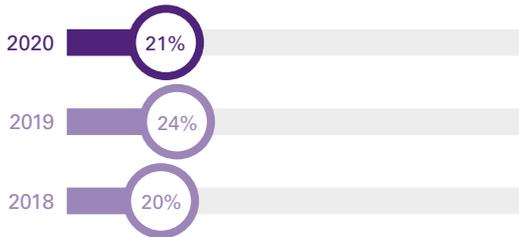
# How we're measuring our progress: audit quality indicators

## Quality Performance Review scores

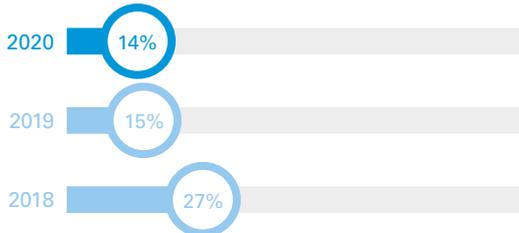
Rating / **Satisfactory**



Rating / **Performance Improvement Necessary**



Rating / **Unsatisfactory**



## Number of engagements reviewed



## Risk Compliance Programme (RCP)

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

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

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

## 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.

# How we're measuring our progress: audit quality indicators

## Regulatory investigations and sanctions

### Ongoing FRC matters

FRC investigations<sup>3</sup> into four 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 extension of this investigation to include certain matters relating to KPMG Audit Plc's audit of Carillion plc for the year ended 31 December 2013 (announced in February 2019);
- the audit by KPMG LLP of Conviviality plc for the 52 weeks ended 30 April 2017 (announced July 2018); and
- following matters self-reported by KPMG LLP, 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 plc for the year end 2016 (announced in November 2018).

In addition, disciplinary proceedings are ongoing in respect of the FRC's Formal Complaint (announced in November 2018) 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".

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

In May 2020, the FRC announced that it had commenced an investigation into KPMG LLP's audit of Eddie Stobart Logistics plc for the year ended 30 November 2017.

In September 2020, the FRC announced that it had delivered its Initial Investigation Report in connection with KPMG LLP's audit of Carillion plc for the years ended 31 December 2014, 2015 and 2016 and additional audit work carried out during 2017.

### FRC matters closed in the year

We continue to work with the FRC to resolve open matters. The following two matters, neither of which had previously been announced, were closed following admissions to the FRC in relation to the underlying conduct:

- In April 2020, in relation to the audit of a company for the 2015-16 financial year, KPMG LLP was fined £700,000 (discounted for admissions and early disposal to £455,000), reprimanded and required to conduct additional quality reviews of future audits by the same engagement partner. The engagement partner was fined £45,000 (discounted to £29,250), reprimanded and required to undergo further training. The shortcomings concerned a failure to apply sufficient professional scepticism, or to obtain and document sufficient appropriate audit evidence, in relation to the audit of two categories of complex supplier arrangements.
- In June 2020, in relation to the statutory audits of the financial statements of Foresight 4 VCT plc for the 2012-2013, 2013-2014 and 2014-2015 financial years, KPMG LLP was reprimanded and required to monitor compliance with revised audit procedures on company capital and distributions, and report on this to the FRC. The shortcomings related to the audit of distributable reserves.

### ICAEW matters

KPMG LLP agreed to pay a fine of £3,500 following admissions to the ICAEW during the year in connection with an audit which had not been conducted in accordance with relevant standards in that insufficient audit documentation had been prepared to enable an experienced auditor, having no previous connection with the audit, to understand the results of procedures performed, and the evidence obtained in respect of certain deferred income.

<sup>3</sup> Where the FRC or other regulatory body has exercised discretion not to publicise a particular inquiry or investigation, the details of such matter are not disclosed in this report.

# How we're measuring our progress: audit quality indicators

## FRC Revised Ethical Standard

In December 2019, the FRC published the Revised Ethical Standards (2019 ES), effective for financial periods starting on or after 15 March 2020<sup>4</sup>.

The 2019 ES introduced a number of key changes, the two most significant of which affect a large number of audited entities:

- A narrow list of permissible non-audit services that can be provided to a Public Interest Entity (PIE); and
- A new category of audited entity for those entities that do not meet the definition of a PIE but are nevertheless of significant public interest to stakeholders: Other Entity of Public Interest (OEPI). OEPIs are also restricted to the same narrow list of permissible non-audit services as PIEs.

The list of permissible non-audit services introduced in the 2019 ES, is generally consistent with the position on non-audit services that we voluntarily applied in 2018 to the FTSE 350 companies that we audit; a step that at the time went significantly beyond the requirements of the FRC Ethical Standard. The list restricts services to those that are required by law or regulation or are closely related to the audit.

Since the publication of the 2019 ES we have been preparing and conducting centrally driven reviews for all affected entities to ensure compliance; as well as monitoring and communicating the key changes widely to our partners and people and impacted entities.

## Breaches of the FRC Ethical Standard

Our systems and processes help our people and our firm comply with the requirements of the applicable FRC Ethical Standard.

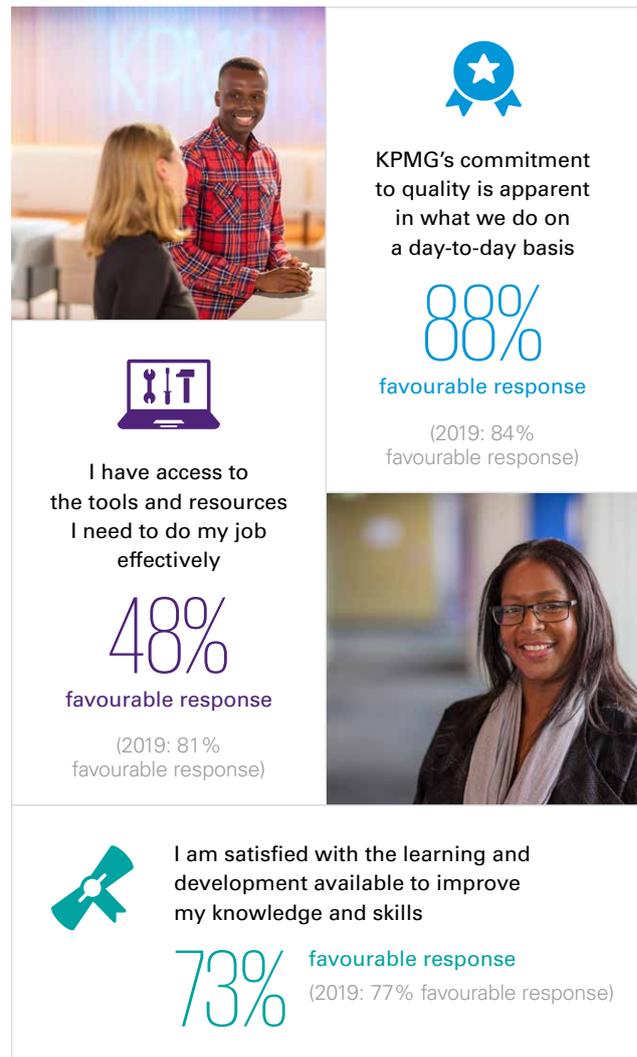
Very occasionally our compliance processes identify breaches of the FRC's 2016 Ethical Standard and 2019 ES (together the 'relevant ES') requirements. Where we identify such breaches we take prompt action: we assess the significance of the breach and how it has impacted on our independence and objectivity 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 2020 we identified 27 breaches of the relevant ES (2019: 35 breaches).

## People Survey

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

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



<sup>4</sup> With the exception of requirements relating to the provision of non-audit services which were effective immediately from 15 March 2020 regardless of financial period, and the new category of audited entity (Other Entity of Public Interest) which is effective 15 December 2020.

# How we're measuring our progress: audit quality indicators

## Training delivered in audit

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

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

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

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

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

Metric	2020 (financial year)	2019 (financial year)
The minimum number of hours of mandatory training for audit partners and audit professionals.	37.5 hours per person	39.5 hours per person
The range of hours an audit partner or audit professional could spend on mandatory training.	27 - 316 hours per person	39.5 - 200 hours per person
The average number of hours of mandatory training completed by audit partners and audit professionals.	59 hours per person	82 hours per person
The total number of hours of training completed by audit partners and audit professionals. This includes learning undertaken by colleagues working towards a qualification.	1,211k	1,073k

# How we're measuring our progress: audit quality indicators

## Stakeholder interactions

### Investor engagement

Our audit reports for companies are addressed to the shareholders, which makes them the effective 'client' of our audits. With this in mind, KPMG's investor engagement programme has been set up to facilitate communication between auditors, who provide vital assurance over financial statements issued to the markets; and investing shareholders, who rely on that assurance.

The programme is sponsored by the Board and Audit Executive, reported to (and challenged by) our Audit Board and 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 the 2020 financial year, we've held over 100 conversations with institutional investors managing over £10 trillion of assets on a global basis, as well as with research and credit ratings analysts, market intelligence providers and several UK and global investor organisations. At these meetings, we focus on topics of interest to investors (such as Environmental, Social and Governance (ESG) factors, and key trends and new requirements in financial reporting); we also discuss the measures we are taking to continue driving audit quality to the high standards expected of us by regulators and users of financial statements, and how the scope of audit might need to change to meet the evolving needs of users of corporate reporting.

A selection of our events are attended by our INEs. This year these included events on ESG, audit quality, and our Annual Audit Review where we discussed the future of audit with investors, audit committee chairs and finance directors.

At the core of our engagement with investors has been a consensus that high-quality audits are vital. They instil confidence in capital markets because of the independent assurance they provide over financial statements, which inform decisions made by investors.

Looking ahead, the ongoing initiatives to reform corporate governance regulation, corporate reporting and audit have been important topics to explore in our conversations with investors, generating valuable insight into how audit might need to change to better meet investors' needs. We have incorporated that feedback into our responses to the various reviews of the audit profession. Notably, this is our first Transparency Report since the completion of Sir Donald Brydon's independent review into the quality and effectiveness of audit. We are carefully considering all of the recommendations made in the review, and we continue to work towards enhancing independent assurance over information that matters to investors such as value-relevant key performance indicators, internal controls and ESG information, in advance of any regulatory changes that may result.

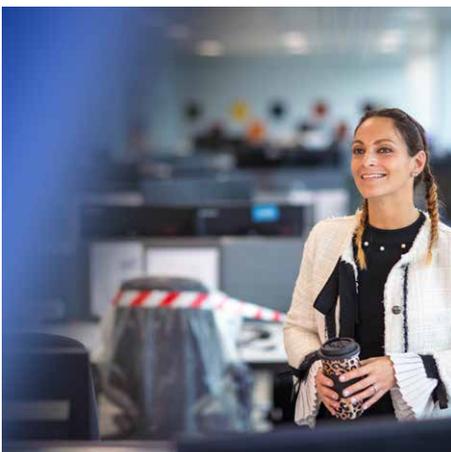
We greatly value the insight and challenge provided by investors over the course of this year and encourage investors to continue to engage with us as we help shape the future of audit.



# How we're measuring our progress: audit quality indicators



We welcome the FRC's intention to seek operational separation of Audit from the rest of the firm and our business is already substantially organised to achieve this.



Investors tell us they want auditors to:

**Produce audits that better reflect investors' concerns.** In response, we have shared investors' areas of focus through our training for partners and audit professionals (on topics such as climate change risk) and sought investors' views on the companies we audit as an input into our audit planning.

**Provide greater assurance on information beyond the financial statements,** such as alternative profit measures, ESG metrics and other non-financial information. In response, we are exploring how best we can provide assurance on those areas that are of most interest to investors and have incorporated that feedback into our responses to the various reviews of the audit profession.

**Give more insight into management judgements than a binary audit opinion provides.** 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 their insights sooner.** In response we have reminded the 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 their preliminary announcements.

**Strengthen their culture of management challenge and professional scepticism,** embedding such thinking into their processes, training, incentives and career progression pathways. In response, we have invested heavily in implementing new audit work papers and mandatory training for auditors focused on challenge and scepticism.

**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, well before the FRC's new Ethical Standard required it. We also welcome the FRC's intention to seek operational separation of Audit from the rest of the firm across our profession. Our business is already substantially organised to achieve the operational separation envisaged by the FRC in its published principles, having introduced a range of measures to enhance our governance and partner performance management, all focused on audit quality.

# How we're measuring our progress: audit quality indicators

## 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.

Further details of our approach to political engagement can be found on our website<sup>5</sup>.

## 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 – with a view to contributing positively to the long-term sustainability of UK plc. Engaging through a multi-channel approach, the ACI provides audit committee members with thought leadership, impartial guidance and tools in the form of technical updates, peer-to-peer exchanges, bespoke briefings and topical deep dives.

During 2020 we provided over 60 hours of professional development through more than 40 seminars and peer-to-peer exchanges. Our sessions were attended by over 700 individual non-executive directors. These sessions addressed issues facing audit committees, including COVID-19, fraud and whistleblowing, geopolitical risk, ESG, how to assess risk of company failure and the audit reform agenda; as well as providing opportunities to interact with peers and the investor community. In addition to this, we provided ACI members with over 40 individual written updates, surveys, pieces of thought leadership and tools – including assessment tools, best practices for audit committees, priorities arising out of COVID-19, guidance on accounting standards, surveys into auditor quality and global audit committee priorities, and summaries of relevant legislation and the audit reforms. We also provided around 25 bespoke board-level briefings for FTSE 350 audit committees and/or individuals.

The ACI in the UK has more than 2,800 members across both the private and public sectors. Sixty-eight FTSE 100 companies engage with the programme through the active attendance of one or more board members and the audit committee chairs of 78 FTSE 100 companies are members – receiving our thought leadership, guidance, updates and surveys etc.



## 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.



Our Audit Committee Institute has over 2,800 members across both the private and public sectors.”

<sup>5</sup> <https://home.kpmg/uk/en/home/misc/regulatory-information.html>

# Culture

Our culture is one of open dialogue and constructive challenge.



# How our culture reduces risk and improves audit quality

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

## Culture has a direct impact on the quality of our work

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

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

## Our leaders set the tone from the top

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

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

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

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

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

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

The Committee's full report (on page 8) includes its observations and insight into our culture.



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

**Feedback from an open forum participant**

# How our culture reduces risk and improves audit quality

## Our Values define our culture

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

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

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

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

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

## Our Values

**Integrity:** we do what is right

**Excellence:** we never stop learning and improving

**Courage:** we think and act boldly

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

**For Better:** we do what matters

We're embedding Our Values by:

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



# How our culture reduces risk and improves audit quality

## Creating a strong culture

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

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

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

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



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

**Jonathan**  
People Partner



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

**Feedback from a Coaching for Quality participant**

# How our culture reduces risk and improves audit quality

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

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

A full report on the Audit Evolution Board's activities is on page 45.



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

**Jack**  
Deputy Chair of the Audit Evolution Board



# How our culture reduces risk and improves audit quality

## Measuring our progress

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

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

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

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

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

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

## Creating a culture we're proud of

In 2020 we:

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

## Our plans for 2021

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

# Structure & governance

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



# How our structure and governance supports audit quality

## Structure and governance

During this year we have been evolving and strengthening our governance structures at the firm-wide level. These changes, together with further changes planned for FY21, 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 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.

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

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

During the year to 30 September 2020, there was an average of 592 partners in KPMG LLP (2019: 621 partners)<sup>6</sup>.

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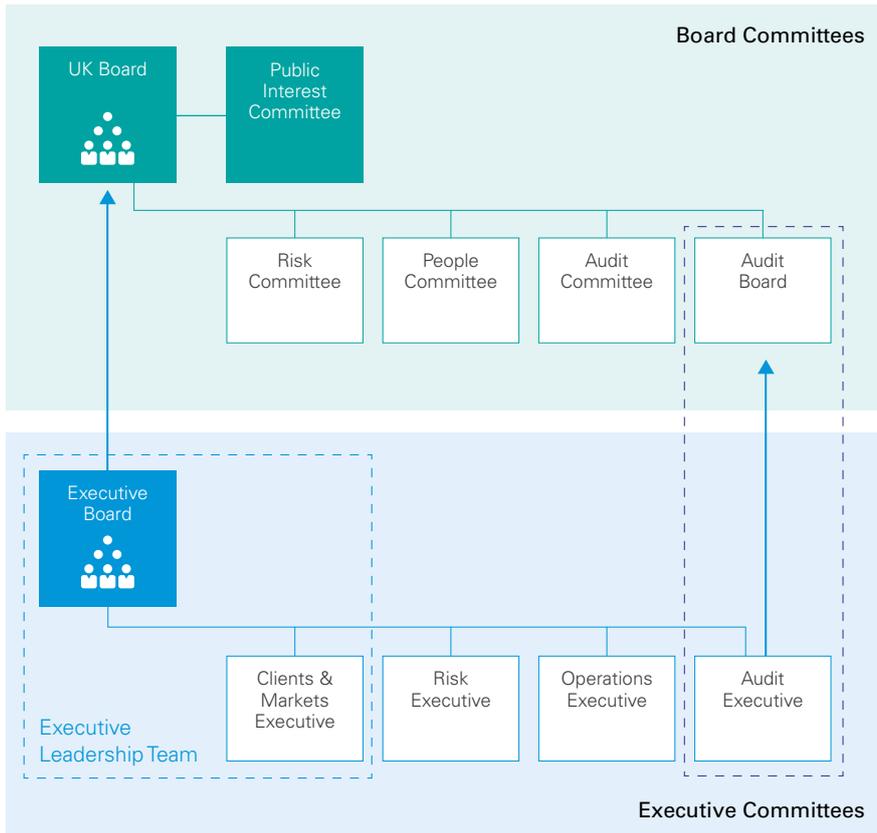
We continue to evolve, and strengthen, our governance structures."



<sup>6</sup> The fall in the number of partners is primarily a result of the sale of the pensions business during the year.

# How our structure and governance supports audit quality

## 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. These are driven by our ongoing desire to ensure that the firm's leadership structure supports our public interest objectives effectively, combined with early steps that align us directionally with the FRC's published principles of operational separation of the Audit practice.

The most important changes are:

- strengthening the governance of our Audit practice by reconstituting the Audit Oversight Committee as the Audit Board;
- updating the terms of reference of our Board and Committees to reflect the increased operational separation of the Audit practice, as well as to ensure effective liaison between the various governance bodies; and

- establishing an Audit Evolution Board constituting a diverse mix of individuals across the Audit practice and other capabilities to provide additional support and challenge to the Audit leadership.

In addition, effective 1 October 2020, additional changes to the governance include increasing the proportion of elected members of the Board, which will be slightly smaller as a result:

- there will be six elected members, two executive members, two members nominated by the Chair, and the Chair (11 members compared to 14 at 30 September 2020); and
- the chair of the Audit Board will attend meetings of the Board but will not be a member of the Board in order to avoid potential conflicts and support the separateness of the Audit Board's deliberations and oversight of the Audit practice.

# How our structure and governance supports 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 Board members (without Executive members present) as well as with the Independent Non-Executives. The Senior Partner chairs the Executive Board which oversees execution of the strategy on a firm-wide basis.

## Board

The main governance body of the firm is the 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 chairs the Board, which provides oversight of 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 the firm including compliance with laws, other regulations relevant to our business and KPMG International's policies.

The Board is attended by the Chair of the Public Interest Committee and by other Independent Non-Executives (INEs).

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.

## 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<sup>7</sup>. 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, governance and investor needs. Their appointments are for a fixed term of either two or three years. This may be renewed up to a maximum of three terms, or nine years. As at 30 September 2020, the PIC consisted of four 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 the Board and the Board committees during the year, including the Risk Committee, People Committee, Audit Committee and Audit Board 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.

<sup>7</sup> Head of Corporate Affairs added as member effective 1 October 2020

## How our structure and governance supports audit quality

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.

Throughout the year (from 1 October 2019 – 30 September 2020) there were four Members of the Public Interest Committee: Lord Evans of Weardale (Chair), Anne Bulford, Oonagh Harpur and Kathleen O'Donovan.

A report on the activities of the Public Interest Committee in the year is on page 41.

### 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 2020 is on page 43.



### The Audit Board

The Audit Board was established (in succession to the Audit Oversight Committee) in January 2020 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. The Audit Board also oversees the strategy and investment needs of the Audit practice, the response to audit-related regulation and the discharge of KPMG's public interest obligations to investors, and other key stakeholders, such as regulators and audited entities.

A report on the activities of the Committee in the year to September 2020 is on page 44.

### 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 2020 is on page 46.

### 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 2020 is on page 47.

### Communication with partners as members of KPMG LLP

The Senior Partner and members of the Executive Board have primary responsibility for communication with the partners in the UK. They use different channels to do this, including face-to-face meetings and roundtables (which are now held virtually), weekly emails on internal, external and operational matters, and calls/webinars.

Through the initial months of the pandemic, a weekly call was set up for all UK partners to hear the latest updates on the situation. This has now moved to a monthly call, ensuring a timely briefing to Partners on key issues and providing the opportunity for two-way feedback.

Where there is an immediate need to communicate matters then an all-partner email is used or, exceptionally, conference calls are 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. Due to the pandemic, these have been turned into virtual events.

# Report on the Board's activities during the year

The main areas of focus this year have been overseeing the firm's response to COVID-19 and developing and agreeing the firm's response to policymakers and regulators.

## 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 various stakeholders in order for the firm to have a successful and sustainable future.

### UK Board in numbers

Fourteen members comprising:

- Chair (the Senior Partner).
- Deputy Chair.
- Five elected members.
- Four nominated members, including the Chair of Audit.
- Three executive members.
- Ten BAU meetings, 16 special meetings and five ad-hoc meetings in FY20.

### Our priorities for 2021

In 2021 we will continue to oversee and monitor:

- the stewardship, accountability and leadership of the firm, including in respect of Audit Quality and the operational separation of the Audit practice;
- the strategic direction of the firm and its alignment to its Vision, Values and Purpose;
- the financial performance and cultural governance;
- the firm's response to the COVID-19 pandemic; and
- the quality of our relationship with our regulators and our response to regulatory matters.

## Setting strategic direction and maintaining oversight

During the year the Board's key activities have included:

- monitoring the firm's relationship with its regulators;
- approving material decisions as regards the firm's response to regulatory matters;
- overseeing the sale of the firm's Pensions business;
- maintaining oversight of the Audit Quality Transformation Programme and its effectiveness;
- monitoring the firm's response to the COVID-19 pandemic;
- monitoring the culture and associated programmes which support the firm's Trust and Growth strategy;
- reviewing and approving an enterprise-wide risk appetite for the firm;
- overseeing the firm's role as a member of the global KPMG organisation;
- discussing the findings of the people survey undertaken in autumn 2019 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 the Audit Board) and receives regular reports from each. In addition, the Board benefits from valuable input from the Public Interest Committee and its members, the Independent Non-Executives.

## Responding to consultations and regulatory reviews

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

- Business, Energy and Industrial Strategy Committee Inquiry into Delivering Audit Reform;
- FRC's objectives and principles for operational separation of large firms' Audit practices;
- FRC's recommendations and suggestions within AFMAS; and
- Brydon Review – an independent review commissioned by the government to review the quality and effectiveness of audit.

**Bill Michael**  
UK Chair & Senior Partner

# Report on the Public Interest Committee's activities during the year

The Committee's activities during the year focused on the oversight of the firm's policies and processes for meeting the principal objectives in the Audit Firm Governance Code (AFGC), engagement with the regulator, external investors and other stakeholders and oversight of key initiatives from a culture perspective.

## Our role

The purpose of the Public Interest Committee (PIC) is to provide independent oversight of the firm's policies and processes for: (i) promoting audit quality, (ii) securing the firm's reputation more broadly (including its non-audit businesses) and (iii) reducing the risk of firm failure. This mandate is derived from the principal objectives of the AFGC. This includes independently (and in conjunction with the firm) engaging with external investors and other stakeholders as well as the regulator. The PIC also oversees initiatives taken by the firm to ensure that the appropriate culture exists throughout the organisation; this is considered a key dependency for achieving the AFGC's principal objectives.

### Public Interest Committee in numbers

- Four members.
- Four formal meetings during FY20.
- Regular attendance from the Senior Elected Board Member, Chair of the Audit Board, Chair of Audit, Chief Risk Officer, General Counsel and Ethics Partner. The UK Chair and Senior Partner also attends for specific sessions.



## Our areas of oversight

During the year the areas which the Committee exercised oversight included:

- Audit quality and the future of audit;
- Risk management (incl. financial crime);
- People and culture;
- Ethics and non-financial misconduct;
- Financial resilience;
- Reputation;
- Environmental, Social and Governance issues; and
- FRC and investor engagement.

Further to the above, we specifically highlight our involvement in the following key public interest topics during the year:

- **COVID-19:** since the emergence of the crisis the members of the Committee have contributed to, and provided oversight of, the firm's response to COVID-19 – including attending Board meetings on a weekly basis at the height of the crisis;
- **Operational separation:** the Committee has been actively involved in the activities which led to the finalisation of the FRC's principles for operational separation and the development of the firm's implementation plan in this regard; and
- **The Black Lives action plan:** the Committee has provided oversight over the firm's Black Lives action plan.

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

# Report on the Public Interest Committee's activities during the year



## Our engagement activities

The PIC delivered a comprehensive programme of engagement activities during the year, including:

- Board and Committee attendance: we attended meetings of the Board and each of its committees;
- Engagement with leadership: we held private meetings with the UK Chair and Senior Partner and other senior members of the firm's leadership to discuss current issues and their impact on the public interest;
- Engagement with the broader firm: we took part in regular discussions with staff at a variety of levels across the country including visiting in the Edinburgh office, holding quarterly roundtable sessions with groups of Audit partners and attending all partner meetings. We also actively participated in the selection process of candidates for election to the Board and met with the Chair of the PIC for KPMG in Ireland; and
- External engagement: we attended both formal and informal meetings with representatives of the investor community, the regulator and policymakers including meeting with the Chair and members of the Board of the Audit Committee Chairs' Independent Forum.

## Jonathan Evans

Chair of the Public Interest Committee

*A more detailed report from the Public Interest Committee is on page 8.*

## Our priorities for 2021

In 2021 our priorities include:

- The firm's continued response to COVID-19 and evolving ways of working;
- The implementation of the FRC's principles on operational separation and broader developments of the audit profession;
- The more holistic measurement of audit quality;
- Key initiatives from a people and culture perspective and, in particular, the IDSE agenda; and
- Our continued engagement with people across all levels of the firm, leveraging virtual engagement opportunities.



# 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

- Three members.
- Five BAU meetings, one Joint Audit Committee and Audit Oversight Committee meeting and two ad-hoc meetings in FY20.

### Our priorities for 2021

In 2021 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 the preparation of a separate profit and loss account for the Audit practice, within the context of our plan to achieve operational separation in accordance with the FRC's objectives and principles; and
- oversee and review the work of KPMG's internal audit department.

## Internal audit

The Committee undertook its annual review on the effectiveness of Internal Audit, which includes Internal Audit's conformance with the IIA's International Standards for the Professional Practice of Internal Auditing (Standards), including the IIA Code of Good Practice.

The Committee's review was informed by a review from an external body, which generated no additional actions. Internal Audit looks for feedback on its work and continues to maintain its continuous improvement programme. 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 reviewed the 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 action plans in 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 Audit Board's activities during the year

In January 2020, the Audit Board took over from its predecessor, the Audit Oversight Committee, with a wider remit of overseeing the Audit practice and the interaction of the Audit practice with the rest of the firm. It provides separate oversight through its composition of members from outside the Audit practice and through its interaction with our Independent Non-Executives.

## Our role

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

## Primary focus: audit quality

The Audit Board's activities focused on the assessment and monitoring of the Audit Quality Transformation Programme, investment in audit quality, including technology and people development, culture plan, future of the profession, building capacity to deliver and monitor quality audit work and interactions with the Audit Quality Review team at the FRC. During the year a representative from the FRC joined one Audit Board meeting.

## Audit Board in numbers

- Five members including a co-opted external member.
- Nine BAU meetings, six special meetings, three ad-hoc meetings and one joint Public Interest Committee and Audit Board meeting in FY20.

## Our priorities for 2021

In 2021 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; and
- oversee and monitor the planning for, and implementation of, the operational separation of the Audit practice.

## Areas of oversight

During the year the Audit Board maintained oversight of the following in respect of the audit practice:

- the response of the Audit business to the COVID-19 pandemic;
- 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 lessons and trends emerging from enforcement matters;
- topics related to the Audit reform agenda;
- KPMG Clara workflow deployment;
- the firm's portfolio of audited entities and tendering approach;
- financial performance;
- people matters including learning and development, promotions, wellbeing, culture and retention;
- development and approval of the Audit practice's three year strategy;
- investments in the Audit practice; and
- the performance and remuneration of Head of Audit and the Audit Executive.

**James Stewart**  
Chair of the Audit Board

# Report on the Audit Evolution Board's activities during the year

The Audit Evolution Board was formed in June 2020 with ten staff members from graduate up to senior manager level from our Audit practice, including one non-audit staff member, to support the formal governance of the Audit Board. It deals with a sub-set of Audit Board matters, as agreed by the Audit Board. Its primary objective is to ensure that decision making by Audit leadership considers the views of those involved in audit delivery.

## Our role

The Audit Evolution Board provides challenge, diversity of thought, new insight and recommendations to matters discussed by the Audit Board and plays a part in improving the culture of trust and quality within the Audit business. Specific activities are in relation to:

- audit quality;
- strategy;
- risk management; and
- operations, performance management and people.

The Audit Evolution Board is a working group of the Audit Board from which it derives its authority and to which it regularly reports.



## Primary focus: audit quality

As a relatively new body, the Audit Evolution Board's contribution to audit quality will be a key measure of its success. It will review and contribute to how KPMG Audit and external stakeholders define audit quality, including identification of the drivers that contribute to audit quality, and how this is measured by KPMG to ensure that KPMG complies with standards expected by investors, regulators and other stakeholders, as well as those of the entities which it audits.

Furthermore, it will make contributions to audit quality targets, the audit quality framework and the overall firm's culture and behaviours. In particular, the Audit Evolution Board will share experiences from audit engagements on the implementation and execution of changes to the Audit Quality Transformation Programme, and the introduction of KPMG Clara.

## Areas of contribution

Since inception the Audit Evolution Board has reviewed, and where appropriate, inputted to:

- Audit quality;
- Operations, performance management and people;
- Culture;
- Black Lives action plan; and
- The pricing of audits.

## James Stewart

Chair of the Audit Evolution Board

## Audit Evolution Board in numbers

- The Chair of the Audit Evolution Board is also the Chair of the Audit Board. Each Audit Evolution Board meeting has one other Audit Board member present, acting in a non-executive capacity.
- There are ten members (from a range of Audit departments, locations and grades) for the first six months, including one co-opted non-audit member.
- There are provisions for a further five members in 2021 in accordance with the terms of reference.
- Four formal meetings have been held since July.

# Report on the People Committee's activities during the year

One of the main areas of focus this year has been monitoring the people implications of COVID-19.

## 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.
- Ten BAU meetings, two joint Risk and People Committee meetings and eight special meetings in FY20.

### Our priorities for 2021

In FY 2021 we will focus on:

- the strategy to become a 'magnet for talent';
- culture and behaviours;
- inclusion, diversity and social equality;
- health, wellbeing and agile working, particularly in a COVID-19 environment; and
- overseeing the development of partner bandings and reward principles to recognise in-year performance and to support the long-term business strategies and values of the firm.

## Areas of oversight

During the year the Committee oversaw:

- people implications of the firm's response to COVID-19;
- implementation of our refreshed Values;
- development of partner bandings and reward principles and 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;
- policies and programmes to promote inclusion and diversity across the business, including the Black Lives action plan;
- leadership succession planning;
- culture levers and associated programmes; and
- development of policies and processes in relation to culture and behaviour.

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 September 2020 the Committee led the process to select a shortlist of candidates for three vacant Board positions which were then put to a members' vote.

### Sue Bonney

Chair of the People Committee



# Report on the Risk Committee's activities during the year

The Committee's activities have focused on reviewing and overseeing the ongoing transformation 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 its determination of risk appetite and risk strategy. The Committee also oversees the effectiveness of the firm's Enterprise-Wide Risk Management Framework.

## Risk Management Framework

The Board has delegated to the Committee responsibility for the strategic oversight of an extensive programme to transform the firm's risk management arrangements, under the leadership of the Chief Risk Officer. This programme has included review of the following key areas:

- establishing firm-wide and Capability-level risk appetite, against a revised risk taxonomy;

- oversight of a target operating model for the risk function, and associated resource requirements;
- a refreshed risk reporting framework, ownership and oversight; and
- the delivery of training and resources to support the embedding of the revised arrangements.

During the year, we held risk workshops with the Board which detailed the achievements of the risk transformation to date and highlighted areas of focus for the second phase of the risk transformation. The next phase being dependent on the agreed risk maturity model of the firm.

## Deep dives

During the year the Committee undertook a number of deep dives in areas such as IT security transformation, technology transformation, sanctions compliance and monitoring, strategic review of regulation, insurance risk and claims, whistleblowing/Speak Up, operational separation and business resilience in relation to COVID-19, including a review of the risk profile of our services and the firm's crisis management plan.

The focus of these sessions was to review the impact and effectiveness of risk management arrangements within these areas. These deep-dive sessions involved:

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

On a bi-monthly basis the Chief Risk Officer provides a comprehensive report to the Committee covering progress made or issues identified in key risk areas.

## Tony Cates

Chair of the Risk Committee

## Risk Committee in numbers

- Four members.
- Nine BAU meetings, two joint Risk and People Committee meetings and seven special meetings in FY20.

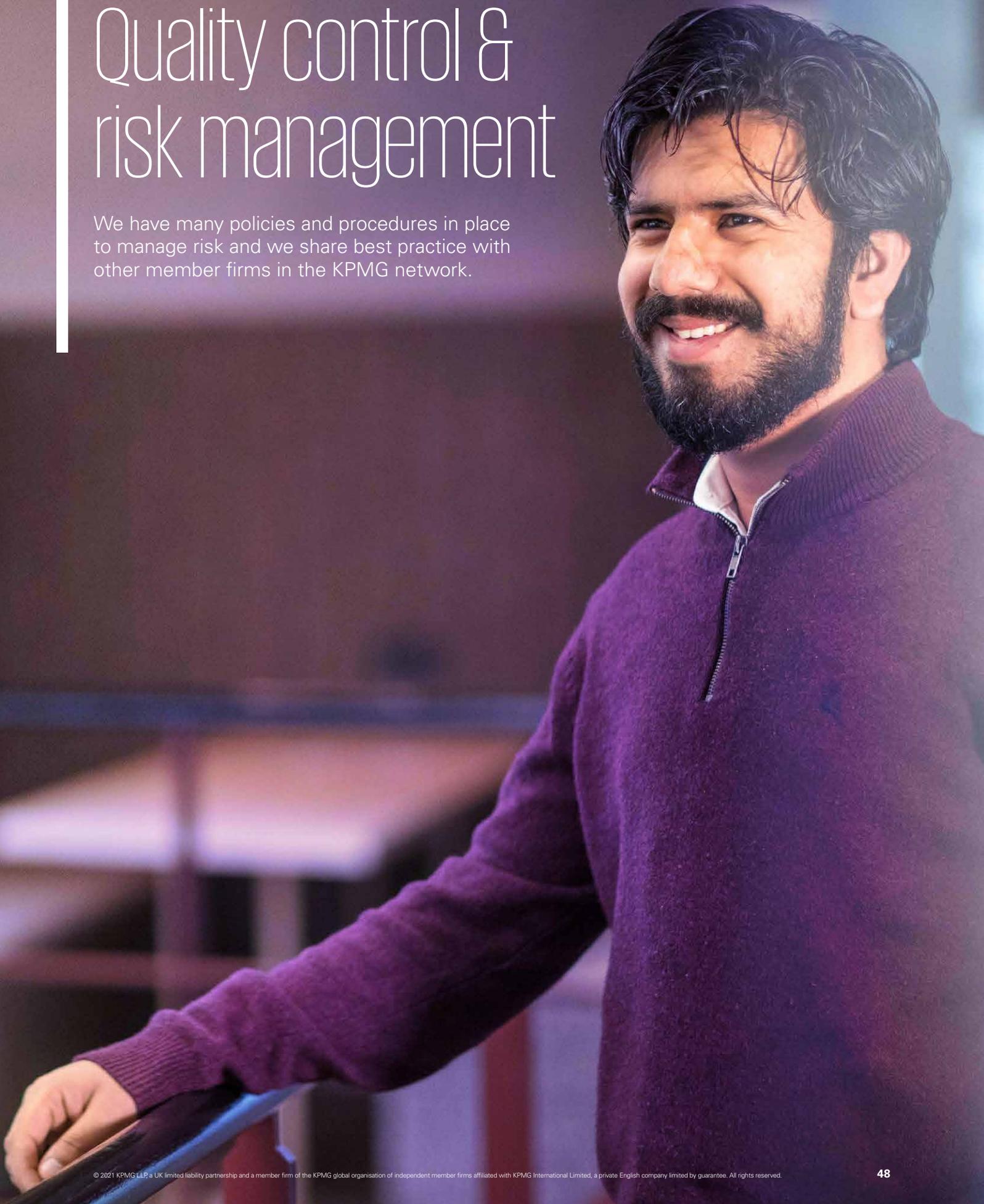
## Our priorities for 2021

In 2021 we will:

- continue to monitor and oversee the effectiveness of the Enterprise-Wide Risk Framework;
- continue to oversee the development of the firm's risk appetite framework and controls in place to ensure the business is operating within that appetite;
- agree the risk maturity of the firm and oversee the development of that maturity through the associated risk operating model; and
- continue to scan the horizon for emerging risks, evaluating their potential impact and available mitigations.

# Quality control & risk management

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



# Our quality control and risk management systems

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 assesses the effectiveness of internal controls and independence and the confirmation of the firm's compliance with the Audit Firm Governance Code. The Board confirms that the firm has complied with the provisions of the Audit Firm Governance Code in the year ending 30 September 2020.

## 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 enable member firms to 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, the ICAEW and other relevant regulators, such as the US Public Company Accounting Oversight Board.

We are implementing our programme to adopt the new international standard on quality management (ISQM1), which was approved by the IAASB in September 2020 and is expected to be effective from December 2022. ISQM1 requires each KPMG firm to design, implement and operate a system of quality management to consistently deliver quality audits, and to evaluate the effectiveness of the system on an annual basis.



## 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 offshore 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.

Operational responsibility for the system of quality control, risk management and compliance is 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. The Chief Risk Officer has a direct reporting line to the Senior Partner and sits on the Executive Board of KPMG in the UK, underlining the importance of the role.

The Chief Risk Officer is supported directly by a team of partners and professionals, covering each of the client service capabilities. During the year the heads of Markets and Capabilities oversaw the quality of service delivered in their respective areas of the business assisted by capability management teams and capability Risk Management partners.

While many of our quality control processes are cross-capability 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 statutory audits.

In the case of the Audit capability, the Audit Head of Quality chairs the Audit Quality Forum which 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.

UK Audit 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.

## Our quality control and risk management systems

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

# Our quality control and risk management systems

## Risk management

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

Risk	Current risk landscape	Mitigations
<p><b>1. Growth</b></p> <p>KPMG in the UK fails to define and execute a strategy that is supported by an appropriately resourced operational plan, structure and resilient business model. In addition, KPMG in the UK fails to design its strategy to be able to adapt or respond to changes in the external economic and regulatory environment, or to maximise opportunities from the KPMG global network, resulting in a failure to achieve the desired levels of growth.</p>	<ul style="list-style-type: none"> <li>— Increased levels of uncertainty in relation to the external environment due to COVID-19, Brexit and the political and economic landscape</li> <li>— Impact of operational separation of audit on strategy</li> <li>— Increasing importance of, and stakeholders' expectations surrounding, ESG</li> </ul>	<ul style="list-style-type: none"> <li>— Defined strategies approved by leadership with Board input and oversight</li> <li>— Executive Board sponsorship of strategic growth initiatives</li> <li>— Robust and comprehensive communications and engagement plan</li> <li>— Robust investment allocation and governance process to prioritise and monitor investment</li> <li>— Improved governance for Audit, including the Audit Board, and likely impact of operational separation on strategy reflected in latest business planning</li> <li>— Board approved COVID-19 response strategy and plan</li> <li>— Brexit Steering Committee and Brexit Impact Plan approved by the Board</li> </ul>
<p><b>2. Clients</b></p> <p>KPMG in the UK fails to work with the right clients and audited entities, maintain a balanced portfolio across sectors, optimise its use of strategic alliances and build both a unique and innovative brand proposition and a holistic go-to-market strategy, resulting in declining market share or over-concentration in specific sectors.</p>	<ul style="list-style-type: none"> <li>— Requirement for a change in the firm's go-to-market approach due to COVID-19</li> <li>— Clients' changed business models and services needs, arising as a result of their responses to COVID-19</li> </ul>	<ul style="list-style-type: none"> <li>— New product and services evaluation and approval process with ongoing investment in core capabilities</li> <li>— Robust account planning strategy and Executive Board oversight of account plans for major accounts</li> <li>— Regular review of Client Insights programme feedback</li> <li>— Monitoring period of audit tenure for audited Public Interest Entities in order to comply with mandatory tendering and rotation requirements</li> <li>— Deal Boards and CEAC Committee to ensure that risks are considered, and appropriate internal approvals obtained before pursuing new opportunities</li> </ul>

# Our quality control and risk management systems

Risk	Current risk landscape	Mitigations
<p><b>3. Delivery (audit and non-audit quality)</b></p> <p>KPMG in the UK experiences failures in its delivery of services to clients and audited entities due to taking on inappropriate clients or engagements, ineffective engagement set-up, poorly managed projects, contracting and financials, and poor quality output, resulting in preventable losses and missed opportunities.</p>	<ul style="list-style-type: none"> <li>— Increased complexity in delivering services to clients and audited entities due to COVID-19</li> <li>— Impact of changing ways of working on the ability to deliver quality services and maintain client confidentiality</li> <li>— Increased reliance on reliable and appropriate technology and connectivity due to remote working</li> <li>— Increased public scrutiny of the firm's ability, independence and qualification to deliver large public interest engagements to a high standard</li> <li>— Increased complexity of assessing going concern for audited entities due to the uncertainty of the external environment as a result of COVID-19</li> <li>— Uncertainty surrounding ability to deliver services for KPMG European entities post-Brexit</li> </ul>	<ul style="list-style-type: none"> <li>— Quality Management System to monitor our performance which is closely based on the principles of ISO 9000 standard, but has been modified to meet the exact requirements of our businesses</li> <li>— Comprehensive acceptance procedures undertaken before engaging with clients for the provision of services, including global conflict checking tool to support the management of independence when working with audited entities or potential audit targets</li> <li>— Engagement quality controls including the use of standardised methodologies and tools and targeted involvement of Engagement Quality Control reviewers, Accounting and Auditing specialists, Risk Panels and Deal Boards. Enhanced processes for complex, longer term engagements</li> <li>— Recruitment standards and an engagement management training and accreditation programme, including KPMG Audit University</li> <li>— A documented Audit Quality Framework, as well as the ongoing Audit Quality Transformation Programme</li> <li>— Robust audit quality controls, encompassing global methodologies, mandatory training and audit quality review programmes</li> <li>— Development and implementation of the KPMG Clara Audit workflow</li> <li>— Rigorous and robust inter-firm contracting protocols when working with other KPMG International member firms</li> <li>— Robust compliance programmes including QPR and Global RCP, with appropriate root cause analysis undertaken</li> <li>— Consideration of FRC guidance issued during the period in the context of COVID-19</li> </ul>

# Our quality control and risk management systems

Risk	Current risk landscape	Mitigations
<p><b>4. People &amp; Talent</b></p> <p>KPMG in the UK fails to appropriately attract, manage, develop, retain and reward talent at all levels of seniority, and fails to identify and appropriately coach and develop future leaders, resulting in a lack of expertise, capability and capacity, loss of top talent and gaps in key roles.</p>	<ul style="list-style-type: none"> <li>— High levels of uncertainty in relation to COVID-19, lockdown restrictions and Brexit</li> <li>— Impact of changing ways of working due to COVID-19 on physical and mental wellbeing of colleagues</li> <li>— Increased complexity of onboarding, performance management, coaching and mentoring due to remote working</li> <li>— Impact of management actions taken to protect the liquidity and resilience of the firm</li> <li>— Varying impact of COVID-19 restrictions at regional and local levels</li> <li>— Impact of leveling up agenda on recruitment plans</li> </ul>	<ul style="list-style-type: none"> <li>— Annual People Survey and Regular Pulse Surveys</li> <li>— Recruitment plan and investment in recruitment strategy and policies</li> <li>— Succession planning and talent development</li> <li>— Process to identify key skills and capabilities required</li> <li>— Remuneration benchmarking</li> <li>— Defined performance management cycle and processes which includes goal setting, feedback and performance appraisal</li> <li>— 360 feedback programme for leaders across the firm</li> <li>— Increased focus on wellbeing, including the roll out of a wellbeing app, additional mental wellbeing and bereavement support guidelines, a new Domestic Violence and Abuse Policy statement, and increased encouragement of flexible working</li> <li>— Black Lives action plan, black heritage reverse mentoring scheme and Black Lives Allyship programme</li> <li>— Counselling service available to all colleagues, as well as a remote GP</li> <li>— Employee networks to support and engage with the various communities across the firm</li> <li>— Employee Business Forum, which represents the views of the firm to leadership</li> </ul>
<p><b>5. Technology &amp; information management</b></p> <p>KPMG in the UK fails to provide the technology solutions required by the business to support its operations, reputation and growth, or to adequately protect existing technology solutions, resulting in a breach of the confidentiality, integrity and availability of these solutions. This may lead to an inability to provide key services to internal and external stakeholders, reputational or financial loss, regulatory non-compliance and possible regulatory action.</p>	<ul style="list-style-type: none"> <li>— Increased complexity of managing information risk whilst working from home</li> <li>— Increased reliance on technology for remote working</li> <li>— Increased importance of developing and investing in IT infrastructure for the future to support changing business needs</li> <li>— Increasing technology and security requirements in contracts with clients and audited entities</li> <li>— Impact of Brexit on the information lifecycle</li> </ul>	<ul style="list-style-type: none"> <li>— A three lines of defence model for management of information risk, including a central Information Assurance team and an Information Governance Oversight Committee</li> <li>— An appointed Data Protection Officer, with specialist team</li> <li>— Information security management system, certified to ISO 27001, and Cyber Essentials Plus certification</li> <li>— Ongoing mandatory training and awareness campaigns, covering information security, data protection and information management, including an 'at home, stay cyber safe' campaign</li> <li>— Robust Information Security, Information Governance and Data Protection policies and procedures</li> <li>— Introduction of Data Champions</li> <li>— Widespread use of Information Protection Plans in engagements</li> <li>— A multi-year Information Security Transformation Programme, introducing a new set of information security capabilities and services that can provide a more effective response to evolving cyber security threats and changes in regulations related to data protection</li> </ul>

# Our quality control and risk management systems

Risk	Current risk landscape	Mitigations
<p><b>6. Business operations, resilience &amp; controls</b></p> <p>KPMG in the UK fails to define, implement and monitor the effectiveness of its policy, procedure and control framework, ensure continuity in business operations, influence and comply with the impact of global requirements and manage change effectively, resulting in control failure, and disruption to business operations and the services provided to clients and audited entities.</p>	<ul style="list-style-type: none"> <li>— Importance of updating business processes and controls so that they are fit for purpose during COVID-19</li> <li>— Impact of COVID-19 on business continuity in the short to medium term</li> <li>— Increased risk of failure of third party suppliers due to COVID-19</li> <li>— Planning for impact of operational separation of audit</li> <li>— Importance of updating business processes and controls in preparation for Brexit</li> </ul>	<ul style="list-style-type: none"> <li>— A business continuity team which follows the business continuity best practice guidelines and complies with ISO22301 as confirmed by independent internal audit</li> <li>— Defined business continuity and crisis management plans, and controls in place to support IT disaster recovery</li> <li>— Three lines of defence model, including an independent internal audit team to review the design and operating effectiveness of key controls</li> <li>— Board oversight of both internal and external audit quality reviews, recommendations and actions</li> <li>— Compliance programmes including QPR and Global RCP</li> <li>— Focused preparation for the implementation of ISQM1, in close coordination with KPMG International</li> <li>— 'Return to office' project to safely and securely manage the running of offices in line with government guidelines during the pandemic</li> </ul>
<p><b>7. Business performance</b></p> <p>KPMG in the UK fails to execute against financial targets, for example due to poor investment decisions, delivering unprofitable services, poor management of unrecoverable costs, or failure to collect payment for work delivered, resulting in poor business performance.</p>	<ul style="list-style-type: none"> <li>— Increased levels of uncertainty in relation to the external environment due to COVID-19, Brexit and the political and economic landscape</li> <li>— Increased importance of effective cost management given the current economic uncertainty</li> <li>— Impact of COVID-19 on ability to collect payment for services delivered</li> </ul>	<ul style="list-style-type: none"> <li>— Realistic budgets which are subject to various levels of approval through a thorough budgeting process</li> <li>— Pricing panels</li> <li>— Pipeline monitoring</li> <li>— WIP management processes and tools available across the firm</li> <li>— Regular tracking of overdue invoices</li> <li>— Controls over investments and investment decisions</li> </ul>
<p><b>8. Financial management</b></p> <p>KPMG in the UK fails to identify and manage short-to-medium term liquidity needs, fails to perform effective financial planning and fails to develop and maintain medium-to-long term balance sheet resilience, resulting in negative impacts to the financial health of the firm and inability to achieve growth.</p>	<ul style="list-style-type: none"> <li>— Increased pressure and uncertainty surrounding balance sheet resilience and liquidity due to COVID-19</li> <li>— Increased internal and external scrutiny of financial decisions taken to protect the liquidity and resilience of the firm</li> <li>— Continued need to invest in our people, services and processes to ensure KPMG is fit for the future</li> </ul>	<ul style="list-style-type: none"> <li>— Board role in budget and performance oversight and Executive Board budgetary challenge</li> <li>— Monthly financial analysis at firm and functional level</li> <li>— Challenge of headcount levels</li> <li>— Robust finance policies, including the Spend Control Policy, Timesheet Policy and Expenses Policy</li> <li>— Closely controlled procurement process and approvals, via technology platform</li> </ul>

# Our quality control and risk management systems

Risk	Current risk landscape	Mitigations
<p><b>9. Reputation</b></p> <p>KPMG in the UK fails to maintain the trust of internal and external stakeholders, due to a failure to embed trust into the firm's strategy, failure to define and communicate the standards of conduct expected by the firm, and failure to develop a culture aligned to the firm's core values, resulting in negative impact on the firm's reputation at local, national and international levels.</p>	<ul style="list-style-type: none"> <li>— Increased public scrutiny of the role of professional service firms in the national response to COVID-19</li> <li>— Increasing importance of, and expectations surrounding, ESG</li> </ul>	<ul style="list-style-type: none"> <li>— A tone at the top which emphasises quality, ethics and integrity, with Ethics Champions embedded in the business and a refreshed approach to Code of Conduct and Values training</li> <li>— Embedded whistleblowing processes and promotion of a Speak Up hotline overseen by a third party ombudsman</li> <li>— The launch during 2020 of refreshed Global values</li> <li>— A firm-wide Culture Steering Committee responsible for approving and steering the firm-wide culture strategy, plan and priorities – which include building trust through developing a speak-up culture and a psychologically safe environment and building out our leadership and management capability to support our magnet for talent agenda</li> <li>— Published diversity target zones, with regular progress reporting</li> <li>— An Equality, Diversity and Inclusion Policy and firm-wide training on Inclusion, Diversity and Social Equality available to all KPMG Partners and employees</li> <li>— 13 employee networks which host a range of diversity focused learning events throughout the year</li> <li>— Continued focus on the environment, with all UK offices certified to ISO 14001:2015</li> </ul>
<p><b>10. Regulation</b></p> <p>KPMG in the UK fails to meet the expectations of our regulators, due to poor relationships with regulators, regulatory non-compliance and lack of regulatory horizon scanning to prepare for incoming regulatory changes, resulting in regulatory sanctions and enforcement action.</p>	<ul style="list-style-type: none"> <li>— Continued enhanced supervisory approach as FRC transitions to ARGA</li> <li>— Incoming regulatory changes affecting multiple parts of the firm, including audit reform</li> <li>— FRC published principles and timeline for operational separation of the Audit business</li> </ul>	<ul style="list-style-type: none"> <li>— Dedicated Regulatory Affairs functions established, constructive and proactive arrangements to meet our regulatory commitments introduced</li> <li>— Regular engagement with regulators and relevant government bodies to understand and plan for the developing regulatory landscape</li> <li>— Monitoring of regulatory compliance by relevant regulatory affairs specialists and the firm's Public Interest Committee, including the impact and implementation of changes in regulatory requirements, such as operational separation.</li> <li>— Ethics &amp; Independence training and annual personal independence confirmation by all partners and staff</li> <li>— Robust maintenance of firm wide and personal independence policies and systems (Sentinel, KICS etc) to ensure compliance</li> <li>— Robust MLRO function to meet our obligations in relation to anti-money laundering and financial crime</li> </ul>

# Our quality control and risk management systems

Risk	Current risk landscape	Mitigations
<p><b>11. Legal</b></p> <p>KPMG in the UK fails to comply with legal obligations, including contractual obligations with clients, audited entities, third parties and colleagues etc., due to a failure to identify and understand these obligations, or put in place appropriate controls and monitoring frameworks to ensure that these obligations are met, resulting in litigation, legal costs and reputational damage. The UK firm fails to appropriately monitor and mitigate the impact of reputational damage arising from actions taken by other KPMG member firms.</p>	<ul style="list-style-type: none"> <li>— Complexity of contracting surrounding engagements related to COVID-19</li> <li>— Complexity and impact on contractual relationships of Brexit</li> </ul>	<ul style="list-style-type: none"> <li>— An in-house Office of General Counsel team to assist the business with contracting and compliance with regulation, including specialists in regulation, data privacy and employment law</li> <li>— Robust contracts in place with all stakeholders and recipients of our reports</li> <li>— Robust engagement acceptance procedures (MSD ERAs)</li> <li>— Annual compliance processes (including QPR and Global RCP)</li> <li>— Engagement Leader &amp; Manager Training</li> <li>— Deal Boards and CEAC Committee, with appropriate legal input, to ensure that the right internal approvals are gained and risks are considered before pursuing new opportunities,</li> <li>— EQCR and other quality control processes</li> </ul>

# 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.

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, Risk, Public Interest and People Committees as well as from the Executive and Audit Board to consider whether significant risks are identified, evaluated, managed and controlled.

During 2020, the Board has:

- considered our risk assessment process (including the Firm's Enterprise Wide Risk Management Framework);
- reviewed regular reports by the Chief Operating Officer and Head of Clients & Markets on the firm's financial performance and on any emerging financial risks and issues, including COVID-19;

- reviewed regular reports from the Chair of the Risk Committee and the Chief Risk Officer 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 finalised during the year as described on pages 21 and 22, and appendix five) and external regulatory inspections and reviews; and
- considered reports to the Board made by the People, Audit, Risk Committees and the Audit Board on how each has discharged its duties in the year which included:
  - results of Internal Audit work commissioned as part of the approved annual internal audit plan, and the progression on the resolution of weaknesses identified. In the reporting period, reviews have been completed covering key internal controls; and
  - progress reports from the group's external auditors, Grant Thornton UK LLP on its annual audit and discussions with them on any control issues they have identified.

## 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 2020.



# Appendices



# Network arrangements

KPMG in the UK is affiliated with KPMG International Cooperative (“KPMG International”). KPMG International is a Swiss cooperative which is a legal entity formed under Swiss law. Prior to 1 October 2020 it was the coordinating entity for the network and the entity with which all the member firms of the KPMG organisation were required to be affiliated with. Further details about KPMG International and its business activities, including our relationship with it for the financial year ending 30 September 2020, are available in the ‘Governance and leadership’ section of the 2019 KPMG International Transparency Report<sup>8</sup>.

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



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

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

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

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

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

The name of each audit firm that is a member of the organisation and the EU/EEA countries in which each firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available at the following link<sup>9</sup>.

Aggregated revenues<sup>10</sup> generated by KPMG firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.8 billion<sup>11</sup> during the year ending 30 September 2020.

<sup>8</sup> <https://assets.kpmg/content/dam/kpmg/xx/pdf/2019/12/2019-transparency-report.pdf>

<sup>9</sup> <https://assets.kpmg/content/dam/kpmg/xx/pdf/2021/01/list-of-kpmg-audit-entities-located-in-eu-eea.pdf>

<sup>10</sup> The EU/EEA aggregated statutory audit revenue figures are presented to the best extent currently calculable and translated at the average exchange rate prevailing in the 12 months ended 30 September 2020.

<sup>11</sup> The financial information set forth represents combined information of the separate KPMG firms from EU and EEA member states that perform professional services for clients. The information is combined here solely for presentation purposes. KPMG International performs no services for clients nor, concomitantly, generates any client revenue.

# Network arrangements

## Governance structure of KPMG International

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

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. Among other things, the Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 61 KPMG firms that are “members” of KPMG International as a matter of Swiss law. Sublicensee firms are generally indirectly represented by a member<sup>12</sup>.

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

It is led by the Global Chairman, and also includes the Chairman of each of the regions and a number of other member firm senior partners. The list of current Global Board members is set out at the following link<sup>13</sup>. One of the other Global Board members is elected as the lead director by those Global Board members who are not also members of the Executive Committee of the Global Board (“non-executive” members). A key role of the lead director is to act as liaison between the Global Chairman and the “non-executive” Global Board members.

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



It is led by the Global Chairman and includes the Global Chief Operating Officer, Global Chief Administrative Officer, global function and infrastructure heads, the Global Head of Quality, Risk and Regulatory and the General Counsel. The list of current Global Management Team members is available in the Leadership section on [kpmg.com](https://kpmg.com)<sup>13</sup>.

There is a Global Steering Group for each key function and infrastructure area, chaired by the Global Management Team and together they assist the Global Management Team in discharging its responsibilities. In particular the Global Audit Steering Group and Global Quality Risk Management Steering Group work closely with regional and member firm leadership to:

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

The roles of the Global Audit Steering Group and the Global Quality Risk Management Steering Group are detailed in section ‘Governance and leadership’ of the 2019 KPMG International Transparency Report<sup>14</sup>.

<sup>12</sup> Unless otherwise stated, the words ‘member firm’ or ‘KPMG member firm’ when used in this Transparency Report include the following:

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

<sup>13</sup> <https://home.kpmg/xx/en/home/about/who-we-are/our-leadership.html>

<sup>14</sup> <https://home.kpmg/xx/en/home/campaigns/2019/12/kpmg-international-transparency-report.html>

# Network arrangements

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

Further details about KPMG International including the governance arrangements for the financial year ending 30 September 2020, can be found in section 'Governance and leadership' of the 2019 KPMG International Transparency Report<sup>15</sup>.

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

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

## Legal structure of KPMG International from 1 October 2020

On 1 October 2020, KPMG in the UK and all other KPMG firms entered into new membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organisation became members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee. From 1 October 2020, KPMG International Limited acts as the coordinating entity for the overall benefit of the KPMG member firms. It does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

Further detail on the revised legal and governance arrangements for the KPMG global organisation from 1 October 2020 can be found in the 'Governance and leadership' section of the KPMG International Transparency Report<sup>16</sup>.

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



<sup>15</sup> <https://home.kpmg/xx/en/home/campaigns/2019/12/kpmg-international-transparency-report.html>

<sup>16</sup> <https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/12/transparency-report-2020.pdf>

# Key performance indicators for the governance system

Requirement	Response
The Board should meet at least six times each year with a minimum attendance target of 80% over a 12-month rolling period.	The Board had ten business-as-usual meetings, 16 special meetings and five ad-hoc during the year, with members' average attendance of 90%.
The gender diversity of the Board should be composed of a minimum one third women.	At 30 September 2020 the Board included 50% female members.
There should be a diverse range of skills represented in the composition of the Board (by reference to each triennial evaluation of Board effectiveness).	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.
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.	A Global People Survey (GPS) was undertaken in autumn 2020. 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 COVID-19 pulse surveys were undertaken during 2020 to consider the impact of the pandemic on employee and partner wellbeing and their relationship with the firm.
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.	At 1 October 2019 there were five INEs in the Public Interest Committee, reducing to four on 1 November 2019. The Public Interest Committee had four formal meetings during the year. The Board has considered and (based on compliance returns, disclosures and relevant independence checks) is satisfied that the INEs remain independent from the firm.
The Audit Board should meet at least six times each year to oversee the focus on audit quality.	The Audit Oversight Committee was replaced with the Audit Board with effect from 1 January 2020. Between 1 October 2019 and 31 December 2019 the Audit Oversight Committee met three times. Between 1 January and 30 September 2020, the Audit Board had nine business-as-usual meetings, six special meetings, three ad-hoc meetings and one joint Public Interest Committee and Audit Board meeting.
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.	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.
The terms of reference for all Board Committees are reviewed annually as a minimum.	The terms of reference were reviewed during the year.
There is an annual self-assessment of Board and Committees' effectiveness (unless external review is undertaken).	An annual self-assessment of Board Committees' effectiveness has been undertaken.
Board comprises a minimum of two practising audit partners.	During the year the Board included three practising audit partners: Michelle Hinchliffe, Paul Korolkiewicz and Tony Cates.
Board comprises at least 50% members who are qualified auditors (per s.1219 of the Companies Act 2006 or equivalent).	During the year the Board comprised at least 50% members who were qualified auditors.
External Board evaluation conducted tri-annually.	A review was undertaken in 2018. The next review is scheduled to take place in 2021.
The Board should satisfy itself on at least an annual basis that a formal programme of investor dialogue is occurring.	The Board has assessed that an appropriate level of investor dialogue is in place as summarised in our Audit Quality Indicators on page 26.

# 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:

Requirement	Response
<b>A1.1</b> 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.	The Board had ten business-as-usual meetings, 16 special meetings and five ad-hoc during the year. The firm's constitutional documents set out matters reserved for its decision. Details of the Board's operations are set out on page 38.
<b>B.2.2</b> 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.	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 39.
<b>B.2.3</b> 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.	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.
<b>B.3.1</b> 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.	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.
<b>B.4.1</b> The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board.	New Members of the Board complete an induction programme upon appointment to the Board.
<b>B.6.2</b> Evaluation of the board should be externally facilitated at least every three years.	External facilitators are appointed every three years to evaluate the Board's effectiveness. Such an evaluation took place in 2018. The next review is set to take place in 2021.
<b>B.6.2</b> 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.	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.

# Board and Committees of the Board membership

The Executive Board was established on 1 June 2019 and all appointments 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 Heard

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 2020

As at 30 September 2020 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), one Senior Elected Member and four other Elected Members.

## 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 held the position of Deputy Chair.

## 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 the Risk Committee. Tony is also a member of the Audit Board.

## Melissa Geiger

Elected Member

Melissa has been a Partner since 2008 and joined the Board on 14 October 2019. Melissa is also a member of the Audit Board and People 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 Board.

## 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 20 October 2017. He is a member of the Audit Committee.

# Board and Committees of the Board membership

## Linda Main

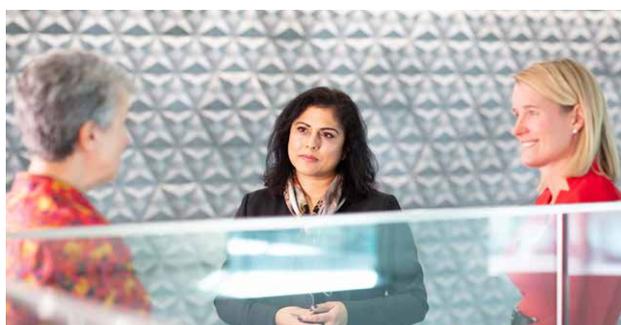
### Elected Member

Linda has been a Partner since 2001 and joined the Board on 1 October 2019. Linda is also a member of the Risk Committee and Audit Committee.

## Jane McCormick

### Nominated member

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



## Bina Mehta

### Elected Member

Bina has been a Partner since 2015 and joined the Board on 20 July 2020. She is also a member of the People Committee.

## 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.

## James Stewart

### Nominated Member

James has been a partner since 2011 and joined the Board on 14 October 2017. James is the Chair of the Audit Board and the Audit Evolution Board. He is also a member of the Risk Committee.

## Changes after the year end

The following changes have occurred subsequent to year end:

- Melanie Richards retired from KPMG and therefore stepped down from the Board with effect from 30 September 2020
- Jane McCormick retired from KPMG and therefore stepped down from the Board with effect from 30 September 2020
- James Stewart stepped down from the Board with effect from 30 September 2020. He now attends as a standing invitation only, in his capacity as Chair of the Audit Board
- Scott Parker stepped down from the Board and the Executive Board with effect from 30 September 2020
- Sue Bonney stepped down from the Board with effect from 13 October 2020
- Paul Korolkiewicz stepped down from the Board and his role as Senior Elected Partner with effect from 19 November 2020
- Annette Barker became an Elected Member of the Board and a member of the Risk Committee with effect from 22 October 2020
- Anthony Lobo became an Elected Member of the Board and a member of the Audit Committee with effect from 19 November 2020
- John McCalla-Leacy became an Elected Member of the Board and a member of the People Committee with effect from 18 November 2020
- Anna Purchas stepped down from the Executive Board with effect from 1 November 2020
- Rachel Hopcroft joined the Executive Board as Head of Corporate Affairs with effect from 1 October 2020
- Mary O'Connor succeeded Scott Parker as Head of Clients and Markets with effect from 1 October 2020
- John Bennett succeeded Mary O'Connor as Chief Risk Officer with effect from 1 October 2020. He is therefore a member of the Executive Board
- Melissa Geiger succeeded Sue Bonney as Chair of People Committee with effect from 20 October 2020
- Kevin Hogarth succeeded Anna Purchas as Chief People Officer with effect from 17 November 2020. He is therefore a member of the Executive Board
- Bina Mehta succeeded Paul Korolkiewicz as Senior Elected Partner with effect from 19 November 2020
- Linda Main succeeded Tony Cates as Chair of the Risk Committee with effect from 20 October 2020

# Board and Committees of the Board membership

## Members of the Public Interest Committee as at 30 September 2020

### 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.

### Anne Bulford CBE 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, Chair of GOSH Children's Charity and a Royal Ballet Governor. Previous roles include Deputy Director General of the BBC, 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. Her experience spans partnerships and professional service firms, financial and health services.

Oonagh is also a member of the Civil Service Talent Advisory Group and the Culture Observatory Advisory Board, a trustee of the Scientific and Medical Network and advisor to a number of Tech startups.

### Kathleen O'Donovan

#### Independent Non-Executive

Kathleen O'Donovan joined the Public Interest Committee on 1 July 2019. Kathleen is currently the Chair of the Invensys Pension Scheme and Founder Partner of Bird & Co Board & Executive Mentoring Ltd.

Formerly she has held Non-Executive Director roles at ARM Holdings Plc, DS Smith plc, Prudential plc, O2 Plc, Great Portland Estates 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. Kathleen trained as a Chartered Accountant and her previous roles include CFO of BTR plc/Invensys plc and Partner at Ernst & Young.



# Board and Committees of the Board membership

## Meeting attendance records for the year ended 30 September 2020

(Meetings eligible to attend in brackets)

	Board	Audit Committee	People Committee	Public Interest Committee	Risk Committee	Audit Board	Executive Board
Bill Michael	8 (10)	-	-	-	-	-	6 (9)
Melanie Richards	9 (10)	-	-	-	4 (9)	-	3 (3)
Mary O'Connor	9 (10)	-	-	-	8 (9)	4 (9)	9 (9)
Tim Jones	10 (10)	2 (5)	5 (10)	-	2 (9)	-	9 (9)
Paul Korolkiewicz	10 (10)	5 (5)	8 (10)	4 (4)	6 (9)	-	-
James Stewart	9 (10)	-	-	-	8 (9)	9 (9)	-
Jane McCormick	7 (10)	-	-	-	-	-	-
Tony Cates	9 (10)	5 (5)	-	-	9 (9)	8 (9)	-
Bina Mehta	2 (2)	-	2 (2)	-	-	-	-
Melissa Geiger	9 (10)	-	10 (10)	-	-	8 (9)	-
Scott Parker	10 (10)	-	1 (10)	-	-	-	7 (9)
Sue Bonney	10 (10)	-	10 (10)	-	8 (9)	-	-
Linda Main	9 (10)	5 (5)	-	-	9 (9)	-	-
Mark Raddan	7 (7)	-	8 (8)	-	-	-	-
Michelle Hinchliffe	10 (10)	-	-	3 (4)	-	9 (9)	-
Jonathan Evans	10 (10)	-	-	4 (4)	9 (9)	-	-
Oonagh Harpur	10 (10)	-	8 (10)	4 (4)	-	-	-
Anne Bulford	9 (10)	5 (5)	-	4 (4)	-	-	-
Kathleen O'Donovan	6 (10)	-	-	3 (4)	-	9 (9)	-
Stephen Wardell	-	-	-	-	-	9 (9)	-
Jon Holt	-	-	-	-	-	7 (9)	9 (9)
Anna Purchas	-	-	10 (10)	-	-	-	9 (9)
Chris Hearld	-	-	-	-	-	-	9 (9)

\*Table only refers to formal meetings. Note that the Executive Board met frequently on a non-scheduled basis throughout FY20.

# Audit Quality Framework

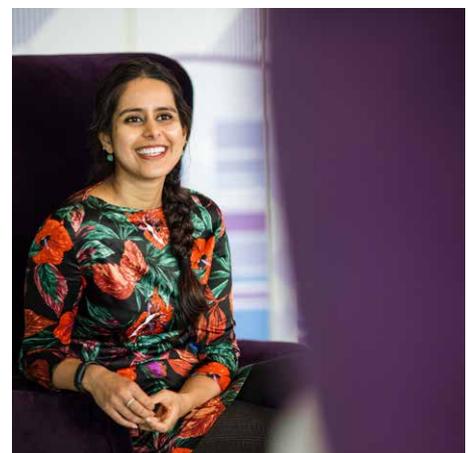
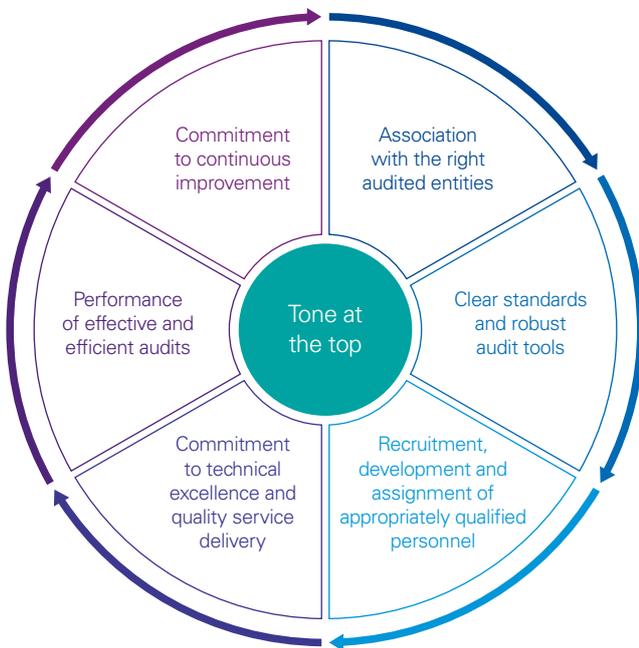
We have a global Audit Quality Framework to help all audit professionals concentrate on the fundamental skills and behaviours required to deliver an appropriate and independent opinion. This framework is used by all KPMG member firms to describe what we believe drives audit quality and to highlight how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

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

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

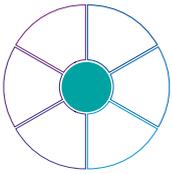


Each driver of audit quality reinforces the others.



# Audit Quality Framework

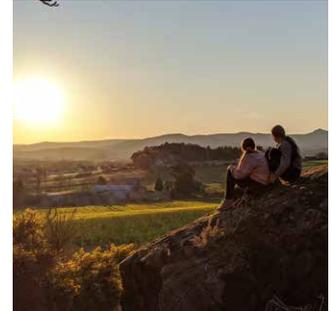
## 1. Tone at the top



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

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

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



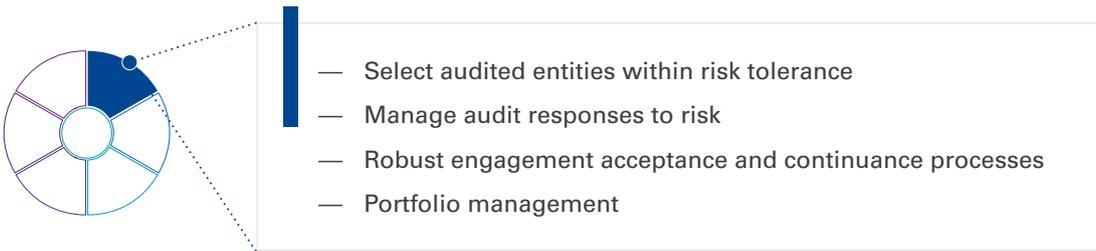
Our Code of Conduct defines the standards of ethical conduct we require from our people. It sets out KPMG’s ethical principles and helps our people understand and uphold those principles emphasising that each partner and employee is personally responsible for following the legal, professional and ethical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

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



# Audit Quality Framework

## 2. Association with the right audited entities



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

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

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

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

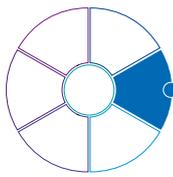
In addition, when taking on a statutory audit for the first time, the prospective engagement team performs additional independence evaluation procedures. These include a review of any non-audit services provided to the entity and of other relevant relationships and matters which may have a bearing on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

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



# Audit Quality Framework

## 3. Clear standards and robust audit tools



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

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

### Audit methodology

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

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

### Independence, integrity, ethics and objectivity

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

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

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

# Audit Quality Framework

## Personal independence

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

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

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

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

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

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

## Firm financial independence

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

## Business relationships/suppliers

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

## Independence training and confirmations

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

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

## Audit engagement leader rotation

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

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

## Firm rotation

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

# Audit Quality Framework

## Non-audit services

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

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

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

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

## Fee dependency

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

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.

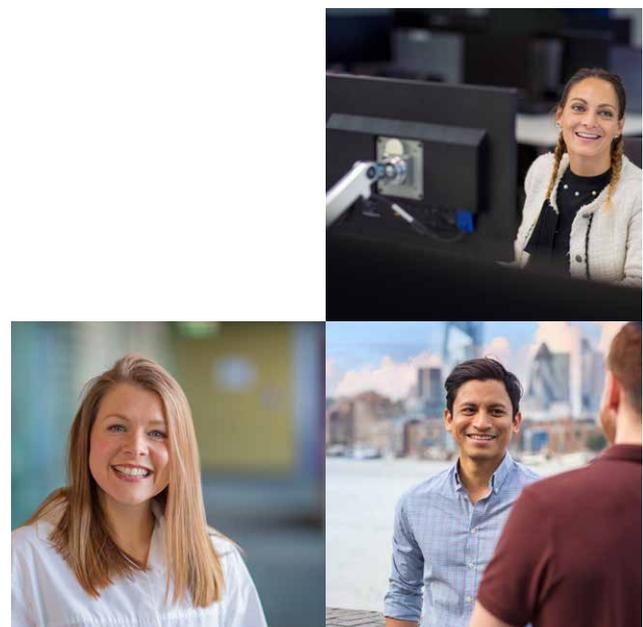
## Conflicts of interest

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.

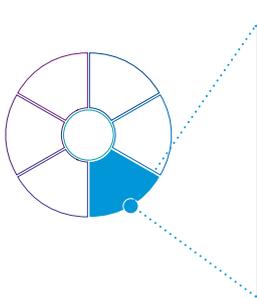
## Compliance with laws, regulations, and anti-bribery and corruption

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



# Audit Quality Framework

## 4. Recruitment, development and assignment of appropriately qualified personnel



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

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

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

### Recruitment

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

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

### Personal development

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

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

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

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

# Audit Quality Framework

## Inclusion, diversity and social equality

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

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

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

## Performance evaluation and compensation

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

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

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

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

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

# Audit Quality Framework

## Reward and promotion

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

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

## Partner admissions

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

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

## Assignment

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

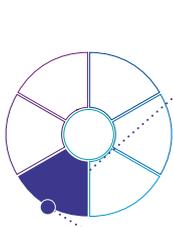
As an additional control in Audit, the Audit Chief Risk Officer oversees an annual review of risks facing the audit capability which involves the UK Head of Audit and each UK Performance Group Leader. Each Performance Group Leader (or their approved delegate) meets every audit engagement leader in their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

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



# Audit Quality Framework

## 5. Commitment to technical excellence and quality service delivery



- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

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

### Technical training

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

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

### Accreditation and licensing

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

### Access to specialist networks

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

# Audit Quality Framework

## Consultation

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

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

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

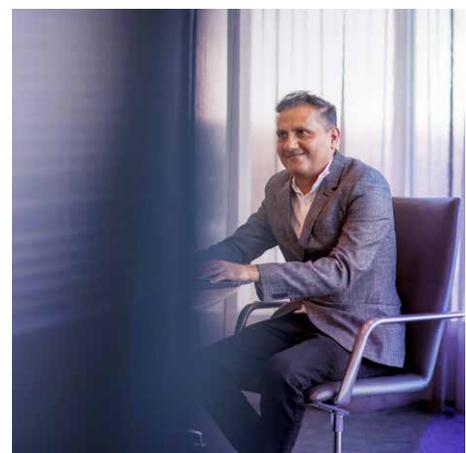
## Developing business understanding and industry knowledge

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

As discussed on page 16, KPMG Clara provides our audit teams with access to industry knowledge with libraries embedded within the tool. This will allow for a consistent approach, tailored by industry, and focused on key industry audit risks.

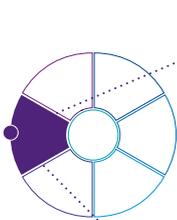
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During the pandemic we increased the level of mandated consultation with respect to going concern.



# Audit Quality Framework

## 6. Performance of effective and efficient audits



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

### Timely partner, manager and second line of defence involvement

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

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

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

### Appropriate and timely involvement of specialists

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

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

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

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

# Audit Quality Framework

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

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

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

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

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

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

## Appropriately supported and documented conclusions

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

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

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

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

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

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

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

An EQC reviewer is appointed for the audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with a high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements<sup>17</sup> as designated by the Audit Risk Management Partner or the UK Head of Audit. The EQC reviewers for individual engagements are ratified by Audit Risk Management and specifically, for high risk engagements, the Audit Risk Management Partner.

<sup>17</sup> With the approval of the Audit Risk Management Partner, for 'other engagements' a Limited Scope Reviewer may be used where appropriate

# Audit Quality Framework



## Clear reporting of significant findings

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

Auditing standards and the Companies Act 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 also includes 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. We have provided engagement teams with support on how to deal with practical and logistical matters resulting from the travel restrictions arising from the COVID-19 pandemic that impact how we deliver group audits.

## Confidentiality, information security and data privacy

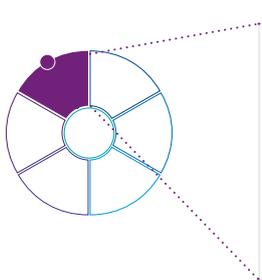
We are committed to providing a secure and safe environment for the personal data and confidential information we hold, as well as protecting the privacy of our audited entities, service providers and other third parties. The importance of maintaining audited entity confidentiality is emphasised through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

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

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

# Audit Quality Framework

## 7. Commitment to continuous improvement



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

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

### Internal monitoring

Details of internal monitoring including the Quality Performance Review, Risk Compliance Programme and Global Compliance Reviews processes are included on page 21.

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

### 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 20.

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 2020.

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 23 of this report.

# Audit Quality Framework

## FRC thematic reviews

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

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

We have considered the findings and examples of best practice within each of these reports and determined actions where appropriate. We have included further detail on our technology based audits tools on page 16 and have provided details of our Audit Quality Indicators on page 19.

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

## Audited entity feedback

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

## Monitoring of complaints

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

## Interaction with regulators

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



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

# 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

2020	KPMG Audit Plc £m	KPMG LLP £m	Other entities and adjustments, £m	Total £m
<b>Revenue</b>				
Audit and directly related services	-	633	6	639
Other assurance work	-	18	1	19
	-	<b>651</b>	<b>7</b>	<b>658</b>
Tax, Pensions and Legal	-	496	3	499
Deal Advisory	-	412	45	457
Consulting	1	618	70	689
	<b>1</b>	<b>2,177</b>	<b>125</b>	<b>2,303</b>
<b>Operating Profit</b>				
Audit and directly related services				<b>53</b>

2019	KPMG Audit Plc £m	KPMG LLP £m	Other entities and adjustments, £m	Total £m
<b>Revenue</b>				
Audit and directly related services	-	625	6	631
Other assurance work	-	15	-	15
	-	<b>640</b>	<b>6</b>	<b>646</b>
Tax, Pensions and Legal <sup>18</sup>	-	565	3	568
Deal Advisory <sup>18</sup>	-	420	35	455
Consulting <sup>18</sup>	1	645	83	729
	<b>1</b>	<b>2,270</b>	<b>127</b>	<b>2,398</b>
<b>Operating Profit</b>				
Audit and directly related services				<b>67</b>

18 The 2019 comparative figures have been restated to align with the firm's financial statements.

# Financial information

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 or revenue 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.

Our Audit practice has started the transition to an operationally separate business in FY20 with the introduction of transfer pricing between audit and the wider firm as well as changes to the cost allocation methodology to update the relevant cost drivers. Due to the complexity of the changes, the FY19 comparative has not been restated and therefore the movement in operating profit from previous years should not be treated as being on a consistent basis. We will continue to take the necessary steps in line with the FRC's principles of operational separation and this may have an impact on the revenue and profit reported in future years.



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

Total, £m	2020	2019
Audit and directly related services for audited entities	639	631
Non-audit services for audited entities	153	185
Non-audit services for non-audit clients	1,511	1,582
	<b>2,303</b>	<b>2,398</b>

Audit and directly related services reflects revenue of £213 million (2019: £178 million) in respect of EU public interest entities and their subsidiaries and £426 million (2019: £453 million) audit and related services provided to other entities.

In accordance with the Local Auditors (Transparency) Regulations 2020 (as defined in The Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014), the audit fees for Local Audits are £5 million.

# Basis of partner remuneration

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

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

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

Profit allocated to members is distributed as follows:

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

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

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

## Putting quality at the core of remuneration

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

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

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

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

# Public Interest Entities and Major Local Audits listing

## Disclosures in accordance with (1) Article 13.2 (f) of the EU Audit Regulation and (2) the schedule of The Local Auditors (Transparency) Regulations 2020

### 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 2020. 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 2020; iii) on the date the audit report was signed the entity was an EU PIE; and iv) the audit was a statutory audit within the meaning of section 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; and iv) Other entities a member state may choose to designate as a PIE.

#### Entity name

Aberdeen Japan Investment Trust Plc	AmTrust Europe Limited	Baillie Gifford US Growth Trust plc	Cambridgeshire Housing Capital plc
Aberdeen New India Investment Trust Plc	Annes Gate Property Plc	Balfour Beatty Plc	Capita Plc
Aberdeen Standard Equity Income Trust	Annington Funding Plc	Bank Leumi (Uk) Plc	Capital Hospitals (Issuer) Plc
Aberdeen Standard European Logistics Income PLC	AO World Plc	Bank of England	Card Factory Plc
AEW UK Long Lease REIT plc	Arlington No.3 Bond Issuer PLC	Bank of Valletta Plc	Catalina London Limited
AEW UK REIT Plc	Arrow Global Group Plc	Barclays Bank PLC	Catalina Worthing Insurance Limited
Affinity Sutton Capital Markets Plc	Ascential Plc	Barclays Bank UK PLC	Cathedral Capital Holdings Limited
AGF Insurance Limited	Ashmore Group Plc	Barclays PLC	Central Nottinghamshire Hospitals Plc
Aggreko Plc	Aspen Insurance UK Limited	Baronsmead Second Venture Trust Plc	Charles Stanley Group Plc
Air Berlin Plc	Aspire Defence Finance Plc	Bazalgette Finance Plc	Chemring Group PLC
Allied Minds Plc	Aster Treasury plc	Beazley Plc	Chetwood Financial Limited
Amati VCT Plc	Auto Trader Group Plc	Bellway Plc	Chorley & District Building Society
Ambac Assurance UK Limited	Autolink Concessionaires (M6) Plc	Beverley Building Society	Circle Anglia Social Housing Plc
Amigo Holdings PLC	BT Group plc	Big Yellow Group Plc	Clarion Funding plc
AMT Mortgage Insurance Limited	B.A.T. International Finance Plc	Bloomsbury Publishing Plc	Compass Group Plc
	BAE Systems Plc	BMO Managed Portfolio Trust Plc	Computacenter Plc
	Baillie Gifford Shin Nippon Plc	Bowbell No.1 Plc	Connect M77/GSO Plc
		BPHA Finance Plc	Consort Healthcare (Birmingham) Funding Plc
		Bristol & West PLC	Consort Healthcare (Blackburn) Funding Plc
		British American Tobacco Plc	Consort Healthcare (Mid Yorkshire) Funding Plc
		British Arab Commercial Bank plc	Consort Healthcare (Salford) Plc
		British Telecommunications plc	Consort Healthcare (Tameside) Plc
		Buckinghamshire Building Society	Consort Medical Plc
		Bumper 8 (UK) Finance plc	Credit Suisse (UK) Limited
		BUPA Finance Plc	Credit Suisse International
		Bupa Insurance Limited	Croda International plc
		Business Mortgage Finance No 3 Plc	Darrowby No 4 Plc
		Business Mortgage Finance No 4 Plc	DAS Legal Expenses Insurance Company Limited
		Business Mortgage Finance No 5 Plc	DB UK Bank Limited
		Business Mortgage Finance No 6 Plc	Derby Healthcare Plc
		Business Mortgage Finance No 7 Plc	Devro Plc
		By Chelmer Plc	DFS Furniture Plc
		Caledonia Investments Plc	Dialight Plc
		Cambridge & Counties Bank Limited	Diamond Bank (UK) Plc
		Cambridge Building Society	Domestic & General Insurance Plc
			Dukinfield II Plc

# Public Interest Entities and Major Local Audits listing

Dukinfield Plc	Hampshire Trust Plc	Landmark Mortgage Securities No. 2 plc	NewDay Partnership Funding 2015-1 Plc
East Slope Residencies plc	Harben Finance 2017-1 Plc	Landmark Mortgage Securities No. 1 plc	NewHospitals (St Helens and Knowsley) Finance Plc
EC Insurance Company Limited	Harpenden Building Society	Landmark Mortgage Securities No. 3 plc	North of England Protecting and Indemnity Association Limited
Ecology Building Society	Hastings Group Holdings Plc	Leek United Building Society	Northern 2 VCT Plc
Edinburgh Dragon Trust Plc	Healthcare Support (Newcastle) Finance Plc	Legal and General Assurance (Pensions Management) Limited	Northern 3 VCT Plc
Electronic Data Processing Plc	Herefordshire Capital Plc	Legal & General Finance PLC	Northern Venture Trust Plc
EMH Treasury Plc	Hill & Smith Holdings Plc	Legal & General Group Plc	Octagon Healthcare Funding Plc
ERB Hellas PLC	Hollywood Bowl Group Plc	Legal & General Insurance Limited	Odyssean Investment Trust plc
ERM Emilion Limited	Holyrood Student Accommodation Plc	Legal and General Assurance Society Limited	Old Mutual Wealth Life & Pensions Limited
Esure Group Plc	Home Group Limited	LGS Investments Plc	Old Mutual Wealth Life Assurance Limited
Esure Insurance Limited	HSB Engineering Insurance Limited	LiveWest Capital Plc	Orbit Capital Plc
Eurohome UK Mortgages 2007-1 Plc	ICBC (London) Plc	Lonmin Plc	Oxford BioMedica plc
Eurohome UK Mortgages 2007-2 Plc	ICBC Standard Bank Plc	Luceco plc	Oxford Instruments Plc
Experian Finance Plc	ICICI Bank UK Plc	Manchester Airport Group Funding Plc	Pacific Assets Trust Plc
Family Assurance Friendly Society	Imagination Technologies Group Plc	Markel International Insurance Company Limited	Paragon Bank Plc
Fidelis Underwriting Limited	Income Contingent Student Loans 1 (2002-2006) Plc	Marsden Building Society	Paragon Mortgages (No. 23) Plc
Fidessa Group Plc	Inspired Education (South Lanarkshire) Plc	Masthaven Bank Limited	Paragon Mortgages (No. 24) Plc
Findel Plc	Intelligent Energy Holdings Plc	Mercantile Indemnity Company Limited	Paragon Mortgages (No.13) Plc
Finsbury Square 2016-2 plc	Invesco Asia Trust Plc	Micro Focus International Plc	Paragon Mortgages (No.14) Plc
Finsbury Square 2017-1 Plc	IP Group Plc	Midland Heart Capital Plc	Paragon Mortgages (No.15) Plc
Finsbury Square 2017-2 plc	Ipswich Building Society	Mitsui Sumitomo Insurance Company (Europe) Limited	Paragon Mortgages (No. 22) Plc
First Flexible NO. 6 PLC	ITV Plc	Moneysupermarket.com Group Plc	Paragon Mortgages (No. 10) Plc
First Flexible No.5 Plc	James Fisher & Sons Plc	Monmouthshire Building Society	Paragon Mortgages (No. 11) Plc
Foresight Solar & Infrastructure VCT Plc	JD Sports Fashion Plc	Morgan Advanced Materials Plc	Paragon Mortgages (No.12) Plc
Forester Life Limited	John Lewis Plc	Motors Insurance Company Limited	Paragon Mortgages (No. 9) Plc
Furness Building Society	John Wood Group Plc.	Myriad Capital Plc	Paragon Mortgages (No. 25) Plc
Gemgarto 2015-1 plc	Just Group Plc	N Brown Group Plc	Paragon Treasury plc
GLH Hotels Limited	Just Retirement Limited	National Casualty Company Of America Limited	Partnership Life Assurance Company Limited
Global Graphics SE	Karta II Plc	National Counties Building Society	PayPoint plc
Global Ports Holding PLC	Kaz Minerals Plc	NCC Group Plc	Peabody Capital No 2 Plc
Gocompare.com Group Plc	Kenrick No.2 Plc	NewDay Funding 2015-2 Plc	Peabody Capital Plc
Goodwin Plc	Kensington Mortgage Securities PLC	NewDay Funding 2017-1 Plc	Pendragon Plc
Gracechurch Card Programme Funding PLC	LAB Investments Plc	NewDay Funding 2018-1 Plc	Pension Insurance Corporation Plc
Grainger Plc	Ladbrokes Group Finance Plc		Pets at Home Group Plc
Greggs Plc	Lancashire Insurance Company (UK) Ltd		Places for People Capital Markets Plc
Guaranty Trust Bank (UK) Limited			Places for People Finance Plc
Gwynt Y Mor Ofto Plc			Places for People Homes Limited
Habib Bank Zurich Plc			

# Public Interest Entities and Major Local Audits listing

Places for People Treasury plc	Sanctuary Capital Plc	The Bank Of New York Mellon (International) Limited	Utilico Emerging Markets Trust PLC
Polar Capital Technology Trust PLC	Sandwell Commercial Finance No. 1 Plc	The Berkeley Group Holdings Plc	Vectura Group plc
Premier Foods Plc	Sandwell Commercial Finance No. 2 Plc	The Coventry And Rugby Hospital Company PLC	West Bromwich Building Society
Premier Global Infrastructure Trust PLC	Satellite Financing Plc	The Excelsior Insurance Company Limited	Wheatley Group Capital Plc
Prudential Pensions Limited	Scotiabank Europe Plc	The Hanley Economic Building Society	Wincanton Plc
Prudential Plc	Scotland Gas Networks plc	The Loughborough Building Society	Workspace Group PLC
PureTech Health Plc	Scottish Power UK plc	The Mansfield Building Society	Zegona Communications Plc
Quadrant Housing Finance Limited	SDL Plc	The Marine Insurance Company Limited	Zenith Bank (UK) Limited
Reckitt Benckiser Group plc	Senior plc	The North American Income Trust Plc	
Reckitt Benckiser Treasury Services plc	Serco Group Plc	The Paragon Group of Companies Plc	
Redwood Bank Limited	Severfield Plc	The Prudential Assurance Company Limited	
Rentokil Initial Plc	Shawbrook Bank Limited	The Scottish American Investment Company Plc	
Rentokil Insurance Limited	Shawbrook Group Plc	The University of Oxford	
Residential Mortgage Securities 23 plc	Sheffield City Trust	The Walsall Hospital Company PLC	
Residential Mortgage Securities 26 PLC	Smith & Nephew Plc	The World Marine & General Insurance Plc	
Residential Mortgage Securities 28 PLC	Sophos Group Plc	THEWORKS.CO.UK PLC	
Residential Mortgage Securities 29 Plc	Southern Gas Networks plc	Thrones 2015-1 Plc	
Residential Mortgage Securities 30 Plc	Southern Pacific Financing 05-A plc	Towd Point Mortgage Funding 2016 - Auburn 10 Plc	
Rightmove Plc	Sovereign Housing Capital Plc	TR Property Investment Trust Plc	
Ripon Mortgages plc	SP Distribution plc	Transform Schools (North Lanarkshire) Funding Plc	
River Thames Insurance Company Limited	SP Manweb plc	Travelers Insurance Company Limited	
Riverside Finance Plc	Speedy Hire Plc	Travis Perkins Plc	
RM Plc	SSP Group Plc	Trinity Square 2015-1 plc	
Road Management Services (A13) Plc	Stafford Railway Building Society	Trinity Square 2016-1 plc	
Rochester Financing No.2 Plc	Standard Chartered Plc	TT Electronics Plc	
Rombolds Run-Off Limited	Standard Life Assurance Company 2006	Unilever Plc	
Rothschilds Continuation Finance Plc	Standard Life Aberdeen plc	United Utilities Group Plc	
Royal & Sun Alliance Insurance Plc	Standard Life UK Smaller Companies Trust plc	United Utilities Plc	
Royal & Sun Alliance Reinsurance Limited	Starling Bank Limited	United Utilities Water Finance Plc	
Royal Mail Plc	Stock Spirits Group Plc	United Utilities Water Limited	
RSA Insurance Group Plc	Strategic Equity Capital Plc	University of Liverpool	
Saga plc	Sumitomo Mitsui Banking Corporation Europe Limited		
Samsung Fire & Marine Insurance Company of Europe Limited	Sunderland Marine Insurance Company Limited		
	Ted Baker Plc		
	Telecom Plus Plc		
	The Baillie Gifford Japan Trust PLC		

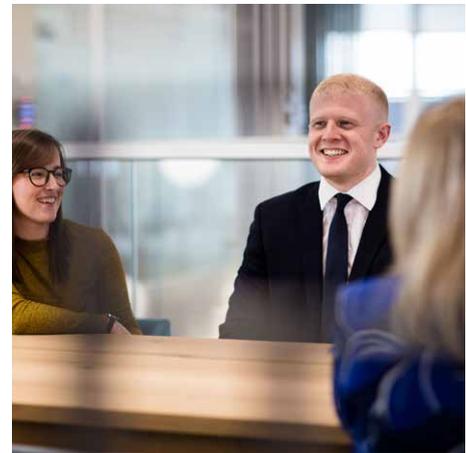
# Public Interest Entities and Major Local Audits listing

## 2) Local Auditors (Transparency) Regulations 2020 (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 2020.

### Entity name

Barking, Havering and Redbridge University Hospitals NHS Trust	NHS Nottingham City CCG
Epsom and St Helier NHS Trust	NHS Sandwell and West Birmingham CCG
NHS Barnet CCG	NHS Sheffield CCG
NHS Bolton CCG	NHS Southwark CCG
NHS Bradford Districts CCG	NHS Wakefield CCG
NHS Bromley CCG	NHS West Kent CCG
NHS Derby and Derbyshire CCG	Northamptonshire County Council
NHS Doncaster CCG	Nottingham University Hospitals NHS Trust
NHS East Berkshire CCG	The Royal Wolverhampton Hospitals NHS Trust
NHS Lambeth CCG	University Hospitals Coventry and Warwickshire NHS Trust
NHS Leeds CCG	
NHS Lewisham CCG	
NHS Mid Essex CCG	
NHS Morecambe Bay CCG	
NHS Newham CCG	
NHS North East Essex CCG	
NHS North West Surrey CCG	



# 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<sup>19</sup> 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.

## KPMG in the UK: summary of cash taxes paid in the years to 30 September 2020 and 2019

£m	2020			2019		
	Cost to firm	Collecting agent	Total	Cost to firm	Collecting agent	Total
Employment items	115.7	288.7	404.4	117.9	302.0	419.9
Partners	0.1	172.3	172.4	1.0	174.0	175.0
Corporation tax	15.3	0.0	15.3	11.5	0.0	11.5
VAT	0.6	220.4	221.0	1.0	283.6	284.6
Property taxes	16.0	0.0	16.0	15.6	0.0	15.6
Other items	4.5	0.5	5.0	7.7	0.6	8.3
	<b>152.2</b>	<b>681.9</b>	<b>834.1</b>	<b>154.7</b>	<b>760.2</b>	<b>914.9</b>

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

<sup>19</sup> <https://home.kpmg/uk/en/home/misc/regulatory-information.html>

# Our tax strategy and contribution

## 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 £172.4 million compared with £175.0 million in the preceding year. In accordance with tax legislation, the income tax payable on behalf of the partners in the year is payable on 31 January and 31 July and is based on prior year profits. The tax is payable by reference to the statutory rates of 20% and 40% on the first £150,000 of profit, and then at 45% thereafter (these rates also applied in 2019) together with national insurance contributions. 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 in respect of partners during 2020 was at a similar level to that paid in 2019; although no capital gains tax was paid in 2020, the profits upon which income tax was paid were higher than those in 2019.

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 2020 was £834.1 million (2019: £914.9 million). The table above 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.

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.





[kpmg.com/uk](https://kpmg.com/uk)

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