



Our relentless focus on quality

2017 Transparency Report

KPMG International



kpmg.com/transparency



Sections

1

Message from
our Chairman

2

Our relentless
focus on audit
quality

3

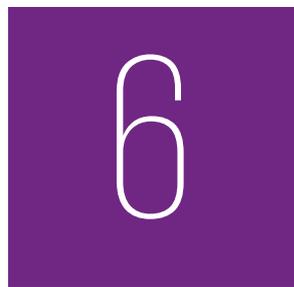
Our culture



Our people



Our approach



Our monitoring



Appendices

Message from our Chairman

Welcome to the 2017 KPMG¹ International Transparency Report, covering the financial year to 30 September 2017.

KPMG has an unwavering commitment to quality and integrity. It begins with the extraordinary people we recruit and the values we instill in developing professionals committed to meeting our responsibilities to clients, capital markets, regulators, communities and the public. Our culture of 'doing the right thing' means the way we work is just as important as the work itself.

KPMG is committed to quality and service excellence in every project, bringing our best to clients across geographies and sectors. Each KPMG person has a part to play in delivering quality to clients, and appreciates their critical role and purpose in building trust with the public. We aspire to make KPMG the standard of trust in our profession based on one central tenet: trust is not a given — it must be earned.

In this Transparency Report, we take the opportunity to provide our stakeholders with a succinct description of KPMG International's system of quality control and audit quality initiatives, including our focus on continuous improvement and, notably, how KPMG is:

- **Building public trust** and inspiring confidence in capital markets by bringing to life our commitment to quality, ethics and integrity through our culture and values. To clearly and consistently articulate our values, our vision and our strategy, and underpin our culture throughout KPMG, we launched the KPMG Story.

- **Ensuring that our people are extraordinary** by finding and nurturing talent, creating high-performing teams and deploying talented, well-trained personnel globally to help deliver insights and innovative ideas.
- **Supporting a relentless focus on quality and excellence** in client engagements, and providing valued insights, so that clients see a difference in us.
- **Driving continuous improvement** through robust quality monitoring, with an increased focus on getting to the root cause of quality issues and effective remediation.

We are committed to working closely with regulators, audit committees, investors and businesses to meet the expectations of stakeholders and welcome ongoing dialogue as we strive for continuous improvement.



Bill Thomas
Chairman
KPMG International

¹ Unless the context otherwise requires, throughout this document 'KPMG' and 'KPMG network' ('we', 'our', and 'us') generally refer to the member firms of the KPMG network of independent firms affiliated with KPMG International, a Swiss entity that services as a coordinating entity for the KPMG network. KPMG International provides no client services.

2

Our relentless focus on audit quality

Message from Bill O'Mara, Global Head of Audit, KPMG International

At KPMG, we are passionate about audit quality and continuous improvement, and we are united in our commitment to providing independent assurance on what matters to stakeholders. With every audit, you have our commitment to public trust.

As part of our commitment to stakeholders — regulators, investors, clients, our people and the public — we aim to be transparent and open in communicating KPMG's audit strategy and vision — how the network has developed in terms of people, locations, processes and technology (detailed in the [KPMG International Annual Review](#)) — and, specifically, who we are and how we address audit quality.

We recognize the importance of doing the right thing, even when it might be the hard thing to do, which means a relentless focus on ensuring we bring our perspective on audit quality to clients. KPMG is committed to audit quality — a priority underpinned by investing in the talent, technology, solutions and capabilities needed to deliver results to the biggest challenges clients face.

In this report, we provide further insight into the processes, systems, training, tools and methodologies that contribute to KPMG member firms' audit quality and system of quality control. This report will focus on:

- **Our culture.** Maintaining high audit quality and building trust are the responsibilities of everyone at KPMG — a message driven from the very top by KPMG International and member firms leadership. Our KPMG values emphasize that we act with integrity, upholding the highest professional standards and provide sound advice while rigorously maintaining our independence. They enable a culture that brings out the best in our people. One where innovation, deep expertise and a global mindset, combine with passion and working shoulder-to-shoulder to deliver results that build trust. A quality audit means the delivery of an appropriate and independent opinion that is properly supported in compliance with the applicable auditing standards, laws and professional requirements.
- **Our people.** Becoming the 'clear choice' means being extraordinary — through our passion and pride, expertise and curiosity, inclusive culture and focus on developing the leaders of tomorrow. At KPMG we drive a culture

where we approach all matters in an audit with objectivity and professional skepticism, to offer relevant, valued insight and impartial views. We want to increase our added value by demonstrating the skills, behaviors and innovations clients and stakeholders expect. Delivered through candid conversations. We aim to build and support a dynamic, rewarding career path for our people.

- **Our approach** to audit quality includes having globally consistent methodologies and policies, enabled by innovative tools. The expanding role of innovation and technology in audit continues to evolve providing greater clarity and generating deeper and richer insights. That's why innovation in audit is an area where KPMG continues to invest. KPMG Clara is our smart audit platform bringing together our data and analytics (D&A) capabilities, new technologies, client collaboration techniques and audit workflow.
- **Our monitoring** programs are fundamental to sustaining quality and to building on our successes. We have a number of programs and initiatives primarily aimed at understanding the root cause of issues, identifying opportunities for continuous improvement and relevant remedial actions.

Key aspects of our culture and our focus on quality are driven by global leadership, reinforced and supported by a number of global groups and member firm leadership. More detail on KPMG International's leadership groups and governance and the KPMG network structure is available in Appendix 1 to this report.

We're continuing to invest in audit capabilities, enhance tools and skills and embrace our culture so that the decisions we make and the work we do leave our society, global network and one another stronger for the future.

Through the audit work performed by KPMG firms, we aim to inspire the confidence of clients and their investors, strengthening the capital markets and economies in which they operate.



Bill O'Mara
Global Head of Audit
KPMG International

Our relentless focus on audit quality

Building public trust

Our culture

Quality — everyone's responsibility 	Global policies 
Culture of consultation 	Ethics & independence 

Our people

Recruitment 	Continuous development & coaching 
Performance & reward 	Resourcing 

Our approach

Consistent methodology 	Robust challenge & review 
Effective communication 	Innovative tools & technology 

Our monitoring

Quality & compliance programs 	Root cause analysis 
External feedback and dialogue 	Remedial actions 

Who we are

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

KPMG International is a Swiss cooperative formed under Swiss law. It licenses the KPMG trademark and conducts activities for the overall benefit of the KPMG network. It facilitates audit quality across the network by establishing common policies, processes and standards to be applied by member firms. It does not provide professional services to clients itself. KPMG member firms — all of which are affiliated with KPMG International — provide professional services to clients and their Heads of Audit have direct responsibility for audit quality. You can learn more about our network — its structure and governance in Appendix 1 to this report.

How we are governed

KPMG International has a number of governance bodies:

- Global Council
- Global Board
- Global Management Team.

The Global Board is supported by a number of committees, including an Executive Committee. A number of global steering groups support and drive the execution of strategy with a focus on audit quality including the Global Audit Steering Group (GASG) and the Global Quality & Risk Management Steering Group (GQRMSG). The overall governance structure of KPMG International is discussed in more detail in Appendix 1 to this report.

System of quality control

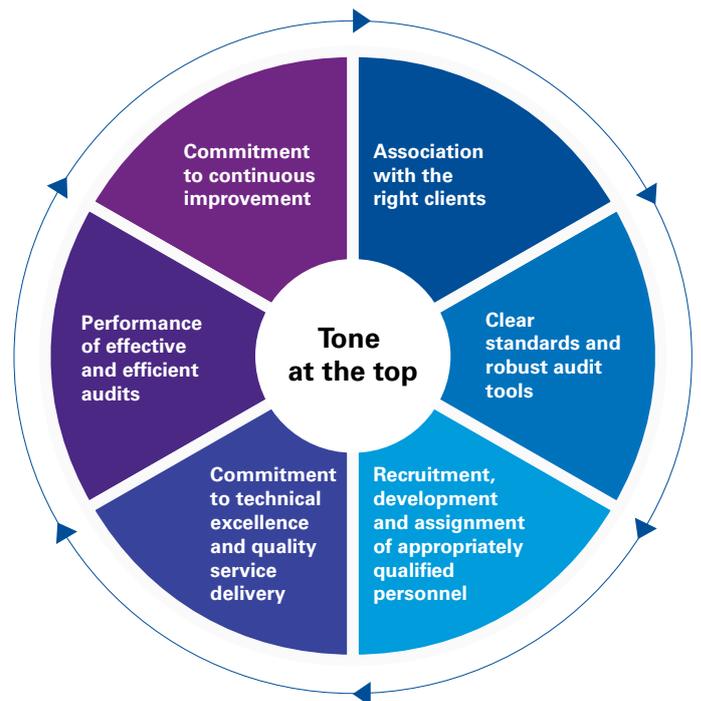
The system of quality control set out in this Transparency Report is based on International Standard on Quality Control 1 (ISQC 1), which applies to professional services firms that perform audits of financial statements.

To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver a quality audit, KPMG has developed the Audit Quality Framework, based upon ISQC 1. The framework introduces a common language that is used by all KPMG member firms to describe what they believe drives audit quality and to highlight how each of their audit professionals contributes to the delivery of audit quality.

‘Tone at the top’ sits at the core of the Audit Quality Framework’s seven drivers of audit quality and helps encourage the right behaviors across the entire KPMG network. All of the other drivers are presented within a virtuous circle because each driver is intended to reinforce the others.

You will see the relevant sections of the framework referenced as appropriate throughout this report.

While the Transparency Report summarizes KPMG’s approach to audit quality and our audit quality initiatives, the report may also be useful for stakeholders interested in member firms’ Tax and Advisory services, as many KPMG quality control procedures and processes referred to in the report are cross-functional and apply equally to all services offered by member firms. However, unless otherwise stated, the report focuses on what KPMG International does to enable KPMG member firms to deliver quality audits.





KPMG values

We **lead by example** at all levels in a way that exemplifies what we expect of each other and member firms' clients.

We **work together** to bring out the best in each other and create strong and successful working relationships.

We **respect the individual** for who they are and for their knowledge, skills and experience as individuals and team members.

We **seek the facts and provide insight** by challenging assumptions and pursuing facts to provide insight as trusted and objective business advisers.

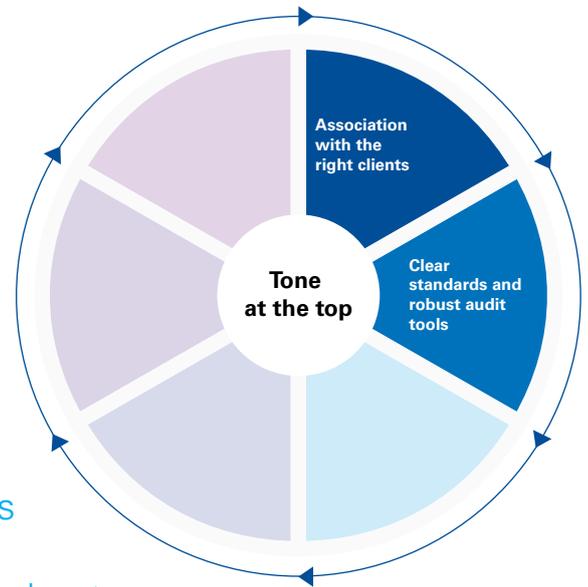
We **are open and honest** in our communication and share information, insight and advice frequently, and constructively manage tough situations with courage and candor.

We **are committed to our communities** to act as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities.

Integrity is a critical characteristic that stakeholders expect and rely on. Therefore, above all, we **act with integrity** and are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.

3

Our culture



Our culture is underpinned by a strong set of values and supporting policies and processes that enable the right attitudes and behaviors to permeate throughout the network, starting from the very top. We promote a culture in which consultation is encouraged and recognized as a strength.



Quality — everyone's responsibility

Tone at the top

Leadership plays a critical role in setting the right tone and leading by example — demonstrating an unwavering commitment to the highest standards of professional excellence and championing and supporting major initiatives. Leadership teams at both KPMG International and member firm levels are committed to building a culture based on quality, integrity and ethics and demonstrate this through their actions — written and video communications, presentations to teams and one-to-one discussions. A focused and consistent message across the network is important to reinforce our commitment to audit quality and public trust. This sets the right tone — that everyone involved in performing audits has a responsibility for audit quality. We use our Global People Survey to seek insights from our people — including on audit quality and tone at the top (refer to page 23).

Values and code of conduct

Our values are what we believe in — they guide our actions and behaviors. They are important because we recognize that it is not just what we do that matters, it is also how we do it. Our values, therefore, form the foundation of our culture and set the tone at the top. They also form the foundation of our approach to audit and shape how we work together.

We communicate our values clearly to our people and embed them into member firms' people processes — induction, performance development and reward.

KPMG's reputation and success depend on the professionalism and integrity of each and every member firm partner and employee. Integrity is embedded in our values and is a critical characteristic that our stakeholders expect and rely on. Therefore, above all we 'act with integrity' and are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence. We aim to live the values, acting as role models and promoting ethical behavior. We will not hesitate to take action where we find non-compliance with the values.

Building on our values is our [Global Code of Conduct](#), which all member firms and their personnel are required to comply with. The Global Code of Conduct defines who we are and how we act, and in summary it:

- Emphasizes that all our people are personally responsible for demonstrating the legal, professional and ethical standards and behaviors that apply to their role and level of responsibility.
- Sets out our commitments and includes provisions that require our people to:
 - comply with all applicable laws, regulations and KPMG policies
 - report any illegal acts, whether committed by KPMG personnel, clients or other third parties
 - report breaches of risk management policies by KPMG member firms or KPMG personnel

- uphold the highest level of client confidentiality
- not offer, promise, make, solicit or accept bribes (whether directly or through an intermediary).

Member firms either adopt the Global Code of Conduct in its entirety or incorporate its principles into their own member firm code of conduct. All member firm personnel are required to:

- confirm their understanding of, and compliance with, the applicable code of conduct upon joining their member firm and annually thereafter
- complete training on the applicable code of conduct upon joining their member firm, and on a biennial basis thereafter.

The commitments in the Global Code of Conduct underlie our values-based quality culture.

Individuals are encouraged to raise their concerns when they see behaviors or actions that are inconsistent with our values or professional responsibilities and are required to do so when they see breaches of KPMG International policies, laws and regulations and professional standards. Each member firm is required to have procedures and established channels of communication so that personnel can report ethical and quality issues. In addition, the [KPMG International hotline](#) is a mechanism for KPMG partners, employees, clients and other external parties to confidentially report concerns they have relating to certain areas of activity by KPMG International itself, KPMG member firms or the senior leadership or employees of a KPMG member firm.

Global leadership responsibility for audit quality and risk management

Senior leadership of KPMG International plays a critical role in setting the right tone. A number of global steering groups support and drive the execution of strategy with a focus on audit quality — the GASG, the Global Audit Quality Issues Council (GAQIC) and the GQRMSG. Each of these global groups has its specific areas of focus, and they work closely with one another on quality matters, along with regional and member firm leadership, to:

- establish and communicate appropriate audit, quality and risk management policies
- enable effective and efficient processes to promote audit quality
- proactively identify and mitigate critical risks to the network
- drive strategy implementation in member firms' audit function, including standards of audit quality
- consider audit quality issues, including those arising from quality performance and regulatory reviews, and focus on best practices that reduce audit quality findings.

The overall governance structure of KPMG International and further detail on global leadership groups is provided in Appendix 1 to this report.



... the way we work is just as important as the work itself. It requires a relentless focus on quality. But it also requires something more. It means every KPMG professional and firm putting their public trust responsibilities at the forefront of everything they do, doing the right thing in the right way, every day. ”

— **Larry Leva**
Global Vice Chairman
Quality, Risk and Regulatory
KPMG International



Member firm responsibility for audit quality

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

Articulating audit strategy and quality focus

Our audit strategy is discussed in the [KPMG International Annual Review](#) and includes a focus on quality and service delivery standards expected of member firm audit partners and employees, and a commitment to ethical principles, integrity and public trust. Our audit strategy supports our drive to innovate and to deliver independent assurance that provides confidence to stakeholders. The Global Head of Audit reinforces this in communications to member firm audit partners and employees during his periodic presentations.



Global policies

Quality and risk management policies

How global policies are applied

KPMG International policies and procedures applicable to audit are designed to assist member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances.

KPMG International policies and procedures apply to all member firms and are made available through the Global Quality & Risk Management (GQ&RM) Manual.

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

Individual member firms are required to implement KPMG International policies and procedures and adopt additional policies and procedures that are designed to address rules and standards applicable to their own jurisdictions as well as applicable legal and regulatory requirements.

KPMG International's policies reflect individual quality control elements to help member firms' personnel act with integrity and objectivity, perform their work with diligence, and comply with applicable laws, regulations and professional standards.

Amendments to KPMG International risk and quality policies, including ethics and independence (E&I) policies, are communicated through quality and risk management alerts to member firms. Member firms are required to implement changes specified in the alerts and this is checked through internal monitoring.

Raising ethical and quality issues

KPMG International policies require KPMG member firm personnel to 'raise their hands' and report suspected and actual breaches of KPMG International policy or of laws, regulations or professional standards through established channels. When issues are raised, member firms are required to have procedures to enable them to be properly documented and addressed on a timely basis, and to be communicated to those charged with governance or to any other appropriate authority as required by professional standards or laws and regulations.

Each member firm is required to have procedures and established channels of communication so that personnel can report ethical and quality issues. Individuals who report in good faith will not suffer any adverse impact regardless of whether the concern is ultimately substantiated. If someone does not feel comfortable using these mechanisms, KPMG International has an [International hotline](#) that can be used by anyone inside or outside KPMG.

Association with the right clients

Client acceptance process

Each member firm is required to undertake an evaluation of every prospective client.

This involves an assessment of the prospective client's principals, its business and other service-related matters. This also involves obtaining and analyzing 'know your client' information on the prospective client, its key management and significant beneficial owners. A key focus is on the integrity of management at a prospective client. The evaluation considers breaches of law and regulation, anti-bribery and corruption, and ethical business practices, including human rights, among the factors to consider. A second partner, as well as the evaluating partner, approves each prospective client evaluation. Where the client is considered to be 'high risk' the member firm's Risk Management Partner or experienced delegate is involved in approving the evaluation.

Engagement acceptance process

Each prospective engagement is required to be evaluated to identify potential risks. A range of factors are considered as part of this evaluation, including potential independence and conflict of interest issues (using KPMG's web-based global conflicts and independence checking system — Sentinel™) as well as factors specific to the type of engagement, including, for audit services, the competence of the client's financial management team and the skills and experience of personnel assigned to staff the engagement.

The evaluation is made in consultation with senior member firm personnel and includes review by the member firm's quality and risk management leadership as required. Where audit services are to be provided for the first time, the prospective engagement team is required to perform additional independence evaluation procedures, including a review of any non-audit services provided to the client and of other relevant business and personal relationships.

Specific procedures must be followed by member firms to identify and evaluate threats to independence for prospective audit clients that are public interest entities. These procedures, also referred to as 'the independence clearance process', must be completed prior to accepting audit engagements for these entities.

Depending on the overall risk assessment of the prospective client and engagement, additional safeguards may be introduced to help mitigate the identified risks. Any potential independence or conflict of interest issues are required to be documented and resolved prior to acceptance. A prospective client or engagement will be declined if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional standards and KPMG policies, or if there are other quality and risk issues that cannot be appropriately mitigated.

Continuance process

An annual re-evaluation of all audit clients is required to be undertaken by member firms.

The re-evaluation should identify any issues in relation to continuing association and any mitigating procedures that need to be put in place — this may include the assignment of additional professionals, such as an Engagement Quality Control (EQC) reviewer or the need to involve additional specialists on the audit.

Recurring or long-running non-audit engagements are also required to be subject to re-evaluation. In addition, clients are

required to be re-evaluated if there is an indication that there may be a change in their risk profile.

Withdrawal

If a member firm obtains information that indicates it should withdraw from an engagement or from a client relationship, it is required to consult internally and identify any required legal and regulatory steps. It is also required to communicate as necessary with those charged with governance and any other appropriate authority.

Zero-tolerance approach to bribery

KPMG International policy prohibits involvement in any type of bribery — even if such conduct is legal or permitted under applicable law or local practice. We also do not tolerate bribery by third parties, including by member firm clients, suppliers or public officials. KPMG International requires member firms to have appropriate internal controls in place to mitigate the risk of involvement in bribery by the member firm and its personnel.

On joining, and every 2 years thereafter, all KPMG member firm personnel are required to take training covering compliance with laws and regulations, anti-bribery and corruption, and reporting suspected or actual non-compliance with laws and regulations. More about KPMG International's position on bribery and corruption is available [here](#).

Client confidentiality, information security and data privacy

KPMG International has information security policies and procedures governing the handling of confidential client information and of personal information. KPMG member firm personnel must maintain confidentiality of all client and former client information, and must affirm their understanding of the rules governing confidential client information in writing once a year as part of the annual E&I confirmations. KPMG International imposes minimum technical requirements on member firm IT systems to enhance the protection of such information. Data privacy policies are in place governing the handling of personal information, and associated training is required for all KPMG personnel.

Each member firm is required to have a formal document retention policy concerning the retention period for audit documentation and other records relevant to an engagement in accordance with the relevant IESBA requirements as well as other applicable laws, standards and regulations.



Ethics and independence (E&I)

Instilling E&I policies

An auditor being independent of mind and in appearance from its clients is a cornerstone of international professional standards and regulatory requirements. Audit reform legislation in a number of jurisdictions means businesses and their auditors face a variety of differing and increasingly complex independence regulations.

To facilitate compliance, KPMG International has detailed independence policies and procedures that incorporate the requirements of the IESBA Code of Ethics. These are set out in the GQ&RM Manual. Automated tools facilitate compliance with these requirements. These tools must be used for every prospective engagement to identify potential independence and conflict of interest issues. Where there are additional applicable independence standards locally, member firms add specific procedures to network-wide processes.

KPMG International has a Partner-in-Charge of the Global Independence Group, who is supported by a core team of specialists to help ensure that KPMG International has robust and consistent independence policies and procedures, as well as tools to help member firms and personnel comply with these requirements. Each member firm has a designated E&I Partner who has primary responsibility for the direction and execution of E&I policies and procedures in that member firm.

Amendments to KPMG International's E&I policies in the course of the year are communicated through regular quality and risk alerts to member firms. Member firms are required to implement changes as specified in the alerts, and this is checked through internal monitoring programs described in section 6.



Each member firm has a designated Ethics and Independence Partner who has primary responsibility for the direction and execution of ethics and independence policies and procedures in that member firm. ”

KPMG personnel are required to consult with their member firm's E&I Partner on certain independence matters as defined in the GQ&RM Manual. Depending upon the facts and circumstances, additional consultation may be required with the Global Independence Group and others within the KPMG network. Guidance and tools are available to facilitate the documentation of these consultations.

E&I – training and confirmations

Member firms are required to provide all relevant personnel (including all partners and client service professionals) with independence training that is appropriate to their grade and function on an annual basis. New personnel who are required to complete this training must do so by the earlier of (a) 30 days after joining their member firm or (b) before providing any services to, or becoming a member of the chain of command for, any audit client, including any of its related entities or affiliates.

KPMG International develops, and makes available to member firms, training courses to help them meet both of these training requirements. Member firms may tailor these courses or develop their own to meet local requirements, however, the GQ&RM Manual sets out the requirements for tailored or locally-developed training.

Upon acceptance of employment, all KPMG personnel are required to confirm that they are in compliance with, and will abide by, applicable E&I rules and policies. Thereafter, all KPMG personnel are required to sign an annual confirmation stating that they have remained in compliance with applicable E&I policies throughout the year covered by the confirmation.

In addition to online tools and training, KPMG member firm personnel are provided with leadership and guidance on independence issues through access to experienced and knowledgeable professionals within each member firm (through its E&I Partner) and through the Global Independence Group.

The operation of the independence policies and processes is monitored through annual independence confirmations and compliance audits within member firms, as well as through the network's wider monitoring programs described in section 6.

KPMG International's E&I policies and procedures in key areas are described in more detail below.

Personal financial independence

KPMG International policies require that each member firm and its personnel must be free from prohibited financial interests in, and prohibited relationships with, audit clients, their management, directors and significant owners.

KPMG International's policies go beyond those of the IESBA Code of Ethics by prohibiting all partners — irrespective of their member firm and function — from owning securities of any audit client of any member firm.

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

Member firms use a web-based independence compliance system (KICS) that assists their professionals in complying with personal independence investment policies. This system contains an inventory of publicly available investments.

Partners and all client-facing professionals who are manager grade or above are required to use the KICS system prior to entering into an investment to identify whether they are permitted to do so. They are also required to maintain an up-to-date record of all of their investments in KICS, which automatically notifies them if their investments subsequently become restricted.

They must dispose of newly restricted investments within 5 business days of the notification. Member firms monitor compliance with this requirement as part of a program of independence compliance audits conducted annually that cover a sample of partners and professionals.

Employment relationships

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

Former members of the audit team or former partners of a member firm are prohibited from joining an audit client in certain

roles unless they have disassociated from the member firm financially and have ceased participating in the member firm's business and professional activities.

Any former partner who has a financial relationship with a member firm must notify the E&I Partner if they intend to enter into employment negotiations with any listed audit client of any KPMG member firm. In all cases, threats to independence are evaluated and appropriate safeguards are put in place to eliminate the threats or reduce them to an acceptable level.

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

Member firms are required to communicate and monitor requirements in relation to employment of KPMG professionals by audit clients.

Firm financial independence

Member firms must also use KICS to record their own investments in Securities and Exchange Commission (SEC) entities and affiliates (including funds), locally listed companies and funds, direct and material indirect investments held in pension, and employee benefit plans (including non-public entities and funds).

Additionally, member firms are required to record in the system all borrowing and capital financing relationships, and custodial, trust and brokerage accounts that hold member firm assets. On an annual basis, member firms confirm they have complied with independence requirements as part of the Risk Compliance Program (refer to page 31).

Partner and firm rotation

Partner rotation

KPMG International rotation policies are consistent with the IESBA Code of Ethics and require compliance with any stricter applicable rotation requirements. Member firm partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG policy. These requirements generally place limits on the number of consecutive years that partners in certain roles may provide statutory audit services to a client, followed by a 'time-out' period during which time these partners may not participate in the audit or in any way influence the outcome of the audit. Member firms are required to monitor the rotation of audit engagement leaders (and any other key roles where there is a rotation requirement) and develop transition plans to enable allocation of partners with the necessary competence and

capability to deliver a consistent quality of service to clients. The rotation monitoring is subject to compliance testing.

Firm rotation

In certain jurisdictions member firms are required to act as an auditor for a specific audit client for a maximum period and not to act as auditor for that client for a specified period thereafter. Where required, member firms have processes in place to track and manage audit firm rotation.

Fee dependency

KPMG International's policies recognize that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the member firm expressing the audit opinion. In the event that the total fees from a public interest entity audit client and its related entities represent more than 10 percent of the total fees received by a particular member firm for 2 consecutive years:

- disclosure is required to those charged with governance at the audit client
- a senior partner from another KPMG member firm is appointed as the EOC reviewer.

Non-audit services

KPMG member firms are required to comply with IESBA principles and applicable laws and regulations, which address the scope of services that can be provided to audit clients.

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

Avoiding conflicts of interest

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

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

Each member firm has one or more risk management resources ('Resolvers') who are responsible for reviewing an identified potential conflict and working with the affected member firms to resolve the conflict; the outcome of which must be documented. Additional safeguards may be necessary, for example, establishing formal dividers between engagement teams serving different clients so that the confidentiality of all clients' affairs is maintained.

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

Personal conflicts

Conflicts of interest can arise in situations where KPMG personnel have a personal connection with the client that may interfere, or be perceived to interfere, with their ability to remain objective, or where they are personally in possession of confidential information relating to another party to a transaction. Consultation with the member firm's Risk Management Partner or the E&I Partner is required in these situations.

E&I breaches

All KPMG personnel are required to report an independence breach as soon as they become aware of it.

Each member firm is required to have a documented disciplinary policy in relation to breaches of independence policies. In the event of failure to comply with KPMG International's independence policies, whether identified in a compliance review, self-declared or otherwise, KPMG member firm professionals are subject to disciplinary policy. The disciplinary policy should be communicated to all professionals and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations. Any breaches of auditor independence regulations are required to be reported to those charged with governance at the audit client, on the basis agreed with them.

Matters arising are factored into promotion and compensation decisions and, in the case of engagement leaders, are reflected in their individual quality and compliance metrics (refer to page 22).



Culture of consultation

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

To assist their audit professionals in addressing difficult or contentious matters, member firms are required to have established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. In addition, the GQ&RM Manual includes mandatory consultation requirements on certain matters such as client integrity.

Technical consultation

We are committed to technical excellence. Technical auditing and accounting support is available to member firms through the Global Service Centre (GSC) and the International Standards Group (ISG) as well as the US Capital Markets Group for SEC foreign registrants.

GSC

The GSC develops, maintains and deploys KPMG's global audit methodology and technology-based tools used by member firms' audit professionals to facilitate effective and efficient audits, with emphasis on global quality and consistency. More information about KPMG's global audit methodology and technology-based tools is included in section 5.

ISG

The ISG works with Global International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISAs) Topic Teams with geographic representation from around the world, to promote consistency of interpretation of IFRS and auditing requirements between member firms, identify emerging issues and develop global guidance on a timely basis.

In summary, the ISG:

- monitors emerging practice issues identified through quality performance reviews, by regulators and through root cause analysis activities

- develops guidance on interpretation and application of international standards and, where appropriate, in response to quality issues emerging from review, to drive consistency across the network
- provides feedback to international standard setters on proposed changes to standards and consultations
- consults on technical matters with KPMG member firms in connection with client-specific issues.

ISG also supports the following groups to facilitate information sharing between the Department of Professional Practices (DPP) network, and to help ensure sector-specific issues are dealt with proactively.

- The Global ISA Panel, chaired by the Global Audit Quality and Risk Management Partner includes senior DPP Partners from the larger member firms and is responsible for monitoring the development of ISA guidance, and the development of response letters to the IAASB and/or regulators.
- Global Topic Teams, which formulate guidance on IFRS, accounting and reporting practice on sector specific or specific technical areas and act as central contact points for their regions/home practices in identifying and addressing issues related to relevant topics.
- The Global IFRS Panel is responsible for monitoring the development of IFRS guidance and response letters to the International Accounting Standards Board (IASB) and/or regulators by the ISG and the Topic Teams. The panel is chaired by the Global IFRS Leader and includes global IFRS Topic Leaders.

Member firm professional practice resource

Member firms provide consultation support on auditing and technical accounting matters to their audit engagement professionals through professional practice resources (referred to as DPP). DPP also assists engagement teams where there are differences of opinion either within teams or with the EOC reviewer. Unresolved differences are required to be escalated to senior partners for final resolution. The ISG is also available for consultation when required.

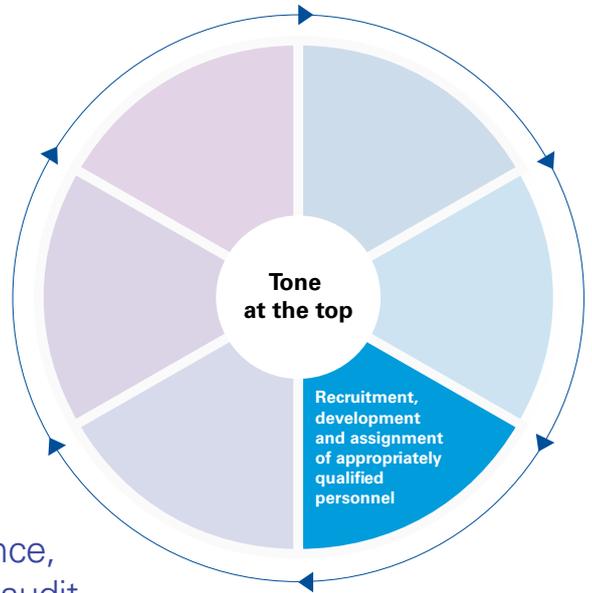
KPMG International policies include minimum requirements for member firm DPPs.



Our relentless focus on quality

4

Our people



One of the key drivers of quality is ensuring that our professionals have the appropriate skills and experience, passion and purpose, to deliver the highest quality in audit. This requires recruitment, development, promotion, retention and assignment of professionals. KPMG global behaviors, which are linked to our values, are designed to articulate what is required for success — both individually and collectively. One of KPMG’s global behaviors is ‘delivering quality’.



Recruitment

KPMG member firms strive to be employers of choice by creating an environment where their people can fulfill their potential and feel proud and motivated to give their best.

Member firms are required to have recruitment strategies focused on recruiting the right skills for their business today and in the future by recruiting from an as-diverse-as-possible talent pool.

We work hard to foster an inclusive culture to retain our diverse talent. For more about Inclusion & Diversity at KPMG, read [here](#).

KPMG International’s human resources (HR) policies require member firms to perform candidate application screening that is based on fair and job-related criteria to try to ensure that candidates are suitable and best placed for their roles. KPMG International’s policies also require that recruits undergo rigorous reference and background checks in line with legal and regulatory requirements.

More about our vision on recruiting and retaining people and being an employer of choice is included in the [KPMG International Annual Review](#).



Continuous development and coaching

Personal development

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

In relation to Audit, we deploy a variety of learning solutions that are designed to reinforce our values, help our professionals get the fundamentals right and develop the necessary skills and attitudes to make sound judgments, as well as develop insights that enhance audit quality and the value of audit. Courses are available to enhance personal effectiveness and develop technical, leadership and business skills. KPMG professionals are developed further for high performance through access to coaching and mentoring on the job, stretch assignments and country rotational and global mobility opportunities.

Lifetime learning strategy

Annual training priorities for development and delivery are identified by the audit learning and development steering groups at the global, regional and, where applicable, member firm level. Training is delivered using a blend of classroom, digital learning and performance support to

assist auditors on the job — following the 70:20:10 model. Audit learning and development teams work with subject matter experts and leaders from GSC, ISG and member firm DPPs, as appropriate, to ensure the training is of the highest quality, is relevant to performance on the job and is delivered on a timely basis and via different media.

Ongoing mentoring and on-the-job coaching

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

Mentoring and on-the-job experience play a key role in developing the personal qualities important for a successful career in auditing, including professional judgment, technical excellence and instinct.

We support a coaching culture throughout the KPMG network as part of enabling KPMG member firm professionals to achieve their full potential and instill that every team member is responsible for building the capacity of the team, coaching and sharing experiences.

Continuing professional development (CPD)

All client service partners and employees are required to maintain CPD in accordance with applicable professional standards, laws and regulations. Compliance with the CPD requirements is tested as part of member firms' annual monitoring programs.

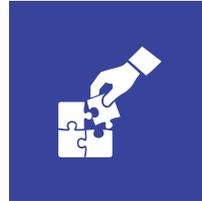
All KPMG professionals are required to comply with applicable professional license rules and satisfy the CPD requirements in the jurisdiction where they practice.

Policies and procedures are designed to facilitate compliance with license requirements and determine whether individuals are appropriately licensed to undertake their work as required.



High-quality work, in my experience, is performed by talented, technically-competent people with a clear passion, personal drive and purpose for what they do. At KPMG, our leading approach to recruitment and learning helps our people bring meaningful insight and solutions — to clients, to the public and our teams — every single day.

Each member firm is 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. Further details on training and experience requirements are included on page 25.



Resourcing

Member firms are required to have procedures in place to assign both the engagement partners and other professionals to an audit engagement on the basis of their skill sets, relevant professional and industry experience and the nature of the assignment or engagement.

Partner assignments

Function heads within member firms are responsible for the partner assignment process, which includes consideration of key factors relating to competence, workload and experience, including quality and compliance incidents (refer to page 22). Partners are required to have appropriate experience, training, and capacity based on an annual partner portfolio review taking into account the size, complexity and risk profile of the engagement, and the type of support and specialist input to be provided (i.e. the engagement team composition and specialist involvement).

— Susan Ferrier

Global Head of People, Performance & Culture
KPMG International

Engagement teams

Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies, capabilities and capacity, and to determine whether they require the use of specialists to perform the audit engagement in accordance with international professional standards, KPMG audit methodology, and applicable legal and regulatory requirements. If the right resource is not available within the member firm, access is provided to a network of highly skilled KPMG professionals in other member firms.

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

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



Performance and reward

Evaluation process including quality and compliance metrics

KPMG's global behaviors, which are linked to our values, are designed to help articulate to our people what is required for success — both individually and collectively. These global behaviors include 'delivering quality', 'exercises professional judgment' and 'strives for continual improvement'.

All professionals, including partners, are required to have annual goal setting and performance reviews. Each professional is evaluated on their agreed-upon goals, demonstration of the KPMG global behaviors, technical capabilities and market knowledge.

A culture of continuous improvement is encouraged to drive feedback, both positive and developmental, from both junior and senior colleagues, as well as peers. Feedback gathered forms an integral part of performance reviews.

Partners and certain professionals are also required to be evaluated on key quality and compliance metrics. Member firms monitor quality incidents and maintain quality and compliance metrics for the purpose of partner assignments and also for the purposes of partner evaluation, promotion and remuneration.

Going beyond performance reviews and compensation, the KPMG global behaviors are designed to extend across all member firms' people processes, including recruitment methodologies, recognition approaches and development planning. The behaviors are a constant reference point, articulating to KPMG member firm personnel what is required for success individually and collectively.

Reward and promotion

All member firms are required to have compensation and promotion policies that are clear, simple and linked to the performance review process. Such policies help our people understand what is expected of them, and what they can expect to receive in return. The connection between performance and reward is achieved through calibration meetings where relative performance across a peer group is discussed, and used to inform reward decisions.

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

Reward decisions are based on consideration of both individual and organizational (member firm) performance. The extent to which our people feel their performance has been reflected in their reward is measured through the Global People Survey (GPS), with action plans developed accordingly.

Member firms are required to identify and document criteria, which include audit quality and compliance metrics, in assessing overall evaluation, promotion and remuneration of partner and certain personnel. These evaluations are conducted by performance managers and partners who are in a position to assess performance.

Each member firm is required to have a process for admission to the partnership that is rigorous, thorough and involves appropriate representatives of the member firm's leadership. Member firms are required to use criteria for admission to the partnership that are consistent with a commitment to professionalism and integrity, quality and an employer of choice. These are strongly aligned to KPMG's global behaviors and are based on consistent principles.

KPMG International independence policies prohibit member firm audit partners from being evaluated on, or compensated based on, their success in selling non-assurance services to their audit clients.

Insights from our people — Global People Survey (GPS)

Biennially (and annually for Global Board countries), all member firm partners and staff, across all functions, are invited to participate in our independent survey that measures our people's engagement. The GPS provides an overall employee engagement index (EEI) and performance excellence index (PEI) as well as insights into areas driving engagement that may be strengths or opportunities. Results are available across various teams and demographic groups. Additional insight is provided on how we are faring on categories known to impact employee engagement.

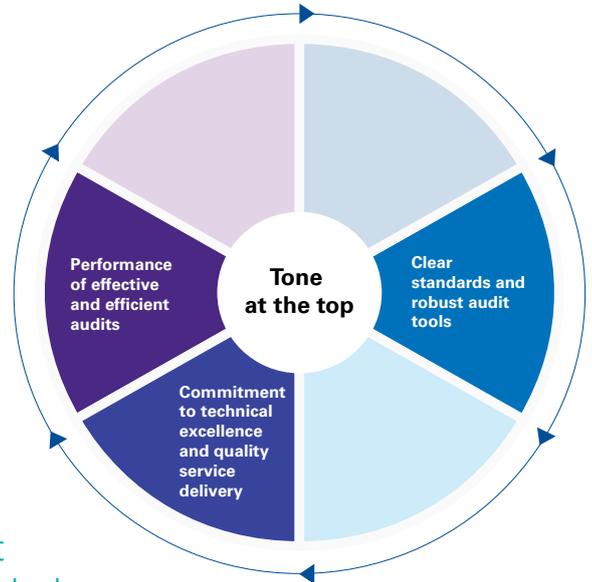
The results, including those by country and function, provide global leadership with information about the drivers of employee engagement and, therefore, business performance. Results also provide warning indicators when reviewed against benchmarks and trends.

All member firms are required to participate in the GPS and to take appropriate actions to communicate and respond to the findings of the survey. This includes monitoring GPS results including those related to audit quality and tone at the top, referred to in the GPS as 'leadership behavior', and employee engagement, through the EEI and employee performance through PEI. The GPS results are tracked and appropriate follow-up actions agreed. GPS results are also reviewed as part of the Global Compliance Review Program (refer to page 32).



5

Our approach



Effective and efficient audits are dependent upon applying clear and consistent standards and robust innovative tools, providing access to the right knowledge and skills, and encouraging a culture of consultation. We understand that how an audit is conducted and communicated is as important as the final results.



Consistent methodology

Consistent application of audit standards across the KPMG network is driven through groups of global professionals.

Our audit methodology and audit tools, developed and maintained by the GSC, are:

- globally consistent and fully compliant with ISAs
- designed to be effective in all types of risk environments and economic circumstances
- made available to all KPMG audit professionals and required to be used where necessary for compliance
- applied even where local auditing standards are less demanding than the ISAs.

The methodology is set out in KPMG International’s Audit Manual (KAM) and includes additional requirements that go beyond the ISAs, which KPMG believes enhance the quality of the audit. KPMG member firms may add local requirements and/or guidance in KAM to comply with additional professional, legal or regulatory requirements.

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

The KPMG audit methodology encourages use of specialists when appropriate, and also requires involvement of relevant

specialists in the core audit engagement team when certain criteria are met or where the audit team considers it appropriate or necessary.

KAM includes the implementation of quality control procedures at the engagement level that provide reasonable assurance that engagements comply with the relevant professional, legal, regulatory and KPMG requirements.

The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the GQ&RM Manual that is applicable to all KPMG member firms, functions and personnel.

The ISG interprets international audit and accounting standards and facilitates consistent application by issuing practical guidance. ISG communicates developments and consequent changes in guidance or requirements to each member firm DPP that support member firm engagement teams. The Global Topic Teams act as central contact points for technical assistance to support consistent application and reporting practices.

Developments from the IAASB and/or the IASB are tracked through the ISA and global IFRS panels of seasoned industry and technical professionals who contribute, when appropriate, to consultations from standard setters. Refer to page 18 for more details on ISG.

The KPMG Audit process

The KPMG audit workflow is enabled through eAudit, an activity-based workflow and electronic audit file. eAudit integrates KPMG’s audit methodology, guidance and industry knowledge, and the tools needed to manage audits consistently from beginning to end.

Our high-quality audit process includes the following:

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

Timely partner and manager involvement

To help identify and respond to the significant audit risks applicable to each audit, the engagement team requires an understanding of the client's business, its financial position and the environment in which it operates. The engagement partner 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 partner during the planning process helps set the appropriate scope and tone for the audit, and helps the engagement team obtain maximum benefit from the partner's experience and skill. Timely involvement of the engagement partner at other stages of the engagement allows the engagement partner to identify and appropriately address matters significant to the engagement, including critical areas of judgment and significant risks.

The engagement partner is responsible for the final audit opinion, and reviews key audit documentation — in particular, documentation relating to significant matters arising during the audit and conclusions reached. The engagement manager assists the partner in meeting these responsibilities and in the day-to-day liaison with the client and team, building a deep business understanding that helps the partner and team deliver valued insights.

Access to the right knowledge

Training and experience requirements for IFRS and US GAAP engagements

Specific requirements apply for partners, managers and EQC reviewers working on IFRS engagements in countries where IFRS is not the predominant financial reporting framework. Similar policies apply for engagements performed outside of the US to report on financial statements or financial information prepared in accordance with US GAAP and/or audited in accordance with US auditing standards, including reporting on the effectiveness of the entity's internal

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

Access to specialist networks

Engagement teams have access to a network of KPMG specialists — either within their member firm or in other KPMG member firms. Engagement partners are responsible for ensuring that their engagement teams have the appropriate competences and capabilities, including time and the use of relevant specialists.

The need for specialists in areas such as information technology, tax, treasury, actuarial, forensic and valuations to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process (refer to page 21).

Specialists who are members of an audit team have the competencies, capabilities and objectivity to appropriately fulfill their role. Training on audit concepts is provided to the relevant specialists.

Developing business understanding and industry knowledge

A key part of quality is having a detailed understanding of the client's business and industry.

For significant industries, global audit sector leads are appointed to support the development of relevant industry information, which is made available to audit professionals through eAudIT. This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes). In addition, industry overviews are available, which provide general and business information in respect of particular industries, as well as a summary of the industry knowledge provided in eAudIT.

Exercise of professional judgment and professional skepticism

We recognize that critical assessment of all audit evidence and the exercise of professional skepticism is critically important to our role as auditor in delivering a quality audit. Professional skepticism involves a questioning mind, an appetite to challenge and alertness to inconsistencies. It features prominently throughout auditing standards and attracts significant focus from regulators.

We have developed a professional judgment process that facilitates good judgment by introducing a structured approach to auditing areas that require significant judgment. It also reinforces the importance of independence and

objectivity and emphasizes the importance of having the right mindset — to apply professional skepticism.

The use of the professional judgment process and the application of professional skepticism is reinforced through coaching and training, acknowledging that judgment is a skill developed over time and with different experiences.

Guidance is available on judgmental audit topics — used by audit teams and embedded within audit learning solutions.

Focus on effectiveness of group audits

KPMG International audit methodology covers the conduct of group audits in detail. It stresses the importance of effective two-way communication between the group engagement team and the component auditors. The group audit engagement partner is required to evaluate the competence of component auditors, irrespective of whether they are KPMG member firms, as part of the engagement acceptance process.

Consistent methodology and tools are used across the KPMG network. Lead audit engagement partners are provided with information on component auditors within the KPMG network to help evaluate their competence and capabilities. In addition, for PCAOB engagements, the results of relevant inspections related to the KPMG component member firms are made available to the lead audit engagement partner. Lead audit engagement partners may review component auditor engagement documentation in person or obtain electronic access.

Ongoing mentoring, supervision and review

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

Ongoing mentoring, coaching and supervision during an audit involves:

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

A key part of effective mentoring and supervision is timely review of the work performed so that significant matters are promptly identified, discussed and addressed. Refer to page 25 for details on the role of the EQC reviewer in challenge and review.

Appropriately supported and documented conclusions

Member firms use KAM and KPMG International's electronic audit tool, eAudit, to provide guidance, mechanisms for and documentation of the supervision and control of the audit engagement. Audit documentation records the audit procedures performed, evidence obtained, and conclusions reached on each audit engagement. KPMG International's policies require review of documentation by more experienced engagement team members.

KAM recognizes that documentation prepared on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the report is finalized.

Teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period. This is ordinarily not more than 60 calendar days from the date of the auditors' report, but may be more restrictive under certain applicable regulations.

The key principle that engagement team members are required to consider when preparing audit documentation 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, KAM and other requirements
- applicable legal and regulatory requirements
- the results of the procedures performed, and the audit evidence obtained
- significant findings and issues arising during the audit, and actions taken to address them (including additional audit evidence obtained)
- the basis for the conclusions reached, and significant professional judgments made in reaching those conclusions.



Robust challenge and review

Timely engagement quality control review

EQC reviewers are independent of the engagement team and have the appropriate experience and knowledge to perform an objective review of the more critical decisions and judgments made by the engagement team and the appropriateness of the financial statements. KPMG International is continually seeking to strengthen and improve the role that the EQC review plays in member firm audits and in recent years has taken a number of actions to reinforce this, including issuing leading practices guidance, incorporating specific review requirements into eAudit and developing policies relating to recognition, nomination and development of EQC reviewers.

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

The audit is completed only when the EQC reviewer is satisfied that all significant questions raised have been resolved, though the engagement partner is ultimately responsible for the resolution of accounting and auditing matters.



Innovative tools and technology

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

Technology and innovation are changing the way member firms execute their audit engagements, empowering their people to deliver greater quality and value. Making data and analytics (D&A) a core part of the KPMG audit is critical to our mission of driving audit quality. KPMG Clara, our smart audit platform, was launched in mid-2017. It puts technology and D&A right at the heart of our approach, bringing advanced capabilities and knowledge together in one environment.

KPMG Clara is built to integrate all of our advanced capabilities and knowledge, and empower our people to work in smarter ways, unlocking the power of innovation to help deliver a robust and leading-edge audit. It is our gateway to continued audit innovation, and incremental additions will be made over time.

Further details on innovation in audit tools and technology are set out in the [KPMG International Annual Review](#).



To invest in the building of skills and capabilities of KPMG professionals, without compromising on quality, member firms promote a continuous learning environment and support a coaching culture. ”



Effective communication

Appropriate auditors' reports

Auditing standards, applicable legislation and regulation largely dictate the format and content of the auditors' report that includes an opinion on the fair presentation of the client's financial statements in all material respects. Experienced engagement partners form all audit opinions based on the audit performed.

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

Communications with those charged with governance

Honest and candid communication with clients, including management and audit committees, is a key aspect of our reporting and quality service delivery. We stress the importance of keeping the client informed of issues arising throughout the audit and the need to listen and understand their views. Member firms and KPMG professionals achieve this through a combination of reports and presentations, attendance at audit committee or board meetings and, when appropriate, ongoing informal discussions with management and members of the audit committee.

The role of audit committees is key in supporting better quality auditing by managing the relationship between company and auditor and challenging what auditors do and how they do it.

Audit Committee Institute

In recognition of the demanding and important role that audit committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, KPMG's Audit Committee Institute (ACI) aims to help audit committee members enhance their commitment and ability to implement effective audit committee processes. KPMG member firms provide audit committee and board members with practical insights, resources and peer-exchange opportunities focused on strengthening oversight of financial reporting and audit quality. The ACI's offerings cover the array of challenges facing boards and businesses today — from risk management and emerging technologies to strategy and global compliance.

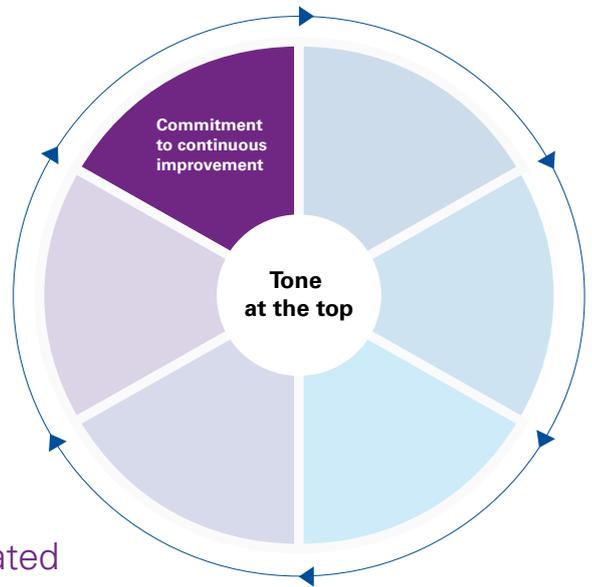
The ACI operates in over 40 countries across the globe and provides audit committee members with authoritative guidance on matters of interest to audit committees as well as the opportunity to network with their peers during an extensive program of technical updates and awareness seminars.

Further details and insights on Audit Committee Institute are available [here](#).



6

Our monitoring



We commit to continually improve the quality, consistency and efficiency of our audits. Our integrated quality monitoring and compliance programs enable member firms to identify quality issues, to understand the quality issues through root cause analysis and to develop, implement and report relevant remedial action plans in response to those issues.



Quality and compliance programs

KPMG member firms are required to continually improve the quality, consistency and efficiency of their audits. Integrated quality monitoring and compliance programs enable member firms to identify quality issues, to perform root cause analysis, and develop, implement and report remedial action plans, both in respect of individual audit engagements and the member firm’s system of quality control. The integrated quality and monitoring programs include Quality Performance Reviews (QPR), Risk Compliance Programs (RCP) and Global Compliance Reviews (GCR).

Our quality monitoring and compliance programs are globally administered and consistent in their approach across member firms, including the nature and extent of testing and reporting. Member firms are required to compare the results of internal monitoring programs with the results of those of any external inspection program and take appropriate action.

Our monitoring programs evaluate both:

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

The results and lessons from the programs are communicated within each member firm and the overall results and lessons are considered and appropriate action is taken at regional and KPMG International levels. The internal monitoring program also contributes to the assessment of whether the member firm’s system of quality control has been appropriately designed, effectively implemented and operates effectively.

Two KPMG International developed and administered inspection programs are conducted annually across member firms’ Audit, Tax, and Advisory functions: QPR and RCP. Additionally, all member firms are covered at least every 3 years by the cross-functional GCR program. Participation in QPR, RCP and GCR is a condition of ongoing membership of the KPMG network. Further detail on QPR, RCP and GCR is provided in this section.

Audit Quality Performance Reviews (QPR)

The QPR program assesses engagement-level performance and identifies opportunities to improve engagement quality. Each audit engagement leader is reviewed at least once in a 3-year cycle as part of QPR. A risk-based approach is used to select engagements.

Member firms conduct the annual QPR program in accordance with global QPR instructions. The reviews are performed at the member firm level and are monitored regionally and globally.

Member firm Audit QPR are overseen by a senior experienced lead reviewer independent from the member firm under review.

There are robust criteria for selection of reviewers. Review teams include senior experienced lead reviewers, which are

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

Consistent criteria are used to determine engagement ratings and member firm audit practice evaluations. Audit engagements selected for review are rated as 'satisfactory', 'performance improvement needed' or 'unsatisfactory.'

Findings from the QPR program are disseminated to member firm professionals through written communications, internal training tools, and periodic partner, manager and staff meetings.

These areas are also emphasized in subsequent monitoring programs to gauge the extent of continuous improvement.

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

Global Audit Quality Monitoring Program

To further enhance the quality, rigor and consistency of the QPR program, the Global Audit Quality Monitoring Program (GAQMP) was launched in 2016. The GAQMP is comprised of a team of partners, directors and senior managers experienced in performing QPR program reviews of listed and related entity (LRE) audit engagements. The team also includes partners and professionals with experience in auditing general information technology controls and application controls.

Each of the GAQMP reviewers attends the Global QPR training delivered for their respective member firm. The GAQMP team is responsible for performing selected QP reviews of LRE audit engagements as determined by Global Quality & Risk Management.

Risk Compliance Program (RCP)

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

- monitor, document and assess the extent of compliance of the member firm's system of quality control with Global Quality & Risk Management policies and key legal and regulatory requirements relating to the delivery of professional services

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

Where deficiencies are identified, the member firm is required to develop appropriate action plans.

Global Compliance Review (GCR)

Every member firm is subject to a GCR conducted by KPMG International's global GCR team, independent of the member firm, at least once in a 3-year cycle. The GCR provides independent oversight of a member firm's assessment of its system of quality control, including:

- the member firm's commitment to quality and risk management (tone at the top) and the extent to which its overall structure, governance and financing support and reinforce this commitment
- the completeness and robustness of the member firm's RCP, by evaluating whether there was:
 - appropriate documentation of policies, processes and related controls in place
 - adequate testing of the effectiveness of controls
 - proper conclusions in relation to issues and corrective action necessary as reported in the RCP action plan.

The GCR team performing the reviews is independent of the member firm and is objective and knowledgeable of Global Quality and Risk Management policies.

The member firm is required to develop action plans to respond to all GCR findings and agree to these with the GCR team.

The member firm's progress on action plans is monitored by a global GCR central team. Results are reported to the GORMSG, and, where necessary, to appropriate KPMG International and regional leadership, to encourage timely remedial actions.



Root cause analysis

Member firms are required to perform root cause analysis to identify and address audit quality issues in order to prevent them from recurring and help identify good practices as part of continuous improvement.

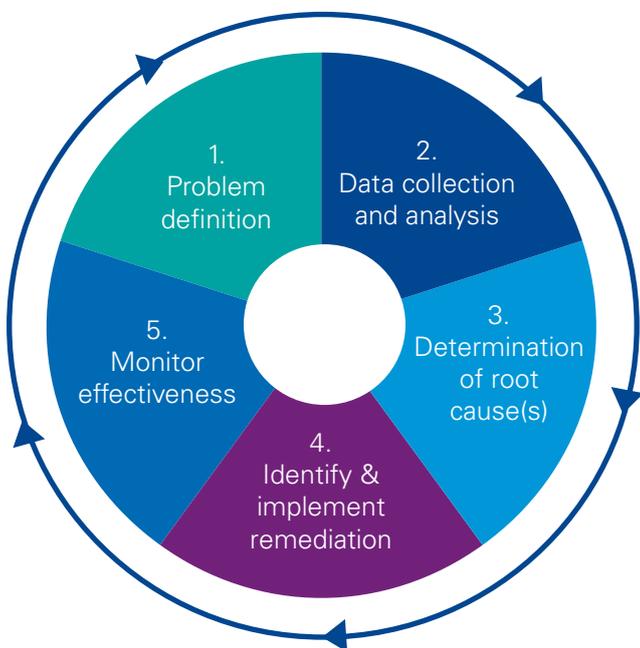
It is the responsibility of member firms to perform root cause analysis and thereby identify and subsequently develop appropriate remediation plans for the audit quality issues identified. Heads of Audit are responsible for the development

and implementation of action plans including identification of solution owners. Risk Management Partners monitor their implementation.

In 2017, KPMG International continued to strengthen our root cause analysis process and drive consistency across the network by enhancing our root cause analysis global guide and toolkit, delivering face to face training, based on the Global Root Cause Analysis 5 Step Principles, and workshops, as well as global monitoring and support.

The training and workshops target those individuals at member firm level who will be performing, or directing those performing, root cause analysis, and also provide a common platform for advancing the practices and skills associated with resourcing, planning and conducting root cause analysis.

The Global Root Cause Analysis 5 Step Principles are as follows:



Remedial actions

KPMG International, through the Global Audit Quality Issues Council (GAQIC) and the Global Quality & Risk Management Steering Group (GQRMSG), reviews the results of the quality monitoring programs, analyzes member firm root causes and action plans and develops additional global remediation plans as required.

The GAQIC, established by the Global Audit Steering Group (GASG), considers network-wide issues arising from internal quality control reviews and external inspections, monitors progress being made in addressing audit quality issues and makes recommendations to the GASG on audit quality issues.

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



External feedback and dialogue

Regulators

KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss audit quality findings and actions taken by KPMG International and member firms to address such issues. We value the open, honest and transparent dialogue that IFIAR facilitates on global audit quality issues.

Member firms are required to maintain professional and respectful relationships with the regulators including being fully responsive to issues raised, responding in a timely manner to the regulator and taking appropriate remedial actions to address deficiencies identified. Member firms evaluate and report regulatory inspections results.

Client feedback

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



Appendix 1:

KPMG legal structure and governance

KPMG International

KPMG International Cooperative (KPMG International) is a Swiss cooperative, which is a legal entity formed under Swiss law. It is the entity with which all the member firms of the KPMG network are affiliated.

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

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

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

Legal structure of the KPMG network

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services to a wide variety of public and private sector organizations.

KPMG's structure is designed to support consistency of service quality and adherence to agreed values wherever the member firms operate.

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'. Such agreements mean that sublicensees are member firms of the KPMG network. Generally, the rights and obligations of a sublicensee as a KPMG member firm are exactly the same as if it had been a member. In particular, all rights and obligations of member firms that are described in this document are rights and obligations of sublicensees unless otherwise specifically stated. In addition, the member that is party to the sublicensee's agreement with KPMG International is also responsible to KPMG International (but not to any other person or entity) for the sublicensee's compliance with its obligations as a KPMG member firm.
- Those entities that are owned, managed and controlled by an entity that is a member or a sublicensee. The respective member or sublicensee is responsible to KPMG International for such controlled entity's compliance with obligations to KPMG International as if it were a member or sublicensee.

Legal relationship between KPMG International and each member firm

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

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

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

Responsibilities and obligations of member firms

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

Each member firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG values (refer to page 9).

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

KPMG International governance bodies

Global Council

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms.

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

Among other things, the Global Council elects the Global Chairman and also approves the appointment of Global

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

Global Board

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

The Global Board includes the Global Chairman, the Chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East and Africa (EMA)) and a number of senior partners of member firms.

It is led by the Global Chairman, who is supported by the Executive Committee, consisting of the Global Chairman, the Chairman of each of the regions and currently four other senior partners of member firms. The list of Global Board members, as at 1 October 2017, is available in the [KPMG International Annual Review](#).

One of the other Global Board members is elected as the lead director by those Global Board members who are not also members of the Executive Committee of the Global Board ('non-executive' members). A key role of the lead director is to act as liaison between the Global Chairman and the 'non-executive' Global Board members.

KPMG International committees

The Global Board is supported in its oversight and governance responsibilities by several other committees. The lead director nominates the chairs and members of certain Global Board committees for approval by the Global Board. The roles of a number of these committees are summarized on page 36.

Executive Committee

The Executive Committee's role includes recommending global strategy and priorities to the Global Board for its approval, including in relation to:

- KPMG's vision and purpose
- the KPMG brand
- strategy and strategic alignment
- coordinated go-to-market and service-delivery programs.

It also supports and holds accountable the Global Management Team in driving and promoting the execution of the global strategy and priorities.

Governance Committee

The Governance Committee's role is:

- assessing, and making recommendations to improve, the governance and management structure of KPMG International
- recommending policies and regulations in respect of member firm governance to the Global Board for approval
- developing and implementing biennial Global Board evaluation process
- overseeing succession planning, recommending Global Board nominees and the process for the appointment of a Global Chairman
- approving the remuneration of the Global Chairman and members of the Global Management Team, and overseeing their annual performance reviews.

Investment Committee

The Investment Committee's role is:

- overseeing strategic investments
- promoting and overseeing the coordination of external alliances that are anticipated to have an impact in more than one country.

Operations Committee

The Operations Committee's role is:

- overseeing KPMG International's financial reporting, budget and business planning process
- recommending and overseeing operational investments
- promoting the implementation of the high growth markets strategy.

Quality & Risk Management Committee

The Quality & Risk Management Committee's role is:

- reviewing and evaluating KPMG International's quality, risk and compliance policies, processes and activities
- promoting a culture that is committed to the highest standard of ethics and compliance.

Professional Indemnity Insurance (PII) Committee

The Professional Indemnity Insurance Committee recommends the professional indemnity insurance program, in which member firms are obliged to participate, to the Global Board for approval.

Global Management Team

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

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

The list of Global Management Team members is available in the [KPMG International Annual Review](#).



Global Steering Groups

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

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

The Global Steering Groups act under the oversight of the Global Management Team.

Global Audit Steering Group (GASG)

The GASG is responsible for driving the member firms' implementation of KPMG's audit strategy, including standards of audit quality. The GASG works closely with the GQRMSG in relation to quality and risk matters related to audit.

The GASG is chaired by the Global Head of Audit, and includes the Heads of Audit from the 10 larger member firms, the Regional Heads of Audit, the Chief Operating Officer for Global Audit and the Global Audit Quality & Risk Management Partner.

Global Audit Quality Issues Council (GAQIC)

The GAQIC is chaired by the Global Audit Quality & Risk Management Partner and includes the Chief Operating Officer for Global Audit Quality & Risk Management; the Heads of Audit or their designees from the 10 larger member firms; the Global Head of Audit Methodology; the Global International Standards on Auditing Leader; the Global International Financial Reporting Standards (IFRS) Leader; and the Partner-in-Charge, Global Independence Group.

The GAQIC is responsible for considering audit quality matters on a network-wide basis (including issues arising through quality performance and regulatory reviews as well as root cause analysis) with a specific focus on those issues arising from the 10 larger member firms. The GAQIC shares results of actions implemented locally to improve audit quality, with focus on best practices that reduce audit quality findings and makes recommendations to the GASG on policy changes related to audit quality issues.

Global Quality & Risk Management Steering Group (GQRMSG)

The GQRMSG is chaired by the Global Head of Quality, Risk and Regulatory and includes the Deputy Head of Global Quality & Risk Management; the Chief Operating Officer for Global Quality & Risk Management; the Global Heads of Audit, Tax and Advisory; the Global Quality & Risk Management Partners for Audit, Tax, and Advisory; the Partner-in-Charge of the Global Independence Group; the Global Head of People Performance and Culture; the General Counsel; and the Risk Management Partners for each of the three regions and for the larger member firms.

The GQRMSG is responsible for setting quality and risk management policies and procedures for the network and for providing associated guidance. These are documented in the Global Quality & Risk Management Manual (GO&RM Manual) available to all member firms and their personnel on a web-based platform. The GQRMSG is responsible — through Quality Performance Review (QPR), Risk Compliance Program (RCP), Global Compliance reviews (GCR) and Area Quality and Risk Management Leaders (ARLs) — for monitoring:

- member firm compliance with global quality and risk management policies and processes and system
- proactive identification and mitigation of significant professional services risks faced by member firms
- performance of member firm professional services to drive and help ensure consistent high-quality work globally.

Area Quality & Risk Management Leaders

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders who:

- assess the effectiveness of a member firm's quality and risk management efforts to identify and mitigate significant risks to the member firm and the KPMG network and actively monitor alignment with global quality and risk management strategies and priorities
- share leading best practices in quality and risk management
- report to Global Head of Quality, Risk and Regulatory.

Appendix 2:

Total turnover achieved by EU/EEA audit firms resulting from the statutory audit of annual and consolidated financial statements²

Aggregated revenues generated by KPMG audit firms from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR2.7 billion during the fiscal year ending 30 September 2017. The EU/EEA aggregated

statutory audit revenue figures are presented to the best extent calculable and translated at the average exchange rate prevailing in the 12 months ended 30 September 2017.

² The financial information set forth represents combined information of the separate KPMG member firms that perform professional services for clients. The information is combined here solely for presentation purposes. KPMG International performs no services for clients nor, concomitantly, generates any client revenue.

kpmg.com/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2017 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. 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. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Designed by Evalueserve.

Publication name: Our relentless focus on quality

Publication number: 135004A-G

Publication date: December 2017