



# Our relentless focus on quality

**2018 Transparency Report**

KPMG International

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

# 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 strengthen our reputation as trusted and objective business advisors.

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.

# Message from our Chairman

## Quality is our priority

Welcome to the 2018 KPMG International Transparency Report, covering the financial year to 30 September 2018.

This report is all about quality: how we drive quality, the initiatives we are pursuing to continuously improve it and our systems of quality control.

We have an unshakeable commitment to quality and know that our standards must be of the very highest level in order to build public trust. Responsibility for quality starts at the top and means reinforcing accountability through the complete chain of command in all our teams so that every action helps us meet our rigorous quality objectives.

In 2018, we undertook a thorough examination of our protocols and practices to ensure we are bringing the utmost consistency to the quality of our audits, to the experience of our clients, and in the behaviors and values we demonstrate in the communities in which we live and work. As a result of that examination we have recently made changes to our governance to drive greater accountability and consistency in how we conduct our audits to achieve our quality standards, and to take every opportunity to reinforce our core value to 'act with integrity'.

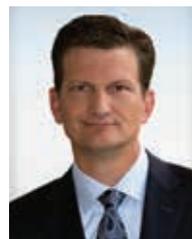
To achieve the level of consistency we have set for ourselves, the Global Board has made a number of significant changes, including appointing a Global Head of Audit Quality reporting to a new Global Audit Quality Committee of the Global

Board, led by Alison Kitchen, Chair of KPMG Australia. This committee will take the lead in monitoring and driving improvements to audit quality across the global KPMG organization.

In addition, as we set out later in these pages, we are updating our audit methodology and embedding it in a new audit workflow system, hosted in our recently launched 'smart' audit platform, KPMG Clara.

Our commitment to quality is underpinned by our values, which 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, developing and supporting our people to be the best they can be.

We have a strong vision for the future at KPMG and an exciting journey ahead of us. Our commitment to quality is fundamental to our journey, and is the overriding priority both for me personally and for KPMG.



**Bill Thomas**  
**Chairman**  
**KPMG International**

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# What is audit quality?

Audit quality is fundamental to maintaining public trust and is the key measure on which our professional reputation stands.

We define '**audit quality**' as being the outcome when:

- Audits are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls.
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

# Setting the quality agenda

## Our responsibility to all our stakeholders

Audit is the cornerstone of our business and the basis on which KPMG was founded. That is why audit quality is so important to us: our strategy begins with a focus on quality and further guides us to continuously improve quality and consistency through innovation. Our goal is to be the best, we will never be satisfied — it's our duty to the public and the capital markets.

As audit professionals, we understand we have a special responsibility to the public. We know that continuous quality improvement is fundamental to restoring the public's trust in the profession, and to meeting the expectations of investors, regulators, the organizations we audit, our people, the capital markets and the communities we live in.

In addition to improving our methodology and workflow, we are leveraging technology like never before. We are making significant investments in technology today to bring greater consistency across all of our audits. In 2017 we introduced a smart audit platform, KPMG Clara, and in 2018 we continued to scale and enhance the platform which enables us to incorporate new technologies as they emerge and mature. As artificial intelligence, predictive analytics, machine learning and cognitive technologies develop, KPMG Clara will be updated to incorporate technological advancements as part of the workflow, not as a separate tool. And with real-time

communication it is transforming the experience for our clients and people through greater transparency into the audit process. You can read about these developments in more detail in the ['Innovating and evolving our audit processes'](#) section of this report.

We are committed to advancing the digitization of the audit to empower our people to deliver the highest quality audit. At the same time, our values cannot and must not change. Accountability at the top, setting the tone for the global organization, and embedding a culture of ethics, integrity and purpose are as critical to our success as they have ever been.

Having a committed and determined global leadership that takes responsibility for driving quality is key to fulfilling our responsibilities to our stakeholders.



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

<sup>1</sup> Throughout this document, "we", "KPMG", "us" and "our" refer to the network of independent member firms operating under the KPMG name and affiliated with KPMG International or to one or more of these firms or to 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. The overall governance structure of KPMG International is discussed in more detail in the 'Governance and leadership' section of this report.

## Driving standards through a system of quality control

Tone at the top, leadership, and a clear set of values and conduct are essential to set the framework for quality. However, these must be backed up by a system of quality control that ensures our performance meets the highest professional standards.

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 on International Standards on Quality Control (ISQC 1), issued by the International Auditing and Assurance Standards Board (IAASB), which applies to professional services firms that perform audits of financial statements. KPMG's 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 create a virtuous circle because each driver is intended to reinforce the others.

While this Transparency Report summarizes KPMG's approach to audit quality, it may also be useful for stakeholders interested in member firms' Tax and Advisory services, as many KPMG quality control procedures and processes are cross-functional and apply equally to all services offered.

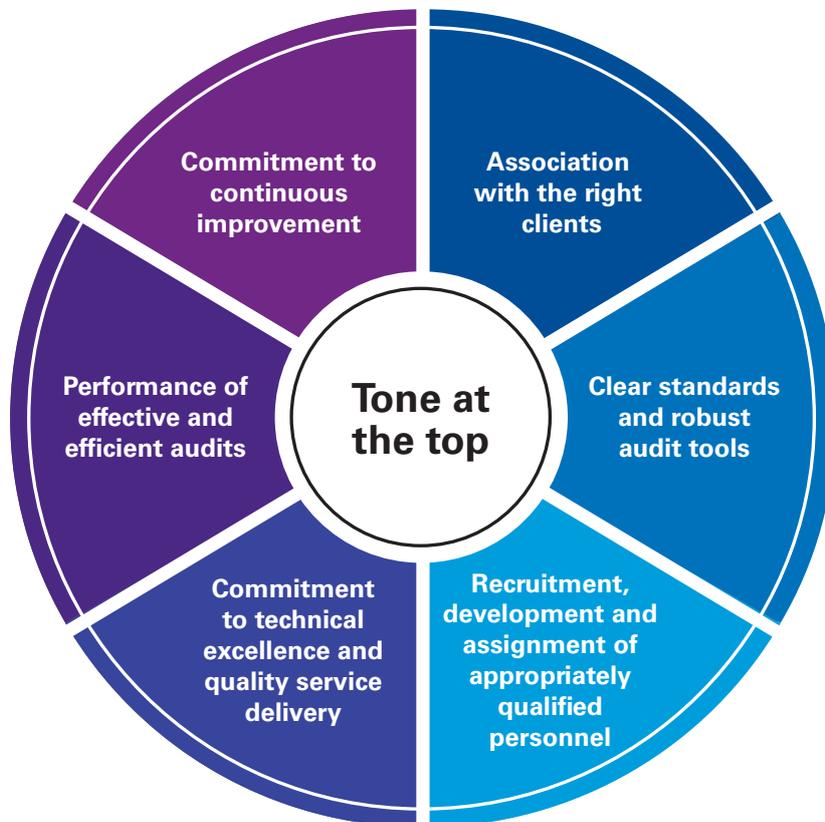
## We're leading through tone at the top

As a global organization, we recognize that strong and clear leadership from the center is needed, to set the tone from the top and provide the blueprint across the network.

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

KPMG's leadership drives an awareness that everyone across the network who is involved in performing an audit, or any client engagement across tax and advisory, has a responsibility and a part to play.

This is one of the factors that connects everyone at KPMG. It is embedded by starting at the top of the organization.



## We have clear values and a strong Code of Conduct

Our commitment to integrity and quality is enshrined in the [KPMG values](#) that lie at the heart of the way we do things. They define our diverse and inclusive culture and our commitment to the appropriate personal and professional conduct. Our values emphasize that, above all, we act with integrity, uphold the highest professional standards and provide sound advice while rigorously maintaining our independence and complying with laws, regulations and professional standards. We communicate our values clearly to our people and embed them into member firms' people processes — induction, performance development and reward.

We strive to live the values, acting as role models and promoting ethical behavior. We will not hesitate to take action where we find behavior that is incompatible with them.

Building on our values is the [KPMG Global Code of Conduct](#), which defines who we are and how we act. All member firms and their partners and staff are expected to act in line with the Code of Conduct.

Everyone at KPMG is required to take regular training covering the Code and to confirm their compliance with it.

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

To safeguard this, each member firm is required to have procedures and established channels of communication so that anyone working there can report ethical and quality issues. No member firm or KPMG partner or employee may in any way retaliate against individuals who 'raise their hand' and speak up in good faith.

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.

## Our global leadership takes responsibility for audit quality

Our global leadership plays a critical role in setting the quality agenda for the KPMG network. A number of global steering groups support this and drive the execution of the quality strategy. 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 functions, 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 the ['Governance and leadership'](#) section of this report.



# Creating a global framework for quality

## Enhanced governance, enhanced accountability

As auditors we recognize our work is pivotal to addressing the key global challenge of our time: restoring public trust in institutions.

As independent auditors our integrity is our currency. So when we talk about how we are striving to maintain and improve quality, as we do throughout this report, it is not some abstract aspiration. It is fundamental to our purpose.

I am delighted to have taken on the responsibility of establishing a Global Audit Quality Committee (GAQC) which I chair, which has taken responsibility for monitoring and driving improvements to audit quality across our international firm. The Global Audit Quality Committee (GAQC) comprises country senior partners (CEOs) from our largest firms — a demonstration of our united view that audit quality is paramount to our firm, and to the effective functioning of capital markets. Senior partners of Global Board member firms are now held accountable to the Global Chairman and the GAQC for achieving the audit quality expectations of our stakeholders.

As a means of further improving audit quality, investment is being driven into better digital platforms and AI initiatives. A most exciting aspect of this powerful new tech is how it frees our people to unleash the best of their human abilities. Being a good auditor means having an inquiring mind and the emotional intelligence to understand different people so they engage constructively with you. The challenge of aligning our best human qualities with sophisticated digital tools is one we should relish.

Auditors must be relentless in the pursuit of the highest standards if we are to earn and build the trust we seek and I am delighted to be charged with overseeing KPMG's plan to deliver this to our capital markets globally.



**Alison Kitchen**  
**Chairman of the Global Audit Quality Committee of the Board**  
**KPMG Australia**

## Investing in continuous improvement

We have introduced a number of changes as we continue to invest in continuous improvement. These include the creation of the GAQC of the Global Board, comprising senior partners from the largest firms, and the appointment of a dedicated Global Head of Audit Quality who reports to the committee.

To demonstrate our commitment to continually advancing audit quality across our global organization, the Global Board has appointed an Audit Quality Committee comprised of senior partners from the largest firms and led by Alison Kitchen, Chair of KPMG Australia.

Global Head of Audit Quality, reporting to a new Global Audit Quality Committee of the Global Board, leads in monitoring and driving improvements to audit quality, tracking real-time data across our global organization. The Global Head of Audit Quality oversees a dedicated quality monitoring group that inspects completed audit engagements as well as monitoring elements of member firms' systems of quality control.



Strong practice management support; this includes effective resource allocation and risk management, Department of Professional Practice and engagement of quality control capabilities and coaching, all operating within an effective system of quality controls aligned to the International Standards.

We are investing in our methodology and technology today to bring new levels of consistency across all of our audits. We have introduced a smart audit platform, KPMG Clara, which enables us to incorporate new technologies as they emerge and mature: the platform is truly scalable.



The leadership of senior partners and the accountability of audit leaders is fundamental to driving audit quality. We are reinforcing this through investments in our system of quality management, global monitoring of audit quality and enhanced support and tools for engagement teams. ”



**Rod Devlin**  
Global Head of  
Audit Quality  
KPMG International

### **Building consistency through a common approach**

We are seeing a new level of interest from stakeholders in audit quality, and we welcome that interest. KPMG has always been, at heart, an audit organization, and continuously improving audit quality is central to who we are.

It's important to be clear on how audit quality is defined, because a common understanding and definition helps to bring consistency to our audit engagements across our global network. At KPMG, audit quality is about consistent execution throughout the network in line with the requirements and intent of professional standards, and within a strong system of quality controls. All of our related activities are undertaken in an environment of objectivity, independence, ethics and integrity. That's what we stand for, that's how we measure our people and measure our practices.

Everyone is accountable for audit quality: from audit teams on the ground, to individual engagement partners, and through to the most senior ranks of KPMG member firms.

Good practice management at a member firm level also plays a significant part — in terms of real-time support for engagement teams, and strong support functions to help them carry out their tasks.

We are investing more in growing our audit quality monitoring group that monitors both live and completed engagements — independent of the firms, inspecting engagements and looking at the strength of their system

of quality control. This includes a robust root cause and remediation program, looking at underlying causes of issues identified, and the actions taken by member firms.

The more we standardize the way we conduct our audits, and the more global consistency we build into our processes and technology, the more effective we'll be at meeting the high standards we've set for audit quality. It provides the framework for success.

### **Consistent quality and risk management policies**

A robust and consistent system of quality control is essential to performing high-quality services. Accordingly, KPMG International has quality control policies that apply to all member firms. These are included in KPMG's Global Quality & Risk Management Manual (GQ&RM Manual) available to all KPMG partners and staff. These policies and associated procedures are designed to assist member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate to the circumstances.

These policies and procedures are based on the ISQC 1 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.

Member firms are required to implement KPMG International policies and procedures and adopt their own 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.

## Encouraging a culture of consultation

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

To help with this, 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 and global resources

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 Securities and Exchange Commission (SEC) foreign registrants.

### *Global Services Centre (GSC)*

The GSC's mission is to drive success for KPMG's network of Audit practices through collaboration, innovation and technology. The GSC develops, maintains and deploys KPMG's audit methodology and technology-based tools used by member firms' audit professionals. With three international locations, one in each region (Americas, EMA and ASPAC), the GSC Audit team is made up of professionals with backgrounds in audit, IT, data science, mathematics, statistics and more, from around the world, who bring diverse experiences and innovative ways of thinking to further evolve KPMG's audit capabilities. More information about KPMG's global audit methodology and technology-based tools is included in the ['Innovating and evolving our audit processes'](#) section of this report.

### *International Standards Group (ISG)*

The ISG focuses on the application of International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISAs).

To promote consistency of interpretation of IFRS and ISAs between member firms, Topic Teams with geographic representation from around the world 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.

The ISG also supports the Global ISA and IFRS Panels and the Global Topic teams to facilitate information sharing between the Department of Professional Practices (DPP) network (see below), and to help ensure sector-specific issues are dealt with proactively.

### *Member firm professional practice resource*

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

## We take a zero-tolerance approach to bribery

KPMG 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 partners and staff.

All KPMG member firm partners and staff are required to take training covering compliance with laws, regulations and professional standards, anti-bribery and corruption, and reporting suspected or actual non-compliance. More about KPMG International's position on bribery and corruption is available [here](#).

## Strict client confidentiality, information security and data privacy

KPMG has strict information security policies and procedures governing the handling of confidential client and personal information. All KPMG partners and staff must maintain confidentiality of all client and former client information, and are required to complete training in confidentiality, information protection and data privacy on an annual basis.

## Recognizing the importance of communication

Honest and candid communication with clients, including management and audit committees, is a key aspect of our reporting and quality service delivery.

## Communications with those charged with governance

We stress the importance of keeping clients 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 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.

## IFRS Institute

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

## 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 around 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 the ACI are available [here](#).



# Delivering quality on the ground

In this section, we set out the ways in which member firms implement global policies and procedures to ensure quality and integrity at a local level.

## Taking responsibility for audit quality at member firm level

While KPMG International creates the global framework and policies for audit quality, member firm leadership is responsible for the delivery of that quality and for local 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 (RMP) in maintaining a system of quality control.

## Performing effective and efficient audits

We understand that skills build over time and through exposure to different experiences.

## Embedding ongoing mentoring, supervision and review

To invest in building the skills and capabilities of KPMG professionals, 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.

## Engagement quality control (EQC) reviews

The EQC is an important part of KPMG's framework for quality. 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.

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 is continually seeking to strengthen and improve the role that the EQC review plays in member firm audits and has taken a number of actions to reinforce this, including issuing leading practices guidance, incorporating specific review requirements into our audit workflow, and developing policies relating to recognition, nomination and development of EQC reviewers.

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.

## Enabling 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 by member firms 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, EQC reviewer and other key individuals involved on the audit have completed relevant training and that the engagement team, collectively, has sufficient experience, including regarding the financial reporting framework that is not otherwise applicable in their jurisdiction, 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. These specialists receive the training they need to ensure they have the competencies, capabilities and objectivity to appropriately fulfill their role. They also receive a global annual update on global quality performance issues.

The need for specialists to be assigned to an audit engagement in areas such as information technology, tax, treasury, actuarial, forensic and valuations is considered as part of the audit engagement acceptance and continuance process, as well as during the conduct of the engagement.

### 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 our audit workflow. This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes). In addition, broader thematic industry overviews are available, as well as a summary of the industry knowledge provided in our audit workflow.

## Association with the right clients

KPMG has established policies and procedures for determining whether to accept or continue a client relationship, or perform a specific engagement. Rigorous client acceptance and continuance policies are vital to our ability to provide high-quality professional services.

### Client acceptance process

Every KPMG member firm is required to undertake an evaluation of every prospective client. This involves obtaining sufficient information about the prospective client, its key management and significant beneficial owners, and then properly analyzing the information to be able to make an informed acceptance decision. This evaluation includes completion of a questionnaire to assess the client's risk profile and obtain background information on the client and its key management, directors and owners. In addition, each member firm obtains additional information required to satisfy legal or regulatory requirements.

### 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, including potential independence and conflict of interest issues (using KPMG's web-based global conflicts and independence checking system — Sentinel), the intended purpose and use of engagement deliverables, 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 individuals assigned to staff the engagement.

### Continuance process

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

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 (e.g. in instances where there is information casting doubt on the perceived integrity of current senior management, other key client personnel or principal owner).

### Withdrawal

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



For us, integrity and independence are non-negotiable. That means we take decisive action when individual behavior or events occur that are not in line with our values or that run counter to achieving rigorous, independent audits. ”



**Ed Cannizzaro**  
Global Head of  
Quality, Risk and  
Regulatory  
KPMG International

### **Insisting on the highest standards and ethical transparency**

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

### **Practicing Ethics & Independence (E&I), integrity and objectivity**

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

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

KPMG partners and staff are required to consult with their member firm's EIP on certain specific independence matters as defined in the GQ&RM Manual. Consultation may also be required with the Global Independence Group and others within the KPMG network, depending upon the facts and circumstances. Guidance and tools are available to facilitate documenting these consultations.

Member firms must clearly communicate their independence policies and procedures to their partners and staff.

Compliance with 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 the '[Network level monitoring](#)' section of this report.

### **E&I — Training and confirmations**

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

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

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

### **Personal financial independence**

KPMG partners and staff must be free from prohibited financial interests in, and prohibited relationships with, audit clients, their management, directors and significant owners. All partners — irrespective of their member firm and function — are prohibited from owning securities of any audit client of any member firm.

A web-based independence compliance system (KICS), which contains an inventory of publicly available investments, assists professionals in complying with personal independence investment policies.

KPMG partners and all manager grade or above client-facing professionals are required to use the KICS system prior to entering into an investment to identify whether they are permitted to do so. They must also maintain an up-to-date record of all of their investments in KICS, which automatically notifies them if any investment subsequently becomes restricted. Newly restricted investments must be disposed of within 5 business days of the notification.

### *Employment relationships*

Any KPMG professional providing services to an audit client is required to notify the member firm's EIP if he or she intends to enter into employment negotiations with that audit client. For partners, this requirement extends to any audit client of any 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 disengaged from all significant connections to the firm, including payments which are not fixed and determined and/or would be material to the member firm and 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 EIP if they intend to enter into employment negotiations with any listed audit client of any member firm.

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.

### *Firm financial independence*

KPMG member firms must also be free from prohibited interests in, and prohibited relationships with, audit clients and their management, directors and significant owners. KICS is used to record member firm investments in SEC entities and affiliates (including funds), locally listed companies and funds, and 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 KICS all borrowing and capital financing relationships, and custodial, trust and brokerage accounts that hold member firm assets.

## Partner rotation

KPMG partner rotation policies are consistent with the IESBA Code of Ethics and require compliance with any stricter local applicable rotation requirements. 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 these partners may not participate in the audit or in any way influence the outcome of it. 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 related transition plans.

## Firm rotation

In certain jurisdictions member firms are permitted 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, KPMG member firms have processes in place to track and manage audit firm rotation.

### *Fee dependency*

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 conducting the audit. 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 member firm is appointed as the EQC reviewer.

### *Non-audit services*

KPMG is required, at a minimum, to comply with IESBA principles and applicable laws and regulations related to the scope of services that can be provided to audit clients.

Sentinel, a web-based application, facilitates compliance with auditor independence requirements and identifies potential conflicts of interest for prospective engagements. Certain information on all prospective engagements, including service descriptions and fees, must be entered into Sentinel as part of the engagement acceptance process. Lead audit engagement partners (LAEPs) are required to maintain group structures for their publicly traded and certain other audit clients, as well as their affiliates, in Sentinel. They are also responsible for identifying and evaluating any independence threats that may arise from the provision of a proposed non-audit service and the safeguards available to address them. For entities for which group structures are maintained, Sentinel enables LAEPs to review and approve, or deny, any proposed service for those entities worldwide.

### *Avoiding conflicts of interest*

All KPMG partners and staff are responsible for identifying and managing conflicts of interest, which are circumstances or situations that may reasonably be expected to have an impact on the ability to be objective or act without bias.

KPMG engagement teams are required to use Sentinel to identify potential conflicts so that these can be addressed in accordance with legal and professional requirements.

Each member firm has one or more allocated risk management individuals ('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.

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 partners and staff 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 RMP or the EIP is required in these situations.

### *E&I breaches*

All KPMG partners and staff are required to report an independence breach to their member firm EIP as soon as they become aware of it. 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 but at a minimum on an annual basis.

Each KPMG member firm is required to have a documented and communicated disciplinary policy in relation to independence breaches that incorporates incremental sanctions reflecting the severity of any breach. In the event of non-compliance with KPMG's independence policies, irrespective of how that non-compliance is identified, KPMG member firm professionals will be subject to the disciplinary policy.



# Innovating and evolving our audit processes

In this section, we outline how, in addition to having the right policies and procedures for quality in place, we are innovating in the delivery of the audit itself and leveraging new technologies and platforms.

## Investing in the technology and methodology our teams use to deliver quality

We have been investing significantly in evolving our audit capabilities and we will continue to do so in the coming years. This includes a new global technology-enabled audit workflow, and an enhanced audit methodology, delivered through the KPMG Clara platform — our smart, modular audit platform — capable of continually integrating new and emerging technologies, with advanced capabilities embedded that leverage data, automation and visualization. Data & Analytics (D&A) is integral to the way we obtain audit evidence and interact with clients in the digital era.

Our high-quality audit process will continue to include:

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

## Bringing consistency through our methodology

Our audit methodology, tools and guidance are:

- globally consistent and fully compliant with International Auditing Standards (ISAs) and are supplemented to comply with local auditing standards and regulatory or statutory requirements by member firms
- centered on identifying risk, focusing on risks of material misstatements and the necessary audit response
- made available to all KPMG audit professionals and required to be used, where necessary
- applied even where local auditing standards are less demanding than the ISAs.

The audit methodology is set out in KPMG's Audit Manual (KAM) and includes additional requirements that go beyond the ISAs, which KPMG believes enhance the quality of the audit. The audit methodology emphasizes applying appropriate professional skepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence.

Enhancements to the audit methodology, guidance and tools are made regularly to be in continuing compliance with standards, emerging auditing areas of focus and audit quality results (internal and external). Key topics include accounting estimates, internal controls, revenue recognition, group audits, audit sampling and risk assessment.

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

In the spirit of continuous improvement, significant investments are currently underway to revise and enhance our audit methodology.

#### *Utilizing effective audit tools*

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

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

In parallel with updating our audit methodology, we are currently redesigning our workflow so that it will be more intuitive with contextual guidance and data enabled.

#### *Timings*

The new 'KPMG Clara Workflow' that will also incorporate our updated audit methodology is being piloted in 2018 and planned for initial deployment globally in 2019, with full deployment beginning in 2020.

## **Embracing innovation and technology**

As indicated above, we are making significant investments in our audit methodology and workflow, and have already created a smart platform, KPMG Clara. These developments are designed to keep KPMG at the cutting edge of what modern technology makes possible, driving better and deeper audit insights. The changes will drive improved audit quality, and consistency in execution of audits, and strengthen member firm and global monitoring of engagements.

## **Bringing it all together: KPMG Clara**

In 2017, we commenced the global launch of KPMG Clara — our smart audit platform that brings together our audit Data & Analytics (D&A) capabilities, innovative new technologies, collaboration capabilities and audit workflow.

This represents our ambition to:

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

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

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

KPMG Clara will be enriched over time as emerging technologies continue to transform the audit, with areas like cognitive and predictive technology being channeled through KPMG Clara to deliver ever greater capabilities. Through alliances with some of the world's most advanced technology companies such as Microsoft, we are building the future of audit, aligning with technology leaders to bring new insights faster and, with growing capabilities, deliver even more value. KPMG's investment strategy also includes working with universities on important applied audit research and with member firms as they develop advanced technologies.



In today's world, new and disruptive technologies are emerging at a rapid pace. Blockchain, the cloud, robotic process automation, machine learning, deep learning and natural language processing all have huge potential to change how our businesses operate. The array of new technologies being developed will be a significant driver in increasing audit quality. They will enable us to obtain the corroborating evidence we need for an audit opinion faster and more accurate than ever before. ”



**Kristy Carscallen**  
Canadian Managing Partner, Audit  
KPMG in Canada

### Creating the new KPMG Clara Workflow

Building on the launch of KPMG Clara in 2017, we are creating a new workflow that will be used by our audit teams to execute and document KPMG audits. The new workflow will guide audit teams through a series of steps in a logical sequence, with a clear display of information and visuals, knowledge and guidance available at the moment of need, and with embedded advanced D&A capabilities. The workflow and methodology will also be scalable — adjusting the requirements to the size and complexity of the audit engagement. This globally driven project will significantly enhance the execution of an audit by KPMG professionals and drive improvements in audit quality.

KPMG Clara Workflow will incorporate the development of monitoring capabilities (e.g. data mining) at the engagement level for use by member firms. Once the KPMG Clara Workflow has been fully rolled out, the predecessor audit workflow tool, eAudit, is expected to be decommissioned (in our 2021 fiscal year).

### Strategically embedding the use of data through Data & Analytics (D&A)

An important element in today's audit is using the power of D&A to interrogate and analyze vast quantities of data. This takes the power and reach of an audit far beyond the traditional capabilities of the past.

KPMG's audit, powered by D&A is designed to:

- **enhances audit quality**; by providing a deeper understanding of data populations, giving focus to higher risk transactions

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

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

Current capabilities in this area facilitate the performance of planning and risk assessment activities and substantive procedures, and include capabilities that:

- enable the analysis of account balances and journal entry data
- automate 'period on period' balances comparison and 'time series' evolution information
- enable the analysis of sub-ledger, transactional data over certain business processes and accounts.

Together with our KPMG Clara platform, we are significantly investing in D&A capabilities and paving the way for the increasing use of emerging technologies such as robotic process automation and machine learning — which will take the power of technology applied in the audit to an even greater level.



# Equipping our people to do the best job

At KPMG, we recognize that having the right processes means nothing without the right people. In this section, we set out how we recruit, support and train our people to do the best job possible.

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 the right recruitment, promotion, retention, development and assignment of professionals. The KPMG performance development approach, linked to our values, is designed to articulate what is required for success — both individually and collectively. Ensuring audit quality is an essential element of the training, planning and development underway to support the KPMG Clara Workflow roll-out and the associated updated audit methodology, with processes embedded in all our learning programs.

## Recruiting the right people

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.

We expect all member firms to have recruitment strategies focused on recruiting the right skills for their business today and in the future by recruiting from a diverse talent pool.

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

KPMG'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 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 Global Review](#).

## Motivating through 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', 'exercising professional judgment' and 'striving for continual improvement'.

KPMG is launching a new approach to performance development, 'Everyone a Leader', where stretching goals should be set and reviewed regularly throughout the year. Leadership competencies will include 'driving quality', 'advancing an ethical environment' and 'making sound decisions'. A goals library is available for colleagues to gain inspiration around what goals they want to set, with one category of goals focused specifically around quality.



Our new 'Everyone a Leader' competency framework includes three simple principles that are easy to remember — we are asking all our people to 'Inspire Trust, Seek Growth and Deliver Impact'. These principles and the competencies that sit behind them help us develop all our people through quality conversations in our goal setting discussions, performance reviews and everyday conversations. ”



**Susan Ferrier**  
Global Head of People  
KPMG International

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

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 as well as for partner evaluation, promotion and remuneration.

### Reward and promotion

All KPMG 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 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.

KPMG member firms are required to identify and document criteria, which include audit quality and compliance metrics, in assessing overall evaluation, promotion and remuneration of partners and certain staff. 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 and thorough and involves appropriate representatives of the member firm's leadership. Member firms must use criteria that are consistent with a commitment to professionalism and integrity, quality and being an employer of choice.

KPMG global 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.

## We never stop building our skills

### 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, enhancing the quality and 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 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.



### 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 professionals to achieve their full potential and instill that every team member is responsible for building the capacity of the team, coaching other team members 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.



## Gleaning insights from our people — Global People Survey (GPS)

Biennially (and annually for Global Board countries), all KPMG partners and staff, across all functions, are invited to participate in KPMG's global, independent survey to share their perception about their experience working for KPMG. The GPS provides an overall measure of our people's engagement through an employee engagement index (EEI) as well as insights into areas driving engagement 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.

Results also provide warning indicators when reviewed against benchmarks and trends, allowing the tracking of progress and performance with respect to other organizations vying for our talented people.

All KPMG 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, upholding the values and tone at the top. The GPS results are tracked and appropriate follow-up actions agreed. GPS results and associated action plans are also reviewed as part of the Global Compliance Review Program (refer to the '[Network level monitoring](#)' section).

## Partner assignments

All KPMG member firms are required to have procedures in place to assign both the most suitable 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 engagement.

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. 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).

## 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 professional standards, KPMG's 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.

# Network level monitoring

At KPMG, we expect all member firms to continually improve the quality, consistency and efficiency of their audits. There are a number of quality monitoring and compliance programs that help firms do this, enabling them to identify quality issues, perform root cause analysis and develop remedial action plans, both for individual audits and for their overall systems of quality control.

## Rigorous quality and compliance programs

Our quality monitoring and compliance programs are created globally, with member firms being expected to implement, test and report them consistently across the network.

The programs evaluate both:

- engagement performance in compliance with the applicable standards, applicable laws and regulations, 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.

Our internal monitoring programs include:

- Quality Performance Reviews (QPR) and Risk Compliance Programs (RCP), which are conducted annually across member firms' Audit, Tax and Advisory functions
- a cross-functional Global Compliance Review (GCR) program, which is conducted at least every 3 years.

KPMG member firms have to take part in the QPR, RCP and GCR programs to remain part of the KPMG network.

Member firms are expected to communicate the results of the programs internally and take action to make improvements where needed. The results are also considered at a wider regional and network level.

We give more detail on these programs and how they work in the following sections.

## Global Audit Quality Monitoring Group (GAQMG)

The GAQMG comprises 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.

## Audit Quality Performance Reviews (QPR)

The QPR program assesses audit engagement performance and identifies opportunities to improve quality. Each audit engagement partner is reviewed at least once in a 3-year cycle as part of QPR.

KPMG International helps ensure that firms' QPRs are fair and objective, and that they are overseen by an independent experienced lead reviewer who is from a different member firm or who is part of the GAQMG.

KPMG International provides training 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.

KPMG International helps ensure that consistent criteria are used to award engagement ratings and audit practice evaluations, which can then be used to measure improvements in the future.

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.

## Risk Compliance Program (RCP)

During the annual RCP, member firms perform a robust assessment program that includes documenting quality controls and procedures, related compliance testing, reporting of exceptions, action plans and conclusions. The objectives of the RCP are to:

- monitor, document and assess the extent to which the member firm's system of quality control complies with Global Quality & Risk Management policies, as well as key legal and regulatory requirements
- help member firms evaluate its compliance with relevant KPMG professional standards and applicable legal and regulatory requirements.

If shortcomings are identified, the member firm must develop appropriate action plans to address them.

## Global Compliance Review (GCR)

A GCR is carried out by KPMG's GCR team at every member firm at least once in a 3-year cycle. The GCR team, who are completely independent of any member firm, look in detail at:

- a member firm's commitment to quality and risk management (including tone at the top from leadership) and the extent to which its overall structure, governance and financing support that
- a member firm's compliance with key KPMG policies and procedures
- the robustness with which the member firm performs its own compliance program (RCP).

KPMG member firms must develop action plans to respond to all GCR findings and agree to these with the GCR team. A member firm's progress with its action plan is monitored by a global GCR central team. Results are reported to the Global Quality & Risk Management Steering Group (GQRMSG) and, where necessary, to relevant KPMG International and regional leadership, to encourage timely remedial actions.

## Conducting root cause analysis

Root cause analysis is important in order to identify and address audit quality issues and prevent them from recurring in the future. We expect all member firms to carry out such analysis.

Member firm Heads of Audit are responsible for the development and implementation of action plans including appointing remediation owners. Risk Management Partners monitor their implementation.

At a global level, we continue to strengthen our root cause analysis process and drive consistency across the network by delivering face-to-face training and workshops for individuals in member firms who will be performing or overseeing root cause analysis.

## Taking effective remedial actions

Through the Global Audit Quality Steering Committee (GAQSC) and the GQRMSG, KPMG International 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 remediation plans have been implemented through the development of global training, tools and guidance to drive consistency, helping ensure the fundamentals are right and that leading practices are shared across the network.

## Valuing external feedback and dialogue

### Regulators

KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR), principally through its Global Audit Quality Working Group (GAQWG), to discuss audit quality findings and the actions we have taken to address them. We value the open, honest and transparent dialogue that IFIAR facilitates on global audit quality issues.

Every member firm is expected to maintain professional and respectful relationships with regulators, including being fully responsive to issues raised, responding in a timely manner and taking appropriate remedial actions. Member firms evaluate and report regulatory inspections results.

### Client feedback

Client feedback is also extremely important to us. Member firms proactively seek feedback from clients through direct conversations and third-party surveys to monitor their satisfaction. Member firms endeavor to consider this feedback and make changes in response at both the engagement and member firm levels.

# Governance and leadership

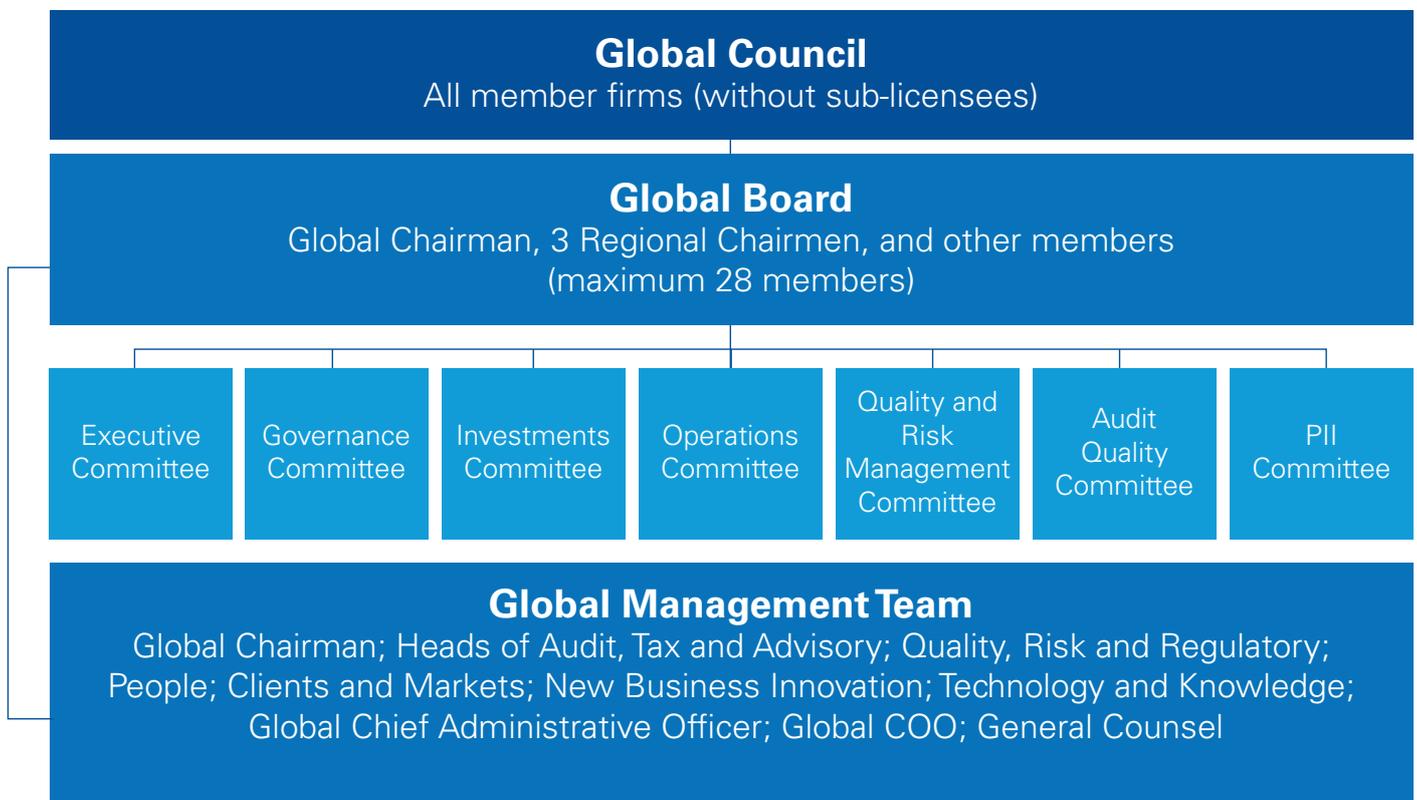
## Who we are

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.

## KPMG International structure and governance



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).

## 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 facilitates 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 the '[KPMG values](#)' section of this report).

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 three other senior partners of member firms. The list of Global Board members, as at 1 October 2018, is available in the [KPMG Global Review](#).

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

## 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 below.

### 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 the 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.

### Investments Committee

The Investments 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.

### *Global Quality & Risk Management Committee*

The Global Quality & Risk Management Committee oversees those operations, resources and policies and regulations of KPMG International that are intended to improve and facilitate risk management decisions by KPMG member firms and to improve and maintain the consistency and quality of services and products provided by the KPMG member firms to their clients.

### *Global Audit Quality Committee*

The overarching responsibility of the Global Audit Quality Committee is to strive for globally consistent audit quality across the KPMG network and to oversee those activities by KPMG International that relate to improving and maintaining the consistency and quality of audits provided by the KPMG member firms.

### *Professional Indemnity Insurance (PII) Committee*

The PII 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 Global Review](#) and [on the leadership section of our website](#).

## Global Head of Quality, Risk and Regulatory

The Global Head of Quality, Risk and Regulatory serves as an executive member of the senior leadership team, and has global responsibility for KPMG's system of quality controls, risk management, and ethics and compliance programs.

## 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 Steering Committee (GAQSC)*

The GAQSC is chaired by the Global Head of Audit Quality and includes: the Global Head of Audit, Global Head of Quality, Risk & Regulatory, Regional Audit Quality Leaders, country Heads of Audit Quality from the 10 larger member firms, Global Services Centre Leadership, International Standards Group Leadership and the Head of the Global Audit Quality Monitoring Group.

The GAQSC is responsible for:

- monitoring and driving progress in global audit quality initiatives to improve the consistency and quality of audit execution throughout the network, including the system of quality control
- 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
- assessing and monitoring network progress on how audit quality issues are being addressed by member firms and the network as a whole
- making 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 Global Head of Audit Quality; 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 Global Head of Independence; the Global Head of People; the General Counsel; and the Risk Management Partners for each of the three regions and for certain Global Board 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 (GQ&RM Manual) available to all member firms and their personnel on a web-based platform. The GQRMSG is responsible — through the Quality Performance Review (QPR), the 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, 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 serve a regular and ongoing monitoring and consultation function to assess the effectiveness of a member firm's efforts and processes to identify, manage and report significant risks that have the potential to damage the KPMG brand. Significant activities of the ARL, including member firm issues identified and related member firm response/ remediation, are reported to GQ&RM leadership.

The objectives of the ARL role are to:

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





# Appendix

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

Aggregated revenues generated by KPMG audit firms from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR2.8 billion during the fiscal year ending 30 September 2018. The EU/EEA aggregated

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



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