



Transparency Report 2020

Our relentless focus on quality

KPMG International

home.kpmg/transparency



KPMG Values

Our Values represent what we believe in, and what's important to us as an organization. They guide our behaviors day-to-day, informing how we act, the decisions we make, and how we work with each other, our clients, companies that we audit, and all our stakeholders.

Our Values are:

- **Integrity:** We do what is right.
- **Excellence:** We never stop learning and improving.
- **Courage:** We think and act boldly.
- **Together:** We respect each other and draw strength from our differences.
- **For Better:** We do what matters.

KPMG's Values express the organization's long-standing core beliefs, and in 2020 the language was updated to make them bolder, simpler and more memorable to help each of us bring them to life every day.



Quality remains our top priority

In a changing and increasingly complicated world, our role has never been more important. Audit is the foundation of the KPMG brand and is the backbone of our business.

Quality remains our top priority and underpins everything we do. We have an unwavering commitment to serve the public interest by leading the profession in audit quality.

COVID-19 is pushing us to think differently about how we engage our people, companies we audit, stakeholders and society. The increased economic uncertainty and risk due to the pandemic will have significant financial reporting implications throughout the world markets. We will continue to respond to and embrace this challenge as we focus on recovery and resilience in this new reality.

All of our actions are guided by our Values. They drive our daily behaviors, guide our decisions and shape our culture. Integrity remains a core Value — we do what is right, in the right way, at the right time. We embody our Values of integrity and excellence in our commitment to quality.

In our *2020 KPMG Transparency Report*, we share with you how we are delivering on our fundamental promise of audit quality to serve the public interest, investors, audit committees and our stakeholders.

Delivering quality audits requires a quality-centric culture where everyone is accountable for it. Accountability starts at the top of our global organization, with every KPMG leader responsible for continually raising the bar for quality, integrity and public trust.

Building upon our sound audit quality foundations, we are making significant investments to drive consistency and quality across our global audit practices. We've committed to an ongoing investment in our system of quality management, global monitoring of audit quality, enhanced support, and

providing innovative technology and tools for engagement teams, such as KPMG Clara, our smart audit platform.

Through KPMG Clara, we are integrating a new workflow and enhanced methodology along with powerful, web-based and cloud-enabled technology to enhance the audit process and enable real-time engagement monitoring. With the increased reliance on a virtual environment, KPMG Clara is a key component of our technology enablement for the companies we audit and central to our efforts to enhance quality and consistency across the organization.

We recognize that continually improving our approach to audit quality relies on exceptional people having access to the right knowledge at the right time under the guidance of strong governance and practice management.

Our Global Board has implemented fundamental organizational changes to achieve greater levels of consistency and accountability across our global network. Our structure commits all KPMG firms to our common set of Values, standards and service quality expectations.

At KPMG, we realize that extraordinary times require extraordinary solutions to complex challenges. We understand our responsibility to deliver quality audits that contribute to the integrity of financial reporting and are fundamental to the successful working of markets, giving investors the confidence and trust to make key decisions.

Consistently providing exceptional quality across all our audit engagements is at the heart of our commitment. Getting audit quality right each and every time is what we are focused on to fulfill our role to society, serve our markets and build public trust.

Our vision to lead the way in audit quality is clear.

We are taking action, we're investing and we're making it happen.



Bill Thomas
Global Chairman and CEO
KPMG International



Larry Bradley
Global Head of Audit
KPMG International



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

We define “audit quality” as 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.



Driving the quality agenda

This section provides an update on our global approach to delivering audit quality.

Our global audit quality program



We are making significant investments to drive consistency and quality across our global organization. We are building on our sound audit quality foundations, in terms of how KPMG firms are managed and how they execute their audit engagements.

This means ongoing investment in our system of quality management, global monitoring of audit quality, enhanced support, and providing best-in-class technology and tools for engagement teams.

Our global audit quality program supports consistent deployment of investments by firms to enhance and drive a common approach.

Building consistency through a global approach



At its core, KPMG is an audit organization, and continuously improving audit quality is central to who we are.

At KPMG, audit quality is about consistent execution across all firms 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 our practices.

Everyone is accountable for audit quality. Responsibility for consistently delivering quality starts at the very top of our organization and requires accountability across leadership and all KPMG partners and employees.

Executing audits consistently within a strong system of quality controls is fundamental to audit quality. We already

have a clear framework for delivering audit quality that's supported by a strong system of quality control. But we know that if KPMG firms are to continue to deliver quality audits in an ever-changing world, we need to continuously improve.

Sound practice management by firms 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 closely monitor audit quality across all KPMG firms. We have a Global Audit Quality Monitoring Group — that we are growing in size and scope — that inspects audits around the world, and a Global Compliance Review Program that provides independent review of member firms' commitment to quality and compliance with policies.

We are standardizing the way we conduct audits at KPMG, and building more global consistency into our processes and technology, to be more effective at meeting the high standards we've set for ourselves for audit quality. It provides the framework for success.

KPMG's commitment to audit quality during the COVID-19 pandemic

The COVID-19 pandemic has forced us all to think differently, and we continue to respond to and embrace this challenge. Most organizations are likely to be impacted by the COVID-19 pandemic, either directly or indirectly, and the increased economic uncertainty and risk may have significant financial reporting implications. Issues including going concern, asset impairments and valuations will require careful judgment as organizations deal with a high degree of uncertainty and market volatility. KPMG firms' role as auditors is to evaluate these judgments.

Throughout this document, "we," "KPMG," "us" and "our" refers to the global organization, to KPMG International Limited ("KPMG International") or to one or more of the member firms of KPMG International, each of which is a separate legal entity.

KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. 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.



Since the start of the pandemic we have maintained an online [COVID-19 | Financial reporting resource center](#) to assist companies and other stakeholders in understanding potential accounting and disclosure implications.

KPMG International has issued extensive guidance to assist teams in addressing the various accounting, financial reporting and audit related matters arising from the impacts of the COVID-19 pandemic including going concern, asset impairments, valuations and related disclosures, materiality, risk assessment, group audits, inventory, subsequent events, audit evidence communications with Those Charged With Governance, and considerations for remote working environments.

KPMG's guidance has been continually updated throughout the pandemic as other significant auditing, accounting and reporting issues have been identified.

KPMG is a technology-enabled organization, with all audit technical accounting and auditing resources, guidance and audit platforms and tools available electronically, enabling the conversion to a remote working environment.

Communication has been increasingly important to everyone during the COVID-19 pandemic. We have leveraged our investments in technology to provide KPMG firms with more regular updates, including virtual meetings to share best practices and guidance.

Valuing feedback and dialogue



We recognize that another important contributor to upholding audit quality is to obtain and act upon feedback from key stakeholders.

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 (GAQ WG), 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 KPMG firm is expected to maintain professional and respectful relationships with regulators, including proactively engaging, responding to questions in a timely manner and taking appropriate remedial actions.

Client feedback

Client feedback is also important. KPMG firms proactively seek feedback from clients through direct conversations and third-party surveys. KPMG firms endeavor to be responsive to the feedback, while respecting our commitment to the standards.

Listening to our people — Global People Survey (GPS)

Only with engaged, talented people can KPMG deliver audits in line with our audit quality expectations. Annually, all KPMG personnel, across all functions, are invited to participate in KPMG's global people/engagement survey to share their perception about their experience of working for KPMG. The results are analyzed across various teams and demographic groups. We gain additional insight on how we are faring on categories known to impact employee engagement. We also cover areas of focus that are directly relevant to audit quality; the survey includes specific audit quality related questions that all individuals who participated in an audit respond to, giving us a particular data set for audit quality related matters.

Importantly, results are reviewed against benchmarks and trends, allowing the tracking of progress and performance with respect to other organizations.

All KPMG firms are required to participate in the survey each year and to take appropriate actions to communicate and respond to the findings of the survey. This includes monitoring survey results including those related to quality and risk behavior, audit quality, and upholding the KPMG Values. The GPS results are tracked and appropriate follow-up actions agreed upon. Results and associated action plans are also reviewed as part of the Global Compliance Review Program (for more details on this program, see the ['Audit quality monitoring and remediation'](#) section).

Operating in different regulatory environments

Regulatory requirements under which the profession operates differ across jurisdictions. KPMG firms are committed to operating according to the regulatory environment of their market.

KPMG is supportive of international initiatives to promote consistency in regulatory requirements for the capital markets, while recognizing that different countries will have different requirements.



Building on our audit quality foundations

This section provides details on our overall system of quality control.

Leading through tone at the top



As a global organization, we recognize that strong and clear leadership from the center is critical to set the tone from the top and provide the blueprint to all firms.

Our global leadership, working with regional and firm leadership, 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 rely. We have taken steps to strengthen our governance, with a focus on accountability for quality.

KPMG’s global leadership drives an awareness that everyone across the organization 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 key factors that connects everyone at KPMG.

Clear Values and a strong Code of Conduct



Within our Global Code of Conduct, we outline the responsibilities all KPMG personnel have to each other, our clients and the public. It shows how our Values inspire our greatest aspirations and guide all of our behaviors and actions. It defines what it means to work at and be part of KPMG, as well as our individual and collective responsibilities.

Our Values lie at the heart of the way we do things. To do the right thing, the right way. Always. They drive our daily behaviors, guide our decisions and shape our character. They form the foundation of a resilient culture ready to

meet challenge with integrity, so we never lose sight of our principal responsibility to protect the public interest. And they propel us forward — through our work and the example we set — as we inspire confidence and empower change throughout the world.

Everyone at KPMG is required to comply with the Global Code of Conduct and to confirm their compliance with the Code. Everyone at KPMG is also required to take regular training covering the Code. We are committed to holding ourselves accountable for behaving in a way that is consistent with the Code. Individuals are encouraged to speak up if 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 KPMG firm is required to have procedures and established channels of communication so that anyone working there can report suspected ethical and quality issues or concerns.

In addition, the [KPMG International hotline](#) is a mechanism for KPMG personnel, clients and other third parties to confidentially report concerns they have relating to certain areas of activity by any KPMG International entity, activities of KPMG firms or KPMG personnel.

All KPMG firms and personnel are prohibited from retaliating against individuals who have the courage to speak up in good faith. Retaliation is a serious violation of the Code, and any person who takes retaliatory action will be subject to their firm’s disciplinary policy.



Driving standards through a system of quality control



Our commitment to integrity and quality lie at the heart of the way we do things at KPMG.

Our system of quality control 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 International developed the Audit Quality Framework. The Audit Quality Framework is based on two standards which apply to professional services that perform audits of financial information, the International Standards on Quality Control (ISQC 1), issued by the International Auditing and Assurance Standards Board (IAASB) and the International Code of Ethics for Professional Accountants (including International Independence Standards), issued by the International Ethics Standards Board for Accountants (IESBA), which we will refer to subsequently as 'the IESBA Code of Ethics'.

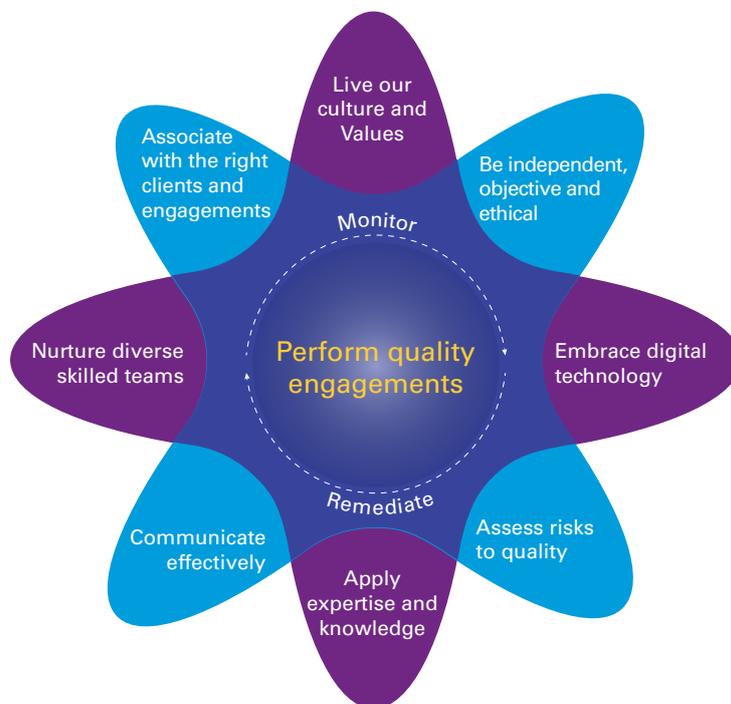
Across our global organization, we are building on our sound quality foundations to further strengthen the

robustness and consistency of our global system of quality controls, enabling our firms' compliance with the new quality management standard (ISQM 1). Approved by the IAASB in September 2020, the new standard is expected to be effective from December 2022. ISQM 1 requires each KPMG firm to design, implement and operate a system of quality management to consistently deliver quality audits, and to evaluate the effectiveness of the system annually.

As we prepare for ISQM 1, we are refreshing our current Audit Quality Framework to a new Global Quality Framework to better outline how we deliver quality at KPMG, and how everyone at KPMG contributes to its delivery. 'Perform quality engagements' sits at the core along with our commitment to continually monitor and remediate our processes as necessary.

Our Quality Drivers give clear direction to encourage the right behaviors in delivering audit quality.

While this KPMG International Transparency Report summarizes KPMG's approach to audit quality, it also applies across our organization, as many KPMG quality control procedures and processes apply to all services offered.





Consistent quality and risk management policies



A robust and consistent system of quality control is essential to delivering quality services.

Accordingly, KPMG International has quality control policies that apply to all KPMG firms. These are included in KPMG's Global Quality & Risk Management Manual (GQ&RM Manual), which is available to, and applies to, all KPMG personnel.

These policies and associated procedures are designed to assist member firms in complying with relevant professional standards, and regulatory and legal requirements.

They are based on the ISQC 1 and on the Code of Ethics for Professional Accountants issued by the IESBA. Both of these are relevant to member firms that perform statutory audits and other assurance and related services engagements.

KPMG 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.

Our global leadership takes responsibility for audit quality



KPMG global leadership plays a critical role in driving the quality agenda for the organization.

In respect of audit quality, our Global Head of

Audit Quality provides reports to the Global Audit Quality Committee of the Global Board and has responsibility for oversight of audit quality across KPMG for KPMG International. Certain global steering groups 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 KPMG member firm leadership, to:

- establish and ensure communication of appropriate audit, quality and risk management policies
- establish and support effective and efficient processes to promote audit quality

- promote and support strategy implementation in KPMG member firms' audit functions, including standards of audit quality
- assess and monitor audit quality issues, including those arising from quality performance and regulatory reviews, and focus on best practices that reduce audit quality findings.

The overall governance structure of KPMG International and further detail on global leadership groups is provided in the '[Governance and leadership](#)' section of this report.

Associating with the right clients



Rigorous global client and engagement acceptance and continuance policies are vital to being able to provide quality professional services.

KPMG's client and engagement acceptance and continuance policies and processes are designed to identify and evaluate any potential risks prior to accepting or continuing a client relationship, or performing a specific engagement.

KPMG firms are required to evaluate whether to accept or continue a client relationship, or perform a specific engagement. Where client/engagement acceptance (or continuance) decisions pose significant risks, additional approvals are required.

Client acceptance process

Every KPMG firm is required to undertake an evaluation of every prospective client. This involves obtaining sufficient information about the prospective client and 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 obtaining background information on the client and its key management, directors and owners. In addition, each firm obtains any further information required to satisfy local 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; public perception; and factors specific to the type of engagement. For audit services, these include 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 all KPMG firms.

Recurring or long-running non-audit engagements are also subject to periodic 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 process

If a firm comes to a preliminary conclusion that indicates it should withdraw from an engagement or client relationship, it is required to 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.

Insisting on the highest standards of independence and ethical transparency



Auditor independence and strong ethical conduct are cornerstones of international professional standards and regulatory requirements.

KPMG International's detailed independence policies and procedures, which incorporate the IESBA Code of Ethics requirements, are set out in the GQ&RM Manual, which applies to all KPMG firms. Automated tools, which are required to be used for every prospective engagement to identify potential independence and conflict of interest issues, facilitate compliance. Firms add policies and procedures to organization-wide processes to meet additional local independence standards.

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 guidance and tools to help member firms and their partners and staff comply with these requirements. The Global Independence Group communicates regularly to KPMG firms, headlining policy changes and enhancements as well as providing guidance on complying with the independence standards. The Global Independence Group holds various workshops and also provides ad hoc training over the course of each year.

Each KPMG firm has a designated Ethics & Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence (E&I) policies and procedures locally. The EIP is responsible for communicating and implementing KPMG global policies and procedures and ensuring that local policies and procedures are established and effectively implemented when they are more stringent than the global requirements.

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



KPMG firms are required to 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 ['Audit quality monitoring and remediation'](#) section of this report.

E&I – Training and confirmations

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

Upon acceptance of employment, all KPMG partners and employees 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 and other key 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 employees are required to be free from prohibited financial interests in, and prohibited financial relationships with, assurance and audit clients (by definition, 'audit client' includes its related entities or affiliates), their management, directors and, where required, significant owners. All partners — irrespective of their firm or function — are generally prohibited from owning securities of any audit client of any KPMG 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.

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

The Global Independence Group provides guidance and required procedures relating to the audit and inspection by KPMG firms of personal compliance with KPMG's independence policies. This includes sample criteria including the minimum number of professionals to be audited annually.

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 KPMG firm that is a public interest entity.

Former members of the audit team or former partners of a KPMG firm are prohibited from joining an audit client in certain roles unless they have disengaged from all significant connections to the KPMG firm, including payments which are not fixed and predetermined and/or would be material to the member firm, and have ceased participating in the firm's business and professional activities.

Any former partner who has a financial relationship with a KPMG firm is required to notify the EIP if they intend to enter into employment negotiations with any listed audit client of any KPMG 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 firms are required to also be free from prohibited interests in, and prohibited relationships with, audit clients and their management, directors and, where required, significant owners. KICS is used to record KPMG firm direct and material indirect investments in listed entities and funds (or similar investment vehicles) as well as in non-listed entities or funds. This includes investments held in associated pension and employee benefit plans.

Additionally, KPMG firms are required to record in KICS all borrowing and financing relationships, as well as custodial, trust and brokerage accounts that hold firm assets.

Business relationships/suppliers

KPMG has policies and procedures in place that are designed to ensure its business relationships with audit clients are maintained in accordance with the IESBA Code of Ethics and other applicable independence requirements, such as those promulgated by the US Securities and Exchange Commission (SEC).

Non-audit services

All KPMG firms are required, at a minimum, to comply with the IESBA Code of Ethics 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 detailed service descriptions, deliverables and estimated fees, are required to be entered into Sentinel as part of the engagement acceptance process. When the engagement is for an audit client, an evaluation of potential independence threats and safeguards is also required to be included in the Sentinel submission.

Lead Audit Engagement Partners (LAEPs) are required to maintain group structures for their publicly traded and certain other audit clients, including their related entities or 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 request revision, approve, or deny, any proposed service for those entities worldwide. For approved proposed services, Sentinel designates a timeframe during which the approval remains valid. Upon expiration of the established timeframe, the services are required to be complete or be re-evaluated for permissibility; otherwise, the services are required to be exited.

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.

Fee dependency

Self-interest or intimidation threats at a firm-wide level may arise when the total fees from an audit client represent a large proportion of the total fees of the KPMG 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 KPMG firm for 2 consecutive years:

- disclosure is required to those charged with governance at the audit client; and
- a partner from another member firm is appointed as the engagement quality control (EQC) reviewer.

Avoiding conflicts of interest

All KPMG professionals 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 firm's 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.



Personal conflicts

Conflicts of interest can arise in situations where KPMG partners or employees have a personal connection with the client which 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 (RMP) or the EIP is required in these situations.

Policies are also in place to prohibit KPMG partners and employees from offering or accepting inducements, including gifts and hospitality, to or from audit clients, unless the value is trivial and inconsequential, is not prohibited by relevant law or regulation, and is not deemed to have been offered with the intent to improperly influence the behavior of the recipient.

Resolving conflicts of interest

Each KPMG firm has one or more allocated risk management individuals who are responsible for reviewing an identified potential conflict and working with the affected member firms to resolve the conflict, the outcome of which is required to 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.

Independence breaches

All KPMG partners and employees are required to report an independence breach to their member firm EIP as soon as they become aware of it. Breaches of auditor independence regulations are required to be reported to those charged with governance at the audit client on the agreed-upon basis but at a minimum on an annual basis, or sooner based on local, applicable professional and regulatory guidelines.

Each KPMG 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 professionals are subject to the disciplinary policy.

Partner rotation

KPMG partner rotation policies are consistent with the requirements of 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 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. During the time-out period, partners may not participate in the audit, in any way influence the outcome of the audit, lead or coordinate other professional services delivered to the client, oversee the relationship of the firm with the client, or have any other significant or frequent interaction with senior management or those charged with governance. 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 only permitted to act as an auditor for a specific audit client for a defined period and not to act as auditor for that client for a specified period of time thereafter. KPMG firms in these jurisdictions are required to have processes in place to track and manage compliance with audit firm rotation requirements.

Zero-tolerance approach to bribery and corruption

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 KPMG firm clients, suppliers or public officials. KPMG International requires KPMG firms to have appropriate internal controls in place to mitigate the risk of involvement in bribery by the firm and its partners and employees.

All KPMG firm partners and employees are required to take training covering compliance with laws, regulations and professional standards relating to anti-bribery and corruption, including the reporting of suspected or actual non-compliance.

More about KPMG International's position on bribery and corruption is available [here](#).

Bringing technical excellence and industry expertise



We are committed and continue to build on our technical excellence, recognizing its fundamental role in delivering quality audits.

Technical consultation and global resources

Technical auditing and accounting support is available to member firms through the Global Audit Methodology Group (GAMG), KPMG Global Solutions Group (KGSG), the International Standards Group (ISG) and the PCAOB Standards Group (PSG).

Global Audit Methodology Group (GAMG)

KPMG's audit methodology is developed and maintained by the GAMG. The GAMG develops our audit methodology based on the requirements of the applicable auditing standards — International Standards on Auditing, Public Company Accounting Oversight Board (PCAOB) and the American Institute of CPAs (AICPA).

KPMG Global Solutions Group (KGSG)

KGSG and GAMG work collaboratively to support firms through collaboration, innovation and technology. We have made significant investment in our audit methodology and tools, with the core focus of improving audit quality and global consistency.

Key areas of work performed include:

- developing innovative audit capabilities (i.e. technology solutions) and deploying and using advanced audit solutions
- deploying KPMG Clara — our smart audit platform, incorporating advanced technologies, data science, audit automation, data visualization and more
- enhancing KPMG's audit methodology, workflow and knowledge used by member firms' audit professionals.



With locations in each of the three KPMG regions (Americas, Europe, the Middle East and Africa and Asia Pacific), the KGSG and GAMG teams comprise 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, drives consistency across the network

- provides feedback to international standard setters on proposed changes to standards and consultations
- consults on technical matters with KPMG 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 Practice (DPP) network (see '[Delivering audit quality on the ground](#)' section), and to help ensure sector-specific issues are dealt with proactively.

PCAOB Standards Group (PSG)

The PSG comprises a dedicated group of professionals with backgrounds in PCAOB auditing standards who promote consistency of interpretation of PCAOB auditing standards applied globally in KPMG firms' audits of non-US components of US companies and foreign private issuers and non-US components of SEC issuers, as defined by SEC regulations. The PSG also provides input into the development of training for auditors who work on PCAOB audit engagements and, where practicable, facilitates delivery of such training.



Delivering audit quality on the ground

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

Taking responsibility for audit quality at KPMG firm level



While KPMG International creates the global framework and policies for audit quality, KPMG firm leadership is responsible for the delivery of that quality and for local quality control.

Each KPMG firm is responsible for:

- establishing and maintaining a system of quality control; and
- designing, implementing and testing the operating effectiveness of quality controls.

Within each KPMG firm, there is a Head of Audit, who has primary responsibility for audit quality and is supported by the KPMG firm Risk Management Partner (RMP) in maintaining a system of quality control.

Partner assignments

All KPMG firms are required to have procedures in place to assign both the appropriate 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.

Heads of Audit within KPMG 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 allocate sufficient professionals to their engagement teams who 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 KPMG firm, the firm accesses a network of highly skilled KPMG professionals in other member firms.

Embedding ongoing mentoring, supervision and review

To invest in building the skills and capabilities of KPMG professionals, KPMG 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 review is an important part of KPMG's framework for quality. An EQC reviewer is required to be appointed by KPMG firms 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.

An EQC review provides reasonable assurance that the team has appropriately identified significant risks, including fraud risks, and has designed and executed audit procedures to address them.

EQC reviewers are required to meet training and experience qualifications to perform a quality control review for a particular engagement. Reviewers are independent of the engagement team and audit client 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.

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.

We continually seek to strengthen and improve the role that the EQC review plays in KPMG audits and have 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.

Engagement documentation

KPMG audit documentation is completed and assembled according to the timeline established by firm policy and auditing standards, and we have implemented administrative, technical and physical safeguards to protect the confidentiality and integrity of client and firm information. The organization recently adopted global policies to reduce the time period to assemble audit documentation, which is significantly less than required by the applicable auditing standards.

Training and experience requirements for IFRS and US GAAP engagements

Specific requirements apply to partners, managers and EQC reviewers working on IFRS engagements in countries where IFRS is not the predominant financial reporting framework.

Similar policies apply to engagements performed by KPMG 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, at a minimum, all partners, managers and EQC reviewers assigned to the engagement 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

KPMG firm engagement teams have access to a network of KPMG specialists — either within their firm or in other KPMG 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.



KPMG firm professional practice resource

KPMG 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). This resource also assists engagement teams where there are differences of opinion either within teams or with the engagement quality control reviewer. Unresolved differences are required to follow a prescribed escalation protocol to partners for final resolution.

KPMG's International Standards Group and PCAOB Standards Group are also available for consultation support when required.

Encouraging a culture of consultation

KPMG encourages a strong culture of consultation that supports 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, 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.

Recognizing the importance of communication



Honest and candid communication with clients, including management and those charged with governance, is a key aspect of our reporting and quality service delivery. As described later in this report (see '[Innovating and evolving our audit approach](#)' section), our smart audit platform, KPMG Clara, includes a client collaboration portal, allowing clients real-time monitoring of the status of the audit as well as seamless communication with the audit engagement team.

Communications with those charged with governance

We stress the importance of keeping clients informed of issues arising throughout the audit. KPMG firms and 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 overseeing the relationship between company and auditor and challenging what auditors do and how they do it.

Audit Committee Institute (ACI)

In recognition of the demanding and important role that audit committees play in driving audit quality and 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 and provides audit committee members with authoritative guidance on matters of interest 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](#).

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.



Innovating and evolving the KPMG audit approach

In this section, we detail how we are innovating in the delivery of the audit itself and leveraging new technologies and platforms.

Delivering through our current audit workflow



The current KPMG audit is enabled through eAudit, an activity-based workflow and electronic audit file. eAudit is KPMG's audit documentation workflow that allows professionals to complete quality and consistent audits. eAudit integrates KPMG's audit methodology, guidance and industry-specific 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.

Investing for the future

While our current audit workflow and methodology are robust and consistent with all auditing standard requirements, the changes we are making will enable us to execute on our objective of a relentless focus on audit quality and provide us with the platform to build in continuous enhancements as the power of new technologies develops.

We have laid the groundwork for this already with the launch of our smart audit platform, KPMG Clara, in 2017.

Audit solutions for today's world



We recognize that in order to deliver quality audits, we need to continually evolve and develop our technology solutions to keep pace with today's digital world.

That is why we have embarked on a process of reimagining our audit platform, technology, workflow and methodology to provide enhanced consistency and support to our audit engagement teams, deliver more detailed insights to clients, and future-proof our systems for the expected continued development of new technologies such as robotic process automation and machine learning.

The continuation of this process will see a new workflow and revised audit methodology embedded into the KPMG Clara platform. Limited deployment of the new KPMG Clara workflow took place during 2019, and full deployment globally started in 2020, and is expected to be completed by the end of 2022.

The release of the KPMG Clara workflow and the new and enhanced audit methodology is an important milestone in KPMG's journey to innovate, digitalize and transform the audit experience for our people.

It is a significant investment that underlines our commitment to audit quality, consistency and innovation.



Bringing consistency through our methodology



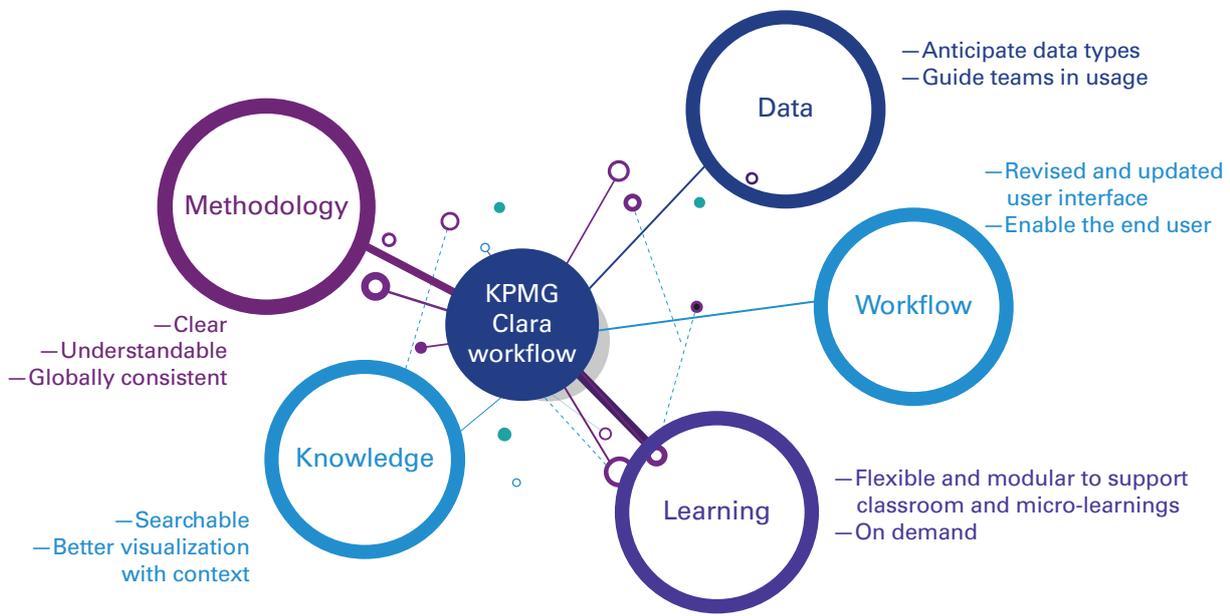
The KPMG audit methodology, tools and guidance are:

- globally consistent and fully compliant with the applicable standards, including International Standards on Auditing (ISAs), Public Company Accounting Oversight Board (PCAOB) and the American Institute of CPAs (AICPA) and are supplemented to comply with local auditing standards and regulatory or statutory requirements by member firms
- inclusive of KPMG methodology interpretations that drive consistency in areas where the applicable standards are not prescriptive in the approach to be followed
- centered on identifying risk and 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 may be less demanding than the ISAs.

The 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 maintain compliance with standards, and address emerging auditing areas of focus and audit quality results (internal and external). For example, as a result of the COVID-19 pandemic, many companies are experiencing significant financial uncertainty. We have issued guidance to our auditors on conducting audit procedures in a remote-working environment, raising awareness of key audit risks such as going concern and impairments, and provided reminders of the importance of exercising professional skepticism and taking appropriate actions if information is identified that is unexpected or unusual and may be indicative of potential management bias, or a fraud risk.

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



Rich Content	Enhanced Usability and Tech-enabled	Leverage Innovations	Client Experience



Bringing it all together in KPMG Clara



The KPMG Clara smart audit platform brings together KPMG's digital audit capabilities, innovative new technologies, collaboration capabilities and our new KPMG Clara workflow. This helps deliver 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 automated routines
- enable an enhanced and redesigned web-based 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.

The KPMG Clara platform is built to be scalable. We will continue to enrich it over time as technologies continue to emerge and transform the audit, with areas like predictive technology being channeled through KPMG Clara to deliver even greater capabilities. Through alliances with some of the world's most advanced technology companies, 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 leveraging the development activities of our member firms.

Creating KPMG Clara workflow



KPMG Clara workflow is starting to be used by audit teams to execute and document KPMG audits. It guides audit teams through a series of steps in a logical sequence aligned to the applicable auditing standards with a clear display of information, visuals and guidance available at the moment of need, and with embedded advanced digital audit capabilities. The workflow and revised audit 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 clearly drive audit quality and global consistency.

Through the use of data mining and tracking of relevant engagement-level data and indicators, the KPMG Clara workflow will also facilitate KPMG firms' monitoring of audit execution at the engagement level.

Once the KPMG Clara workflow has been fully deployed, our predecessor audit workflow tool, eAudit, will be retired.



Strategically embedding the use of data through digital audit capabilities



KPMG Clara also allows us to more seamlessly build digital audit capabilities into our audits.

Digital audit routines are capable of interrogating and analyzing vast quantities of data.

KPMG's audit is designed to:

- enhance audit quality, by providing a deeper understanding of data populations, giving focus to higher risk transactions
- be secure, by restricting access to data both in transit and within KPMG's IT environments
- be 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.

Digital audit 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 the KPMG Clara platform, the organization is significantly investing in digital audit 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.



Delivering a skilled and supported workforce

In this section we set out how we equip our people to deliver quality audits.

Our people strategy and processes promote audit quality



One of the key drivers of quality is ensuring that KPMG professionals have the appropriate skills and experience, passion and purpose, to deliver high quality audits. This requires the right recruitment, development, reward, promotion and assignment of professionals.

Recruitment

KPMG has invested in understanding how we can attract the talent we need across the organization in the future. This includes building an extraordinary people experience for our employees and prospective employees.

We provide firms with guidance and training on sourcing high quality talent with the necessary skills, expertise and qualifications to deliver organizational objectives and with the ability to make a positive contribution to the Values, capabilities and goals of the organization.

Additionally, we require that member firms perform candidate application screening that is based on fair and job-related criteria to ensure that candidates possess the appropriate skills and experience to perform competently, and are suitable and best placed for their roles. KPMG's policies also require that recruits undergo rigorous reference and background checks subject to legal and regulatory requirements.

KPMG reviews our position against the Universum rankings, which measure how we compare to the world's most attractive employers.

KPMG is consistently ranked in the world's most attractive employers among business students (data based on 2012–2020). We are focused on improving our attractiveness to Business and STEM (science, technology, engineering and mathematics) talent in the future.

KPMG is addressing this challenge by, for example, redesigning the KPMG International Case Competition into the KPMG Ideation Challenge, which is a hackathon style competition that allows Business and STEM students to work together and experience what it is like to be a consultant at KPMG.

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](#).

Development

Our approach to performance development, 'Open Performance Development', is built around the Everyone a Leader performance principles, and includes:

- global role profiles (including role profiles specific to audit quality accountabilities and responsibilities)
- a goal library (including audit quality content); and
- standardized review forms (with provision for audit quality ratings).

Open Performance Development is linked to our Values and designed to articulate what is required for success — both individually and collectively. We know that by being clear and consistent about the behaviors we're looking for, and rewarding those who demonstrate them, we will continue to drive a relentless focus on audit quality.



At the same time, we are driving a shift in our performance-driven culture, supported by and enacted through leading technology that allows us to embed audit quality data into the assessment of performance and decisions around reward as well as drive consistency across the organization.

Partners are required to be evaluated on key quality and compliance metrics. KPMG firms monitor quality and compliance incidents and maintain quality and compliance metrics for the purpose of assessing the overall evaluation, promotions and remuneration of partners.

Reward and promotion

All KPMG firms are required to have compensation and promotion policies that are clear, simple, informed by market data, 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 by assessing relative performance across a peer group 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 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.

Partner admissions

Each KPMG firm is required to have a process for admission to the partnership that is rigorous and thorough and involves appropriate representatives of the firm's leadership. KPMG firms are required to use criteria that are consistent with a commitment to professionalism and integrity, quality and being an employer of choice.

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 learning approaches and performance support to assist auditors on the job.

Ongoing mentoring and on-the-job coaching

Learning is not confined to a single approach — 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 key roles 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 KPMG 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 firms' annual monitoring programs.



Audit quality monitoring and remediation

We expect all KPMG firms to continually improve the quality, consistency and efficiency of their audits. There are a number of quality monitoring and compliance programs that help KPMG 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 KPMG firms being required to implement, test and report them consistently across the global organization.

The programs evaluate both:

- engagement performance in compliance with the applicable standards, applicable laws and regulations, and KPMG International key policies and procedures; and
- KPMG firms' compliance with KPMG International key 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, with firms selected for review at various intervals based on identified risk criteria.

Participation in QPR, RCP and GCR programs is mandatory for all KPMG firms.

Firms 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 global 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 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 KPMG 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 (LAEPs) are notified of less than satisfactory engagement ratings of components or subsidiary audits in their respective cross-border engagements. Additionally, LAEPs of parent companies/head offices are notified where significant quality issues have been identified during the audit QPR at a KPMG firm which audits a subsidiary or affiliate of their client group.

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:

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

If shortcomings are identified, the KPMG firm is required to develop appropriate action plans to address them.

Global Compliance Review (GCR)

A GCR is carried out by KPMG's GCR team at every KPMG firm with each firm selected for review at various intervals based on identified risk criteria. The GCR team, which is independent of the member firm under review, looks in detail at:

- a 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 reinforce this commitment

- a firm's compliance with key KPMG policies and procedures; and
- the robustness with which the firm performs its own compliance program (RCP).

KPMG firms are required to develop action plans to respond to all GCR findings that indicate improvement is required and agree to these with the GCR team.

A firm's progress with its action plan is monitored by the 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.

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 firms to carry out such analysis.

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

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

Taking effective remedial actions



Through the Global Audit Quality Council and the GQRMSG, KPMG International reviews the results of the quality monitoring programs, reviews root causes and planned remedial actions, and develops additional global remediation actions as required.

Remediation actions are implemented with the support of global training, tools and guidance to drive consistency. This helps ensure the fundamentals are right and that leading practices are shared across the global organization.



Governance and leadership

KPMG International structure and governance



KPMG International

KPMG is a global organization of professional services firms providing Audit, Tax and Advisory services. KPMG is the brand under which the member firms of KPMG International Limited (“KPMG International”) operate and provide professional services. Each firm is a separate legal entity and together they form the KPMG global organization. “KPMG” is used to refer to individual member firms within the KPMG organization or to one or more member firms collectively.

In many parts of the world, regulated businesses (such as audit and legal firms) are required by law to be locally owned and independent. KPMG member firms do not,

and cannot, operate as a corporate multinational. KPMG member firms are generally locally owned and managed. Each KPMG member firm is responsible for its own obligations and liabilities.

KPMG International — Governance

KPMG International acts as the coordinating entity for the overall benefit of the KPMG organization. It facilitates audit quality across the organization by establishing common policies, processes and standards to be applied across member firms.

KPMG International’s governance bodies are comprised of the Global Council, the Global Board (including its Committees), the Global Management Team and the Global Steering Groups. Further detail on each of these is set out below.

KPMG International structure and governance





KPMG member firms — legal structure and relationship with KPMG International

Member firms in the KPMG organization are members in, or have other legal connections to, KPMG International, an English private company limited by guarantee. KPMG International acts as the coordinating entity for the overall benefit of the KPMG member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

Our structure is designed to support consistency of service quality and adherence to agreed values wherever in the world KPMG member firms operate. KPMG member firms commit to conduct their operations in compliance with a common set of values, standards and service quality expectations. Partners and employees within those firms commit to act with integrity at all times.

Under their membership and associated agreements with KPMG International, member firms are required to comply with KPMG International's policies including quality standards governing how they operate and how they provide services to clients. This includes being professionally and financially stable, having an ownership, governance and management structure that ensures continuity, stability and long-term success, and being able to comply with policies issued by KPMG International, adopt global strategies, share resources (incoming and outgoing), service multinational clients, manage risk, and deploy global methodologies and tools. Member firm Heads of Audit have direct responsibility for audit quality.

Individual 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.

A firm's status as a KPMG member firm and its participation in the global organization may be terminated if, among other things, it has not complied with the policies set by KPMG International or any of its other obligations owed to it.

KPMG International and the member firms are not a global partnership, single firm, multinational corporation,

joint venture, or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International, any of its related entities or any other member firm vis-à-vis third parties, nor does KPMG International or any of its related entities have any such authority to obligate or bind any member firm.

Unless otherwise indicated, references in this document to a 'firm', 'KPMG firm', 'member firm' or 'member firms' are references to member firms of KPMG International.

KPMG International governance bodies



As set out above, as at 1 October 2020, the KPMG International Governance Bodies and their functions are as follows:

Global Council

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

The Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 56 KPMG firms.

Global Board

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include: approving global strategy, protecting and enhancing the KPMG brand and reputation, overseeing the Global Management Team, and approving policies with which KPMG firms are required to comply. It also approves the admittance or termination of KPMG firms to/from the global organization.

It is led by the Global Chairman, Bill Thomas, and also includes the Chairman of each of the regions and a number of members who are also member firm Senior Partners. The list of Global Board members, as at 1 October 2020, is set out on the [Leadership page](#) of our website.



Global Board committees

The Global Board is supported in its oversight and governance responsibilities by several committees, including:

- Executive Committee;
- Governance Committee;
- Global Quality, Risk & Reputation Committee; and
- Global Audit Quality Committee.

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

Global Management Team



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

The list of Global Management Team members is available on the [leadership section](#) of our website.

Global Head of Quality, Risk and Regulatory



The Global Head of Quality, Risk & Regulatory, Ed Cannizzaro, is a member of the Global Management Team and has responsibility for KPMG's system of quality controls, risk management, and ethics and compliance programs for KPMG International.

Global Steering Groups



There is a Global Steering Group for each key function and infrastructure area, chaired by the relevant member of the Global Management Team and, together, they assist the Global Management Team in discharging its responsibilities. They act under delegated authority from the Global Board and oversight by the Global Management Team (GMT). Under the oversight of the GMT, they promote the execution of the global strategy and compliance with KPMG International decisions and policies by member firms. In particular, the Global Audit Steering Group (GASG), and Global Quality & Risk Management Steering Group, work closely with regional and member firm leadership to:

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

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 GORMSG in relation to quality and risk matters related to audit.

The GASG is chaired by the Global Head of Audit, and its other members are the Heads of Audit from the 8 largest KPMG firms which also encompasses the Heads of Audit for each of KPMG's three regions (the Americas, EMA and ASPAC). Senior individuals with direct reporting responsibilities to the Global Head of Audit also regularly attend and provide reports to the GASG.



Global Audit Quality Council (GAQC)

The Global Audit Quality Council (GAQC) 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 10 of the largest KPMG firms, and the Head of the Global Audit Methodology Group.

The GAQC is responsible for:

- monitoring and driving progress in global audit quality initiatives to improve the consistency and quality of audit execution throughout the organization, including the system of quality control;
- considering audit quality matters on an organization-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 largest member firms;
- assessing and monitoring progress across the organization on how audit quality issues are being addressed by member firms and the organization as a whole; and
- 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 & Regulatory and its other members are the Risk Management Partners from the 8 largest KPMG firms and the Risk Management Partners for each of the three regions. The Global Head of Audit and the Global Head of Risk Management, Audit are regular attendees.

The GQRMSG is responsible for setting quality and risk management policies and procedures for the global organization 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. When exercising its responsibilities, the GQRMSG considers, through the Quality Performance Review (QPR), the Risk Compliance Program (RCP), Global Compliance Reviews (GCR), and Area Quality & Risk Management Leaders (ARLs):

- firm compliance with GQ&RM policies, processes and systems;
- proactive identification and mitigation of significant risks faced by member firms; and
- performance of member firm professional services to drive and help ensure consistent high-quality work globally.

Area Quality & Risk Management Leaders (ARLs)

The Global Head of Quality, Risk & Regulatory appoints ARLs, 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 firms' quality and risk activities;
- work with GQ&RM leadership and the International Office of General Counsel (IOGC) when significant brand and legal risk issues occur to assist in ensuring that matters are properly handled; and
- monitor the effectiveness of 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 firms from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was 2.8 billion euros during the fiscal year ending 30 September 2020. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent currently calculable and translated at the average exchange rate prevailing in the 12 months ended 30 September 2020.

home.kpmg

home.kpmg/socialmedia



Throughout this document, “we,” “KPMG,” “us” and “our” refers to the global organization, to KPMG International Limited (“KPMG International”) or to one or more of the member firms of KPMG International, each of which is a separate legal entity.

KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. 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 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.

© 2020 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved.

KPMG refers to the global organization or to one or more of the member firms of KPMG International Limited (“KPMG International”), each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. For more detail about our structure please visit home.kpmg/governance.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

Designed by Evalueserve.

Publication name: Transparency Report 2020

Publication number: 137171-G

Publication date: December 2020