



# 2019 Transparency Report

**Committed to driving audit quality**

KPMG International

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# 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.



# Focused on quality

The millions of investment decisions made around the world each day are dependent on the sound functioning of the capital markets. At KPMG, we know we have an important responsibility to serve the capital markets by delivering quality audits that contribute to financial reporting integrity so investors have the confidence and trust to make key decisions. In our 2019 KPMG Transparency Report, we will share with you how we deliver on our fundamental promise of audit quality to the public interest, investors, audit committees and the stakeholders we serve.

Continually delivering quality audits begins, we believe, with a quality-centric culture. Starting at the top of our global organization, every KPMG leader is accountable for driving quality and it requires that everyone at KPMG is focused on our mission to lead the industry in continually raising the standard for quality, integrity and public trust.

Our actions are guided by our values, vision and purpose. We aim to live up to the high standards we set for ourselves while continually building upon our sound audit quality foundations, in terms of how we manage both our firms and our audit engagements. We have dedicated significant resources toward a comprehensive review of our protocols and practices to ensure the utmost consistency in our audit quality and client experience. We have committed to an 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.

To ensure that our audit professionals have the support and solutions they need, we are deploying an updated audit methodology and a new audit workflow system, hosted in KPMG Clara, our 'smart' audit platform. The platform brings our powerful data and analytic capabilities into one interface — with the ability to integrate new technologies such as artificial intelligence and machine learning.

As we set out in this report last year, our Global Board has implemented significant changes to achieve a level of quality consistency across our global network including appointing a Global Head of Audit Quality who provides reports to our Global Board's new Global Audit Quality Committee. A year into its term, the committee's decisive actions are enabling us to increase our monitoring oversight and bolster our systems of control, globally. Driven by this committee, our global audit quality program is ensuring that leading-edge practices are consistently deployed to enhance and support a globally consistent audit quality model.

Consistently providing exceptional quality across all our audit engagements is fundamental to our continued success. We must get audit quality right each and every time in order to build public trust and, serve the capital markets and society at large.

Our vision to lead the way in audit quality is clear. We are taking action, we're investing and we're determined to make it happen.



**Bill Thomas**  
**Global Chairman and CEO**  
**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.



# Delivering audit quality

We have a duty to serve the public interest. Robust quality audits are key to the successful working of the capital markets, providing objective assurance over the data on which investors and others can rely. That's why we are listening to our stakeholders as we maintain our focus on audit quality.

Audit is the foundation of the KPMG brand and has been the backbone of our business for over 100 years. We are determined to set the standard for quality across our profession.

Quality essentially means doing the right thing, and it remains our highest priority. Doing the right thing requires a common understanding of what the right thing is. That's why we have defined what audit quality means to KPMG; having this definition has been powerful to underpin our focus and drive global consistency.

We take our responsibility seriously. We recognize that no organization can afford to stand still, whatever line of business it is in. That is why we embarked on our program of investment to drive our audit practice forward. We are building on our solid foundations to drive further sustainable advances in quality and consistency across KPMG.

We are working to ensure that we consistently deliver quality audits in a number of cohesive ways. The new governance and leadership structures that we have instituted better enable us to monitor performance across the global organization.

We are empowering our audit teams with advanced, innovative tools, support and guidance. Through our smart audit platform, KPMG Clara, we are integrating a new workflow and methodology along with powerful technology to enhance the audit process.

Part of our investment in the future, the redesign of our global audit learning and development programs supports a leading-edge environment where our teams have on-demand access to training and guidance when and where they need it. Change is a constant and we are able to offer our teams the resources to meet the evolving requirements around audit quality.

KPMG Clara also provides an online client collaboration portal allowing for transparent, real-time access to information about the status of the audit as well as insights arising from the audit process. It allows for efficient real-time communication between the client and the audit team, as well as around the engagement team globally.

This combination of measures will drive quality and help achieve greater consistency around the globe in the years to come.

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

With this as our guide for ongoing investment in audit quality and keeping what audit quality means to the public and our clients front of mind, we will continue to drive an approach to audit quality that not only meets the requirements of the standards, but fulfills our responsibility to serve the public interest.



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



# Driving the quality agenda

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

## Our global audit quality program



KPMG continues to invest significantly in audit quality across the global organization. We are building on our sound audit quality foundations, in terms of how we manage both our firms and our audit engagements.

This means significant ongoing investment in our system of quality management, global monitoring of audit quality, and enhanced support, technology, tools and training for engagement teams.

Our global audit quality program ensures consistent deployment of investments to enhance and support a common approach.

## Building consistency through a common approach



Stakeholder interest in audit quality is important to us. 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<sup>1</sup> 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.

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

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

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 our strong system of quality control. But we know that if we are to continue to deliver quality audits in an ever-changing world, we need to continuously improve.

Sound practice management at a 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.

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.

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 reviews and 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.

## Valuing feedback and dialogue



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

1. Throughout this document, references to "firm", "KPMG firm", "member firm" and "KPMG member firm" refer to firms which are either: members of KPMG International as a matter of Swiss law; sublicensee firms of KPMG International; or entities that are owned, managed and controlled by an entity that is a member or a sublicensee. The overall governance structure of KPMG International is provided in the 'Governance and leadership' section of this report.



### 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. Firms proactively seek feedback from clients through direct conversations and third-party surveys. 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 definition. Biennially (and annually for Global Board countries<sup>2</sup>), all KPMG personnel,

across all functions, are invited to participate in KPMG’s global independent survey to share their perception about their experience of working for KPMG. The survey provides us with an overall measure of our people’s engagement, as well as insights into the areas in which we could drive further engagement. 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.

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

All firms are required to participate in the survey 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).



2. See our website for a list of Global Board countries <https://home.kpmg/xx/en/home/about/who-we-are/our-leadership.html>.



# Building on our audit quality foundations

This section provides details on our 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 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 global 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 key factors that connects everyone at KPMG.

## 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, emphasizing that, above all, we act with integrity. 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 employees 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 KPMG firm is required to have procedures and established channels of communication so that anyone working there can report ethical and quality issues. No KPMG firm, 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 third parties to confidentially report concerns they have relating to certain areas of activity by KPMG International itself, activities of KPMG firms or KPMG personnel.



## 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.

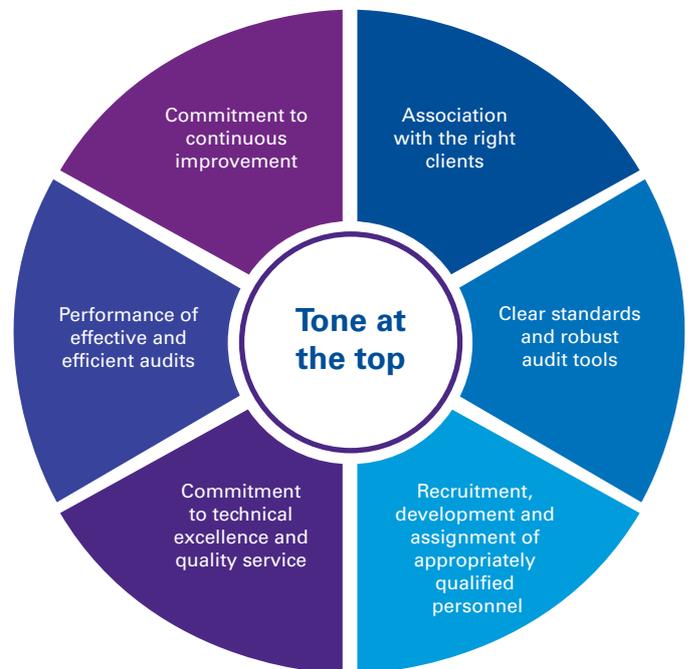
To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver a quality audit, KPMG has developed the Audit Quality Framework, based on International Standards on Quality Control (ISQC 1), issued by the International Auditing and Assurance Standards Board (IAASB), and on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which apply to professional services firms that perform audits of financial statements.

The IAASB has proposed revisions to the International Standard of Quality Control — to modernize the requirements to be more suited to the evolving and increasingly complex environment in which we are operating — reflecting the impact of technology on the audit, networks and the use of external service providers. We have already started to reinforce our audit quality foundations by integrating this new thinking into our audit quality control systems.

KPMG’s audit quality framework introduces a common language that is used by all KPMG firms to describe what drives audit quality and to help highlight to their audit professionals how they contribute to its delivery.

‘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 all KPMG firms. All of the other drivers create a virtuous circle because each driver is intended to reinforce the others.

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

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

They 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.

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, comprising senior KPMG personnel, and has responsibility for oversight of audit quality across KPMG. A number of 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 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
- 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 acceptance and continuance policies are vital to being able to provide quality professional services.

KPMG's client and engagement acceptance and continuance systems 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 must 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 obtain 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, 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 all 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 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.

## 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 Global Quality & Risk Management Manual, which applies to all KPMG firms. 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, 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 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 through announcements and alerts, 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 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 partners and employees 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.



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 ['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, must 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 must 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 member firm and function — are generally 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.

All partners and 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 publicly traded entities 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.

The Global Independence Group provides guidance and suggested procedures relating to the audit and inspection by KPMG member 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 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 predetermined and/or would be material to the member firm, and have ceased participating in the member firm's business and professional activities.

Any former partner who has a financial relationship with a member firm must notify the 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 firms must 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 member 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 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 member 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 service descriptions and fees, must be entered into Sentinel as part of the engagement acceptance process. When the engagement is for an audit client, an evaluation of potential threats and safeguards is also required to be included in the Sentinel submission. When the engagement is for an audit client, an evaluation of potential 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, as well as 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 to approve, or deny, any proposed service for those entities worldwide.

### **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 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; and
- a senior 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 that may interfere, or be perceived to interfere, with their ability to remain objective, or where they are personally



in possession of confidential information relating to another party to a transaction. Consultation with the member firm's Risk Management Partner (RMP) or the EIP is required in these situations.

Policies are also in place to prohibit KPMG partners and employees from accepting gifts and hospitality 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 audit team member or the member firm.

### 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 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.

### 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. 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. Significant breaches of independence rules must be reported to those charged with governance as soon as possible.

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 will be subject to the disciplinary policy.

### Partner rotation

KPMG partner rotation policies are consistent with or exceed 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. They should also not lead or coordinate other professional services delivered to the client or oversee the relationship of the firm with them, nor 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 maximum period and not to act as auditor for that client for a specified period thereafter. KPMG firms in these jurisdictions are required to have processes in place to track and manage such issues of audit firm rotation.

## 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 member firm clients, suppliers or public officials. KPMG International requires 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 KPMG Global Solutions Group (KGSG) and the International Standards Group (ISG).

### *KPMG Global Solutions Group (KGSG)*

Effective 1 January 2019, the Global Services Centre was renamed the KPMG Global Solutions Group to better reflect the Group's purpose.

KGSG supports member firms through collaboration, innovation and technology. Key areas of work performed at KGSG include:

- developing innovative audit capabilities 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
- maintaining KPMG's audit methodology, workflow and knowledge used by member firms' audit professionals.

With three international locations, one in each region (Americas, EMA and ASPAC), the KGSG 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, 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 Practices (DPP) network (see '[Delivering audit quality on the ground](#)' section), and to help ensure sector-specific issues are dealt with proactively.

### **Developing business understanding and industry knowledge**

As well as technical 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 all 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 the workflow.



# Delivering audit 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.

Each 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 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.

### 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.

Heads of Audit 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.

### 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 by member 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.

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.

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.

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.

### 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 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 (ICOFRR).

These require that, at a minimum, all partners, managers, engagement in-charges 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

Member 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.



## 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). 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 be escalated to senior partners for final resolution. KPMG's International Standards Group is also available for consultation 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 Global Quality & Risk Management Manual includes mandatory consultation requirements on certain matters.

## 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. 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 and the need to listen to and understand their views. 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 managing 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 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](#).

## 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 our audit approach

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.

## Delivering through our current audit workflow



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 professionals to complete 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.

## Updating for the future

While our current audit workflow and methodology are robust and consistent with all auditing standard requirements, the updates we are making to them will enable us to continually drive audit quality and consistency upwards and provide us with the platform to build in continuous enhancements as the power of new technologies develops.

We have laid the platform for this already with the launch of KPMG Clara in 2017.

## Audit solutions for today's world



We recognize that in order to deliver quality audits, we must 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, workflow and methodology to provide enhanced consistency and support to our audit engagement teams, deliver more detailed insights to our clients, and future-proof our systems for the expected continued development of new technologies such as robotic process automation, machine learning and cognitive technologies.

This process began in 2017 with the launch of our smart audit platform, KPMG Clara.

The continuation of this process will see a new workflow and methodology embedded into KPMG Clara. There has already been a limited deployment during 2019, with full deployment globally starting in 2020.

The KPMG Clara workflow limited deployment is an important milestone in KPMG's journey to innovate, digitalize and transform the audit experience for our people. Like all new technology solutions, the new workflow will continue to evolve and grow, and feedback from engagement teams will be used to make improvements going forward.



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

### Bringing consistency through our methodology



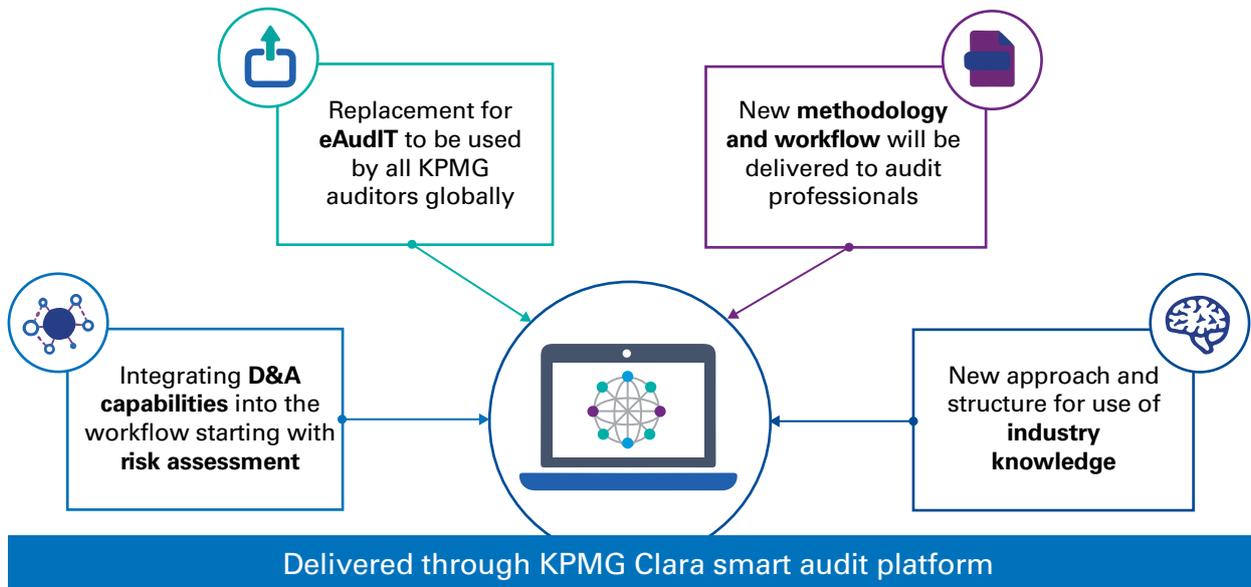
Our audit methodology, tools and guidance are:

- globally consistent and fully compliant with the applicable standards, including International Standard on Auditing (ISA), 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, 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 developed by KPMG Global Solutions Group is based on the requirements of ISAs as well as the auditing standards of PCAOB and AICPA. The KPMG audit methodology is set out in KPMG’s Audit Manual 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 risk identification, assessment and response, accounting estimates, group audits, and audit sampling.

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





## Bringing it all together in KPMG Clara



The launch of KPMG Clara created a 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.

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 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.

## Creating the new KPMG Clara workflow



The new KPMG Clara workflow will be used by our audit teams to execute and document KPMG audits. It will guide audit teams through a series of steps in a logical sequence aligned to the standards 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 incorporates 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)



KPMG Clara also allows us to more seamlessly build D&A capabilities into our audits. D&A is central to interrogating and analyzing 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:

- 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.

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.



# 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 our professionals have the appropriate skills and experience, passion and purpose, to deliver the highest quality in audit. 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 characteristics 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 in line with legal and regulatory requirements.

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

We are consistently ranked in the top five to 10 most attractive employers among business students (data based on 2012–2018), and are focused on improving our attractiveness to STEM talent.

KPMG is addressing this challenge by, for example, redesigning the *KPMG International Case Competition* to make participation more attractive to STEM students.

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

A new approach to performance development built around the *Everyone a Leader* performance principles, *Open Performance Development*, is being launched and includes:

- global role profiles
- a goal library; and
- standardized review forms.

The deployment of *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 enhance our ability to achieve 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 network.

Partners are also required to be evaluated on additional key quality and compliance metrics. Member 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. These evaluations are conducted by performance managers as well as certain partners who are in a position to assess performance.

### Reward and promotion

All KPMG firms are required to have compensation and promotion policies that are clear, simple, informed by market data, and are 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.

### Assignment of professionals

All KPMG 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.

### Partner admissions

Each 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. 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.

### 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.

### 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 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 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; and
- 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 organization.

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 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:

- document, assess and monitor 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; and
- help member firms evaluate its compliance with relevant 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, which is completely independent of any member firm, 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 support 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 must develop action plans to respond to all GCR findings and agree to these with the GCR team. A 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 firms to carry out such analysis.

All 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 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, analyzes member firm root causes and action plans, and develops additional global remediation plans as required.

Remediation plans 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 organization.



# 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 global organization. It

facilitates audit quality across the organization by establishing common policies, processes and standards to be applied by member firms. KPMG International 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 firms of 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 all 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 'firm', 'KPMG firm', '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 firms are commonly known. The rights of firms to use the KPMG name and marks are contained within agreements with KPMG International.

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

Individual KPMG 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 firm takes responsibility for its management and the quality of its work. All KPMG 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 the 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 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 59 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 October 2019, 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.



### **Global Board committees<sup>3</sup>**

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:

- working together with the Global Management Team on the development of global strategy and jointly recommending global strategy to the Global Board for its approval; and
- supporting and holding accountable the Global Management Team in leading the execution of the global strategy.

#### *Governance Committee*

The Governance Committee's role includes:

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

#### *Investment and Technology Committee*

The Investment and Technology Committee's role includes:

- recommending and overseeing strategic investments; and
- overseeing strategic technology.

#### *Audit and Finance Committee*

The Audit and Finance Committee's role includes:

- overseeing KPMG International's financial reporting, budget and business planning process; and
- recommending the budget to the Global Board for approval.

#### *Global Quality, Risk & Reputation Committee*

The Global Quality, Risk & Reputation Committee's role includes:

- overseeing those operations, resources and policies 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; and
- monitoring the oversight by KPMG International's management of events that could have a material adverse impact on KPMG's brand or reputation.

#### *Global Audit Quality Committee*

The overarching responsibility of the Global Audit Quality Committee is to strive for globally consistent audit quality across the organization 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.

3. As of October 2019.



## 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 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 is a member of the Global Management 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 represent the function and infrastructure groups of KPMG International and are the main driving groups of the organization. They act under delegated authority from the Global Board and oversight by the Global Management Team, in particular the GASG, GAQSC and GQRMSG 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; and
- proactively identify and mitigate critical risks to the network.

### *Global Audit Steering Group (GASG)*

The GASG is responsible for driving the 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,<sup>4</sup> the Regional Heads of Audit, the Chief Operating Officer for Global Audit, and the Global Audit Quality & Risk Management Partner.

### *Global Audit Quality Council*

The Global Audit Quality Council is chaired by the Global Head of Audit Quality and includes: the Global Head of Audit, Global Head of Quality, Risk and 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 Global Audit Quality Council 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;

4. Australia, Brazil, Canada, China, France, Germany, Japan, Netherlands, United Kingdom, United States.



- 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 10 larger member firms;
- assessing and monitoring progress on how audit quality issues are being addressed by 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 and Regulatory and includes the Global Head of Audit Quality; the Chief Operating Officer for Global Quality & Risk Management; the Global Head of Audit; the Global Quality & Risk Management Partners for Audit, Tax and Advisory; the Global Head of Independence; 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 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 & Risk Management Leaders (ARLs) — for monitoring:

- member firm compliance with global quality and risk management policies, processes and systems;

- proactive identification and mitigation of significant professional services risks faced by firms; and
- performance of member firm professional services to drive and help ensure consistent quality work globally.

#### *Area Quality & Risk Management Leaders (ARLs)*

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 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
- assist in monitoring 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 2.9 billion euros during the fiscal year ending 30 September 2019. 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 2019.

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