

TRANSPARENCY REPORT 2021

ABOUT THIS REPORT

This is KPMG's Transparency Report for the financial year ended 30 June 2021. This report focuses on how we drive audit quality, our systems of quality control, and the initiatives we are continuously pursuing to improve it. We see audit quality as fundamental to maintaining public trust in the capital markets and the financial reports issued by audited organisations. We aim to lead the profession in audit quality.

OUR COMMITMENT TO AUDIT QUALITY

When we talk about how we are striving to maintain and improve quality, it is not an abstract aspiration. Quality is fundamental to our purpose, and we constantly monitor and evaluate it.

We recognise that greater transparency is needed for the public to gain insight into audit services. This report outlines KPMG's approach and commitment to audit quality, including actions taken to enhance audit quality during the year.

This report aligns with our new Global KPMG Quality Framework. The new framework describes how our commitment to integrity and quality lies at the heart of the way we do things at KPMG.

Our report covers the activities of KPMG Australia for the financial year to 30 June 2021, and all figures disclosed in this report are as at 30 June each financial year, unless otherwise stated.

KPMG DEFINES AUDIT QUALITY AS BEING THE OUTCOME WHEN AUDITS ARE:

- **executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls; and**
- **undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity¹.**

¹ KPMG's definition is consistent with and builds on ASIC's definition of audit quality – see ASIC information sheet INFO222 Improving and maintaining audit quality, June 2017.

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At a glance

OUR TEAM



108 #AUDIT PARTNERS

1,255 #CLIENT SERVICE STAFF

237 #GRADUATES -UP FROM 190

23.5 AVERAGE YEARS' EXPERIENCE OF PARTNERS

Leveraging

133

GLOBAL SECONDEES FROM KPMG NETWORK FOR FY21 REPORTING SEASON

OUR VALUES

INTEGRITY. EXCELLENCE. COURAGE. TOGETHER. FOR BETTER.

TESTING-RELATED MISCONDUCT ORDER ISSUED BY THE PCAOB IN SEPTEMBER 2021

DIVERSITY TARGETS

Firmwide

40% FEMALE PARTNERS BY 2025

20% CULTURALLY DIVERSE PARTNERS BY 2025

Audit team

% FEMALE PARTNERS:
2021: **32%** 2020: **31%**

CULTURAL DATA BEING ESTABLISHED FOR FY22

In FY21 launched

NATIONAL WELLBEING CAMPAIGN

+15PT

UPLIFT IN WELLBEING SCORE IN PEOPLE SURVEY FROM FY19



OUR TRAINING

#DAYS CORE LEARNING & DEVELOPMENT OFFERED
(before specialised training)

23.0

PARTNER
& DIRECTOR

18.2

SENIOR MANAGER
& MANAGER

223

STAFF COMPLETED
PROGRAM IN FY21

1,300

CA EXAMS UNDERTAKEN
IN FY21

26.8

SENIOR
TEAM MEMBER

32.2

TEAM
MEMBER

88.5%

KPMG CA PROGRAM
PASS RATE

118

MERITS AWARDED TO KPMG
CANDIDATES (TOP 5%)

GLOBAL PEOPLE SURVEY FY21

Audit Quality Engagement Australian Staff Index

84% UP 9PTS FROM 75%
IN FY20

Now embedding our new
smart global audit platform

KPMG CLARA

73

ENGAGEMENT TEAMS USED
KPMG CLARA IN FY21

500

ENGAGEMENT TEAMS TARGETED
TO USE KPMG CLARA IN FY22

On track to meet or exceed all requirements of ISQM1 when it comes into effect 15 December 2022

CLIENT FEEDBACK

8.2

CLIENT OVERALL SATISFACTION
SCORE, UP FROM 8.0

8.0

SCORE FOR ANTICIPATING
CHANGE, UP FROM 7.7

0

INTERNAL COMPLAINTS TO
HOTLINE RELATING TO AUDIT
QUALITY IN FY21

0

EXTERNAL COMPLAINTS
RECEIVED REGARDING AUDIT
QUALITY AT KPMG IN AUSTRALIA

INTERNAL MONITORING

37%

PARTNERS REVIEWED
THROUGH OUR INTERNAL
MONITORING PROGRAM

92%

ENGAGEMENTS
PASSED OUR INTERNAL
MONITORING PROGRAM

REGULATOR FINDINGS

0

FINANCIAL REPORTS OR AUDIT
OPINIONS RELATING TO KPMG
CLIENTS EXAMINED BY ASIC
WERE RESTATED OR REISSUED

26%

OF KEY AUDIT AREAS REVIEWED
BY ASIC WHERE THEIR VIEW WAS
THE AUDITOR DID NOT OBTAIN
REASONABLE ASSURANCE THAT
THE FINANCIAL REPORT AS A
WHOLE WAS FREE OF MATERIAL
MISSTATEMENT IN RESPECT OF
THAT KEY AUDIT AREA

96%

AUDITS OF LISTED ENTITIES
COMPLIED WITH STRICT AUDIT
PLANNING MILESTONES

FOREWORD

In introducing last year's Transparency Report, I noted virtually everything was being viewed through the lens of the COVID-19 crisis. A year on, while that largely remains the case, the shape of the lens has changed significantly.



ALISON KITCHEN
National Chairman
KPMG Australia

Our audit practice, confronted with an avalanche of pandemic-related obstructions to usual practices, has responded with genuine agility to the challenge.

Our people, faced with lockdowns across half the country, swiftly adapted to working from home, including remotely tackling aspects of their work that have always been done face-to-face, like gathering audit evidence and engaging in challenging conversations.

Although much of this change has appeared to be seamless, we are acutely conscious of the efforts required of our people in these disruptive times. As a result, this year has also been characterised by innovation in our wellbeing initiatives.

Of course, not every COVID-19 issue can be easily and elegantly addressed. Australia's closed borders have exacerbated an existing skills shortage in audit. Thankfully, this has resulted in ASIC responding to advocacy from KPMG and others and recognising this issue, leading to auditors being added to the Priority Migration Skilled Occupation List for the first time.

The pandemic has proven we are highly adaptable to change. Such proof is timely, given the rapid change that lies just around the corner in the post-pandemic world.

The work of auditors is becoming simultaneously both more important and more complex. I am privileged to get an international view of this trend through my role as Chair of KPMG's Global Audit Quality Committee, and if there is a defining client trend right now it is around ESG.

Clients around the globe are being forced not just to grapple with ESG concerns, but to elevate them as first-order issues in just about any given context. As directors adapt to this new reality, so too must auditors. The already sophisticated work of audit will need to become further nuanced as the intricate web of ESG opportunities and challenges takes centre stage.

Thankfully, the pandemic holds lessons for us here as well. Just as we have been able to ride innovation to the rescue over the past two years, it will likewise offer us new and exciting ways to approach complex tasks.

You will be pleased to read in this report about our new KPMG Clara workflow platform, which is enabling our people worldwide to gain more real-time insights from the abundant data they are now able to gather. This frees up their uniquely human capabilities, further enhancing audit quality. Not just a new platform but also new methodology, KPMG Clara is the KPMG Clara workflow and methodology, which is essentially changing the way KPMG audits are done, with a focus on audit quality. It's one of the largest transformations KPMG globally has undertaken.

This is certainly an exciting time for audit at KPMG and for the profession globally. I hope you find this year's Transparency Report helpful.

INTRODUCTION

Audit quality is our number one priority and upholding it during a period of unprecedented disruption has been an absolute focus of the past year.



Eileen Hoggett

EILEEN HOGGETT
National Managing Partner,
Audit, Assurance &
Risk Consulting

A quality audit requires a high degree of sophisticated cooperation – with clients, with stakeholders, and within the audit team. Traditionally, this has been coordinated through a lot of face-to-face contact. COVID-19 upended all this, forcing a rapid period of adaptation.

In the current environment, digital technology can thankfully be used to substitute previously analogue parts of audit procedures. Our teams have conducted virtual inventory counts. They ‘walk’ through clients’ processes using video capabilities, seeing everything the client sees and, where necessary, zooming in to examine detail.

Maintaining the crucial ‘softer’ elements of the audit procedure has also required special attention. To have a high-quality audit we know we need to understand an organisation, apply high levels of professional scepticism, and build trust and rapport. Pre-pandemic that understanding was built from being physically present. Forced remote interactions have necessitated working differently, being alert to broader issues within the organisation and being diligent about asking third and fourth level questions.

This year our people also grappled with some of the most complex audits we have encountered, due to the extraordinary circumstance of some of our clients. Some of the challenges the pandemic has thrown up could not reasonably be predicted by modelling.

Disruption to revenue, supply lines, rapid changes to business models, assumptions around asset values, increased uncertainty – all have played into the complexity.

So, while our people have worked diligently to ensure audit quality, that in turn has created a heightened need to look after our people.

We have introduced a suite of wellbeing initiatives this year, including our Revive program. This enables audit employees to accrue time which can then be taken as time in lieu to rest and recharge, in addition to normal leave entitlements. Revive joins other successful wellbeing initiatives like our ‘My One Thing’ program through which our people choose something outside of work that is important to them and make a commitment to keep it. Vitality, responsibility lies with their colleagues to ensure they are held accountable to their One Thing. ‘One Things’ are shared at the start of each busy season and at the wellbeing planning meetings which are now compulsory before we start any engagement.

Nurturing the human capacities of our people is vital, and another way we can do this is to use technology to free them up to use their higher order ‘human’ skills. This year we ramped up our deployment of the KPMG Clara workflow, a key pillar of the Global Audit Quality Transformation that will enable audit teams around the world to enhance audit quality and consistency across our entire client portfolio.



Julian McPherson

JULIAN MCPHERSON
National Partner in Charge,
External Audit

The KPMG Clara workflow is a wonderful thing for our audit practice, because it facilitates doing far more with the data we are now able to accumulate and process, all in the one place. It takes our tech ahead of the market, creates consistency, clarity and more intuitive ways to further improve our audit quality.

It's well established, of course, that disruption accelerates evolution. So, the exciting thing now is being able to consider what the new normal looks like.

Some of this has already been baked in. Our three-hub working model (Office, Client and Home), for example, will be our way of working well after the pandemic emergency recedes. We have embraced this model, utilising technology to facilitate collaboration and enable us to react quickly and minimise the disruptions when COVID-19 restrictions are imposed.

An additional headwind we have had to contend with, however, has been the global skills shortage in audit, exacerbated by Australia's pandemic border restrictions. The major lockdown periods of both 2020 and 2021 also happened to occur close to audit season. While the government has now added external and internal auditors to the Priority Migration Skilled Occupation List for the first time and this should deliver some relief, the skills shortage is here to stay. This will require careful attention from our government and our sector. With the right initiatives we are optimistic the pipeline of talent into our field can be improved.

**It's well established,
of course,
that disruption
accelerates
evolution. So, the
exciting thing now
is being able to
consider what
the new normal
looks like.**

The work of modern auditors is diverse, stimulating, and important and will only become more so into the future.



01. PERSPECTIVES

A perspective on... wellbeing and listening

Every year all partners and staff are invited to participate in our Global People Survey. The survey provides valuable insight on employee engagement and motivation and gives leadership the opportunity to consider how to improve.

Last year, we dialled-up the focus on understanding views about whether our people believe they are getting the support necessary to deliver on the firm's focus on audit quality.

It showed us there were areas where additional support of our staff was required. Accordingly, a number of new initiatives are now underway including:

- **Everyone's a Coach** – a program to ensure every team member takes an active coaching role throughout an engagement
- **Wellbeing planning meetings** – requiring everyone to agree a set of protocols about how to best achieve wellbeing outcomes for each team member
- **Communications from the National Partner in Charge, External Audit** – reinforcing the importance of looking after everyone's wellbeing
- **My OneThing** – an initiative through which people choose something outside of work that is important to them, make a commitment to keep it, and are held accountable to it by their peers.

EVA BELLWOOD
Manager,
KPMG Sydney

Photographer Dan Cantero

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We wanted to think of a 'thank you' for people who were really living KPMG values.

As part of a firm-wide enhanced focus on listening, the National People Advisory Board was established. Representatives of the National People Advisory Board now attend and advise at both the KPMG Australia Board and National Executive Committee meetings to ensure the views and priorities of staff are consistently heard and considered at the highest leadership levels.

Eva Bellwood is an Audit Manager who has been with KPMG for nine years, five of which were spent in the UK before moving to Sydney. When Eva learned of the opportunity to participate on the National People Advisory Board, she knew she had to jump at it.

"I'm really interested in the people side of things – not just because of retention, but also because I think it's fundamentally important to make people's experience of working here as good as it can be," she says.

"When we started, we had a full agenda of ideas coming out of the Global People Survey. But now it's growing and evolving from there."

The traditional criticism of initiatives like this in corporate environments is that they can be more about optics than genuine change. Eva says that's certainly not how she sees it at KPMG.

"The structure is working really well because the ideas are coming from the base of the organisation, getting filtered through us on the Advisory Board, and then we're taking them straight the highest executive level," she explains.

"If and when they get ticked off at the highest level, it makes execution very swift. Once it has the buy in from the top it makes it very easy to roll out. But when ideas are implemented it's also clear they came from the People Advisory Board. So that gives it authority and credibility to continue its work."

An initiative Eva has been particularly proud of over the last year is 'Cheers To You,' a program through which people doing an outstanding job of exhibiting one of the KPMG Values (integrity, excellence, courage, together, for better) are nominated and put forward to have an informal chat with a senior partner with an established record of living the same value.

"We wanted to think of a 'thank you' for people who were really living KPMG values," Eva says.

"We were conscious that if you're very junior it can be a little intimidating to talk to someone super senior. But I think it's great because it shows that partners are accessible and you can reach out to them and learn from them."

"The idea is to connect these people and let them have a chat. The partner is generally from a different area and would be a person the award winner would otherwise not meet."



A perspective on... embracing the potential of new tech

We updated our audit methodology and embedded it in our new 'smart' global audit platform – KPMG Clara.

For the first time our audit workflow, project planning tool, collaboration capabilities between the audit team and our client, and data and analytics (D&A) capabilities are united in a single sharing platform, creating the capacity to boost both quality and efficiency.

A cornerstone of KPMG Clara is the new KPMG Clara workflow, a scalable system that will enhance global audit consistency. The new workflow will transform how we work in a range of ways, including the following:

- Guiding teams in performing appropriate audit procedures to address risks identified
- Evolving over time to leverage emerging technologies including Artificial Intelligence and cognitive features
- Reducing optionality and focusing audit attention and judgement on higher-order matters
- Providing more help and guidance available in real-time as audit teams use the system
- Allowing for insertable risks, which can be selected from the knowledge library
- Operating on a cloud-based platform, for more efficiency and accuracy across engagements.

STEPHANIE YEE JOY
Assistant Manager
KPMG Sydney

Photographer Dan Cantero

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We're talking about learning a program from scratch – which is always a big undertaking.

The KPMG Clara workflow is one of the largest transformations for KPMG audit globally and is a key pillar of the Global Audit Quality Transformation that will enable audit teams around the world to enhance audit quality and consistency across our entire client portfolio.

The KPMG Clara workflow is designed to be intuitive and progressive. But as any manager will tell you, shifting operations from one platform to another is rife with challenges. Even among the most agile and change-receptive teams, replacing the tried and true with innovative fresh approaches can be disruptive.

We are currently increasing the number of teams using the KPMG Clara workflow and in FY21, 73 engagement teams participated in the Australian limited deployment. This will rise to some 500 engagement teams in FY22, and all financial statement audits should be conducted using KPMG Clara workflow from December 2022 onwards.

Optimising buy-in and smoothing out the transition is key. One element rolled out this year between lock-downs was a three-day offsite program on NSW central coast.

Assistant Manager Stephanie Yee Joy played a key role in coordinating the session.

“Everyone is so busy and focused on their clients. The only way to engage people on learning this new platform was to get them away from their emails, get them away from any distractions so they can sit down and focus on the amazing world of KPMG Clara,” Stephanie recalls.

“We’re talking about learning a program from scratch – which is always a big undertaking.

“So, all went up to the Central Coast and it was three days of intense learning about how to approach KPMG Clara and what you need to do to prepare for it.”

Stephanie says a huge amount of thought went into how to get people to loosen up and genuinely engage.

“We knew we had to get people in the right frame of mind, so in the morning we would start with activities – yoga mornings, run club, breakfast events – it was a way to get people relaxed and ready to focus,” she said.

The other challenge was how to make the training itself fun and engaging.

“We had a whole training module that was spy-themed, it was all quite elaborate. It lightened everything up and helped people to stay on task.”

Stephanie says the feedback has been great.

“There were people at the event who had actually used the KPMG Clara workflow on engagements, but they got a lot out of it,” she says.

“A partner who had used the KPMG Clara workflow did the training and she told us, understanding it holistically is a much better way to engage with it productively going forward.”

“I got to work with clients from aged care to manufacturing and it was a wonderful experience.”

“As soon as I was selected the preparations began, which were rigorous.”

As usual, all secondees have been required to complete Australian specific audit and independence training prior to commencing work on any Australian audit. And, using technology, virtual secondees receive the same direction and coaching as employees based in Australia.

Salman said although he was excited about the opportunity, he did have some doubts.

“Virtual secondments are novel, so I did have some doubts as to how I would connect with my onshore team members. Communication is so important in an audit,” he says.

“But even though I’m thousands of kilometres away it actually didn’t act as a barrier working with the onshore team. During the regular team meetings there was a big priority on getting to know my team and their personalities.”

“If we come across an audit-related issue, we’d discuss and decide how to tackle it. Even though I was far away, I was always encouraged to contribute ideas which were considered in reaching the final decision.

“Our great communication made it easy to carry out my day-to-day tasks and they are always willing to help me.”

Of course, there are challenges unique to virtual secondments that Salman was required to navigate.

“The time difference could have been a problem and it did take me a little while to find the best solution,” he remembers. But as I progressed, I managed things by planning my day in advance, sending emails out at the end of the day so clients received them at the beginning of theirs. And I scheduled meeting the same way, working with the clients’ needs and timeframe rather than trying to squeeze it in with mine.”

Salman says the experience is one he would happily repeat.

“I got to work with clients from aged care to manufacturing and it was a wonderful experience,” he says.

“I learnt a lot. I loved the lunch and learn sessions to hone my skills, and felt I really developed as an auditor. All without leaving home.”



Photographer Paul Wright



02. LIVING OUR CULTURE AND VALUES

We are focused on becoming a truly purpose led firm, reflecting the meaningful work we do for our clients and society.

We aim to act with clear purpose at all times, inspiring confidence and empowering change, and believe this to be particularly relevant to our audit work. Through quality audits, we aim to inspire the confidence of our clients and their investors, strengthening the capital markets and the economies in which they operate.

Our Values – Integrity, Excellence, Courage, Together, For Better – are our core beliefs, guiding and unifying our actions and behaviours. Shared across every level and in every country, jurisdiction and territory in which we operate, they are the foundation of our unique culture.

2.1 FOSTERING THE RIGHT CULTURE, STARTING WITH TONE AT THE TOP

Strong leadership and management are critical for audit quality.

There are several critical components to an effective tone at the top including:

- **Culture, and Code of Conduct:** our commitment to audit quality is underpinned by our values, which set the tone for governance and leadership
- **Focused and well-articulated strategy:** incorporating audit quality at all levels
- **Governance structure:** this sets the formal framework for establishing, managing and monitoring audit quality.

2.2 CLEARLY ARTICULATED STRATEGY FOCUSED ON QUALITY, CONSISTENCY, TRUST AND GROWTH

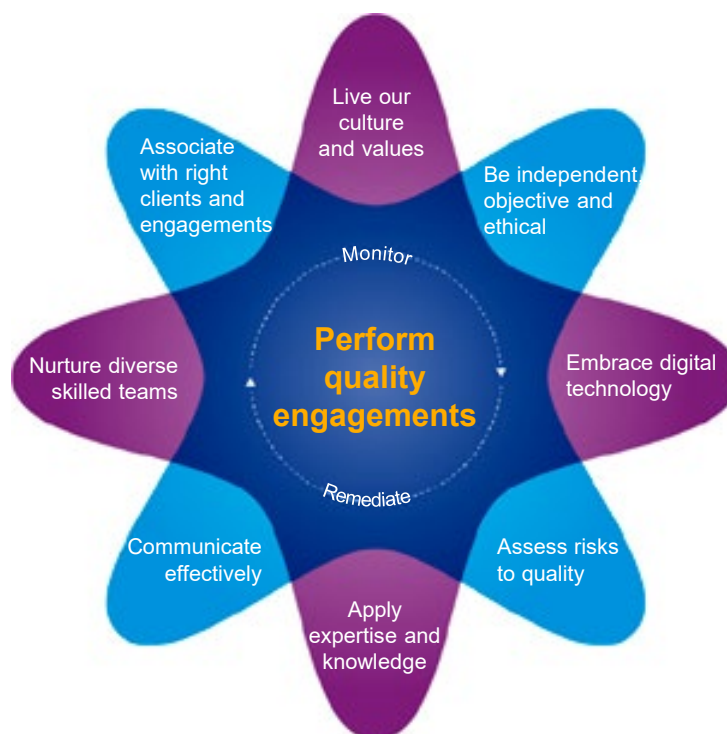
The strategy of our External Audit Practice, (which includes divisions within Audit Assurance & Risk Consulting and Enterprise) is built on a foundation of uncompromising quality. The National Managing Partner Audit, Assurance and Risk Consulting (AARC)², the National Partner in Charge, External Audit³, and the Partner in Charge, Audit and Assurance, Enterprise⁴ articulate this in regular communications with partners and staff.

Measuring audit quality is challenging, because it is governed by a complex set of direct and indirect factors that are often obscure. In FY21, we refreshed our Quality Framework which now covers the critical quality focus areas more explicitly, including living our culture & values, embracing digital technology, applying expertise and knowledge, and nurturing diverse skilled teams.

² Andrew Yates was the National Managing Partner Audit, Assurance and Risk Consulting (AARC) for the year ended 30 June 2021, Eileen Hoggett commenced 1 July 2021

³ Eileen Hoggett was the National Partner in Charge, External Audit for the year ended 30 June 2021, Julian McPherson commenced 1 July 2021

⁴ Tony Batsakis was the Partner in Charge, Audit and Assurance, Enterprise for the year ended 30 June 2021, Julie Cleary commenced 1 July 2021



THE KPMG QUALITY FRAMEWORK⁵

2.3 DEFINED ACCOUNTABILITIES, ROLES AND RESPONSIBILITIES, INCLUDING FOR LEADERSHIP

Our CEO⁶ has overall responsibility for our system of quality control and the performance of the firm. All KPMG Australia's initiatives to improve audit quality are underpinned by leadership from the firm's National Executive Committee (NEC).

The National Partner in Charge, External Audit, is directly accountable to the National Managing Partner of KPMG's Audit, Assurance & Risk Consulting division, for the delivery of the firm's audit quality strategy.

The National Head of Audit Quality and Partner in Charge, Department of Professional Practice⁷, is responsible for monitoring internal and external audit quality signals and driving actions for continuous improvement. Together with a dedicated Divisional Risk

Management Partner⁸, they are accountable to the Chief Risk Officer⁹, who retains overall operational responsibility for our system of quality control and risk management.

In FY20 we began the roll out of globally consistent Audit Quality Role Profiles for those with leadership responsibilities for audit quality, a process which continued in FY21 and will develop further in FY22.

Every member of the firm's NEC has an audit quality-focused goal, which feeds directly into annual performance and remuneration outcomes. This is to ensure the whole firm, not just auditors, works to prioritise and resource audits adequately.

⁵ ©2021 KPMG

⁶ Gary Wingrove was CEO for the year ended 30 June 2021, Andrew Yates commenced 1 July 2021

⁷ Bernie Szentirmay is the National Head of Audit Quality and the Partner in Charge, Department of Professional Practice

⁸ Marcus McArdle is the Divisional Risk Management Partner for External Audit

⁹ Tanya Gilerman is the Chief Risk Officer

2.4 OVERSEEN WITH ROBUST GOVERNANCE STRUCTURES

Our governance structure, which sits across both Audit Assurance & Risk Consulting (AARC) and Enterprise, sets the formal framework for establishing, managing and monitoring audit quality.

The National Board is the principal governance and oversight body of KPMG in Australia¹⁰. Led by National Chairman, Alison Kitchen, the National Board's key responsibilities include overseeing the stewardship of the partnership, the successful conduct of the firm, enhancing its profile, and implementing various decisions voted on by the partners regarding the governance and operation of the partnership.

The National Board is comprised of the National Chairman, the CEO, up to seven elected positions and up to three members (who may or may not be partners of the firm) who are appointed by the National Chairman.

Committee structures

The governance structure includes committees that have risk and quality responsibilities to oversee and influence the firm's audit quality agenda. We view risk management and quality as the responsibility of every one of our people.

These include the below¹¹.

External Audit Leadership Group (ALG) and Enterprise Audit & Assurance Leadership Group (A&ALG)

These groups are the governance bodies for our external audit practice within AARC and Enterprise respectively.

The ALG is led by our National Partner in Charge, External Audit, and includes the National Head of Audit Quality.

The A&ALG is led by our National Partner in Charge, Enterprise Audit & Assurance.

The groups are responsible for the development and implementation of our external audit strategy and operations.

Members of the ALG include Partners in Charge of each of the audit groups, structured by location. Audit quality is discussed by the National Head of Audit Quality during dedicated time at each meeting.

Members of the A&ALG include the Enterprise Audit & Assurance Chief Operating Officer (COO) and the Head of Audit from each of the seven states. Audit quality is discussed at each of the fortnightly meetings.

Audit Quality Committee

The Audit Quality Committee, chaired by the National Head of Audit Quality, which includes the National Partner in Charge, External Audit and National Partner in Charge, Audit and Assurance, Enterprise as members, reports to the ALG and ensures the quality of financial statement audits and associated risks are a priority for audit leadership.

Specifically, its responsibilities include:

- evaluating proposed audit initiatives, ensuring objectives and outcomes align with maintaining or enhancing audit quality, including addressing matters arising from internal monitoring and external inspections and other relevant data sources, including root cause analysis
- assessing the strategic prioritisation, resourcing and timetabling of audit initiatives as they impact audit quality across all offices
- implementing global initiatives to deliver audit quality outcomes in a globally consistent manner
- overseeing the activities of the National Audit Quality Group, including its strategy, work plan and resourcing.

¹⁰ Refer to Appendix 2 for details on the Board

¹¹ Further details about the firm's governance bodies are contained in '14.3 Governance structure'



03. EMBRACING DIGITAL TECHNOLOGY

At KPMG, we are committed to serving the public interest and bringing value through continuous innovation. By leveraging leading technologies, we are transforming the audit experience for our professionals and our clients – enabling us to provide an even higher quality audit by increasing our ability to focus on the issues that matter through the data and insights provided.

3.1 INTELLIGENT, STANDARDS-DRIVEN AUDIT WORKFLOW

We invest in digital technology and expertise to improve audit quality by driving better audit insights, creating greater consistency, and strengthening monitoring of engagements. We believe audit quality is best achieved when the power of smart technology is matched with inquiring minds and professional scepticism.

Our current audit workflow technology is eAudIT, KPMG’s electronic audit tool. It integrates our methodology and industry knowledge with tools to facilitate the conduct of the audit and production of an electronic audit file. eAudIT allows professionals to complete top quality, consistent audits. Its activity-based workflow is scalable to customise the audit approach so it is appropriate for major multinational groups through to small or medium enterprises.

3.2 KPMG CLARA

We have embarked on a process of updating our audit methodology and embedding it in our new ‘smart’ global audit platform, known as KPMG Clara.

KPMG Clara unites in a single sharing platform our audit workflow, project planning tool, collaboration capabilities between the audit team and our client, and data and analytics (D&A) capabilities to enhance quality and efficiency.

A cornerstone of our KPMG Clara platform is the new KPMG Clara workflow, which is scalable – adjusting the requirements to the size and complexity of the audit engagement. 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. Through it we will enhance global audit consistency.

We are progressively increasing the number of teams using KPMG Clara workflow. In FY21, 73 engagement teams participated in the Australian limited deployment, and this will rise to approximately 500 engagement teams in FY22. We plan for all financial statements to be conducted using KPMG Clara workflow from December 2022 year-ends onwards. The feedback obtained from our audit teams continues to guide the KPMG Global Solutions Group on improvements to the global workflow and shape our deployment plans.

3.3 DIGITAL DATA AND EMERGING TECHNOLOGIES

Data and analytics (D&A) in the audit

We use D&A to better understand the entities we audit, contribute to risk assessment, and provide rich objective audit evidence. This adds confidence and valuable insights. D&A allows us to identify and focus our judgments on higher risk areas and provide deeper business reporting to our clients.

In FY21, we extended our D&A capabilities in our audits with:

- **Automated audit procedures:** leveraging data and automation techniques to replace manual effort, testing of larger populations of transactions, such as sales transactions, and eliminating the risk of human error
- **Automated vouching solutions:** using optical character recognition and natural language processing techniques, our vouching solutions automate the matching of transactional details to supporting documents, such as invoices and bank statements
- **Industry comparisons:** incorporating publicly available data, such as discount rates and market capitalisation rates into analytic capabilities to compare clients' data points with their peers so that potential anomalies are identified and interrogated.

We retain a centralised team of D&A specialists: data scientists, data analysts and other science, technology, engineering and mathematics-educated people, to support audit capabilities.

Reliable technology to enable evidence gathering

KPMG's alliances with some of the world's most advanced technology companies, such as Microsoft, allow us to stay at the forefront of tech developments as well as D&A capabilities. We use a range of technologies in performing audit procedures, from off-the-shelf packages to customised in-house developed systems, and follow a robust global software audit tool policy, supported by relevant technology specialists.

Hybrid working supported by digital technology

KPMG's 'new normal' is hybrid working. Partners and employees work across three hubs: Office, Client and Home. We have embraced this model, utilising technology to facilitate collaboration and enabling us to react quickly and minimise the disruptions when COVID-19 restrictions are imposed.

In the COVID-19 environment, technology is also used to perform audit procedures, which have traditionally required the engagement team to be physically at the client's site. For example, our teams have conducted virtual inventory counts and walked through a client's processes using video capabilities. Our team members can see everything the client sees and, where necessary, zoom in to see the detail.

Regular leadership communications reinforced the importance of keeping in constant contact with team members to monitor our people's wellbeing as well as audit progress, using technology to engage collaboratively with one another, direct and supervise work.

KPMG's 'new normal' is hybrid working. Partners and employees work across three hubs: Office, Client and Home.





04. APPLYING EXPERTISE AND KNOWLEDGE

We are committed to and continue to build on our technical expertise and knowledge, recognising its fundamental role in delivering quality audits.

4.1 METHODOLOGY ALIGNED WITH PROFESSIONAL STANDARDS, LAWS AND REGULATIONS

KPMG's Global Audit Methodology Group develops and maintains the audit methodology adopted by all KPMG member firms, based on the *International Standards on Auditing* (ISAs)¹² and compliant with the *International Standard of Quality Control*. In Australia, auditing standards (ASAs)¹³ are legally enforceable and we customise the global methodology for these standards, relevant laws and regulations, and for additional requirements we believe enhance the quality of our audits.

This is set out in our KPMG Audit Manual (KAM) and the KPMG Audit Execution Guide (KAEG), our new global audit methodology which we are in the process of deploying. The KAEG focuses on the risk continuum so our audit teams execute consistently against our quality standards.

4.2 DEEP TECHNICAL EXPERTISE AND KNOWLEDGE

Department of Professional Practice

The Department of Professional Practice (DPP) is the national centre of technical excellence responsible for: conducting technical research, interacting with local and global professional standards-setters and regulators, and providing technical accounting and auditing guidance and support to our people in the field.

Partners and senior staff primarily from the audit groups are members of the DPP. They are our technical experts, with deep understanding of Australian and international standards. They challenge audit teams on positions taken, bringing a further independent lens, and are the firm's authority on audit matters.

DEPARTMENT OF PROFESSIONAL PRACTICE

| | FY21 | FY20 | FY19 |
|--|--------------|--------------|--------------|
| No. of FTE professionals | 36 | 34 | 30 |
| Average experience of the DPP professionals | 16yrs | 15yrs | 15yrs |

¹² International Auditing and Assurance Standards Board www.iaasb.org

¹³ Australian Auditing Standards

To support the technical excellence of our people, the DPP produce publications and reference materials describing KPMG's positions on accounting standards. Our DPP financial reporting team dedicate significant time to supporting teams. This ranges from one-on-one audit team support to developing and instructing learning on complex issues.

The National Audit Quality Group and the KPMG Clara workflow Deployment Group supplement the DPP as part of our broader audit quality function. These groups and our other embedded networks work closely with the DPP in developing initiatives to maintain and improve audit quality.

National Audit Quality Group

The National Audit Quality Group comprises senior auditors dedicated to developing, implementing and monitoring our strategy to continuously improve audit quality.

Key initiatives led by this group during the year include:

- Supporting leadership to launch and embed our Audit Quality Mantra – 'I take pride, I coach, I am present, Together for better'
- Expanding the scope of the Second Line of Defence (2LoD) program supporting audits transitioning to the KPMG Clara workflow and KPMG Audit Execution Guide
- Leading workshops for the implementation of new initiatives tools and templates, such as estimates, fraud, substantive audit procedures
- Introducing and policing a shorter file assembly period in order to improve the timeliness and effectiveness of file assembly process
- Data mining of live audit engagements to identifying opportunities for additional coaching of the engagement team.

THE NATIONAL AUDIT QUALITY GROUP

| | FY21 | FY20 | FY19 |
|--|-------|-------|-------|
| No. of FTE professionals | 5 | 5 | 4 |
| Average experience of the National Audit Quality Group professionals | 16yrs | 15yrs | 18yrs |

KPMG Clara workflow Deployment Group

The KPMG Clara workflow Deployment Group, led by a Deployment Partner¹⁴ is responsible for the staged implementation of the KPMG Clara workflow. Auditors are seconded to the group from lines of business including the DPP to specifically focus our support on this significant local and global investment to improve audit quality.

Our embedded networks

KPMG uses embedded networks within each of the audit groups and offices to maintain our focus on audit quality.

Audit Quality Partners are responsible for supporting the local office, disseminating guidance and information to audit teams relating to our interpretations of auditing standards and national initiatives to enhance quality, identifying improvement opportunities and leading our Audit Quality Managers.

Audit Quality Managers facilitate local workshops on topical matters, communicate new methodology guidance and key audit quality messages and provide input into the development of national audit quality initiatives.

Risk Management Partners are responsible for providing leadership on audit quality and risk management and directing adherence to firm policy and professional standards. These highly experienced audit partners consult on audit technical issues, assist in the identification and management of risks to audit service delivery, and are consulted on all modified audit reports. Our Risk Management Partners dedicate significant amounts of time to one-on-one audit team support for complex issues – in particular, going concern, as more entities faced the impacts of the pandemic.

THE KPMG CLARA WORKFLOW DEPLOYMENT GROUP

| | FY21 | FY20 | FY19 |
|---|--------------|--------------|--------------|
| No. of FTE professionals | 8 | 7 | 2 |
| Average experience of the KPMG Clara workflow Deployment Group professionals | 13yrs | 12yrs | 16yrs |

EMBEDDED NETWORKS

| | FY21 | FY20 | FY19 |
|--|------------------------|-----------|-----------|
| No. of Audit Quality Partners | 13¹⁵ | 14 | 15 |
| No. of Audit Quality Managers | 58 | 54 | 50 |
| No. of Risk Management Partners | 18 | 19 | 16 |

¹⁴ Andrew Hounsell is the partner leading the deployment of the KPMG Clara workflow Deployment Group

¹⁵ The reduction in Audit Quality Partners is due to the consolidation of Audit Quality roles within Enterprise

Sampling specialists are specifically trained to support audit teams with their complex sampling queries and facilitate training of engagement teams in the use of sampling techniques.

To assist teams transitioning to the KPMG Clara workflow we have established a network of KPMG Clara workflow champions. These individuals have attended bootcamps on the KPMG Clara workflow and are available when needed to help teams in their local office with using the new platform, applying the new KAEG methodology, to share tools and workpapers developed for the KPMG Clara workflow and to facilitate training. As at 30 June 2021 there were 44 KPMG Clara workflow champions.

4.3 QUALITY AND RISK MANAGEMENT MANUAL

Our Australian Quality and Risk Management Manual collates our policies, procedures and guidance. It reflects the key elements of the IESBA¹⁶ Code of Ethics combined with Australian specific provisions, and, where applicable, US Securities and Exchange Commission (SEC¹⁷), US PCAOB¹⁸ and other regulatory requirements. Our people annually confirm their compliance with these policies and procedures, which include personal independence.

4.4 STANDARDISED WORKPAPERS AND GUIDANCE

Risk management and quality control are the responsibility of every KPMG partner and staff member. We expect our people to adhere to the clear standards we set and provide a range of tools to support them in meeting these expectations.

These standards incorporate the relevant requirements of the *Corporations Act 2001* and of accounting¹⁹, auditing²⁰, quality control, ethical and professional standards²¹, and other relevant laws and regulations. We dedicate significant resources to keeping our standards and tools complete and up to date. Amendments to these are communicated by regular alerts and learning programs.

To maximise audit effectiveness and efficiency, we continually develop and distribute audit quality updates. In FY21, we maintained and updated the extensive guide developed in FY20 to assist teams in addressing the various accounting, reporting and audit related matters arising from the impacts of the COVID-19 pandemic. Other tools developed and released in FY21 included:

- an automated workpaper guiding teams through the significant changes to ASA²⁰ requirements when auditing estimates
- template workpapers addressing fraud risks identified throughout the audit, responsive to recent global market issues
- workpapers prompting auditors in identifying events and conditions that question an entity's ability to continue as a going concern and testing protocols when gathering audit evidence
- a comprehensive document guiding teams to testing inventory standard costing.

16 International Ethics Standards Board for Accountants www.ethicsboard.org

17 US Securities and Exchange Commission www.sec.gov

18 US Public Company Accounting Oversight Board www.pcaobus.org

19 Australian Accounting Standards Board www.aasb.gov.au

20 Auditing and Assurance Standards Board www.auasb.gov.au

21 Accounting Professional and Ethical Standards Board www.apesb.org.au



Photographer Steve Greenaway

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05. NURTURING DIVERSE SKILLED TEAMS

Our people make the real difference and are instrumental in shaping the future of audit. We put quality and integrity at the core of our audit practice. Our auditors have diverse skills and capabilities to address complex problems.

5.1 RECRUIT APPROPRIATELY QUALIFIED AND SKILLED PEOPLE, INCLUDING SPECIALISTS, WITH DIVERSITY OF PERSPECTIVE AND EXPERIENCE

We recognise the crucial importance of attracting appropriately qualified and skilled people. In FY21 we enhanced the targeted nature of our search and recruitment approach. We also refreshed the incentives to attract new talent with the right skills, experience and passion.

One unexpected COVID-19 impact has been the shift from physical secondments from KPMG member firms in other jurisdictions to support capacity during audit season, to virtual secondments. To support work that may be co-delivered by KPMG Global Services (KGS) in India, we are working with member firms including KPMG Singapore, Malaysia, Philippines, New Zealand and South Africa to build out capacity. All secondees are required to complete Australian specific audit and independence training prior to commencing work on any Australian audit. Using technology, virtual secondees receive the same direction and coaching as employees based in Australia and their work is subject to the same review and oversight. Our system of quality control applies to all our personnel, whether based in Australia, or elsewhere.

At the beginning of FY22, 133 auditors, comprising senior accountants, assistant managers and managers were seconded to work for us full time, and will perform a senior team member role virtually for our Australian 30 June 2021 reporting season.

The shortage of auditors across Australia has been well documented, with the Australian Public Policy Committee (APPC) making a submission to the Joint Standing Committee on Migration requesting that external auditors be urgently added to the Priority Migration Skilled Occupation List (PMSOL). The submission looked at the impact of audit skills shortages on capital markets, and the challenges around accounting firms' recruitment and retention efforts. The Federal Government has announced the addition of 22 occupations to the PMSOL, including external and internal auditors, which is welcome news.

5.2 INVEST IN DATA CENTRIC SKILLS – INCLUDING DATA MINING, ANALYSIS AND VISUALISATION

Embracing digital technology is essential to advancing audit quality. Our graduate program includes staff from outside the accounting field with degrees in the Science, Technology, Engineering and Maths (STEM) field. Twelve STEM graduates are in our audit data and analytics team as at 30 June 2021.

5.3 FOCUS LEARNING AND DEVELOPMENT ON TECHNICAL EXPERTISE, PROFESSIONAL ACUMEN AND LEADERSHIP SKILLS

Development of skills and personal qualities

We continually review and assess our people's capabilities and competence to perform engagements in accordance with professional standards, legal and regulatory requirements.

We invest significantly in upskilling our people and cultivate a continuous learning environment and coaching culture.

On-the-job development and training usually includes participating in interstate and overseas assignments, secondments, and community involvement through pro-bono and volunteering opportunities. The current COVID-19 environment, however, limited some of these opportunities in FY21.

Recognising that investment is required now to continuously enhance audit quality, we have increased the number of graduates appointed over the past year.

We offer our AARC Graduate Rotation Program providing an enhanced career experience for our new joiners. The rotations give our graduates the opportunity to work across different service lines, exposing them to a wider variety of professional services, accelerating the growth of their skills and capabilities. The number of graduates participating in the program increased from 150 graduates in FY20 to approximately 170 graduates in FY21.

Learning programs

Our learning curriculum offers education programs to hone technical expertise, industry and sector knowledge, innovation and emerging technologies. Our Learning & Development groups develop global, regional and local learning to ensure both global consistency and local applicability.

Leadership and behavioural skills are also honed via our 'Everyone a Leader' framework. In addition, we offer transition pathways to support employees as they progress through career milestones.

The Chartered Accountant Program

The Chartered Accountant (CA) qualification, awarded by Chartered Accountants Australia and New Zealand²² (CAANZ), is highly regarded by business, regulators and members of the public.

It forms the foundation of our partners' and staff members' audit technical, business and ethical knowledge.

KPMG engages CAANZ to run tailored CA Study Masterclass sessions specifically for KPMG candidates.

KPMG continues providing high quality support for our CA candidates and results show our people consistently achieve better than the average national pass rate.

Technical learning – auditing, financial reporting and independence

The Mandatory Audit Training Curriculum (MATC) is globally developed and consistent training for all member firms that can only be modified for locally specific needs, local equivalents, or additions to the training content. In FY21 the MATC content deployed to Australian learners included the Engagement Quality Control Review (EQCR) training and 2021 KPMG Clara workflow training.

CA PROGRAM RESULTS

| | FY21 | FY20 | FY19 |
|---|-------------------------|-------------------------|--------------|
| No. of CA program exams undertaken by staff | 1,300 | 1,235 | 1,200 |
| No. of staff who completed the CA Program²³ | 223 | 262 | 203 |
| CA Program – national KPMG pass rate | 88.5% | 91.6% | 89.4% |
| CA Program – (excl. KPMG) national pass rate | 79.5% | 79.6% | 77.0% |
| No. of merits awarded to KPMG candidates (top 5%) | 118²⁴ | 132²⁵ | 93 |

²² Chartered Accountants Australia and New Zealand is a trading name for The Institute of Chartered Accountants in Australia and the New Zealand Institute of Chartered Accountants www.charteredaccountantsanz.com

²³ Number of staff completing the CA Program in any given year coincides with the scheduling of the final CA Program module, Capstone

²⁴ 10% of KPMG candidates who passed their exam received a merit (top 5% nationally)

²⁵ 12% of KPMG candidates who passed their exam received a merit (top 5% nationally)

Technical courses covering independence, financial reporting and auditing topics are mandatory at all audit staff levels. The Audit Learning Steering Committee identify and prioritise topics to be included in audit learning based on information from sources including:

- A needs analysis, conducted in Australia, and at a regional and global level
- Findings from continuous improvement activities, including our Quality Performance Reviews and ASIC audit inspections
- New, revised or emerging standards and regulations
- Input nationally from our embedded networks in each office or group.

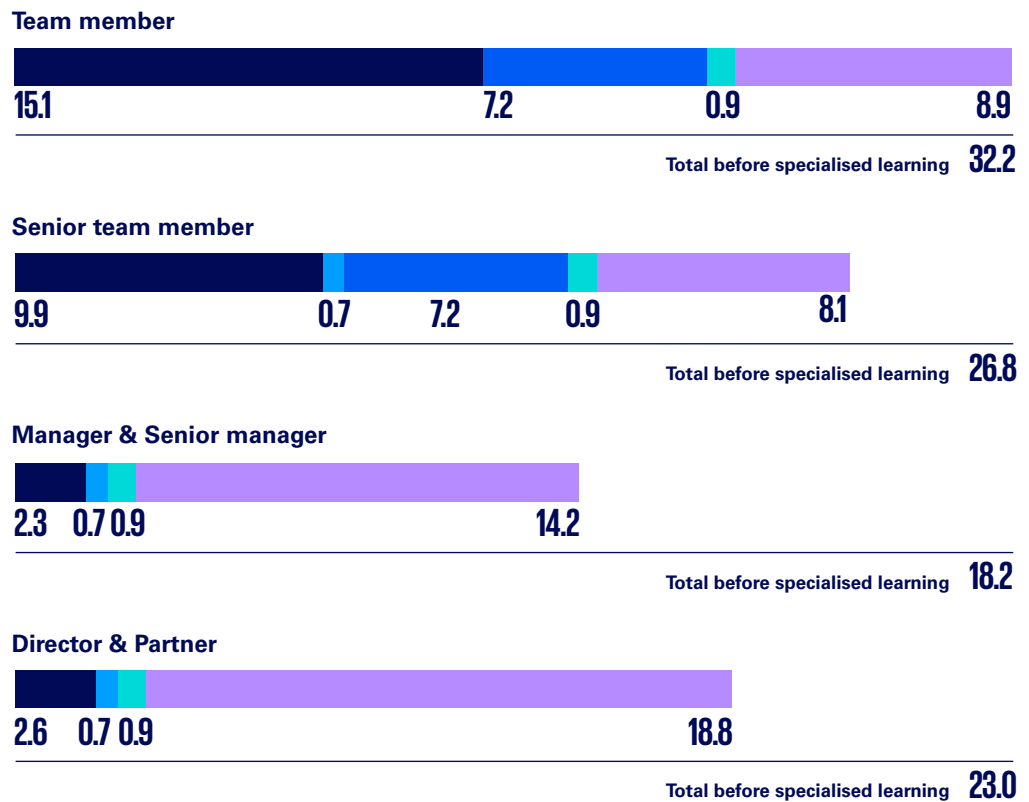
To provide quality service delivery and valued insights to our clients we frame our technical expertise within broader business knowledge. Our learning curriculum includes courses to develop business acumen, relationship skills and industry knowledge.

Attendance and assessment of learning

Partners and staff must complete²⁶ mandatory technical learning and successfully complete a post-course assessment if required. Penalties for non-completion by the deadline include their performance rating not being higher than Effective Performance, which may directly impact remuneration, and/or disciplinary action. During the year a breach of our Code of Conduct was identified in relation to the improper sharing of answers to some of our mandatory learning tests. The firm’s response is detailed in ‘7.1 Act with integrity and live our values’.

LEARNING AND DEVELOPMENT (IN DAYS) OFFERED TO AUDIT PARTNERS AND STAFF

- Auditing and assurance (including professional judgement & skills, and the new estimates auditing standard)
- Accounting and financial reporting
- CA candidate in-house²⁷
- Risk Management, including independence
- Leadership and behavioural skills



26 In the case of classroom training, if a partner or staff member fails to attend compulsory technical learning that contributes to their accreditation they are required to review either a video recording of the learning or the leader’s manual to ensure there are no knowledge gaps.

27 A CA candidate completes 2 or 3 modules in a 12 month period depending on CAANZ module scheduling.

Specialised industry knowledge is available through online resources and learning courses for industries and sectors including corporates, energy and natural resources, financial services and infrastructure, government and healthcare. Learning is targeted, depending on the individual's audit client profile and specialised roles.

Other technical learning

A variety of just-in-time learning and webinars are available on topics including auditing, accounting and commercial behaviour concepts in addition to structured courses.

Enhanced partner knowledge

To further develop the audit quality skills of our audit partner candidates, we put in place the Partner Promotion Policy and supporting activities.

We require candidates to have specific audit quality oversight experience as part of their progression to partner, for example via a role either as a 2LoD reviewer, a Quality Performance (QP) reviewer, or through spending at least six months within the DPP Audit Quality group or the National Audit Quality Group.

Continuing professional development

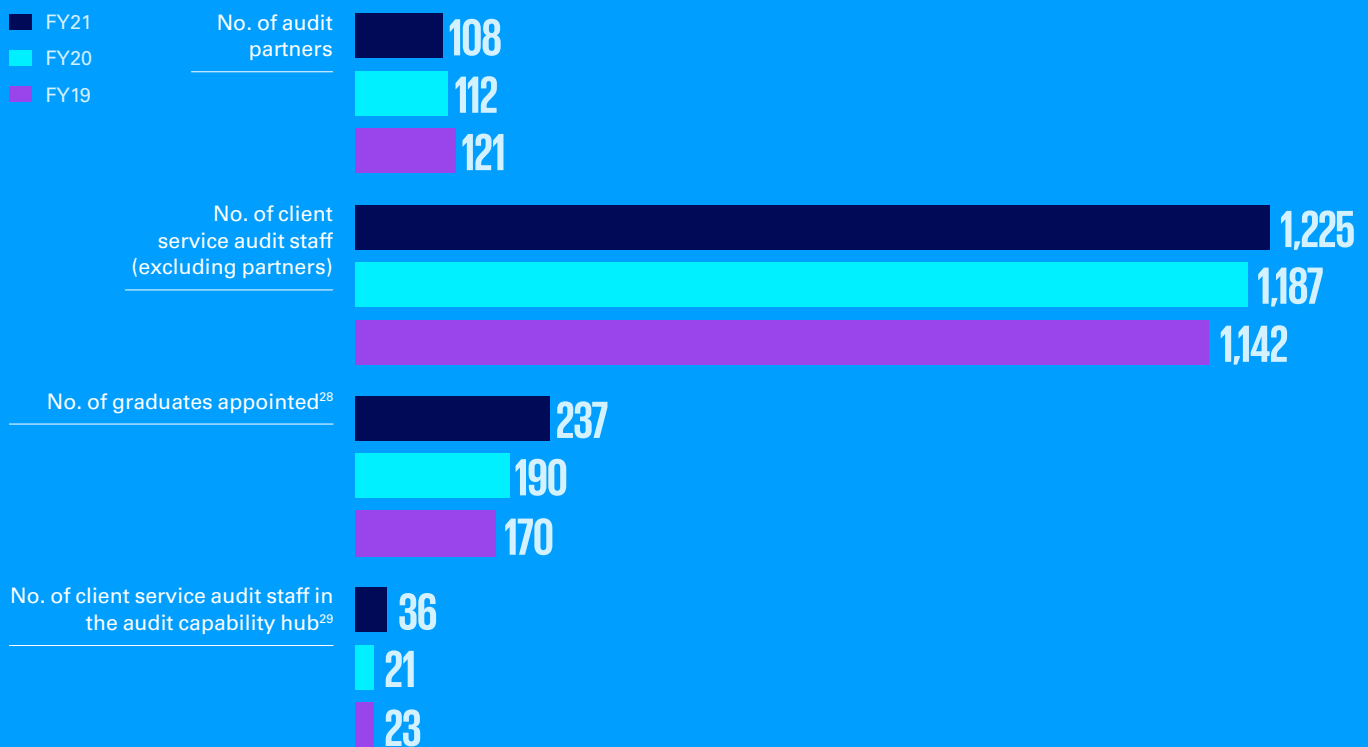
We require all our audit client service partners and staff to invest in continuing professional development (CPD). They must obtain a minimum of 30 CPD hours annually and at least 120 CPD hours over a three-year period. Our Regulation & Compliance team test a sample of our partners and staff compliance with the CPD requirements in the firm's annual monitoring program.



5.4 ASSIGNING AN APPROPRIATELY QUALIFIED TEAM

The assignment of audit partners and staff members with deep understanding of the client's risks and industry is one of the key drivers of audit quality.

PROFILE OF KPMG AUDIT PERSONNEL



Ratio of client service audit staff to audit partners



Ratio of client service audit staff below manager to those who are manager, senior manager and director

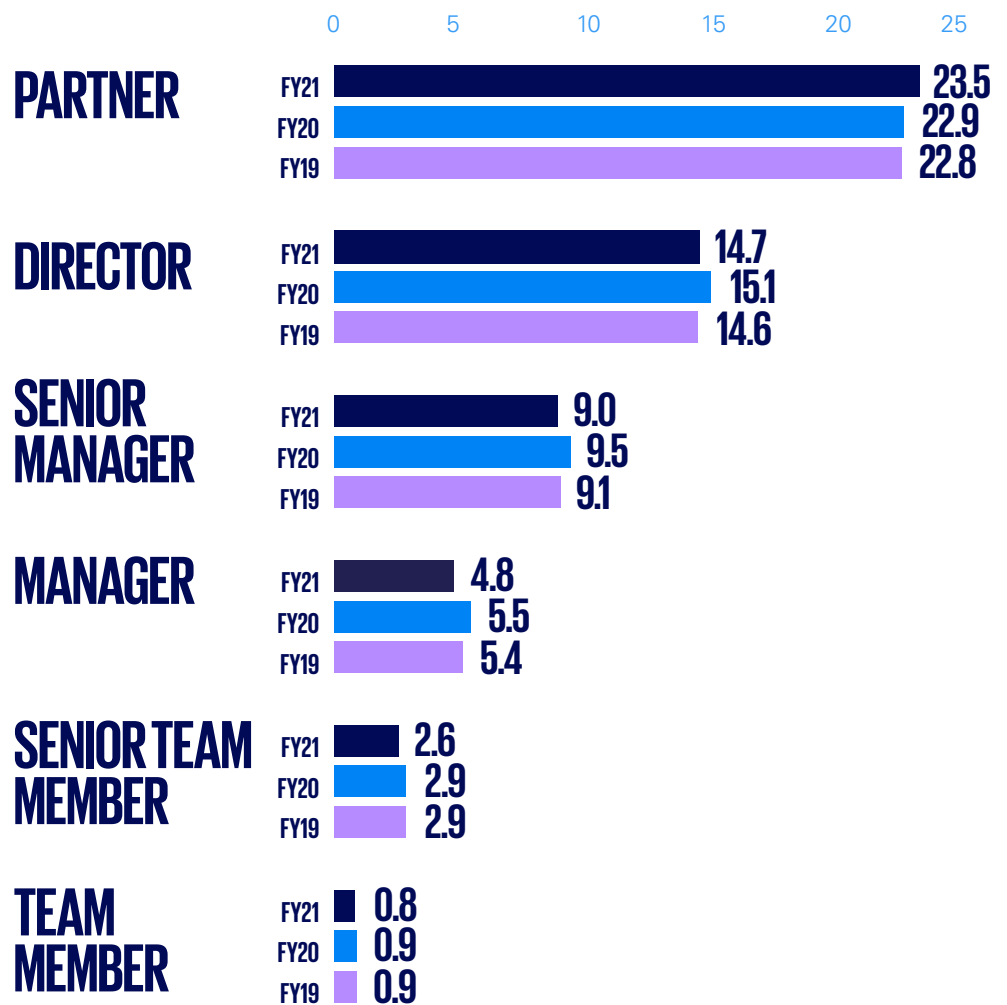


²⁸ The number of graduates appointed consist of audit graduates as well as graduates appointed in the data and analytics team.

²⁹ The audit capability hub centralises common audit procedures for audit areas such as cash, fixed assets and data analytics

AVERAGE YEARS OF EXPERIENCE WITH KPMG

With the exception of partners, this table does not include time spent with other KPMG Member firms



Accreditation and licensing

All our partners who sign statutory audit reports are Registered Company Auditors. Registration is granted by ASIC³⁰ after an assessment of qualifications and competency.

Our partners and directors are subject to additional internal accreditation and knowledge requirements in relation to International Financial Reporting Standards (IFRS)³¹, US accounting and auditing standards, and an Assurance Accreditation framework, Engagement Quality Control Reviewer (EQCR) accreditation framework, acknowledging the need for specific skills in auditing. These frameworks specify the professional qualifications, training and experience and results from the firm's Quality Performance Review Program required to become accredited.

For the year ended 30 June 2021, 100 percent (FY20: 99 percent) of our eligible audit partners and directors maintained their relevant internal accreditations.

Composition of the audit team

Audit teams generally comprise an audit partner, manager, an assistant manager or in-charge, specialists, and junior team members.

Larger audits often have more than one audit partner assigned to support the signing partner. With multinational audits, appropriately capable audit partners and staff are assigned from the relevant KPMG member firms.

We take care to assign the right people to the right clients. Audit partners consider the competence and capabilities of their team, including specialists. This includes considering whether the team has the appropriate resources, with the experience, skills and time to conduct a quality audit.

For engagements we deem to be 'high risk' we have a policy which restricts the assignment of staff who in the last 12 months have received a performance rating below 'Effective Performance', failed 3 or more modules in the CA program or have received an unsatisfactory rating in internal or external audit inspections.

Industry expertise

Our people generally align their profile of work to an industry specialised portfolio. This helps maximise their understanding of the business, operational and systems-based risks their clients face.

Specialised capability and administrative hubs

Our onshore National Service Centre team members contribute to common engagement processes from audit areas such as cash, fixed assets, data & analytics and engagement set up. Using centralised resources and technology these capability and administrative hubs standardise testing, producing consistent and high-quality outputs. This frees up our on-location staff to be face-to-face with our clients, focusing on critical judgements and interpreting results.

The Audit Processing Centre

We engage our Global Services team as our Audit Processing Centre, based in India, to carry out financial statement checking and certain non-judgemental audit procedures. This frees up time for local staff to perform more challenging work and speeds up turnaround times. The members of the Audit Processing Centre undertake KPMG Australia's independence and audit training prior to performing any work on an Australian audit.

³⁰ Australian Securities & Investment Commission www.asic.gov.au

³¹ Refer to Appendix 4 KPMG's global values

5.5 RECOGNISE QUALITY

We have established new initiatives in FY21 to recognise and reward our partners and staff for their contribution to our audit quality.

Goal setting

An individual's accountability in achieving audit quality is a core benchmark used to assess performance and progression.

To provide a more transparent framework around the accountability for audit quality in FY21 we:

- Introduced an audit quality rating system with globally consistent metrics to be considered when determining an audit quality rating for a partner or director. Individuals are assessed on whether their quality indicators demonstrate that their audits are executed consistently in line with KPMG's definition of audit quality. Indicators used in determining the quality rating include performance in our internal inspection programs, results of ASIC audit inspections and completion of mandatory training.
- Implemented audit quality role profiles for specialists involved in audits. The role profiles establish minimum quality expectations and form part of the goals against which performance is assessed. This ensures all professionals involved in audit delivery understand, own and prioritise their role in driving audit quality.

Recognition and reward

Our reward and recognition structure reflects career progression and acknowledges the efforts required in achieving a high audit quality. In FY21 we introduced a one-off bonus for employees who have been involved in the implementation of KPMG Clara workflow and established the following initiatives:

- **Revive:** The nature of an audit means some periods will be busier than others. We refreshed our program to acknowledge those additional hours worked by our audit employees in those busier periods. The time accrued under this program can be taken as time in lieu later.
- **KPMG Clara workflow University:** To recognise and reward the commitment needed in adopting KPMG Clara workflow and our new audit methodology we have established the KPMG Clara workflow University. This offsite training program is an interactive learning experience away from the distractions of the usual day-to-day work commitments.

To emphasise the importance of audit quality we reward individuals who have contributed to high quality audits demonstrated through success in either ASIC audit inspection or Quality Performance Review. The framework provides monetary reward to all team members, irrespective of their level, who contributed to an audit receiving satisfactory results.

Wellbeing

A survey conducted in FY20 made it clear there were some areas where additional support of our staff was required. This led to the launch of a National Wellbeing Campaign to improve the mental and physical health and work-life balance of our audit partners and staff during FY21 busy season. The campaign focused on several initiatives:

- **Everyone's a Coach** – ensuring every team member takes an active coaching role throughout an engagement
- **Wellbeing planning meetings** – requiring everyone to agree to a set of protocols on how to achieve wellbeing outcomes for each team member
- **Communications from the National Partner in Charge, External Audit** – reinforcing the importance of looking after everyone's wellbeing
- **My One Thing** – encouraging employees to choose something outside of work that is important to them, making a commitment to it and keeping each other accountable to those things
- **Tone at the Top** – reminding partners to set the tone for the behaviours we expect of auditors, including being understanding, being visible and transparent, respecting the team's time, setting realistic deadlines and being accountable and responsible.

Our focus on wellbeing continues to grow with the creation of our employee value proposition (EVP). This provides a platform for audit leadership to embed a wellbeing culture within their groups. The EVP includes:

- collaborative, social, fun and supportive working environment recognising the importance of establishing trust and friendships between colleagues
- prioritising a diverse and inclusive workplace
- flexible and agile working utilising the three-hub model, prioritising connection with people.

Survey results from FY21 showed a 15-point improvement from 59 in 2019 to 74 in 2021 in the wellbeing results for External Audit, indicating the wellbeing initiatives were well received.

Retention and promotion

The results of our annual performance evaluation directly affect the promotion and remuneration of our partners and staff and, in some cases, their continued association with KPMG.

In FY21 we introduced the agile promotion model incorporating out of cycle promotions, allowing for merit-based progression for high performing auditors.

Diversity and inclusion

We work hard to foster an inclusive culture to retain our diverse talent. Firm-wide we set a target of 40% of women in partnership, and 20% culturally diverse partners by 2025. As at 30 June 2021, 32% of audit partners were female (30 June 2020: 31%).

Introduced in FY21, our new talent and leadership development program, *Illuminate*, supports high potential managers from ethnically diverse backgrounds to enhance their leadership skills. This program complements our existing Bird Walton program – a sponsorship program for high potential senior women that also broadens the perspective of our male partner sponsors to the possibilities inclusion creates.



Photographer Steve Greenaway

06. ASSOCIATING WITH THE RIGHT CLIENTS AND ENGAGEMENTS

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

6.1 FOLLOW THE CLIENT AND ENGAGEMENT ACCEPTANCE AND CONTINUANCE POLICIES

We have established rigorous policies and procedures for determining whether to accept or continue a client relationship or perform a specific engagement.

Prospective client and engagement evaluation process

With every prospective client the partner responsible conducts an evaluation of the client's principals, business and other service-related matters. This evaluation includes completion of a customised questionnaire to assess the client's risk profile. Background information is obtained on the client, its key management, directors, and owners. A Commercial Conflicts Resolution Committee, comprising the National Managing Partners of all divisions and the Chief Risk Officer, also assesses the acceptance of clients.

When the engagement is to provide audit services, at least two additional risk assessment steps are incorporated. These include:

1. assessing whether we can deliver a quality audit (do we have sufficient resources, industry expertise, and do we consider persuasive evidence is obtainable)
2. for a first-time audit, performing a review of any non-audit services provided to the client and any other relationships that may compromise audit independence.

Continuance process

Regardless of the length of time we have been associated with an audit client, we regularly re-evaluate our association to ensure we remain capable of independence and audit quality.

We evaluate audit client relationships at least annually and, additionally, re-evaluate if there are significant changes in their business, financial position, ownership structure, or issues reflecting on their integrity.

A Risk Management Partner, independent of the audit team, assesses the circumstances of our continuance and their acceptability.

6.2 ACCEPT APPROPRIATE CLIENTS AND ENGAGEMENTS

Understanding the nature of our clients and the issues they face is key to audit quality, allowing us to build a robust audit response to the identified risks.

We decline to act for a client where we are unable to deliver to our expected level of quality or would not be willing to be associated with them. Some circumstances where we consider declining include:

- potential impairment of independence
- conflict of interest issues
- overly aggressive or conservative accounting policies
- disputes with previous auditors or advisors
- management being subject to investigation by authorities
- concerns about the competence of the client's financial management team.

It would also include cases where there are concerns about: management integrity, client business model, or governance structure.

Sentinel, KPMG's proprietary global web-based application, facilitates compliance with auditor independence requirements and identifies potential conflicts of interest for prospective engagements.

Non-audit services provided to audit clients

The regulatory rules and systems relating to the provision of non-audit services to an audited entity are extensive, which is appropriate given the risk of creating a real or perceived independence issue.

For publicly traded audit clients and certain other audit clients, Lead Audit Engagement Partners are required to keep Sentinel updated with each of the entities in the group. This also applies to related entities of these audit clients. Compliance is annually confirmed through a declaration process.

Certain information on all prospective engagements, including service descriptions and fees, must be entered into Sentinel as part of the engagement acceptance process. Sentinel enables Lead Audit Engagement Partners to review and approve – or deny – any proposed service for those entities worldwide.

Lead Audit Engagement Partners are responsible for identifying and evaluating any independence threats that may arise from the provision of a proposed non-audit service. Any proposed non-audit services to be provided to public interest entity (PIE) audit clients of the firm require review and approval by the firm's Ethics and Independence Partner.

6.3 MANAGE PORTFOLIO OF CLIENTS

Safeguards and High Risk Register

Clients are placed on the High Risk Register when non-standard or additional risks are identified during acceptance or re-evaluation and we are still capable of ensuring independence and audit quality. In these cases, we mandate additional risk management or quality control safeguards to the conduct of the audit.

Managing Conflicts of Interest

The Commercial Conflicts Resolution Committee assesses complex cases involving multiple areas of the firm. If a potential conflict of interest cannot be resolved or appropriately managed, we decline the engagement or prospective client.

Client portfolio management

We review each audit partner's portfolio at least annually. The reviews consider the industry, nature and risk of the client portfolio as a whole along with the competence, capabilities and capacity of the partner to deliver a quality audit for every client.

Audit partner rotation

All audit partners are subject to the rotation provisions of the *Corporations Act 2001* (the Act) and Australian professional and ethical requirements. Where relevant, the rotation requirements of foreign regulators such as the US SEC and other local regulatory requirements are also considered. Rotation requirements limit the number of years certain partners can provide audit services to a client. At KPMG, our rotation requirements also address audit partners on engagements which are not subject to the rotation provisions of the Act.

In FY21 we introduced KPMG's Global Partner Rotation System. It is an automated system allowing us to track and comply with increasingly complex regulations governing partner rotation for audits of Public Interest Entities.



07. BEING INDEPENDENT AND ETHICAL

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

7.1 ACT WITH INTEGRITY AND LIVE OUR VALUES

Our values³² and Code of Conduct spell out very clearly our expectations about our performance and our behaviour. They define for everyone at KPMG who we are and how we act.

KPMG's Code of Conduct reinforces the commitments we each make to foster trust, and to speak up when something isn't right.

Testing-related misconduct

In February 2020, through a workplace report, we became aware of potential breaches of our Code of Conduct associated with the improper sharing of answers to tests relating to our annual internal independence training. Once verified, we called out the misconduct to all our staff, self-reported the issue to regulators, launched an investigation and commenced implementing a remediation plan. In addition, our partners and people were required to complete a new test associated with independence training in early March 2020.

During the investigation, it became apparent that similar misconduct had taken place for tests associated with some other internal training, including that related to Audit. To ensure the integrity of our testing and training processes, we developed new tests to cover internally developed audit training material issued over the preceding two years.

The re-testing was successfully undertaken by Audit partners, directors, senior managers and managers.

In September 2021, the Public Company Accounting Oversight Board (PCAOB) published its Order relating to this conduct, censuring the firm; imposing a US\$450,000 civil penalty; and requiring KPMG Australia to undertake certain remedial actions. In determining the sanctions the PCAOB took into account the firm's 'extraordinary cooperation'. It specifically noted that the firm had voluntarily self-reported shortly after learning about the misconduct; had provided substantial assistance to the PCAOB's investigation; and promptly instituted remedial measures and took disciplinary action against impacted personnel.

We believe test answer sharing for internal training is unacceptable and we took this matter extremely seriously.

We are confident in the quality of our people's work and have taken significant steps to avoid future occurrences. We have been very clear with our people that conduct of this nature is not acceptable and will not be tolerated.

- [PCAOB Order](#)
- [KPMG public response](#) – Public statement in response to testing misconduct – KPMG Australia.

³² Refer to Appendix 4 KPMG's global values

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

7.2 MAINTAIN AN OBJECTIVE, INDEPENDENT AND ETHICAL MINDSET, IN LINE WITH OUR CODE OF CONDUCT AND POLICIES

To help ensure independence – as prescribed by our policies, the law and accountancy regulations – our partners and staff members must be free from prohibited financial interests in, and prohibited relationships with, our audit clients. This also applies to relationships with management, directors, and significant owners of audit clients. Independence also extends to our contractors and subcontractors, using a process tailored to their circumstances. Our people are responsible for making appropriate enquiries to ensure they do not have any prohibited personal financial interests.

We use an online independence tracking system, KPMG Independence Compliance System, with other member firms in the KPMG global network to assist our partners and staff in complying with independence policies.

7.3 HAVE ZERO TOLERANCE OF BRIBERY AND CORRUPTION

We have zero tolerance for 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.

All partners and staff are required to complete annual training furthering their knowledge of compliance with laws, regulations and professional standards including those relating to anti-bribery and corruption.

During the year, there were no reports of bribery or corruption for the Australian firm.

All partners and staff are required to complete annual training furthering their knowledge of compliance with laws, regulations and professional standards including those relating to anti-bribery and corruption.



Photographer Jon Reid

08. ASSESSING RISKS TO QUALITY

At a global level, through the Global Audit Quality Council and the GQ&RM Steering Group, KPMG International reviews the results of the quality monitoring programs, reviews firm root causes and planned remedial actions and develops additional global remediation actions as required.

8.1 IDENTIFY AND UNDERSTAND RISKS TO DELIVERING QUALITY AUDITS AND IMPLEMENT EFFECTIVE MITIGATING CONTROLS

Our operating model facilitates early identification of risks to audit quality. Identified risks and ways to mitigate them are promptly discussed in appropriate leadership forums such as local office partner meetings. Our Audit Quality Indicators dashboard which tracks relevant internal quality measures and data points helps us analyse and understand issues that may trigger the risk.

The dashboard is presented to the Audit Quality Committee and Audit Leadership Group, and included in reporting to the National Executive Committee and the Board.

8.2 IMPLEMENTATION OF AN UPGRADED SYSTEM OF QUALITY MANAGEMENT

We are working towards full implementation of the revised Australian equivalent to International Standard on Quality Management 1 (ISQM1). The standard is effective from 15 December 2022 but we are already well advanced in refining our processes and controls to meet or exceed the new requirements. ISQM1 requires firms to establish a robust System of Quality Management (SoQM) across eight specified components.

KPMG International has established a Global SoQM Project Team, including representatives from our Australian firm, which is responsible for developing the SoQM framework, tools and guidance supporting each of the components of the SoQM and directing the implementation effort across the KPMG network. The SoQM activities are central to our ongoing effort to enhance audit quality and consistency across the globe.

Photographer Steve Greenaway

09.

COMMUNICATING EFFECTIVELY

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

9.1 PROVIDE INSIGHTS, AND MAINTAIN OPEN AND HONEST TWO-WAY COMMUNICATION

Communicating with and reporting to our clients, with no surprises, underpins the quality of our audit service.

Clear reporting of significant findings

A financial statement audit has two main deliverables, the formal audit report and s307C independence declaration³³, accompanying the signed financial report. These are the observable elements to shareholders. We believe the quality of our reporting is largely dependent on our ability to optimise the inputs, as depicted in our Quality Framework.

Communications with those charged with governance

Two-way communication with our clients is a key aspect of our reporting and service delivery. We achieve this through reports and presentations, attendance at audit committee or board meetings, and informal discussions with management and members of the audit committee. We stress the importance of keeping the client informed of issues arising throughout the audit and the need to listen and understand their views.

We share insights on the audit, our client's business practices, the appropriateness of accounting policies, the design and operation of financial reporting systems and controls, key accounting judgements, matters where we may disagree with management's view, and any audit differences or errors identified.

We ensure these reports meet the requirements of auditing standards and share our industry experience to encourage discussion with the members of the audit committee. We see these insights as a key mechanism to support our clients in the execution of their responsibilities.

Formal audit reports

Auditing standards and the *Corporations Act 2001* largely dictate the format and content of the independence declaration and audit report; including statements on auditor independence and the truth and fairness of the historical financial statements of the client.

To comply with Australian Auditing Standards and enhance the value of the audit report beyond a binary pass/fail opinion, our audit reports include:

- **Key Audit Matters (KAMs³⁴):** tailored narratives of the matters we considered to be key to the audit and where most audit attention was focused, and how our audit addressed those matters. For entities in industries significantly impacted by COVID-19 our KAMs have highlighted how COVID-19 has impacted our audit approach, including seeking authoritative and credible sources underlying significant assumptions in the entity's forecast cashflows and the associated increased inherent estimation uncertainty
- **Material Uncertainty Related to Going Concern:** drawing attention of users to the existence of a material uncertainty related to going concern

³³ A s307C independence declaration is required for audits of financial reports prepared to meet the *Corporations Act 2001* obligations and not other types of audit and assurance reports.

³⁴ KAMs are applicable for audit reports of listed entities preparing general purpose financial reports

- **Emphasis of Matter (EOM):** drawing attention of users to an item disclosed in the client's financial report that is of fundamental importance to their reading and understanding of the financial position and performance
- **Other Information:** outlining the auditor's responsibility to read the relevant information accompanying the financial statements and identifying material inconsistencies therein
- Our Australian Chairman chairs KPMG's 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 performed by KPMG firms
- The National Head of Audit Quality is a member of the Global Audit Quality Council and responsible for leading the implementation in Australia of initiatives determined by the Global Audit Quality Steering Committee
- The National Managing Partner AARC is a member of the Global Audit Steering Group responsible for driving the implementation of KPMG's audit strategy, including standards of audit quality
- The CRO is a member of the Global Quality and Risk Management Steering Group responsible for setting quality and risk management policies and procedures for the global organisation and for providing associated guidance.

Experienced partners form the audit opinion after involvement in and review of work performed by the team. The importance of ensuring the clarification of any uncertainties before signing audit reports is emphasised and well understood.

9.2 ACTIVELY MANAGE INFORMATION FLOWS WITHIN FIRMS AND BETWEEN FIRMS, REGIONS AND GLOBAL

Our global leadership, working with regional and firm leadership, plays a critical role in establishing our commitment to quality and certain global steering groups drive the execution of the quality strategy, and work closely with regional and KPMG member firm leadership. The Australian firm has representation on a number of global committees and steering groups including the following:

9.3 CONDUCT AND FOLLOW-UP ON THE GLOBAL PEOPLE SURVEY (GPS)

Partner and staff engagement

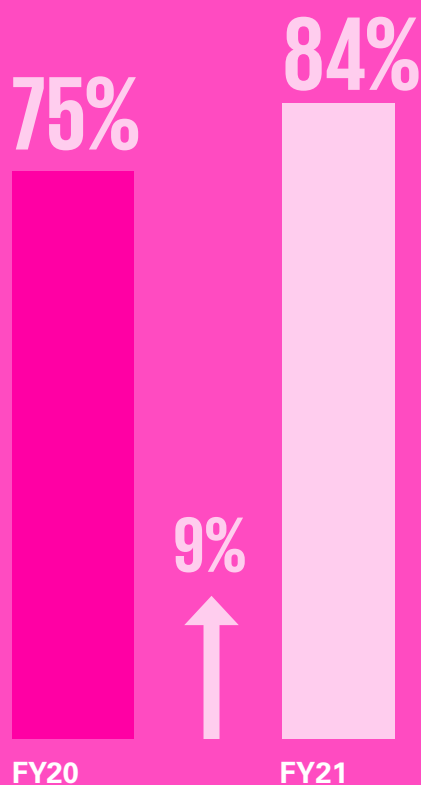
KPMG globally invites all partners and staff to participate in our independent Global People Survey. The results, by country and function, provide leadership with information about

drivers of business performance, employee engagement and motivation, and enables us to see how we are progressing.

The survey includes questions directed at understanding our people's view of whether we were giving them all the support they needed to deliver on the firm's focus on audit quality.

AUDIT QUALITY ENGAGEMENT INDEX

Taken from our GPS People Survey





Photographer Paul Wright

10. PERFORMING QUALITY ENGAGEMENTS

On all KPMG audits, the nature and extent of the audit evidence we gather is responsive to the assessed risks. We consider all audit evidence obtained during the course of the audit including contradictory or inconsistent audit evidence. Each team member is required to exercise professional judgement and maintain professional scepticism throughout all audit engagements.

Professional scepticism involves a questioning mind and alertness to contradictory or inconsistencies in the audit evidence. Professional judgement encompasses the need to be aware of an alert to biases that may pose threats to good judgements.

How an audit is conducted is as important as the final result. Effective and efficient audits are dependent on the demonstration of certain behaviours. We focus on these behaviours during the performance of the audit, through education sessions and coaching, and via our review and quality monitoring processes.

10.1 CRITICALLY ASSESS AUDIT EVIDENCE, USING PROFESSIONAL JUDGEMENT AND SCEPTICISM

Professional scepticism features prominently throughout auditing standards and attracts significant focus from regulators. We recognise the exercise of professional scepticism is critically important to our role as auditor.

Our global professional judgement process³⁵ guides an individual in exercising their professional scepticism. Steps include consideration of possible alternatives, conflicting as well as confirming evidence, and documentation of our final judgements, and ways to mitigate the effects of traps and biases.

We reinforce the use of the professional judgement process and the exercise of professional scepticism through coaching and education, acknowledging that judgement is a skill developed over time and informed by different experiences.

10.2 DIRECT, COACH, SUPERVISE AND REVIEW, INCLUDING 2LOD AND EQCR

Coaching and on the job experience play key roles in developing the personal qualities important for a successful career in auditing, including professional judgement and scepticism.

We support a culture where every team member is responsible for developing the capability of the team, coaching and sharing experiences.

To link KPMG's values to audit quality and what we do day-to-day all our partners and staff live by our Audit Quality Mantra. Our Audit Leadership Group have created the mantra "I take pride. I coach. I am present. Together for better." Our mantra is our call to arms: to enhance audit quality by driving the tone from the top, enhance coaching at all levels, reinforce accountability and helping ensure a team approach to our audits.

³⁵ The International Auditing and Assurance Standards Board, the International Ethics Standards Board for Accountants and the International Accounting Education Standards Board jointly published *Toward Enhanced Professional Scepticism*, August 2017, outlining their observations of the current environment. They set out actions global standard-setting boards will take, and the role other stakeholders can play in enhancing professional scepticism. The Association of Chartered Certified Accountants published *Banishing Bias? Audit, objectivity and the value of professional scepticism*, May 2017, exploring the importance of cognitive biases to the audit process. It explains how cognitive biases are central to improving the exercise of professional scepticism and to understanding the fundamental ethical principle of objectivity. These elements are consistent with our professional judgement process.



OUR AUDIT QUALITY MANTRA

Timely partner and manager involvement

To maximise the benefit of the partner's experience and skill, participation from the partner early in the audit is essential. The partner implements the tone from the top, directs the scope and tone and helps the team identify and respond to the right audit risks. During FY21, 96 percent (FY20: 98 percent) of our audits of listed entities complied with strict audit planning milestones that mandate the timely completion of planning activities to enhance audit quality.

The manager supports the partner in these responsibilities and the day-to-day liaison with the client and team, building deep business understanding to enable the team to deliver a quality audit and valued insights.

The right documentation on the audit file is essential to evidencing our audit quality.

In FY21 we implemented a policy restricting the documentation activities which could be performed after the audit report date and shortened the timeframe for a file to be completely assembled.

Second Line of Defence (2LoD)

2LoD reviewers support specific audit teams during the conduct of their work and navigate key audit areas: revenue and a significant risk area bespoke to the specific audit. All 2LoD reviewers are specifically trained high performing senior staff. They coach teams to develop and robustly evidence risk assessment, the audit approach, and execution of procedures in the key audit areas. Their goal is to improve audit quality on these specific audits as they are occurring and before opinions are issued, and more broadly through active engagement in the embedded quality networks.

11 out of 12 engagements which were supported by 2LoD reviewers had no adverse findings when subjected to quality inspection as part of our internal monitoring program in FY21 (FY: 10 out of 12), demonstrating the effectiveness of the program.

Engagement Quality Control Reviewer (EQCR)

An Engagement Quality Control Reviewer, an independent audit partner assigned as an objective additional reviewer on significant and judgemental elements of the audit, is assigned to all listed and high public profile entity audits and designated high-risk audits. The Engagement Quality Control review is an important part of KPMG's framework for audit quality.

A review by the Engagement Quality Control Reviewer must be complete and all significant questions resolved satisfactorily before the issuance of the audit report.

EQCRs are experienced audit partners independent of the team, appointed by the local Risk Management Partner.

They must be accredited audit partners, comply with all relevant training requirements and have enough time to carry out their review, along with the appropriate experience and knowledge to perform an objective review.

PROFILE OF SECOND LINE OF DEFENCE

| | FY21 | FY20 | FY19 |
|--|-----------|-----------|-----------|
| No. of Second Line of Defence reviewers | 19 | 19 | 20 |

10.3 CONSULT WHERE NECESSARY

Internal consultation, both formal and informal, is always encouraged and mandated in certain circumstances. The DPP, the National Audit Quality Group, the KPMG Clara deployment workflow group and our embedded networks play a key role in supporting engagement teams throughout their decision making processes.

Access to specialists

In certain situations, specialist involvement is mandated. In other cases, the audit partner and manager determine whether to use a specialist by considering the risks for the engagement, alongside the nature and complexity of the information, data, or calculations to be audited. We provide additional learning on audit concepts to our specialists who are members of an audit team. Our most frequently used in-house specialist capabilities are in the areas of tax, information technology, actuarial, financial risk management and valuations.

Our AARC structure includes actuarial and financial risk management specialists, optimising access for audit teams. Aligning reporting lines and objectives increases the opportunity for collaboration and consultation with specialists.

We ensure that the full resources of the firm across all areas of our business are available to assist our audit teams. This encourages them to 'when in doubt, consult'.

10.4 APPROPRIATELY SUPPORT AND DOCUMENT CONCLUSIONS

The audit documentation records the audit procedures performed, evidence obtained and conclusions reached on each audit engagement. It includes materials prepared by us, received from the client or from relevant third parties. Our policies require review of all working papers by a more experienced team member and audit documentation relating to critical areas of judgement and certain other significant matters must be reviewed by the partner.



11. MONITORING AND REMEDICATION

Integrated quality monitoring and compliance programs enable KPMG member firms to identify quality deficiencies, perform root cause analysis and develop, implement and report remedial action plans, both for individual audit engagements and the overall system of quality control.

11.1 RIGOROUSLY MONITOR AND MEASURE QUALITY AT THE LOCAL AND GLOBAL LEVEL

To ensure our work continues to meet the needs of the capital markets we use a broad range of mechanisms to monitor our performance, respond to feedback and seek opportunities for improvement.

The complexity and dynamic nature of the economic environment, our clients' businesses and the accounting and auditing frameworks are challenging. We use both internal monitoring and external inspections against accepted relevant benchmarks to evaluate our performance, understand the quality of our audit work and prioritise areas for improvement. To maintain the confidence of our clients, the capital markets, regulators and shareholders we are serious about learning from findings and opportunities, no matter how small.

Internal monitoring

KPMG uses two formal internal inspection programs – the Quality Performance Review (QPR) Program and the Risk Compliance Program (RCP) – to annually assess audit quality and independence compliance respectively.

The QPR program reviews a sample of audits and our compliance with audit methodology. The RCP reviews compliance with the risk management and independence policies, and practices supporting our broader system of quality control. They are designed globally and incorporate the requirements of international and Australian quality control standards³⁶.

In addition to the annual programs, we participate in a Global Quality and Compliance Review (GQCR), performed by a specialised team of reviewers from other member firms, to assess significant governance, risk management, independence, IT security and finance processes. Historically GQCR would occur every three years, however going forward the monitoring and testing programs, including their frequency, will be developed using a more risk-based approach.

These programs assess quality and independence by benchmarking against our global and local standards. The results enable us to provide assurance our system of quality control is complied with in practice and operating effectively. The programs also identify areas requiring focus and improvement.

³⁶ International Standard on Quality Control ISQC1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and Auditing Standard ASQC1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

Quality Performance Review (QPR) Program

The global QPR Program is implemented in Australia under the authority of the Quality and Performance Liaison Partner³⁷, assigned to oversee the independent and objective assessment of the firm.

The program assesses performance at an engagement level and identifies opportunities to improve audit quality.

Total numbers will vary depending on the rotation schedule of our smaller offices and their relative size and repeat selection criteria.

QPR PROGRAM (AUDIT)

| | FY21 | FY20 | FY19 |
|---|------|------|------|
| No. of QPR audit reviews performed | 37 | 38 | 47 |
| Partners reviewed as a percentage of total partners | 37% | 37% | 40% |
| Percentage of listed and related entity financial statement audit QP reviews conducted by global core review team | 29% | 43% | 52% |

KEY COMPONENTS OF THE QPR PROGRAM



Led by an experienced partner from another KPMG member firm. This non-local lead reviewer collaborates with the global core review team and team leaders, promoting consistency across all reviews.



Our highest profile listed and related entity financial statement audit reviews are performed by a dedicated global core review team comprising experienced partners, directors and senior managers from member firms across the network.



Additional financial statement audit reviews are performed by a core team of Australian partners and directors, from locations other than the office under review. They are active practitioners and up to date with auditing standard requirements.



Review of partners and directors work is undertaken on a minimum three-year rotating schedule, more often where certain risk criteria are present, such as unsatisfactory ratings or a significant number of high risk engagements portfolio.



Benchmarking our work to the Australian Auditing Standards and KPMG's own standards: achieving a 'Satisfactory' rating represents our very high audit quality bar.



Performed soon after the conduct of the work subject to review: using two phases during the year which optimises timeliness.



Findings are provided to audit teams for remediation where needed and implementation on future audits.



Results are provided to leadership at office, division and firm levels. A causal analysis is performed for pervasive issues, specific accountabilities for remediation are identified, and detailed action plans drawn up. These are reported globally and subject to ongoing review.

³⁷ Marcus McArdle is the Quality and Performance Liaison Partner.

Partners and directors who receive unsatisfactory ratings are subject to additional reviews and remedial actions, amongst other outcomes including performance evaluations and/or remuneration adjustments. The pass rate for audit engagements reviewed in FY21 was 92% (FY20: 89%). Only one audit of a public interest entity was rated as unsatisfactory (FY20: one). The areas of improvement identified in the audits did not lead to a restatement of the financial statements or require the audit report to be reissued. The issues identified have since been addressed.

Other assessments of audit quality

Other audit quality monitoring mechanisms we use include:

- **Accounting technical reviews of client financial statements:** Performed on a sample basis by a qualified person outside of the audit team, prior to signing the audit opinion. Over a four-year period, the sample includes all listed and high risk clients
- **Key audit matter and audit report reviews:** Performed on a sample basis by the DPP, supporting teams apply the audit reporting requirements of auditing standards. Over a four-year period, the sample includes all listed clients
- **Targeted and real time reviews of live audit engagements:** Conducted by our 2LoD Reviewers using tailored programs to assess attributes or focus areas of an audit whilst the audit is in progress. These identify opportunities to improve quality and effectiveness by sharing leading practices
- **Evaluation of common consultations:** Capturing and evaluating the most common questions raised by our individual teams
- **Post course assessments:** These test understanding of specific content and provide evidence about the quality of learning
- **Goal setting and performance evaluation processes:** These include explicit evaluation of audit quality inputs and outcomes.

We also review audits in the rare circumstances where the financial statements or audit opinions are reissued. We reflect on the performance of the audit accordingly.

Evidence of unsatisfactory audit quality can directly impact both partner and staff performance ratings and/or remuneration. Findings from our risk and audit quality monitoring resulted in impacts to remuneration in FY21 for a small number of partners.

Assessments of compliance with ethics and independence requirements

We monitor our compliance with independence requirements of the *Corporations Act 2001*, professional ethical standards, and our mandated internal policies, systems and processes. This monitoring includes clearance by the firm's Ethics and Independence team prior to any individual being recruited laterally as a partner, or internally promoted to partner. The monitoring also includes an annual declaration of compliance from partners and staff, the performance of personal independence compliance audits on a sample basis, and partner rotation compliance audits on a sample of engagements. Our annual RCP also tests for compliance on a sample basis with these requirements, including partner terms on relevant audits and the appropriateness of non-audit services provided.

Our independence policies are set at or above the requirements of professional standards and the *Corporations Act 2001*. In the event of non-compliance, the actions of partners and staff are considered by our Ethics and Independence Disciplinary Committee in accordance with our disciplinary policy. The severity of disciplinary actions has regard to the seniority of the individual and/or when breaches are not self-reported, such as when identified by a compliance audit. Depending on the circumstances, disciplinary action could include: a caution letter, a disciplinary letter on the individual's personnel file, remuneration adjustment, withheld promotion or separation from the firm.

Our compliance testing identified 40 (FY20: 42) instances of individuals not achieving full adherence to our policies and processes. The primary source of non-compliance was failure by individuals to enter or update all their, their spouse's, their spousal equivalent's or their dependant's other investments, including superannuation funds other than our firm's default superannuation fund, into

our investments tracking system on a timely basis. Several instances related to delays in completing mandatory annual independence training (FY21: 8 percent, FY20: 6 percent) or annual declaration (FY21: 6 percent, FY20: 13 percent), and Code of Conduct matters arising from responses to an assertion in the annual declaration.

KEY PERFORMANCE INDICATORS – ETHICS AND INDEPENDENCE

| | FY21 | FY20 | FY19 |
|--|-----------------------|-----------------------|-----------------------|
| <u>No. of partners and staff subject to an independence compliance audit</u> | 230 | 262 | 192 |
| <u>No. of engagements subject to a partner rotation compliance audit</u> | 20 | 20 | 20 |
| <u>Total no. of qualifications of an Auditors' Independence Declaration³⁸ – s9 Corporations Act listed companies and listed registered scheme audit clients</u> | 1³⁹ | - | 1⁴⁰ |
| <u>Total no. of qualifications of an Auditors' Independence Declaration³⁸ – other audit clients</u> | 3⁴¹ | 4⁴² | 1⁴³ |

38 Required by the *Corporations Act 2001* section 307C

39 The qualification was due to an immediate family member of a tax partner holding a financial interest in an audit client with the lead audit engagement partner being located in the same office. The financial interest was disposed of as soon as practical. The partner did not provide any services to the audit client on behalf of the firm nor was the partner a member of the audit team.

40 The qualification was due to an immediate family member of a partner holding a financial interest in an audit client with the lead audit engagement partner being located in the same office. The financial interest was disposed of as soon as practical. The partner did not provide any services to the audit client on behalf of the firm nor was a member of the audit team.

41 One qualification was due to an immediate family member of a partner holding a financial interest in an audit client with the lead audit engagement partner being located in the same office. One qualification was due to an immediate family member of a tax partner holding a financial interest in an audit client with the lead audit engagement partner being located in the same office. One qualification was due to a partner holding a financial interest in an audit client with the lead audit engagement partner being located in the same office. In all three instances the financial interest was disposed of as soon as practical and the partners did not provide any services to the audit clients on behalf of the firm nor were they a member of the audit teams.

42 Two qualifications were related to an immediate family member of a tax partner holding a financial interest in audit clients with the lead audit engagement partner being located in the same office, and two qualifications were related to instances of a partner holding a financial interest in an audit client with the lead audit engagement partner being located in the same office. In all cases, the financial interest was disposed of as soon as practical and the partners did not provide any services to the audit clients on behalf of the firm nor was a member of the audit teams.

43 The qualification was due to one tax partner holding a financial interest in an audit client with the lead audit engagement partner being located in the same office. Upon identification, the partner disposed of the investment immediately. The partner involved did not provide any services to the audit client on behalf of the firm.

11.2 AREA QUALITY & RISK MANAGEMENT LEADERS

The Area Quality & Risk Management Leaders (ARL)⁴⁴ are appointed by and ultimately report to the Global Head of Quality, Risk and Regulatory. The ARLs perform 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 and remediation, are reported to Global Quality and Risk Management (GQ&RM) leadership. The objectives of the ARL are to:

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

11.3 PARLIAMENTARY FOCUS ON AUDIT QUALITY

The Parliamentary Joint Committee (PJC) on Corporations and Financial Services Inquiry into the Regulation of Auditing in Australia released its final report⁴⁵ in November 2020. The final report acknowledged the environment had radically changed since the issue of its interim report in February 2020 due to the COVID-19 pandemic. Despite the widespread impacts, including those on corporate activity and auditing, the PJC stood by the recommendations made in the interim report⁴⁶. In our view, the ten recommendations aimed at promoting trust and confidence in the auditing profession, as well as dealing with associated reforms are balanced and sensible.

KPMG approached the Inquiry in an open and constructive manner, and many of the PJC's recommendations are consistent with our submission. We continue to work with relevant stakeholders in assessing and preparing for any potential regulatory or other changes arising out of future implementation of the recommendations.

44 The Area Quality and Risk Management leader for KPMG Australia is Caroline Lee, a partner in KPMG Singapore.

45 https://www.aph.gov.au/-/media/Committees/corporations_ctte/RegulationofAuditing/Regulation_of_Auditing_in_Australia_-_Final_Report.pdf?la=en&hash=7A5F8CCFA82421E0B96940686272998C9A6FE178

46 https://parlinfo.aph.gov.au/parlInfo/download/committees/reportjnt/024330/toc_pdf/RegulationofAuditinginAustralia.pdf;fileType=application%2Fpdf

11.4 OBTAIN, EVALUATE AND ACT ON STAKEHOLDER FEEDBACK

We recognise objective feedback and a genuine commitment to continuous improvement is important to driving audit quality.

Whistleblower Hotline

KPMG maintains a confidential Whistleblower Hotline, supported by a third party, available to KPMG partners and staff globally. We encourage speaking up so we can take action when inappropriate behaviour is identified and seek to learn and improve from feedback. The Whistleblower hotline is also available to external parties to confidentially report complaints relating to the quality of our work or our people. This is accessible through our website and via telephone and surface mail.

Internal complaints

In FY21 and FY20 there were no calls to the hotline relating to audit quality.

The hotline is another method of reporting concerns about possible illegal, unethical or improper conduct in circumstances where our people feel uncomfortable reporting a concern through other channels. Callers' reports are handled confidentially with no retaliation or retribution.

External complaints

In FY21 there were no external complaints received (FY20: two⁴⁷) regarding audit quality at KPMG in Australia.

INTERNAL COMPLAINTS

NO CALLS TO THE HOTLINE RELATING TO AUDIT QUALITY.

FY21 & FY20

0

EXTERNAL COMPLAINTS

NO EXTERNAL COMPLAINTS RECEIVED REGARDING AUDIT QUALITY AT KPMG IN AUSTRALIA.

FY21

0

FY20

2⁴⁷

⁴⁷ 1 received through the international hotline and 1 received via direct correspondence

External inspections

We invest in continuous improvement and rectify any identified deficiencies in audit quality capable of eroding public trust. We also believe that the regulator has an important role to play in enhancing public confidence in the audit process.

Australian Securities and Investments Commission (ASIC)

ASIC conducts an annual audit inspection program involving a review of compliance with the auditor independence and audit quality provisions of the *Corporations Act 2001*. In terms of identifying which audits to inspect, ASIC understandably skews its sample selection to the most complex and high risk audits.

At the conclusion of each inspection period, ASIC issues a consolidated report⁴⁸ outlining the findings across its audit firm inspections, and issues an individual report to each firm inspected during the period. The individual reports of each of the largest six audit firms, including KPMG, for the inspection period 1 July 2019 – 30 June 2020 are available on ASIC's website⁴⁹.

We take the findings seriously and believe that the process provides valuable insights to improve the quality of our audits.

Demonstrating our commitment to greater transparency, we were the first firm publicly to publish our full ASIC private inspection report to KPMG for the 12 months to 30 June 2019, and the 18 months ended 30 June 2018 on our website⁵⁰.

We conduct an evaluation of all matters identified by ASIC. We undertake extensive analysis of ASIC's thematic findings, perform deep-dive root cause analysis to identify possible root causes of issues raised and design solutions as appropriate.

We maintain a comprehensive Audit Quality Action Plan driven by feedback from monitoring activities, including ASIC inspections. Our audit quality action plan is shared and discussed with ASIC.

Our technical learning reinforces ASIC's messages and addresses findings from recently completed inspections and preliminary observations from the current inspection process.

ASIC Audit Inspection Report for 12 months to 30 June 2020

The most recently completed ASIC inspection of our audit files was finalised in December 2020, covering 11 audits (selected from over 5,000 audit opinions signed) conducted for financial reporting years ending from 30 June 2018 to 31 July 2019. KPMG's inspection result was 26%⁵¹ compared to 24% for the largest six firms inspected and 27% for all audit firms inspected. None of the financial reports or audit opinions relating to KPMG clients examined by ASIC (either as part of their audit inspection program, or their company surveillance program) were restated or reissued.

48 ASIC's most recent public consolidated report Audit inspection program public report for 2019-20 summarises the observations and findings identified by ASIC's audit inspection program in the 12 months to 30 June 2020 (Report 677). This includes observations from ASIC's eleventh inspection of KPMG. The report is available on their website www.asic.gov.au

49 www.asic.gov.au

50 www.kpmg.com.au

51 The inspection result is calculated as the number of key audit areas reviewed by ASIC, where in their view the auditor did not obtain reasonable assurance that the financial report as a whole was free of material misstatement, divided by the total number of key audit areas that ASIC reviewed.

ASIC Audit Inspection Report for KPMG Australia for 12 months to 30 June 2021

ASIC is currently completing its 13th inspection of KPMG covering eight financial statement audits conducted for financial reporting years ended from 31 December 2019 to 30 September 2020. Results are expected to be released by the end of the 2021 calendar year.

As well as the inspection of audits, during the year ASIC conducted a review of aspects of our quality control systems regarding talent and culture, primarily as they relate to the provision of financial statement audit services. No significant matters arose out of this review.

Foreign regulators

Our audit practice is registered with the US PCAOB, Japanese⁵², Canadian⁵³, Luxembourg⁵⁴, UK⁵⁵ and German⁵⁶ authorities. This is necessary to either participate in audits of global clients or conduct audits of Australian clients who, owing to overseas stock exchange listing requirements, file financial statements in those jurisdictions. The PCAOB inspected our firm during FY21.





The inspection included a review of three engagements and an evaluation of our quality control systems. The PCAOB has not yet released its report.

Chartered Accountants Australia and New Zealand (CAANZ)

CAANZ regulate and govern the work of chartered accountants that perform audits. CAANZ has advised that it considers the work of ASIC in determining the scope and timing of any review of the large firms to reduce duplication. In March 2021, CAANZ completed a Quality Review of our practice which focused on our system of quality control, risk management, monitoring activities and the outcomes of those activities, including action plans and remediation programs.

Client feedback

The KPMG Client Insights Program actively solicits feedback from clients on the quality of our services. This feedback is considered at an individual audit team level and a firm level to inform our client service and quality processes. In FY21 we were pleased to see an improvement in all metrics.

| | | FY21 | FY20 |
|----------------------|---|------|------|
| Overall Satisfaction |  | 8.2 | 8.0 |
| Service Quality |  | 8.2 | 8.1 |
| Communication |  | 8.0 | 7.8 |
| Anticipate Change |  | 8.0 | 7.7 |

52 Japanese Financial Services Authority

53 Canadian Public Accountability Board

54 Luxembourg Commission de Surveillance du Secteur Financier

55 UK Financial Reporting Council

56 German Audit Oversight Commission

11.5 PERFORM ROOT CAUSE ANALYSIS

The effectiveness of any response to an issue is dependent on the understanding of the root cause, the pervasiveness of the issue, the ability to tailor a solution in differing circumstances and leadership support for the solution.

We use our knowledge from past experiences and our specifically designed root cause analysis framework⁵⁷ to fully understand the root cause of issues and design innovative and appropriate solutions.

We use the following solutions tailored for specific situations to address the identified root cause:

- **Face-to-face briefings:** with individuals, using coaching techniques, in facilitated workshops, group or office wide meetings, and local or national instructor led learning sessions
- **Topic specific guides and learning:** online instruction, guidance papers, example tools and templates, podcasts, access to centrally logged frequently asked questions and answers, and other database resources
- **Reminders and alerts:** emails, technical and organisational announcements, intranet alerts, animation and poster reminders
- **Practice management changes:** reassignment of partners and/or staff, reassignment of internal operational roles, and additional support
- **Behavioural motivators:** including recognition and reward
- **Automated tools:** pre-programmed applications for a discrete audit activity.

In presenting the solutions to teams, we tell them why we are focusing on the topic and provide context to enable them to understand how these are driven from our monitoring findings.

GLOBAL FIVE STEP ROOT CAUSE ANALYSIS PRINCIPLES⁵⁸



⁵⁷ Global Five Step Root Cause Analysis Principles, issued globally and adopted with local considerations

⁵⁸ ©2021 KPMG



Photographer Jon Reid

12. FINANCIAL INFORMATION

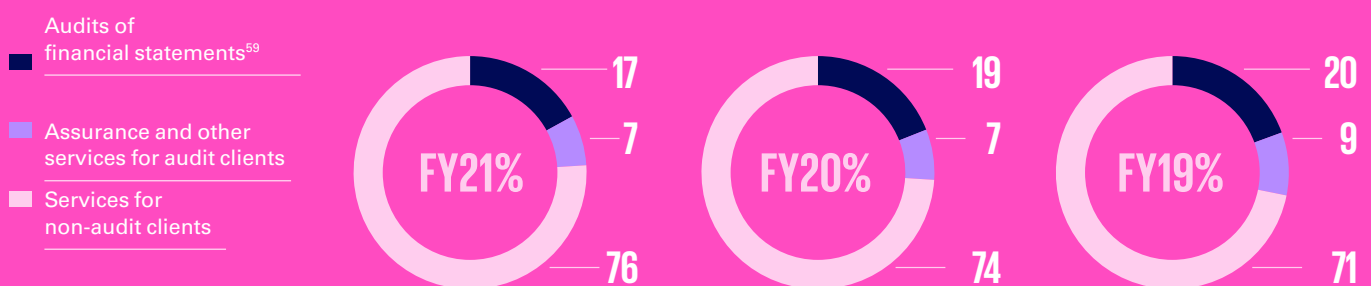
This section sets out financial information on the firm that shows the importance of statutory audit work to our overall business and results.

KPMG Australia recorded revenue of \$2.022 billion (\$1.911bn excluding recoverable expenses, year on year growth of 9.4%) delivering strong growth and profitability despite the volatile market conditions.

In breaking down the performance, total revenue generated in Australia was \$1.900bn (excluding recoverable expenses), and total revenue generated in Papua New Guinea was \$11m. During FY21, KPMG Australia acquired KPMG’s Fiji practice and will be reporting on Fiji revenue from next year.

| REVENUE | FY21 (\$b) | FY20 (\$b) | FY19 (\$b) |
|--|-------------|-------------|-------------|
| Total revenue for KPMG in Australia for the financial years ending 30 June, including recoverable expenses | 2.02 | 1.91 | 1.78 |

TOTAL REVENUE BREAKDOWN



59 Includes audits and reviews conducted of financial statements, prepared pursuant to sections 292, 295, 302 and 303 of the *Corporations Act 2001*. Includes AU\$8million revenues from the statutory audit of annual and consolidated financial statements and AU\$4 million revenues from other services to Australian clients considered EU public interest entities (definition contained in Appendix 3).

13. PARTNER REMUNERATION

Partner remuneration is determined annually by our National Executive Committee and is subject to review by the Partner Remuneration and Nomination Committee before Board approval.

The Partner Remuneration and Nomination Committee (PRNC) is responsible for determining the remuneration of the CEO and making recommendations on the policies for partners' remuneration and hearing appeals from partners regarding their remuneration.

As part of its activities, the PRNC receives and considers a report from the Risk Management Partner on (i) the approach to ensuring that quality issues are appropriate considered in partner counseling and (ii) any quality concerns about specific partners.

In relation to audit partners the PRNC observed that the assessment of the performance of lead partners of audit accounts only considered the conduct and execution of the audit engagement and no other KPMG activity in respect of their audit account. This practice was consistently and rigorously applied.

There are two components to partner remuneration: a base distribution of profits reflective of role and seniority, and a variable distribution of profits, expressed as a percentage of base remuneration, reflective of performance against previously agreed goals, including audit quality.

Compensation is based on factors including results of internal and external audit inspections and other relevant quality metrics.

Guidance has been established for the application of consequences to partners when incidents occur which relate to ethics and independence, quality or other behavioural matters. The potential consequences include cautions, warnings, financial penalties, and separation from the partnership.

Each year incidents and recommended consequences are reported by the firm's Ethics & Independence Disciplinary Committee, Chief Risk Officer, Divisional Risk Management Partners, Head of Audit Quality, and National Managing Partner People & Inclusion. The Chief Risk Officer oversees a robust process to ensure the recommended consequences in relation to all reported incidents are fairly considered and appropriate. The Partner Remuneration & Nomination Committee ensures the recommended consequence is consistent with the firm's guidance. In FY21, eight audit partners had their remuneration impacted through an adjustment to their performance bonus or performance rating due to such matters.



Photographer Steve Greenaway

14. NETWORK ARRANGEMENTS

KPMG Australia is part of a global organisation of independent professional services firms, spanning 146 countries and territories. In FY21 we collectively employed some 227,000 people.

14.1 LEGAL STRUCTURE

KPMG Australia operates as a partnership and is a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. Further details about KPMG International and its business, including our relationship with it, are available in the 2020 KPMG International Transparency Report⁶⁰. The 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 always commit to act with integrity.

Professional services to clients are provided exclusively by member firms. For the year ended 30 September 2020, KPMG member firms reported total global revenue of US\$29.22 billion⁶¹. Under agreements with KPMG International, member firms including KPMG in Australia 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. This includes having a structure that ensures continuity and stability and being able to adopt global and regional strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools. Each member firm takes responsibility for its management and the quality of its work.

Member firms are required to have the capability to provide certain types of core services and to refer work to other member firms where appropriate (for example, if the engagement concerns work in that other member firm's country and that other member firm has the required capacity and expertise to perform the work).

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.

14.2 PROFESSIONAL INDEMNITY INSURANCE

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

⁶⁰ <https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/12/transparency-report-2020.pdf>

⁶¹ Aggregated revenues generated by KPMG statutory auditors and audit firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was Euro 2.8 billion. Revenues for the year ended 30 September 2021 will be published in December 2021 on [kpmg.com](https://www.kpmg.com), and contained within the 2021 KPMG Global Review. An updated statement of EU/EEA statutory audit revenues for the 12 months to 30 September 2021 will be available within the KPMG International Transparency Report, also to be published in December 2021 on [kpmg.com](https://www.kpmg.com). A list of KPMG network firms and sole practitioner statutory auditors in European Union/ European Economic Area Member States is available here (<https://home.kpmg.com/xx/en/home/about/governance/list-of-kpmg-eu-eea-audit-firms.html>).

14.3 GOVERNANCE STRUCTURE

The National Board is the principal governance and oversight body of KPMG in Australia.

The National Board is responsible and accountable to partners for:

- the stewardship of the Partnership for the benefit of current and future partners
- the successful conduct of the firm
- enhancing the image and profile of the firm
- the implementation of issues voted on by the partners.

The current standing sub-committees of the National Board are the:

- Audit Committee
- Board Investment Committee
- Nomination Committee.

The CEO is appointed by the National Board on the recommendation of the National Chair. The CEO leads a National Executive Committee, with individual appointments recommended by the CEO to the National Board for approval.

The National Executive Committee is the principal management body of KPMG in Australia. It is responsible for driving the financial performance of the business, the development and execution of strategy and establishing the processes to monitor and enforce policy compliance. Its members include the National Managing Partners of each of the Audit, Assurance & Risk Consulting, Deals Tax & Legal, Management Consulting and Enterprise divisions, along with the Chief Risk Officer (CRO) and leaders of each of the Business Service areas.

Appointment of each NEC member requires approval by the relevant Global Committee. For example, the appointment of the National Managing Partner, Audit, Assurance and Risk Consulting was approved by the Global Head of Audit.

Through the CRO's membership of the NEC, the CRO provides regular updates and escalates key messages from the Service

Delivery Risk Committee⁶², the Ethics and Independence Disciplinary Committee and the Risk Management and the Office of General Counsel (OGC) function.

Primary role as it relates to quality

Service Delivery Risk Committee

- Oversight of risk management arrangements relating to service delivery to clients.
- Discuss emerging business risks, and their potential impact, as they affect service delivery.
- Recommend improvements to firm systems and processes as needed.
- Support the efficient application of risk management practices across the firm.

Risk Management and OGC Function

- Promote processes and structures to support risk management and quality.
- Develop risk and quality policies, systems and procedures.
- Support the implementation of risk and quality systems and procedures to comply with local and global requirements.
- Monitor and test risk and quality policies, systems and procedures.
- Create tools and templates to manage compliance obligations.
- Provide support and guidance to all professionals on application of appropriate policies and systems.

Ethics and Independence Disciplinary Committee

- Deal with referrals of non-compliance with the firm's ethics and independence policies.
- Determine disciplinary sanctions with the approval of the National Executive Committee and/or Board.
- Recommend improvements to firm policies, systems and processes as needed.

62 The CRO chairs the Services Delivery Risk Committee



Photographer Jon Reid

15. STATEMENT BY THE BOARD ON THE EFFECTIVENESS OF QUALITY CONTROLS AND INDEPENDENCE

STATEMENT ON EFFECTIVENESS OF SYSTEM OF QUALITY CONTROL

We are confident that our framework for audit quality supports our people and enables them to provide a high level of audit quality in an independent, objective and ethical manner, maintaining public and stakeholder confidence.

This report describes our quality control system to conduct our audits in accordance with applicable standards and laws and highlights certain measures we consider in operating our external audit practice. The results of our internal monitoring programs, consideration of our reported measures, together with feedback from independent regulatory inspections, provides the KPMG Board with a basis to conclude that our system of quality control described in this Transparency Report are functioning effectively.



ALISON KITCHEN
National Chairman, KPMG Australia



ANDREW YATES
CEO, KPMG Australia

APPENDIX 1: KEY LEGAL ENTITIES AND AREAS OF OPERATION

KPMG Australia's primary focus is to serve clients based in Australia. KPMG operates in Australia through the KPMG Partnership (Australian Partnership) and other associated entities, including KPMG Financial Advisory Services (Australia) Pty Ltd, KPMG Holdings (Australia) Pty Ltd and KPMG Australian Service Trust. Our headquarters are split between Sydney and Melbourne, with offices in every state and territory capital within Australia, as well as offices in Gold Coast, Newcastle, Parramatta, Penrith and Wollongong.

KPMG Australia has a long history of collaboration with the Fiji and PNG practices, with the practices sublicensed to use the name KPMG. The Australian Partnership and these Sublicensees have been separate partnerships. As such, their operations are not captured as part of this report.

However, effective from 1 July 2021, KPMG Fiji and KPMG Papua New Guinea will join KPMG Australia as a combined South Pacific Practice. This integration will enable collaboration to be taken to another level, unlocking growth opportunities while also delivering efficiencies.

APPENDIX 2: DETAILS OF THOSE CHARGED WITH GOVERNANCE

The Board comprises the National Chairman, the CEO, nine other members currently drawn from our Brisbane, Melbourne and Sydney offices, and two independent members. The Board met 27 times in the year to 30 June 2021.

Board members as at the date of this report are:

| | |
|---|---|
| National Chairman Alison Kitchen, Melbourne | Carmel Mortell, Melbourne |
| Deputy Chairman Michael Hiller, Brisbane | Mathew Herring, Melbourne |
| CEO Andrew Yates, Sydney | Shelley Reys, Sydney |
| Kim Lawry, Sydney | Corrina Bertram, Melbourne |
| James Stewart, Melbourne | Brett Mitchell, Sydney |
| Martin Dalgleish, Independent Board member | Patty Akopiantz, Independent Board member |

NEC members as at the date of this report are:

| | |
|--|---------------------------------------|
| Andrew Yates, CEO | David Heathcote, Deals, Tax & Legal |
| Eileen Hoggett, Audit, Assurance & Risk Consulting | Christa Gordon, Management Consulting |
| Paul Howes, Enterprise | Tanya Gilerman, CRO |
| Martin Sheppard, Client Growth & Markets | Damian Templeton, CFO and COO |
| Sarah Vega, Innovation, Solutions & Ventures | Dorothy Hisgrove, People & Inclusion |
| Amanda Hicks, Client Experience & Brand | Karen Parkes, Firm Transformation |

APPENDIX 3: PUBLIC INTEREST AUDIT CLIENTS OF THE FIRM

The Australian listed companies, listed registered schemes, Authorised Deposit-Taking Institutions⁶³, General Insurers⁶⁴, Life Companies⁶⁵ and EU public interest entities⁶⁶ for which KPMG in Australia⁶⁷ is statutory auditor for the financial years ended in the 12 months to 30 June 2021 are:

| | |
|--|--|
| A2B Australia Limited | Bank Of Queensland Limited |
| AAI Limited | Barristers' Sickness and Accident Fund Pty Limited |
| Ainsworth Game Technology Limited | Base Resources Limited |
| ALE Property Group | Battery Minerals Limited |
| Alpha HPA Limited | Bell Financial Group Limited |
| AMA Group Limited | Berkley Insurance Company |
| Ampol Limited | Beyond Bank Australia Limited |
| Ansarada Group Limited | Bigtincan Holdings Limited |
| Ansell Limited | Biotron Limited |
| ANZ Lenders Mortgage Insurance Pty Limited | Bisalloy Steel Group Limited |
| Appen Limited | BNK Banking Corporation Limited |
| Argent Minerals Limited | Boom Logistics Limited |
| Asteron Life & Superannuation Limited | BOQ Covered Bond Trust |
| Audeara Limited | Boral Limited |
| AusNet Services Limited | Buru Energy Limited |
| Aussie Broadband Limited | BWPTrust |
| Austral Gold Limited | Capricorn Metals Ltd |
| Australia And New Zealand Banking Group Limited | Cardno Limited |
| Australian Agricultural Company Limited | Carlton Investments Limited |
| Australian Central Credit Union Ltd | Centaurus Metals Limited |
| Australian Ethical Investment Limited | Centrex Metals Limited |
| Australian Leisure & Entertainment Property Management Limited | Centuria Capital Fund |
| Australian Leisure & Entertainment Property Trust | Centuria Capital Group |
| Australian Military Bank Ltd | Centuria Capital Limited |
| Australian Mutual Bank Ltd | Centuria Industrial REIT |
| Australian Pharmaceutical Industries Limited | Centuria Life Limited |
| Australian United Investment Company Limited | Centuria Office REIT |
| Auto & General Insurance Company Limited | Citigroup Pty Limited |

63 Within the meaning of the Banking Act 1959 and associated Non-Operating Holding Companies (NOHC)

64 Within the meaning of the Insurance Act 1973 and NOHC as per section 18

65 As registered under section 21 of the Life Insurance Act 1995 and NOHC as per section 28A

66 Within the meaning of Directive 2006/43/EC issued by The European Parliament and of the Council, where a public interest entity is an issuer whose transferable securities are admitted to trading on a regulated market, specific to the EU jurisdiction.

67 Excludes KPMG PNG and KPMG Fiji

| | |
|---|--|
| Cochlear Limited | Hills Limited |
| Codan Limited | Hospitality Employers Mutual Limited |
| Collection House Limited | Hotel Property Investment |
| Community First Credit Union Limited | Hotel Property Investments Limited |
| Corrvas Insurance Pty Ltd | Hotel Property Investments Trust |
| Costa Group Holdings Limited | Houston We Have Limited |
| Coventry Group Limited | IMB Ltd |
| Credicorp Insurance Pty Ltd | IncentiaPay Limited |
| Credit Union SA Ltd | Indue Ltd |
| Cronos Australia Limited | ING Bank (Australia) Limited |
| Crown Resorts Limited | Inghams Group Limited |
| CTI Logistics Limited | Insurance Australia Group Limited |
| Cue Energy Resources Limited | Insurance Australia Limited |
| Diversified United Investment Limited | Insurance Manufacturers Of Australia Pty Limited |
| Downer EDI Limited | Intega Group Limited |
| Downer Group Finance Pty Limited | IOOF Holdings Limited |
| Duxton Water Limited | IOOF Ltd |
| Eclix Group Limited | IVE Group Limited |
| Employers Mutual Limited | Japara Healthcare Limited |
| Energy Resources Of Australia Limited | King Island Scheelite Limited |
| Enero Group Limited | Kogan.com Ltd |
| Engenco Limited | Korvest Ltd |
| Equus Mining Limited | Latitude Group Holdings Limited |
| Euroz Limited | Latitude Insurance Holdings Pty Ltd |
| Event Hospitality and Entertainment Ltd | Lendlease Corporation Limited |
| Fiducian Group Limited | Lendlease Group |
| Finbar Group Limited | Lendlease Trust |
| Fire Service Credit Union Limited | LFI Group Pty Ltd |
| First American Title Insurance Company of Australia Pty Ltd | Liberty Financial Group Limited |
| Flinders Mines Limited | Linus Technologies Limited |
| Gateway Bank Limited | Link Administration Holdings Limited |
| Generation Development Group Limited | Lovisa Holdings Limited |
| Generation Life Limited | MacMahon Holdings Limited |
| Genworth Financial Mortgage Indemnity Limited | Matrix Composites & Engineering Ltd |
| Genworth Financial Mortgage Insurance Pty Limited | Maxitrans Industries Limited |
| Genworth Mortgage Insurance Australia Limited | Mcgrath Limited |
| Gold Road Resources Limited | Medical Insurance Australia Pty Limited |
| Goodman Group | Mercedes-Benz Australia/Pacific Pty Ltd |
| Goodman Industrial Trust | Metrics Income Opportunities Trust |
| Goodman Limited | Metrics Master Income Trust |
| Gordian RunOff Limited | Midway Limited |
| Gud Holdings Limited | Mitsui Sumitomo Insurance Company Pty Limited |
| GWA Group Limited | Monash Ivf Group Limited |
| Hallmark General Insurance Company Limited | Motorcycle Holdings Limited |
| Hallmark Life Insurance Company Limited | Nearmap Ltd |
| Hammer Metals Limited | Next Science Limited |
| Heritage Bank Limited | Nickel Mines Limited |
| Hexima Ltd | NuEnergy Gas Limited |

Nufarm Limited
 OFX Group Limited
 oOh!media Limited
 Optus Insurance Services Pty Ltd
 Ora Banda Mining Limited
 Orica Limited
 Over Fifty Guardian Friendly Society Limited
 OZ Minerals Limited
 Pacific Smiles Group Limited
 Palla Pharma Ltd
 Perpetual Credit Income Trust
 Perpetual Equity Investment Company Limited
 Perpetual Limited
 Pilbara Minerals Limited
 Police Credit Union Ltd
 Police Financial Services Limited (trading as BankVic)
 Poseidon Nickel Limited
 Prospech Limited
 PWR Holdings Limited
 Qantas Airways Limited
 Qualitas Real Estate Income Fund
 Qudos Mutual Ltd
 Quickstep Holdings Limited
 RAA Insurance Holdings Limited
 Raa Insurance Limited
 Ract Insurance Pty Ltd
 Red 5 Limited
 Redcape Hotel Group
 Redcape Hotel Trust I
 Redcape Hotel Trust II
 Reece Limited
 Regional Australia Bank Ltd
 Regis Resources Limited
 Reliance Worldwide Corporation Limited
 Retail Food Group Ltd
 Rex Minerals Limited
 Ridley Corporation Limited
 Rightcrowd Limited
 Rio Tinto Ltd
 Santana Minerals Limited

Servcorp Limited
 Seven West Media Limited
 SG Fleet Group Limited
 Silver Lake Resources Limited
 SIV Capital Limited
 Sky Metals Limited
 Smiles Inclusive Limited
 South West Slopes Credit Union Ltd
 South32 Limited
 Southern Cross Electrical Engineering Limited
 St Andrews Insurance (Australia) Pty Ltd
 St Andrews Life Insurance Pty Ltd
 StateCover Mutual Limited
 Steadfast Group Limited
 Strickland Metals Ltd
 Suncorp Group Limited
 Suncorp Insurance Holdings Limited
 Suncorp-Metway Limited
 Sunrise Energy Metals Limited
 Sydney Airport
 Sydney Airport Limited
 Sydney Airport Trust 1
 TAL Dai-ichi Life Australia Pty Limited
 TAL Life Limited
 Tanami Gold NI
 Teaminvest Private Group Limited
 The Lutheran Laypeople's League of Australia Inc
 Think Childcare Development Limited
 Think Childcare Group
 Think Childcare Limited
 TNG Limited
 Treasury Wine Estates Limited
 Tuas Limited
 Veris Limited
 Vimy Resources Limited
 White Rock Minerals Limited
 Whitebark Energy Limited
 WiseTech Global Limited
 Wiseway Group Limited
 Youfoodz Holdings Ltd

APPENDIX 4: THE KPMG VALUES

Our values guide our behaviours 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 global values are:



INTEGRITY – WE DO WHAT IS RIGHT

Integrity means we are honest, fair and consistent in our words, actions and decisions – both inside and outside work. We take responsibility and accountability for our day-to-day behaviour and we always hold ourselves to the highest moral and ethical standards – even when under pressure. We keep our promises and set an example for others to follow. We demonstrate objectivity and scepticism in line with professional ethics and independence standards.



EXCELLENCE – WE NEVER STOP LEARNING AND IMPROVING

Excellence means relentlessly delivering quality work to the highest professional standards. We do this by staying curious and taking personal responsibility for our learning. We constantly look to improve our work through data and insight and are open to new challenges and feedback because that is how we develop and improve. We maintain an unwavering focus on audit quality – in line with the requirements and intent of applicable professional standards. We mentor and coach each other to drive continuous learning and improvement.



COURAGE – WE THINK AND ACT BOLDLY

Courage is about being open to new ideas and being honest about the limits of our own knowledge and experience. It's about applying professional scepticism to what we see and asking question where we have doubts. We speak up if we see something we believe is wrong and we support those who have the courage to speak up themselves. Courage is being bold enough to step outside of your comfort zone. We are decisive and collectively stand our ground in the face of difficult or challenging circumstances.



TOGETHER – WE RESPECT EACH OTHER AND DRAW STRENGTH FROM OUR DIFFERENCES

We do our best work when we do it together: in teams, across teams, and by working with others outside our organisation. Working together is important because we know it's collaboration that shapes opinions and drives creativity. We embrace people with diverse backgrounds, skills, perspectives and life experiences and ensure different voices are heard. We show care and consideration for others and strive to create an inclusive environment where everyone feels they belong.



FOR BETTER – WE DO WHAT MATTERS

For better means taking a long-term view, even in our day-to-day choices, because we want to build a stronger KPMG for the future. We never lose sight of the importance of our role in building trust in the capital markets in business. We make sustainable, positive change in our local communities and in society at large, striving to make the world a better place. We protect and service the capital markets and the wider public interest. We proactively help to shape the future of audit. We manage our portfolios of work in line with our values, professional standards and policies.

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