



# KPMG in India's transparency report

**For the year to 31 March 2017**

June 2017

[KPMG.com/in](http://KPMG.com/in)



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## Message from the Deputy Chief Executive Officer



This 2017 Transparency Report produced in accordance with the standards of Article 40 of the European Union Statutory Audit Directive contains the steps that KPMG takes to uphold its professional responsibilities and describes the firm's legal and governance structure and approach to quality control.

We are committed to provide high quality professional services in an ethical manner to our clients. At KPMG, quality is about the resources we bring to our audits, our understanding of each client's industry and business and the insights we provide together with a high degree of rigour and professional skepticism.

KPMG has a set of shared values which are fundamental to providing quality professional services and which guide our people's behaviour when dealing with both clients and each other.

A handwritten signature in black ink, appearing to read 'Akhil Bansal'. The signature is stylized and fluid.

**Akhil Bansal**  
Deputy Chief Executive Officer  
KPMG in India  
30 June 2017

Throughout this document, 'KPMG' ('we', 'our', and 'us') refers to KPMG in India. KPMG in India is a member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative ("KPMG International"). KPMG International, a Swiss entity, provides no client services.

# 1. Who we are

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## 1.1 Our business

KPMG was established in India in September 1993. KPMG is one of the leading providers of audit related, taxation, business advisory and other services as approved from time to time.

The firm operates from its offices in Gurugram, Noida, Chandigarh, Mumbai, Pune, Ahmedabad, Kolkata, Bengaluru, Hyderabad, Chennai, Kochi, Vadodara, and Jaipur.

KPMG in India in the year to 31 March 2017 had over 4500 personnel working in offices across 13 locations. Further, KPMG utilises the resources of other member firms where required.

KPMG does not provide statutory audit services in India pursuant to the Indian Companies Act or under the requirements of the Institute of Chartered Accountants of India. It only provides permissible audit related services e.g. assurance opinions under IFRS, US GAAP, etc. (hereinafter referred to as 'audit services') and other permissible tax and advisory services. Full details of the services offered by KPMG may be found on our website.

<http://www.kpmg.com/IN/en/about/Pages/Default.aspx>

## 1.2 Our strategy

Our strategy is set by the KPMG Leadership Team (ILT). Our overall ambition remains to be seen by our key stakeholders as the best firm in consistently achieving the highest standards of quality, ethics and integrity.

## 2. Our structure and governance



### 2.1 Legal structure

#### Legal structure and ownership

KPMG is affiliated with KPMG International Cooperative (“KPMG International”). KPMG International is a Swiss cooperative which is a legal entity formed under Swiss law. It is the entity with which all the member firms of the KPMG network are affiliated. Further details about KPMG International and its business, including our relationship with it, are available in the supplement to the KPMG International Transparency Report.

<https://home.kpmg.com/xx/en/home/about/governance/transparency-report.html>

KPMG International is a global network of professional services firms providing Audit, Tax, and Advisory services to a wide variety of public and private sector organisations. KPMG International's structure is designed to support consistency of service quality and adherence to agreed values wherever the member firms operate.

KPMG is a partnership firm registered under the Indian Partnership Act 1932.

The two legal partners in KPMG are two companies incorporated in the Netherlands: KPMG International Investments BV (a wholly owned subsidiary of KPMG International Cooperative) and KPMG Advisory NV (a company which is part of the KPMG Europe LLP group of companies). However, both such companies hold the interests in KPMG ultimately for, and at the direction of, KPMG International Cooperative, a Swiss cooperative which is a legal entity formed under Swiss law (“KPMG International”).

Notwithstanding the legal ownership structure, KPMG International and/or the legal partners do not manage or exercise control over the management of KPMG or extract profit from KPMG. KPMG is governed and managed as described in Section 2.4 of this report. As used in the rest of this report, the term ‘partner’ refers to individuals who are senior employees of KPMG who are designated as partners.

Further details about KPMG International and its business are available in the 2016 KPMG International Transparency Report:

<https://home.kpmg.com/xx/en/home/about/governance/transparency-report.html>

## 2.2 Name, ownership and legal relationships

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

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

Each member firm is a separate legal entity responsible only for its own obligations and liabilities, unless it has expressly agreed otherwise.

## 2.3 Responsibilities and obligations of member firms

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

Each member firm takes responsibility for its management and the quality of its work.

Member firms commit to a common set of KPMG values (see section A.2).

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

## 2.4 Governance structure

### National governance

Consistent with our aspiration to be the most relevant, trusted professional services firm of choice, we apply high standards of corporate governance.

### Our Chief Executive Officer

The Chief Executive Officer has the ultimate responsibility for quality and system of quality control and also chairs the Board ensuring that the Board members receive accurate, timely and clear information and ensuring effective communication and relationships with the members at large.

### The KPMG Board

The principal governance and oversight body of KPMG is the KPMG Board, which provides leadership to the organisation and is responsible for our long-term growth and sustainability, setting our strategy and overseeing its implementation, monitoring performance against our business plan and protecting and enhancing the KPMG brand.

The KPMG Board includes the Chief Executive Officer, the Deputy Chief Executive Officer, certain functional heads and other senior members. The Board meets from time to time to undertake various duties for KPMG, including policy decisions and approving the business plan.

In addition, certain committees deal with key aspects of governance within the group.

Details about the role and responsibilities and composition of each of these committees are set out below.

#### Disciplinary Committee

The principal role of the Disciplinary Committee is to provide oversight on the disciplinary matters across the firm.

#### Remuneration Committee

The Remuneration Committee is responsible for determining the remuneration of the partners and making recommendations on policies for partners' remuneration. Further information regarding partner remuneration is set out in section 5 of this document.

#### The India Leadership Team

The India Leadership Team is responsible for management of the day-to-day activities, recommending policy to the Board and developing the business plan within the overall strategy set by the Board, together with its subsequent implementation. It deals with operational matters affecting the firm (including monitoring operating and financial performance, budgets, new business proposals, marketing, technology development, recruitment, and retention policies, prioritisation and allocation of resources and investment and managing the risk profile of the our firm).

The India Leadership Team includes the Chief Executive Officer, Deputy Chief Executive Officer, Chief Operating Officer, Functional heads and other senior officials.

The India Leadership Team meets frequently to address the matters within its remit.

Information on KPMG International's governance structure may be found in the 2016 KPMG International Transparency Report.

<https://home.kpmg.com/xx/en/home/about/governance/transparency-report.html>

## 3. System of quality control

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### Overview

A robust and consistent system of quality control is an essential requirement in performing high quality services.

Accordingly, KPMG International has quality control policies that apply to all member firms.

These are included in KPMG's Global Quality & Risk Management Manual (Global Q&RM Manual) available to all personnel. These policies and associated procedures are designed to guide member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances.

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

KPMG implements international policies and procedures and adopts additional policies and procedures that are designed to address rules and standards issued by relevant regulators as well as applicable legal and other requirements.

KPMG International's policies reflect individual quality control elements to help our personnel act with integrity and objectivity, perform their work with diligence, and comply with applicable laws, regulations, and professional standards. Amendments to risk and quality policies, including ethics and independence policies, are communicated by email alerts from KPMG International and included in quality and risk communications. KPMG is required to implement changes specified in the email alerts and this is checked through internal monitoring.

Quality control and risk management are the responsibility of all KPMG personnel. This responsibility includes the need to understand and adhere to firm policies and associated procedures in carrying out their day-to-day activities.

The system of quality control applies to KPMG personnel. While many KPMG's quality control processes are cross-functional, and apply equally to audit, tax and advisory work, the remainder of this section focusses on the delivery of quality audits.

## Audit quality framework

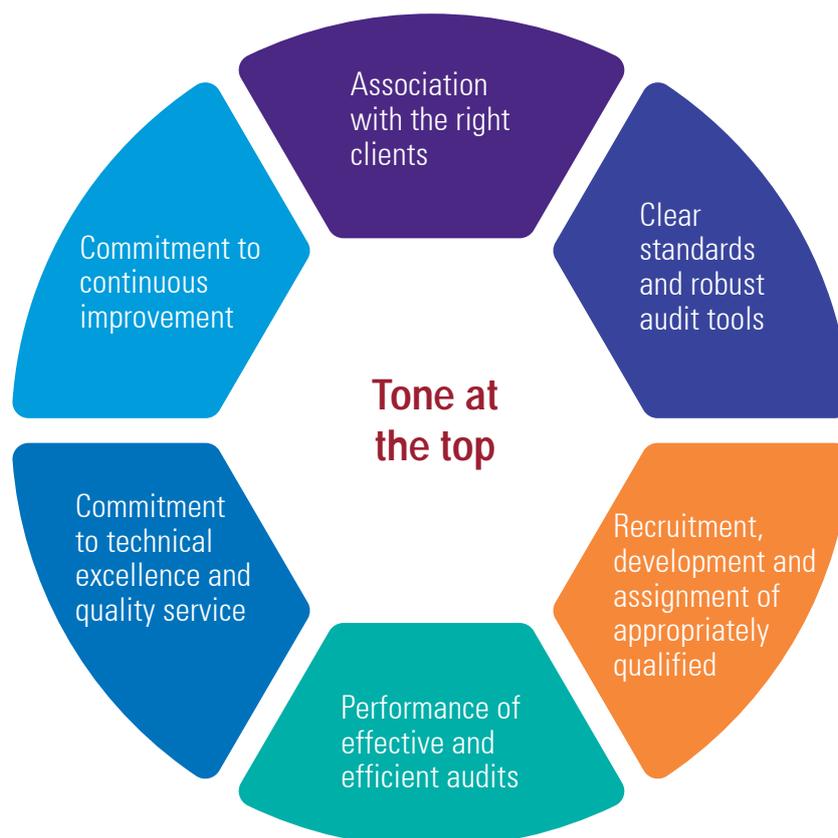
At KPMG, audit quality is not just about reaching the right opinion, but how that opinion is reached. It is about the processes, thought, and integrity behind the audit report. We view the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. This means, above all, being independent and compliant with relevant legal and professional requirements.

To help all audit professionals concentrate on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, KPMG International utilises the Audit Quality Framework. This framework uses a common language that is used by all KPMG member firms to describe what we believe drives audit quality, and to highlight how every audit professional at KPMG contributes to the delivery of audit quality.

The Audit Quality Framework identifies seven drivers of audit quality:

- Tone at the top
- Association with the right clients
- Clear standards and robust audit tools
- Recruitment, development and assignment of appropriately qualified personnel
- Commitment to technical excellence and quality service delivery
- Performance of effective and efficient audits
- Commitment to continuous improvement

'Tone at the top' sits at the core of the Audit Quality Framework's seven drivers of audit quality and helps ensure that the right behaviours permeate across the entire KPMG network. All of the other drivers are presented within a virtuous circle because each driver is intended to reinforce the others. Each of the seven drivers is described in more detail in the following sections of this report.



### 3.1 Tone at the top – the foundation of audit quality

The culture of KPMG International and the member firms is underpinned by a strong set of values and supporting policies and processes and enables the right attitudes and behaviours to permeate throughout the KPMG network, starting from the very top. We promote a culture in which consultation is encouraged and recognised as a strength.

Tone at the top means that KPMG India leadership demonstrates commitment to quality, ethics and integrity and communicates its commitment to clients, stakeholders, and society at large.

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG value: "Above all, we act with integrity". Integrity means constantly striving to uphold the highest professional standards, providing sound good-quality advice to our clients and rigorously maintaining independence.

Our values, which have been explicitly codified for a number of years, are embedded into working practices and our values-based compliance culture at KPMG in India. Individuals are encouraged to raise their concerns when they see behaviours or actions that are inconsistent with our values or professional responsibilities. Our values are considered in the performance appraisal process that our people follow and adherence to these values is also reviewed when our people are considered for more senior promotions, including to Partner. Our values are set out in Appendix A.2.

#### Code of conduct

KPMG India's Code of Conduct incorporates our values and defines the standards of ethical conduct that is required from all KPMG people. It sets out our ethical principles and helps partners and employees at KPMG India to understand and uphold those principles. In addition, the Code of Conduct emphasises that each partner and employee is personally responsible for following the legal, professional, and ethical standards that apply to his or her job function and level of responsibility. It has provisions that require our people to:

- comply with all applicable laws, regulations and KPMG policies
- report any illegal acts, whether committed by KPMG personnel, clients or other third parties
- report breaches of risk management policies
- uphold the highest levels of client confidentiality
- not offer, promise, make, solicit or accept bribes (whether directly or through an intermediary).

In addition the KPMG International hotline <https://home.kpmg.com/xx/en/home/misc/international-hotline.html> is a vehicle for KPMG partners, employees, clients and other parties to confidentially report concerns they have relating to certain areas of activity by KPMG International itself, its employees or the senior leadership of a KPMG member firm. KPMG India also operates a local whistle-blowing hotline which is available for its personnel, clients, and other parties to confidentially report concerns they have relating to how others are behaving (both internally and externally). Matters reported to the hotline are investigated under the supervision of an independent ombudsman and are reported ultimately to the Disciplinary Committee.

### 3.1.1 Leadership responsibilities for quality and risk management

KPMG demonstrates commitment to quality, ethics and integrity, and communicate their focus on quality to clients, stakeholders and society. However, leadership plays a critical role in setting the right tone and leading by example.

Our leadership team is committed to building a culture based on quality, integrity and ethics, demonstrated through their actions - written and video communications, presentations to teams and one-to-one discussions.

The following individuals have leadership responsibilities for quality and risk management at KPMG.

#### **Chief Executive Officer**

In accordance with the principles in ISQC 1, our Chief Executive Officer has the ultimate responsibility for KPMG's system of quality control. Details of some of the measures that he and the rest of the Board have taken to ensure that a culture of quality prevails within KPMG are set out later in this section.

#### **National Risk Management Partner**

Operational responsibility for the system of quality control, risk management and compliance in KPMG has been delegated to the National Risk Management Partner who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for the firm. The National Risk Management Partner has a direct reporting line to the Chief Executive Officer and is a member of the India Leadership Team. He consults with the appointed Area Quality and Risk Management Leaders.

The fact that the role is an India Leadership position, and seniority of the reporting lines, underlines the importance that the firm places on risk and quality issues. The National Risk Management Partner is supported by a team of partners and professionals in each of the functions.

#### **The Audit, Tax and Advisory functions – Function Heads**

The three heads of the client service functions (Audit, Tax and Advisory) are accountable to the Chief Executive Officer for the quality of service delivered in their respective functions. Between them, they determine the operation of the risk management, quality assurance and monitoring procedures for their specific functions within the framework set by the National Risk Management Partner. These procedures make it clear that at the engagement level, risk management and quality control is ultimately the responsibility of all professionals.

KPMG India Head of Audit is responsible for leading a sustainable high-quality Audit practice that is attractive to KPMG people. This includes:

- setting the right 'tone at the top' by demonstrating an unwavering commitment to the highest standards of professional excellence, including skepticism, objectivity, and independence
- developing and implementing strategies to monitor and maintain knowledge and skills required of partners and employees to fulfill their professional responsibilities
- working with the Risk Management Partner to monitor and address audit quality and risk matters as they relate to the Audit practice, including an annual evaluation of activities considered to be key to audit quality.

## Audit Leadership Team

The Audit Leadership Team met several times during the year (2016:2017) and these meetings included regular discussions about current and emerging audit quality issues arising from external and internal quality review processes, queries being raised by engagement teams, root cause analysis procedures and other quality matters identified from a variety of sources. These were debated, other observations collected from client-facing teams were considered and actions agreed. Typically, most of these actions are short-term, in which case they are developed and communicated through the regular technical briefings issued to the whole Audit function and also, if considered of sufficient magnitude, in the next mandatory training. For more complex issues (which might require amendments to KPMG's global audit methodology or audit tools) these will be raised with Global Audit for consideration and potential development by the Global Services Centre (GSC) and International Standards Group (ISG).

## 3.2 Association with the right clients

### 3.2.1 Acceptance and continuance of clients and engagements

Rigorous client and engagement acceptance and continuance policies and processes help protect KPMG's reputation, support our brand and are an important part to our ability to provide high-quality professional services.

Accordingly, KPMG International has established policies and procedures which all member firms are required to implement in order to decide whether to accept or continue a client relationship, and whether to perform a specific engagement for that client.

### 3.2.2 Prospective client and engagement evaluation process

Before accepting a client, KPMG undertakes an evaluation of the prospective client. This involves an assessment of the prospective client's principals, its business, and other service-related matters. This also involves background checks on the prospective client, its key management, and significant beneficial owners. A key focus is on the integrity of management at a prospective client and the evaluation considers breaches of law and regulation, anti-bribery and corruption and human rights among the factors to consider. A second partner, as well as the evaluating partner, approves each prospective client evaluation. Where the client is considered to be 'high risk', the respective Functional Risk Management Partners or delegate is involved in approving the evaluation.

The prospective engagement partner evaluates each prospective engagement, in practice this may be completed at the same time as the client evaluation, particularly in respect of audit appointments. The evaluation identifies potential risks in relation to the engagement. A range of factors are considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel™, KPMG's conflicts and independence checking system) as well as factors specific to the type of engagement, including for audit services, the competence of the client's financial management team and the skills and experience of personnel assigned to staff the engagement. The evaluation is made in consultation with other senior KPMG India personnel and includes review by quality and risk management leadership as required.

Where audit services to a public interest entity are to be provided for the first time, the prospective engagement team is required to perform additional independence evaluation procedures including a review of any non-audit services provided to the client and of other relevant relationships.

Similar independence evaluations are performed when an existing audit client becomes a public interest entity or additional independence restrictions apply following a change in the circumstances of the client.

We follow specific procedures (detailed further in section **4.3.2.7 Independence clearance process**) to identify and evaluate threats to independence for prospective audit clients that are public interest entities. Depending on the overall risk assessment of the prospective client and engagement, additional safeguards may be introduced to help mitigate the identified risks. Any potential independence or conflict of interest issues are documented and resolved prior to acceptance.

A prospective client or engagement will be declined if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional and firm standards, or if there are other quality and risk issues that cannot be appropriately mitigated.

### 3.2.3 Continuance process

An annual re-evaluation of all KPMG audit and assurance clients is undertaken. In addition, clients are re-evaluated if there is an indication that there may be changes in the risk profile. Recurring or long running high risk non-audit engagements are also subject to annual re-evaluation.

This re-evaluation serves two purposes. Firstly, we will decline to continue to act for any client we consider it would not be appropriate to continue to be associated with. Secondly, and more commonly, we use the re-evaluation process to consider whether or not any additional risk management or quality control procedures need to be put in place for the subsequent engagement we perform for that client (this may include the assignment of additional professionals such as an EOC reviewer or the need to involve additional specialists on the audit).

### 3.2.4 Withdrawal

Where we obtain information that indicates that we should withdraw from an engagement or from a client relationship, we consult internally and identify any required legal and regulatory steps. We also communicate as required with those charged with governance and any other appropriate authority.

### 3.2.5 Client portfolio management

Our leadership appoints engagement partners who have the appropriate competence, capabilities, time and authority to perform the role for each engagement.

Each partner's client portfolio is regularly reviewed to ensure that they have sufficient time to manage the portfolio and to ensure that the risks are being appropriately managed.

## 3.3 Clear standards and robust audit tools

All our professionals are expected to adhere to KPMG International and KPMG India policies and procedures (including independence policies), and are provided with a range of tools and guidance to support them in meeting these expectations. The policies and procedures set for audit engagements incorporate the relevant requirements of accounting, auditing, ethical and quality control standards, and other relevant laws and regulations.

### 3.3.1 Audit methodology and tools

Significant resources are dedicated to keeping our standards and tools complete and up to date. KPMG International's global audit methodology is based on the requirements of the International Standards on Auditing (ISAs). The methodology is set out in KPMG International's KPMG Audit Manual (KAM) and includes additional requirements that go beyond the ISAs which KPMG International believes enhance the quality of our audits. KPMG member firms may add local requirements and/or guidance in KAM to comply with additional professional, legal, or regulatory requirements.

Our audit methodology is supported by eAudit, KPMG International's electronic audit tool, which provides our auditors with the methodology, guidance, and industry knowledge needed to perform high-quality audits.

eAudit's activity-based workflow provides engagement teams with ready access to relevant information at the right time throughout the audit, thereby enhancing effectiveness and efficiency and delivering value to stakeholders. The key activities within the eAudit workflow are:

#### **Engagement setup**

- perform engagement acceptance and scoping;
- determine team selection and timetable;

#### **Risk assessment**

- understand the entity;
- plan for involvement of our specialists and external experts, internal audit, service organisations and other auditors as required;
- evaluate design and implementation of relevant controls;
- conduct risk assessment and planning discussion;
- determine audit strategy and planned audit approach;

#### **Testing**

- test operating effectiveness of selected controls;
- plan and perform substantive procedures;

#### **Completion**

- update risk assessment;
- perform completion procedures, including overall review of financial statements;
- perform overall evaluation, including evaluation of significant findings and issues;
- communicate with those charged with governance (e.g., the audit committee);
- form the audit opinion.

KAM contains examples and guidance for, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks. KAM encourages engagement teams to exercise professional skepticism in all aspects of planning and performing an audit.

Our methodology encourages use of specialists when appropriate, and also requires involvement of relevant specialists in the core audit engagement team when certain criteria are met or where the audit team considers it appropriate or necessary.

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

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

#### **Data & Analytics (D&A)**

We have rolled out D&A tools to assist engagement teams with identification and evaluation of key audit risks, and substantive testing. D&A innovations enable engagement teams, where appropriate, to dig deeper into financial data and to analyse it in different ways, revealing more about a client's business and its risks, thereby transforming the KPMG audit by helping to deliver high-quality, innovative audits with actionable insights for clients.

### 3.3.2 Independence, integrity, ethics and objectivity

#### 3.3.2.1 Overview

KPMG International have detailed independence policies and procedures, incorporating the requirements of the IESBA Code of Ethics. These are set out in KPMG's Global Q&RM manual. Automated tools facilitate compliance with these requirements.

These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services.

To help ensure ethical conduct, including integrity and independence, KPMG International requires that each member firm, and its personnel, must be free from prohibited financial interests in, and prohibited relationships with, the audit clients, their management, directors and significant owners.

The Risk Management Partner of KPMG India is also the Ethics and Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence policies and procedures. Member firms' EIPs are supported by the Global Independence Group. The Partner-in-Charge of the Global Independence Group is supported by a core team of specialists to help ensure that robust and consistent independence policies, procedures and tools are implemented.

Amendments to KPMG International's ethics and independence policies in the course of the year are communicated by email alerts and included in regular quality and risk communications. Member firms are required to implement changes as specified in the email alerts, and this is checked through the internal monitoring programmes described in the Global Q&RM Manual.

KPMG India personnel are required to consult with the EIP or its delegate, on certain matters as defined in the Global Q&RM Manual.

In the event of failure to comply with the our independence policies, professionals are subject to a disciplinary policy. Matters arising are factored into promotion and compensation decisions and performance discussions.

The disciplinary policy is communicated to all professionals and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations. Our Disciplinary Committee oversees policies and procedures in relation to ethical matters and breaches of requirements.

#### 3.3.2.2 Personal independence

KPMG International policy extends the IESBA Code of Ethics restrictions on ownership of audit client securities to every member firm partner in respect of any audit client of any member firm.

Each member firm and its professionals must be free from prohibited financial interests in, and prohibited relationships with, KPMG's audit clients, their management, directors, and significant owners.

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

In common with other member firms of KPMG International, we use a web-based independence compliance system (KPMG Independence Compliance System 'KICS') to assist our professionals in their compliance with personal independence investment policies. This system contains an inventory of publicly available investment products.

Partners and all client-facing staff who are manager grade or above are required to use the KICS system prior to entering into an investment to identify whether they are permitted to do so. They are also required to maintain a record of all of their investments in KICS, which automatically notifies them if their investments subsequently become restricted and they must dispose of that investment within 5 business days of the KICS notification or email notification circulated by the RMP, whichever is earlier. We monitor compliance with this requirement as part of our programme of independence compliance audits of a sample of professionals.

### **3.3.2.3 Employment relationships**

Any professional providing services to an audit client irrespective of function is required to notify our RMP who is also the EIP, or its delegate, if they intend to enter into employment negotiations with that audit client. For partners, this requirement extends to any audit client of any KPMG member firm.

KPMG professionals engaged in negotiations regarding possible employment with an entity we audit are immediately removed from the audit engagement.

Former members of the audit team or former partners of a member firm are prohibited from joining an audit client in certain roles unless they have disassociated from the member firm financially and have ceased participating in India business or professional activities.

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

We communicate and monitor requirements in relation to employment of KPMG India professionals by audit clients.

### **3.3.2.4 Firm financial independence**

KPMG India also uses KICS to record their own investments in SEC entities and affiliates (including funds), locally listed companies and funds, direct and material indirect investments held in pension, and employee benefit plans (including non-public entities and funds).

Additionally, we are required to record in the system all borrowing and capital financing relationships, and custodial, trust and brokerage accounts that hold member firm assets.

On an annual basis, KPMG India confirms compliance with independence requirements as part of the Risk Compliance Programme.

### **3.3.2.5 Business relationships/suppliers**

KPMG India has policies and procedures in place that are designed to ensure their business relationships are maintained in accordance with the IESBA Code of Ethics and other additional applicable independence requirements.

All prospective business relationships are evaluated to assess association risks and to identify potential auditor independence and conflicts of interest issues. A relationship involving a third-party service provider - that a member firm will use to assist with client engagements or other purposes - is also evaluated to determine whether the third party has the competence to provide the relevant services. The individuals providing the services are required to confirm they understand and will comply with applicable ethics and independence requirements, and they are also required to complete ethics and Independence training.

### **3.3.2.6 Business acquisitions, admissions and investments**

If KPMG India is in the process of considering the acquisition of, or investment in, a business, we are required to perform sufficient due diligence procedures on the prospective target to identify and address any potential independence and risk management issues prior to closing the transaction. Specific consultation requirements are applied to enable independence and other issues to be addressed when integrating the business into KPMG India and the network.

### 3.3.2.7 Independence clearance process

KPMG India follows specific procedures to identify and evaluate threats to independence related to prospective audit clients that are public interest entities; these procedures, also referred to as 'the independence clearance process,' must be completed prior to accepting an audit engagement for these entities. A 'KPMG Independence Checkpoint' tool was introduced in October 2015 to automate and standardise all the workflows that comprise the independence clearance process. This is in anticipation of the increasing number of audit tenders member firms will be participating in and the number of independence clearances that need to be completed as a result of mandatory firm rotation of statutory audits in certain parts of the world.

### 3.3.2.8 Independence training and confirmations

KPMG India provides all relevant personnel (including all Partners and client service professionals) with independence training that is appropriate to their grade and function on an annual basis. New personnel who are required to complete this training must do so by the earlier of (a) fourteen days after joining KPMG India or (b) before providing any services to any client or its affiliates.

We also provide all personnel with training on the Code of Conduct and ethical behaviour, including KPMG's anti-bribery policies, compliance with laws, regulations, and professional standards, and reporting suspected or actual non-compliance with laws, regulations, professional standards, and KPMG's policies on a biennial basis. New personnel are required to complete this training within 30 days of joining the firm.

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

In addition, all KPMG personnel are required to confirm their understanding of, and compliance with, the applicable Code of Conduct upon joining their member firm and on an annual basis thereafter. This confirmation is used to evidence the individual's compliance with, and understanding of, our independence policies.

### 3.3.2.9 Non-audit services

We have policies which are consistent with IESBA principles and applicable laws and regulations, which address the scope of services that can be provided to audit clients.

We are required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG India or adopted from another member firm. The EIP or delegate is involved in the review of potential independence issues, and the Global Independence Group is involved in the case of services developed for global adoption.

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

### 3.3.2.10 Fee dependency

KPMG International's policies recognise that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the operating firm expressing the audit opinion. In particular, KPMG International's policies require that in the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10 per cent of the total fees received by a particular member firm for two consecutive years:

- This would be disclosed to those charged with governance at the audit entity
- A Senior Partner from another KPMG member firm would be appointed as the Engagement Quality Control (EQC) reviewer.

No audit client accounted for more than 10 percent of the total fees received by KPMG India over the last two years.

### 3.3.2.11 Conflicts of interest

Conflicts of interest can arise in situations where KPMG personnel have a personal connection with the client which may interfere, or be perceived to interfere, with their ability to remain objective, or where they are personally in possession of confidential information relating to another party to a transaction. Consultation with the Risk Management Partner or the Ethics and Independence Partner is required in these situations.

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

Sentinel™ is the tool all KPMG member firms used for potential conflict identification so that these can be addressed in accordance with legal and professional requirements.

It may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise, or be perceived to arise, so that the confidentiality of all clients' affairs is maintained. Such procedures may, for example, include establishing formal ethical dividers between engagement teams serving different clients, and making arrangements to monitor the operation of such dividers.

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

### 3.3.2.12 Breaches of independence policy

All KPMG personnel are required to report an independence breach as soon as they become aware of it. In the event of failure to comply with our independence policies, whether identified in the compliance review, self-declared or otherwise, professionals may be subject to an independence disciplinary policy.

KPMG India has a documented disciplinary policy in relation to breaches of independence policies. The disciplinary policy is communicated to all professionals and applies to breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations. Any breaches of auditor independence regulations are reported to those charged with governance at the audit client, on the basis agreed with them.

Matters arising are factored into promotion and compensation decisions and, in the case of engagement leaders and managers, are reflected in their individual quality and risk metrics.

### **3.3.2.13 Compliance with laws, regulations, and anti-bribery and corruption**

Compliance with laws, regulation and standards is a key aspect for all KPMG India personnel. In particular, KPMG India has zero tolerance of bribery and corruption.

Accordingly, training covering compliance with laws (including those relating to anti-bribery and corruption), regulations, professional standards, and the KPMG Code of Conduct is required to be completed once every two years, with all new hires required to complete such training within 30 days of joining the KPMG.

Further information on KPMG International anti-bribery and corruption can be found on the anti bribery and corruption site:

<https://home.kpmg.com/xx/en/home/about.html>

### **3.3.2.14 Partner rotation**

KPMG International rotation policies are consistent with the IESBA Code of Ethics and require our firm to comply with any stricter applicable rotation requirements.

KPMG India partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG International policy. These requirements place limits on the number of consecutive years that partners in certain roles may provide statutory audit services to a client, followed by a 'time-out' period during which time these partners may not participate in the audit, provide quality control for the audit, consult with the engagement team or the client regarding technical or industry-specific issues or in any way influence the outcome of the audit.

We monitor the rotation of audit engagement leaders (and any other key roles, such as the Key Audit Partner and EQC Reviewer, where there is a rotation requirement) and develop transition plans to enable allocation of partners with the necessary competence and capability to deliver a consistent quality of service to clients. The partner rotation monitoring is subject to compliance testing.

## **3.4 Recruitment, development and assignment of appropriately qualified personnel**

One of the key drivers of quality is ensuring that KPMG professionals have the skills and experience to deliver on our vision. KPMG's global behaviours, which are linked to our values, are designed to help articulate what is required for success – both individually and collectively. One of KPMG's global behaviours is 'Delivering Quality'.

### **3.4.1 Recruitment**

Our work impacts clients, the marketplace and society at large. We want to work with people who share the belief that what we do matters.

All candidates submit an application through our online career portal and are employed following a rigorous selection processes, which may include but not limited to application screening, competency-based interviews, and qualification/reference checks. For leadership positions, assessments include leadership assessment and panel interviews where the candidates are assessed by an independent panel of Partners.

KPMG India recruited over 1692 new people in the year ended 31 March 2017 (2016: approximately 1984).

Our recruiting strategies are focussed on drawing entry-level talent from a broad talent base, working with established universities, colleges and business schools, building relationships with a younger, diverse talent pool at an early age through a world of exciting projects, terrific mentors, great networking opportunities with experienced professionals as part of our flagship campus programmes.

We value the fresh perspectives highly talented people bring to KPMG and recruit significant numbers at an experienced hire and Partner level.

### 3.4.2 Personal development

It is important that all our professionals have the necessary business and leadership skills to be able to perform quality work in addition to technical skills (see section 3.6.1).

In relation to audit, opportunities are provided for professionals to develop the skills, behaviours, and personal qualities that form the foundations of a successful career in auditing. Courses are available to enhance personal effectiveness and develop technical, leadership, and business skills.

KPMG professionals are developed further for high performance through coaching and mentoring on the job, stretch assignments, and country rotational and global mobility opportunities.

### 3.4.3 Inclusion and diversity programmes

KPMG works hard to foster an inclusive culture. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and perspectives.

Leadership and management teams also need to reflect the diversity of our organisation and the diversity of KPMG India clients. Our established Global Inclusion and Diversity strategy provides the framework to drive the actions we believe are necessary to promote inclusive leadership across the KPMG network.

### 3.4.4 Evaluation, compensation and promotion

KPMG professionals, including partners, have annual goal-setting and performance reviews. Each professional is evaluated on their agreed-upon goals, demonstration of the KPMG global behaviours, technical capabilities and market knowledge. Partners and certain professionals are also evaluated on key quality and compliance metrics. These evaluations are conducted by performance managers and partners who are in a position to assess their performance and propose a performance rating.

#### **Compensation and promotion**

We have compensation and promotion policies that are clear, simple, and linked to the performance evaluation process, which for partners include the achievement of key audit quality and compliance metrics. This helps our partners and employees know what is expected of them, and what they can expect to receive in return.

KPMG India monitors quality and compliance incidents and maintain quality metrics for the purposes of partner assignments and also for the purposes of partner evaluation, promotion and remuneration.

KPMG India's policy prohibits audit partners from being evaluated on or compensated based on their success in selling non-assurance services to audit clients.

### 3.4.5 Partner admissions

Our process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. Our criteria for admission to the partnership are consistent with our commitment to professionalism and integrity, quality, and being an employer of choice. These are strongly aligned to KPMG's behavioural capabilities and are based on consistent principles.

### 3.4.6 Assignment of professionals

KPMG India has procedures in place to assign both the engagement partners and other professionals to a specific engagement on the basis of their skill sets, relevant professional and industry experience, and the nature of the assignment or engagement.

Function heads are responsible for the partner assignment process. Key considerations include partner experience and capacity - based on an annual partner portfolio review, to perform the engagement in view of the size, complexity and risk profile of the engagement and the type of support to be provided (i.e. the engagement team composition and specialist involvement).

Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies, accreditation and capabilities, including time, to perform audit engagements in accordance with KAM, professional standards, and applicable legal and regulatory requirements. This may include involving specialists from other KPMG member firms.

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

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

### 3.5 Employee Engagement

Biennially KPMG India invites all our people to participate in an independent Global People Survey (GPS) which measures our people's attitudes and provides an overall Employee Engagement Index (EEI) and Performance Excellence Index (PEI). The GPS also provides insights about what drives engagement across different demographic groups and how we are faring in selected categories. In alternate years we run a short form Pulse survey.

The results of GPS provide leadership with information about employee/partner perceptions about audit quality, tone at the top, and employee engagement and motivation; helping track progress against strategic priorities as well as providing warning indicators if there are areas of concern.

KPMG India participate in the GPS, monitor results and take appropriate actions to communicate and respond to the findings of the survey.

This includes monitoring GPS results against agreed targets relevant to:

- audit quality and tone at the top - referred to in the GPS as 'leadership behaviour'
- employee engagement through the Employee Engagement Index (EEI)
- employee performance through the Performance Excellence Index (PEI).

The results of the GPS are presented to the Global Board each year and appropriate follow-up actions agreed.

### **3.6 Commitment to technical excellence and quality service delivery**

All KPMG professionals are provided with the technical training and support they need. This includes access to our networks of specialists and professional practice departments, which are made up of senior professionals with extensive experience in audit, reporting and risk management, either to provide resources to the engagement team or for consultation.

At the same time, applicable audit accreditation and licensing policies require professionals to have the appropriate knowledge and experience for their assigned engagements.

#### **3.6.1 Professional training**

In addition to personal development discussed in the section above, our policies require all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

##### **Formal training**

Audit Learning and Development steering groups at global, regional and, where applicable, KPMG India, identify annual technical training priorities for development and delivery using a blend of classroom, e-learning and virtual classroom methods. Audit Learning and Development teams work with subject matter experts and leaders from GSC, ISG and DPP, as appropriate, to ensure the training is of the highest quality, is relevant to performance on the job, and is delivered on a timely basis.

##### **Mentoring and on the job training**

Learning is not confined to the classroom — rich learning experiences are available at the moment of need through coaching and just-in-time learning, available at the click of a mouse and aligned with job specific role profiles and learning paths. All classroom courses are reinforced with appropriate performance support to assist auditors on the job.

#### **3.6.2 Accreditation and licensing**

All KPMG professionals are required to comply with applicable professional licence rules and satisfy the Continuing Professional Development (CPD) requirements in the jurisdiction where they practice. Policies and procedures are designed to ensure that those individuals that require a licence to undertake their work are appropriately licensed.

We are responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge, and experience in the local predominant financial reporting framework.

In addition, we have specific requirements for partners and managers working on IFRS engagements, in countries where IFRS is not the predominant financial reporting framework. Similar policies apply for U.S. Generally Accepted Accounting Principles (U.S. GAAP), U.S. Generally Accepted Auditing Standards (U.S. GAAS), and the Standards of the Public Company Accounting Oversight Board (PCAOB) for SEC and Internal Control Over Financial Reporting (ICOFR) engagements performed outside the U.S. These require that the partner, manager, and EOC reviewer have completed relevant training and that the engagement team, collectively, has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

### 3.6.3 Access to specialist networks

KPMG India engagement teams have access to a network of local KPMG specialists as well as specialists in other KPMG member firms. Engagement partners are responsible for ensuring that their engagement teams have the appropriate resources and skills.

The need for specialists (e.g., Information Technology, Tax, Treasury, Actuarial, Forensic, Valuation) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process.

Specialists who are members of an audit team are provided with training on audit concepts.

### 3.6.4 Consultation

We promote a culture in which consultation is recognised as a strength and that encourages personnel to consult on difficult or contentious matters. Accordingly, audit engagement teams are encouraged to approach and consult DPP for assistance when they believe it to be necessary while in certain circumstances consultation with DPP is mandatory. To assist audit engagement professionals in addressing difficult or contentious matters relating to accounting standards, etc., protocols have been established for consultation and documentation, including procedures to facilitate resolution of differences of opinion on engagement issues.

Appropriate consultation support is provided to audit engagement teams through professional practice resources that include a Department of Professional Practice (DPP).

Across our firm, the role of DPP is crucial in terms of the support that it provides to the audit function. It provides technical guidance to client service professionals on specific engagement related matters, develops and disseminates specific topic related guidance on emerging technical and professional issues and disseminates relevant international guidance on IFRS and ISA.

In other circumstances, the matter may be elevated through the chain of responsibility for resolution by technical specialists. In exceptional circumstances, a matter may be referred to the Head of Audit, Head of DPP, Head of Quality and Risk (or appropriate nationally qualified delegates) or ultimately the CEO (or appropriate nationally qualified delegates).

If, in the opinion of the engagement partner, the conclusions of DPP need further elucidation or they need a review in the light of certain facts, further discussions are initiated. Such consultations (which may include consultation with a team member at a higher level of responsibility than either of the differing parties) usually resolve the matter. However, if even after further discussions, the issue cannot be resolved, the matter is escalated a panel comprising representative of leadership team, Risk Management Department, Head of Audit, DPP representative and Head of Accounting Advisory Services.

The DPP team has dedicated experienced professional staff whose roles do not include managing business activities and objectives.

For IFRS and ISA related matters, technical accounting and auditing support is also available to all member firms through the GSC and the ISG as well as the U.S. Capital Markets Group for work on SEC foreign registrants.

### **Global Services Centre (GSC)**

The GSC develops, maintains and deploys KPMG's global audit methodology and technology-based tools used by KPMG audit professionals to facilitate effective and efficient audits. It also provides auditing support, with emphasis on global quality and consistency.

### **International Standards Group (ISG)**

The ISG works with Global IFRS and ISA topic teams with geographic representation from around the world to promote consistency of interpretation of IFRS between member firms, identify emerging issues, and develop global guidance on a timely basis.

Further details about the GSC and ISG and its activities are available in the supplement to the KPMG International Transparency Report.

<https://home.kpmg.com/xx/en/home/about/governance/transparency-report.html>

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

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

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

### **3.7 Performance of effective and efficient audits**

How an audit is conducted is as important as the final result. KPMG India people are expected to demonstrate certain key behaviours and follow certain policies and procedures in the performance of effective and efficient audits.

#### **3.7.1 KPMG audit process**

Our audit workflow is enabled through eAudit, KPMG International's activity based workflow and electronic audit file. eAudit integrates our audit methodology, guidance and industry knowledge, and the tools needed to manage audits consistently. Our high-quality audit process includes:

- timely partner and manager involvement
- timely access to the right knowledge – specialists, accredited individuals and relevant industry expertise
- critical assessment of audit evidence
- exercise of professional judgement and professional skepticism
- ongoing mentoring, supervision and review
- appropriately supported and documented conclusions
- robust challenge and review, including EOC review.

### **3.7.1.1 Timely partner and manager involvement**

To help identify and respond to the significant audit risks applicable to each audit, the engagement team requires an understanding of the client's business, its financial position, and the environment in which it operates.

The engagement partner is responsible for the overall quality of the audit engagement and therefore for the direction, supervision and performance of the engagement.

Involvement and leadership from the engagement partner during the planning process and early in the audit process helps set the appropriate scope and tone for the audit, and helps the engagement team obtain maximum benefit from the partner's experience and skill. Timely involvement of the engagement partner at other stages of the engagement allows the engagement partner to identify and appropriately address matters significant to the engagement, including critical areas of judgement, and significant risks.

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

### **3.7.1.2 Critical assessment of audit evidence with emphasis on professional skepticism**

We consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence. The nature and extent of the audit evidence we gather is responsive to the assessed risks. We critically assess audit evidence obtained from all sources. For the purpose of obtaining sufficient appropriate audit evidence each team member is required to exercise professional judgement and maintain professional skepticism throughout the audit engagement.

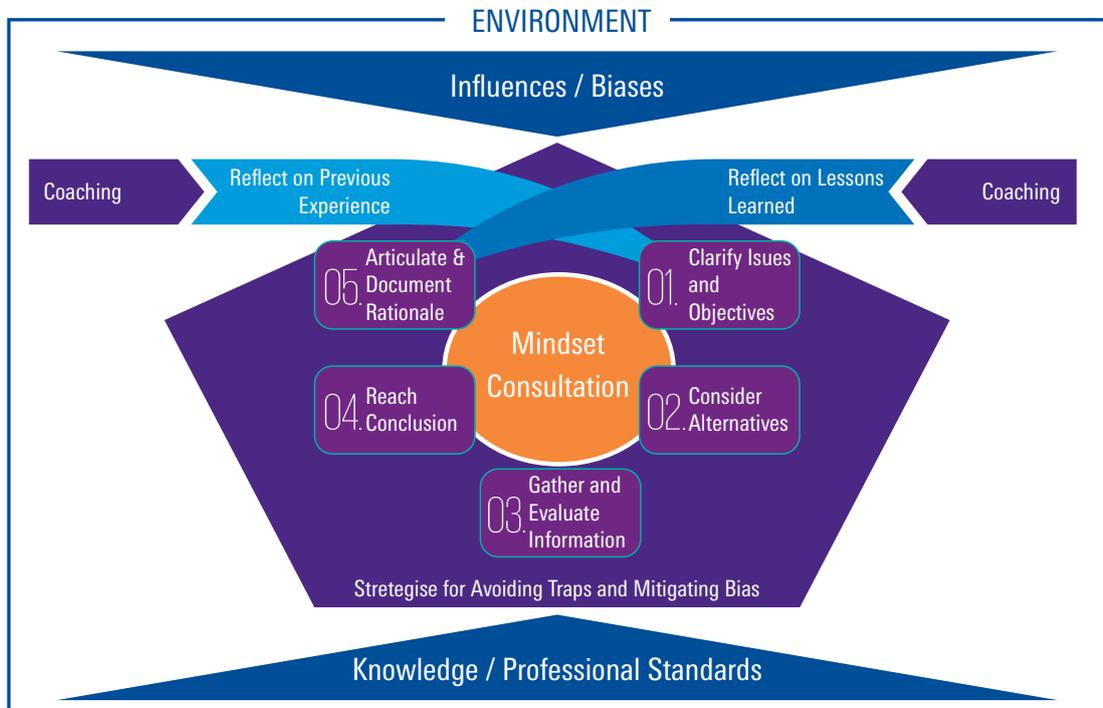
Professional skepticism involves a questioning mind and alertness to contradictions or inconsistencies in audit evidence. Professional skepticism features prominently throughout auditing standards and receives significant focus from regulators. The KPMG Audit Quality Framework emphasises the importance of maintaining an attitude of professional skepticism throughout the audit.

KPMG professional judgement process facilitates good judgement by introducing a structured approach to auditing areas that require significant judgement. It also reinforces the importance of independence and objectivity and emphasises the importance of having the right mindset - the need to apply professional skepticism.

Our professional judgement process recognises the need to be aware of, and alert to, biases which may pose threats to good judgement. The structured approach to auditing areas that require significant judgement involves:

- considering alternatives,
- critically assessing audit evidence by challenging management's assumptions and following up contradictory or inconsistent information,
- documenting rationale for conclusions reached on a timely basis as a means of evaluating their completeness and appropriateness.

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



### 3.7.1.3 Ongoing mentoring, supervision and review

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

Ongoing mentoring and supervision during an audit involves:

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

A key part of effective mentoring and supervision is timely review of the work performed so that significant matters are promptly identified, discussed and addressed.

#### **3.7.1.4 Appropriately supported and documented conclusions**

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

KAM recognises that documentation prepared on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before our report is finalised. Teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period, which is ordinarily not more than 60 calendar days from the date of the auditor's report but may be more restrictive under certain applicable regulations.

The key principle that engagement team members are required to consider is whether an experienced auditor, having no previous connection with the engagement, will understand:

- the nature, timing, and extent of audit procedures performed to comply with the ISAs and KAM;
- applicable legal and regulatory requirements;
- the results of the procedures performed, and the audit evidence obtained;
- significant findings and issues arising during the audit, and actions taken to address them (including additional audit evidence obtained); and
- the basis for the conclusions reached, and significant professional judgements made in reaching those conclusions.

#### **3.7.1.5 Appropriate involvement of the EQC reviewer**

EQC reviewers are independent of the engagement team and have appropriate experience and knowledge to perform an objective review of the more critical decisions and judgements made by the engagement team and the appropriateness of the financial statements.

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

The EQC review takes place before the date of the auditor's report and includes, among other matters:

- review of selected audit documentation and client communications;
- relating to significant judgements the engagement team made and the conclusions it reached;
- review of the financial statements and proposed auditor's report; and
- evaluation of the conclusions reached in formulating the auditors' report and consideration of whether the proposed report is appropriate.

For certain engagements designated as high risk in client and engagement acceptance and continuance (CEAC) process, where there is no requirement for an EOC review, a Limited Scope Quality Control (LSQC) review may be performed. The objective of LSQC review is to involve another partner with experience in an industry or a specific regulatory framework who reviews the financial statements and discuss significant matters arising during the audit, significant judgements made and related conclusions reached with the engagement partner.

Although the engagement partner is ultimately responsible for the resolution of financial reporting and auditing matters, EOC/LSQC reviewer must be satisfied that all significant questions raised have been resolved before an audit can be considered to be completed.

KPMG India is continually seeking to strengthen and improve the role that the EOC reviewer plays in audits, as this is a fundamental part of the system of audit quality control. In recent years a number of actions have been taken to reinforce this, including:

- issuing leading practices guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EOC reviewers,
- incorporating specific procedures in eAudIT to facilitate effective reviews,
- implementing policies relating to recognition, nomination and development of EOC reviewers, as well as monitoring and assessing the nature, timing and extent of their involvement.

#### **3.7.1.6 Reporting**

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

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

#### **3.7.1.7 Insightful, open, and honest two-way communication**

Two-way communication with those charged with governance, often identified as the audit committee, is key to audit quality and a key aspect of reporting and service delivery.

At KPMG India we stress the importance of keeping those charged with governance informed of issues arising throughout the audit, the need to listen and understand their views. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings, and, when appropriate, ongoing informal discussions with management and members of the audit committee.

Communications with audit committees include:

- An overview of the planned scope and timing of the audit, which includes communicating significant risks identified,
- significant findings from the audit which may include control and audit misstatements,
- an annual written communication, where required under applicable laws and regulations, that states the engagement team and KPMG have complied with relevant independence requirements; describes all relationships and other matters between KPMG and the audit client that, in our professional judgement, may reasonably be thought to bear on independence; and states related safeguards we have applied to eliminate (or reduce to an acceptable level) identified threats to independence.

We ensure such communications meet the requirements of professional standards.

### **3.7.1.8 Focus on effectiveness of group audits**

Our audit methodology, KAM, covers the conduct of group audits in detail. We stress the importance of effective two-way communication between the group engagement team and the component auditors, which is a key to audit quality. The group audit engagement partner is required to evaluate the competence of component auditors, whether or not they are KPMG member firms, as part of the engagement acceptance process.

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

Lead audit engagement partners may review component auditor engagement documentation in person or obtain electronic access.

### **3.7.2 Client confidentiality, information security, and data privacy**

The importance of maintaining client confidentiality is emphasised through a variety of mechanisms including the Code of Conduct, training, and the annual affidavit/confirmation process, that all of our professionals are required to complete.

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

We have clear policies on information security that cover a wide range of areas. Data Privacy policies are in place governing the handling of personal information, and associated training is required for all KPMG India personnel.

## **3.8 Commitment to continuous improvement**

We commit to continually improve the quality, consistency and efficiency of our audits. Integrated quality monitoring and compliance programmes enable member firms to identify quality deficiencies, to perform root cause analysis and develop, implement and report remedial action plans both in respect of individual audit engagements and the member firm's system of quality control. KPMG Internationals's integrated quality and monitoring programmes include the Quality Performance Review (QPR) programme, the Risk Compliance Programme (RCP) and the Global Compliance Review (GCR) programme.

The quality monitoring and compliance programmes are globally administered and consistent in their approach across member firms, including the nature and extent of testing and reporting. KPMG India compares the results of internal monitoring programmes with the results of those of any external inspection programmes and take appropriate action.

### 3.8.1 Internal monitoring and compliance programmes

Our monitoring programmes evaluate both:

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

The results and lessons from the integrated monitoring programmes are communicated internally, and the overall results and lessons from the programmes are considered and appropriate action is taken at local, regional and global levels. Our internal monitoring programme also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively.

Two KPMG International developed and administered inspection programmes are conducted annually across the Audit, Tax, and Advisory functions: QPR and RCP.

Additionally all member firms are covered at least every three years by the cross-functional GCR programme. Participation in QPR, RCP and GCR is a condition of ongoing membership of the KPMG network.

#### **Audit Quality Performance Reviews (QPRs)**

The QPR programme assesses engagement level performance and identifies opportunities to improve engagement quality.

#### **Risk-based approach**

Each engagement leader is reviewed at least once in a three year cycle. A risk-based approach is used to select engagements.

KPMG India conducts the annual QPR programme in accordance with global QPR instructions. The reviews are performed at KPMG India level and are monitored regionally and globally. Member firm Audit QPR reviews are overseen by a senior experienced lead reviewer independent from the member firm.

#### **Reviewer selection, preparation and process**

There are robust criteria for selection of reviewers. Review teams include senior experienced lead reviewers that are independent of the member firm under review.

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

#### **Evaluations from Audit QPR**

Consistent criteria are used to determine engagement ratings and member firm Audit practice evaluations.

Audit engagements selected for review are rated as 'Satisfactory', 'Performance Improvement Needed' or 'Unsatisfactory'.

## Reporting

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

These areas are also emphasised in subsequent inspection programmes to gauge the extent of continuous improvement.

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

## Risk Compliance Programme (RCP)

KPMG International develops and maintains quality control policies and processes that apply to all member firms. These policies and processes, and their related procedures, include the requirements of professional standards such as ISQC 1 and the IESBA Code. During the annual RCP, we perform a robust assessment programme consisting of documentation of quality controls and procedures, related compliance testing through independent reviewers and reporting of exceptions, action plans and conclusions.

The objectives of the RCP are to:

- monitor, document and assess the extent of compliance of KPMG India system of quality control with Global Quality & Risk Management policies and key legal and regulatory requirements relating to the delivery of professional services
- provide the basis for KPMG India to evaluate that the firm and its personnel comply with relevant professional standards and applicable legal and regulatory requirements

Where deficiencies are identified, we are required to develop appropriate action plans based on the performance of a root cause analysis.

## Global Compliance Review (GCR) programme

Each member firm is subject to a GCR conducted by the global GCR team, independent of the member firm, at least once in a three year cycle.

The GCR provides independent oversight of our assessment of our system of quality control, including:

- our commitment to quality and risk management (tone at the top) and the extent to which the overall structure, governance and financing support and reinforce this commitment,
- the completeness and robustness of our RCP.

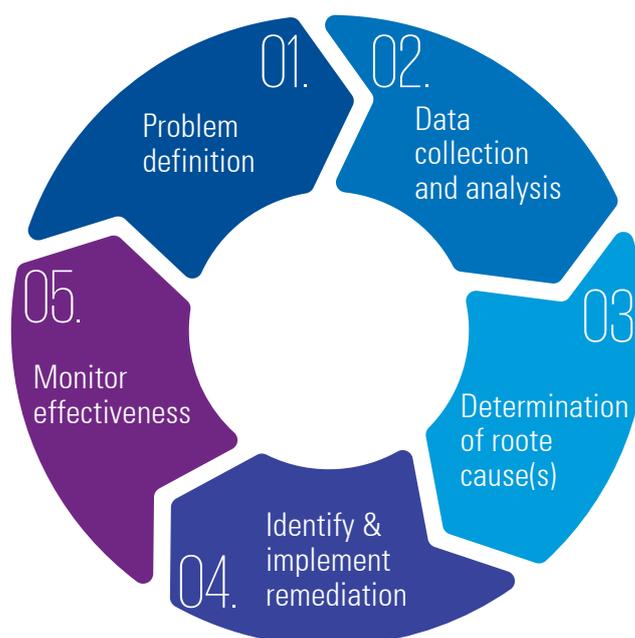
The GCR team performing the reviews is independent of KPMG India, objective and knowledgeable of Global Quality and Risk Management policies.

We develop action plans to respond to all GCR findings and agree these with the GCR team. Our progress on action plans is monitored by a global GCR central team. Results are reported to the Global Quality & Risk Management Steering Group (GQRMSG), and where necessary to appropriate KPMG International and regional leadership, to ensure timely remedial actions.

### Root Cause Analysis (RCA)

KPMG India performs root cause analysis to identify and address audit quality issues in order to prevent them from recurring and help identify good practices as part of continuous improvement. In 2016, RCA training based on our Global RCA 5 Step Principles was attended by those individuals at KPMG India who will be performing RCA or directing those performing RCA. The training provides a common platform for advancing the practices and skills associated with resourcing, planning and conducting RCA.

The Global RCA 5 Step Principles are as follows:



It is the responsibility of member firms to perform RCA and thereby identify and subsequently develop appropriate remediation plans for the audit quality issues identified.

KPMG India's Head of Audit is responsible for the development and implementation of action plans as a result of RCA including identification of solution owners. The Risk Management Partner monitors their implementation.

#### 3.8.2 Recommendations for improvements

At a global level, through the GAQIC and the GORMSG, KPMG International reviews the results of the quality monitoring programmes, analyses member firm root causes and action plans and develops additional global actions as required.

The GAQIC considers network-wide issues arising from internal quality control reviews and external inspections, monitors progress being made in addressing audit quality issues and makes recommendations to the GASG on audit quality issues.

Global remediation plans to date include holistic actions aimed at culture and behaviour and at driving consistent engagement team performance. The global actions also include training, tools and guidance to drive consistency, ensure we have the fundamentals right and that best practice is shared across the network.

### 3.8.3 External feedback and dialogue

KPMG is registered with the U.S PCAOB, Financial Reporting Council U.K. and the Japanese Financial Services Authority. The U.S. PCAOB inspected KPMG India in February 2015 and issued the final inspection report in October 2015. This report comes in two parts. Part I is a public document containing observations relating to specific engagements reviewed by the PCAOB. Part II is a private document containing the PCAOB's observations regarding the firm's quality control systems related to audit performance and firmwide functions. This part of the report will be made public only to the extent that any of the PCAOB's comments and observations are not adequately addressed within twelve months of the date of the report.

At an international level, KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss audit quality findings and actions taken to address such issues at a network level.

### 3.8.4 Client feedback

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

### 3.8.5 Monitoring of complaints

We have procedures in place for monitoring and addressing complaints received relating to the quality of our work. These procedures are detailed in our general terms of business, which mention names of relevant persons in the Firm who can be contacted for registering such complaints. The process also mentions the manner of escalation, in case of unresolved matters.

## 4. Financial information

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Revenue of the Firm from Audit and other assurance services accounts for approximately 7 per cent of total revenue. Revenue from tax and advisory services accounts for 18 per cent and 75 per cent respectively of total revenue.

## 5. Partner Remuneration



In relation to each accounting year the firm determines the total amount available for distribution as remuneration to the Partners.

Compensation is determined in consultation with the various heads of departments after completion of annual performance evaluations for each of the Partners.

The firm's Remuneration Committee (comprising partners of the Board) approves the process and oversees its application.

The following aspects are considered when arriving at the compensation:

- Individual's performance
- Service line performance
- Function's performance
- Firm's results
- Individual's behavior (compliance with values, Code of Ethics)
- Risk incidents, if any (including training, results of independence compliance audits, in-flight reviews and QPR).

## 6. Network arrangements



### 6.1 Legal structure

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law.

More information about the KPMG network can be found in the 2016 International Annual Review Report.

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

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

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

### 6.2 Responsibilities and obligations of member firms

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

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

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

### **6.3 Professional indemnity insurance**

A substantial level of insurance cover is maintained in respect of professional negligence claims. The cover provides a territorial coverage on a worldwide basis.

### **6.4 Governance structure**

The key governance and management bodies of KPMG International are the Global Council, the Global Board, and the Global Management Team. Further details about KPMG International's governance structure, can be found in the 2016 KPMG International Transparency Report.

<https://home.kpmg.com/xx/en/home/about.html>

### **6.5 Area Quality & Risk Management leaders**

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

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

## 7. Statement by the Board of KPMG on the effectiveness of quality controls and independence



The measures and procedures that serve as the basis for the system of quality control for KPMG outlined in this report aim to provide a reasonable degree of assurance that the audits carried out by our firm comply with the applicable laws and regulations. Because of its inherent limitations, the system of quality controls is not intended to provide absolute assurance that non-compliance with relevant laws and regulations would be prevented or detected.

The Board of KPMG has considered:

- the design and operation of the quality control systems as described in this report;
- the findings from the various compliance programmes operated by our firm (including the KPMG International Monitoring Programmes as described in section 3.8.1 and our local compliance monitoring programmes); and
- findings from regulatory inspections and subsequent follow up and/or remedial actions.

Taking all of this evidence together, the Board of KPMG confirms with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 31 March 2017.

Further, the Board of KPMG confirms that an internal review of independence compliance within our firm has been conducted in the year to 31 March 2017.

**Akhil Bansal**  
Gurugram, India, 30 June 2017

# A.1 Public interest entities

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The public interest entity audit clients for which KPMG has signed an audit opinion in the year ended 31 March 2017 are given below:

- Under the provisions of the Statutory Auditors (Transparency) Instrument 2008, issued by the Professional Oversight Board of the Financial Reporting Council, being an issuer whose transferable securities are admitted to trading on a regulated market and the audit of which is a statutory audit within the meaning of Section 12 of the Companies Act 2006:
  - None
- Other public interest audit clients for which KPMG has signed the audit opinion include the following US SEC registrants:
  - Dr Reddy's Laboratories Limited
  - Genpact Limited
  - ICICI Bank Limited
  - Infosys Limited
  - Makemytrip Limited
  - Wipro Limited
  - HDFC Bank Limited

## A.2 KPMG's values

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KPMG people work together to deliver value to clients. We believe strongly in a common set of shared values which guide our behaviour when dealing with both clients and each other:

### **We lead by example**

At all levels we act in a way that exemplifies what we expect of each other and our clients.

### **We work together**

We bring out the best in each other and create strong and successful working relationships.

### **We respect the individual**

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

### **We seek the facts and provide insight**

By challenging assumptions and pursuing facts, we strengthen our reputation as trusted and objective business advisers.

### **We are open and honest in our communication**

We share information, insight, and advice frequently and constructively and manage tough situations with courage and candor.

### **We are committed to our communities**

We act as responsible corporate citizens by broadening our skills, experience, and perspectives through work in our communities and protecting the environment.

### **Above all, we act with INTEGRITY**

We are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.

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

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