



Our relentless focus on quality

2016 Transparency Report



KPMG International

kpmg.com/transparency



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Message from our Chairman

Welcome to the 2016 KPMG¹ International Transparency Report², covering our financial year to 30 September 2016. Sharing what we do to continuously advance quality in all we do, manage risk and maintain our independence, is incredibly important to me and to our network's stakeholders — the Transparency Report is one of the ways we share this information.

In the report, we take the opportunity to provide stakeholders with a succinct description of KPMG's audit quality initiatives and, notably, how we are:

- Building public trust and inspiring confidence in capital markets, by bringing to life our commitment to quality, ethics and integrity through our culture and values.
- Ensuring that our people are extraordinary, by nurturing talent, creating high-performing teams and deploying talented staff globally to help deliver insights and innovative ideas.
- Driving a relentless focus on quality and excellence in our engagements and providing valued insights, so that clients see a difference in us.

— Driving continuous improvement and getting to the root cause of quality issues.

Audit quality, supported by our methodologies and processes, is at the heart of our culture of integrity and our drive for continuous improvement.

We are committed to working closely with regulators, audit committees, investors and businesses to meet the expectations of audit quality.



John Veihmeyer
Chairman
KPMG International

¹ Unless the context otherwise requires, throughout this document "KPMG" and "KPMG network" ("we", "our", and "us") generally refers to the member firms of the KPMG network of independent firms affiliated with KPMG International, a Swiss entity that services as a coordinating entity for the KPMG network. KPMG International provides no client services.

² The 2016 KPMG International Transparency Report is set out in two parts — 'Our relentless focus on quality' provides some key messages and is supported by a second, more detailed Supplementary Report. Both reports reinforce key messages delivered in the 2016 KPMG International Annual Review.

2

Our relentless focus on audit quality

Message from Bill O'Mara, Global Head of Audit, KPMG International

At KPMG, we are passionate about audit quality and continuous improvement, and we are united in our commitment to providing independent assurance on what matters to stakeholders. We drive a relentless focus on quality and service excellence and aspire to be the standard of trust in our profession. We recognize that trust is not a 'given' — it must be earned.

As part of our commitment to stakeholders — regulators, investors, clients, our people and the public — we aim to be transparent and open in communicating how we address audit quality. In so doing, we help to foster public trust and inspire confidence in KPMG and in the capital markets. We set out KPMG's audit strategy and vision in the *KPMG International Annual Review*.

In this report — '*Our relentless focus on quality*' — we provide further insight into factors that contribute to audit quality as follows:

— **Our culture.** Audit quality is the responsibility of everyone at KPMG and is driven from the very top by KPMG International and member firms' leadership. A quality audit means the delivery of an appropriate and independent opinion that is properly supported in compliance with the applicable auditing standards, laws and professional requirements. This means being independent in mind and in appearance and complying with our legal and professional obligations.

- **Our people** are required to approach all matters in an audit with objectivity and professional skepticism, to offer relevant, valued insight and impartial views through candid communications. We want to increase our added value by demonstrating the skills, behaviors and innovations clients and stakeholders expect. We aim to build and support a dynamic career path for our people.
- **Our approach** to audit quality includes having globally consistent methodologies and policies, enabled by innovative tools. The expanding role of innovation and technology in audit continues to evolve providing greater clarity and generating deeper and richer insights. Innovation in audit is an area where KPMG continues to invest.
- **Our monitoring** programs are fundamental to sustaining quality and to building on our successes. We have a number of programs and initiatives primarily aimed at identifying opportunities for continuous improvement and relevant remedial actions.



Bill O'Mara
Global Head of Audit
KPMG International

Our relentless focus on audit quality

Building public trust

Our culture

Quality — everyone's responsibility 	Global values & policies 
Culture of consultation 	Ethics & Independence 

Our people

Talent management 	Continuous development & coaching 
Reward & recognition 	Right skills & capacity 

Our approach

Consistent methodology 	Robust challenge & review 
Effective communication 	Innovative tools & technology 

Our monitoring

Quality & compliance programs 	Root cause analysis 
Dialogue — internal & external 	Remedial actions 

Who we are?

KPMG is a global network of professional services firms providing Audit, Tax and Advisory Services. KPMG International is a Swiss co-operative formed under Swiss law. It licenses the KPMG trademark and conducts activities for the overall benefit of the KPMG network. It facilitates audit quality across the network by establishing common policies, processes and standards to be applied by member firms. It does not provide professional services itself. KPMG member firms — all of which are affiliated with KPMG International — provide professional services to clients and their Heads of Audit have direct responsibility for audit quality.

In the more detailed *Supplementary Report* you can learn more about our global network — its structure and governance, KPMG International's system of quality control, our values and culture, how audits are performed, our approach to audit quality reviews and our independence policies.

How we are governed

KPMG International has a number of governance bodies:

- Global Council
- Global Board
- Global Management Team.

The Global Board is supported by a number of committees, including an Executive Committee. A number of global steering groups support and drive the execution of strategy with a focus on audit quality, including the Global Audit Steering Group (GASG) and the Global Quality & Risk Management Steering Group (GQRMSG).

The overall governance structure of KPMG International is discussed in more detail in the *Supplementary Report*.

About the Transparency and Supplementary Reports

The Transparency Report and *Supplementary Report* summarize KPMG's approach to audit quality and our audit quality initiatives. The report may also be useful for stakeholders interested in our Tax and Advisory services, as many KPMG quality control procedures and processes referred to in the *Supplementary Report* are cross-functional and apply equally to all our services. However, unless otherwise stated both reports focus on what we do to enable KPMG member firms to deliver quality audits.



KPMG Values

We **lead by example** at all levels in a way that exemplifies what we expect of each other and our clients.

We **work together** to bring out the best in each other and create strong and successful working relationships.

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

We **seek the facts and provide insight** by challenging assumptions and pursuing facts to provide insight as trusted and objective business advisers.

We **are open and honest** in our communication and share information, insight and advice frequently, and constructively manage tough situations with courage and candour.

We **are committed to our communities** to act as responsible corporate citizens by broadening our skills, experience, and perspectives through work in our communities.

Integrity is a critical characteristic that stakeholders expect and rely on. Therefore, above all we **act with integrity** and are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.

3

Our culture

<p>Quality — everyone's responsibility</p> 	<p>Global values & policies</p> 	<p>Ethics & Independence</p> 	<p>Culture of consultation</p> 
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Our culture is underpinned by a strong set of values and supporting policies and processes which enables the right attitudes and behaviors to permeate throughout the network, starting from the very top. We promote a culture in which consultation is encouraged and recognized as a strength.

1. Quality — everyone's responsibility

Quality — everyone's responsibility



Tone at the top

It is essential that everyone involved in performing audits recognizes that audit quality is their responsibility. Leadership plays a critical role in setting the right tone and leading by example — demonstrating an unwavering commitment to the highest standards of professional excellence and championing and supporting major initiatives. Leadership teams at both global and member firm levels are 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. A focused and consistent message across the global network is important to reinforce our commitment to audit quality.

Global responsibility for audit quality

A number of global steering groups support and drive the execution of strategy with a focus on audit quality — the Global Audit Steering Group (GASG), the Global Audit Quality Issues Council (GAQIC) and the Global Quality & Risk Management Steering Group (GORMSG). Each of these global groups has their own specific areas of focus and they work closely with one another on quality matters, along with regional and member firm leadership, to:

- establish and communicate appropriate audit and quality/ risk management policies
- enable effective and efficient processes to promote audit quality

- proactively identify and mitigate critical risks to the network
- drive strategy implementation in the Audit function, including standards of audit quality
- consider audit quality issues, including those arising from quality performance and regulatory reviews, and focus on best practices that reduce audit quality findings.

In addition, the Global Head of Quality, Risk and Regulatory, Larry Leva, appoints Area Quality & Risk Management Leaders (ARL) whose role includes assessment of the effectiveness of a member firm’s quality and risk management efforts.

The overall governance structure of KPMG International and a more detailed description of the role and remit of the GASG, GAQIC, GQRMSG and the ARLs, is provided in the *Supplementary Report*.

Member firm responsibility for audit quality

Member firm leadership is responsible for quality and for the member firm’s system of quality control. Within each member firm there is a Head of Audit who has primary responsibility for audit quality and is assisted by the member firm Risk Management Partner in maintaining the member firm’s system of quality control. Part of the selection criteria for these individuals is that they have sufficient and appropriate experience and ability, and have the necessary authority to properly discharge their roles.

Member firm Heads of Audit

Member firm Heads of Audit are responsible for leading a sustainable high-quality Audit practice. This includes:

- Setting the right ‘tone at the top’ by demonstrating an unwavering commitment to the member firm’s 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.

Member firm Risk Management Partners

Each member firm has a designated Risk Management Partner, who is an experienced partner with primary responsibility for the direction and execution of risk compliance and monitoring of quality control in the member

firm, reports to member firm senior leadership and consults with their appointed ARL.

Articulating audit strategy and quality focus

KPMG International’s audit strategy is discussed in the *KPMG International Annual Review* and includes a focus on quality and service delivery standards expected of our audit partners and staff, and a commitment to ethical principles. Our audit strategy supports our drive to reliably deliver independent assurance that provides confidence to stakeholders. The Global Head of Audit reinforces this in communications to all audit partners and staff during his periodic presentations.

KPMG’s Audit Quality Framework

To help ensure a common understanding of what drives audit quality within KPMG, we developed the Global Audit Quality Framework (see below). KPMG member firms use this framework to communicate and illustrate our approach to audits and to enhancing audit quality. For more detail on the framework refer to the *Supplementary Report*.



2. Global values and policies

Global values
& policies



Values and code of conduct

Our Values summarize what we believe in and form the foundation of our culture. We communicate our Values clearly to our people and embed them into our people processes — induction, performance development and reward — and give them specific consideration for senior promotions. They also form the foundation of our approach and shape how we work together to provide insights.

Building on our Values, is our Global Code of Conduct that all member firms and their personnel are required to comply with. The Global Code of Conduct defines who we are and how we act, and it:

- Emphasizes that all our people are personally responsible for demonstrating the legal, professional, and ethical standards and behaviors that apply to their role and level of responsibility.
- Sets out our commitments to our people, our networks, our communities and KPMG member firms' clients.

Member firms either adopt the Global Code of Conduct or incorporate its principles into their own member firm code of conduct. All member firm personnel are required to confirm their understanding of, and compliance with, the applicable Code of Conduct upon joining their member firm, and annually thereafter.

We regularly monitor the extent to which our people feel we live our Values through the Global People Survey.

Integrity is a critical characteristic that our stakeholders expect and rely on. Therefore, above all we 'act with integrity' and are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence. The following are some examples of our integrity in action.

Accepting the right clients and engagements

Every prospective client is evaluated using a consistent methodology to assess aspects critical to KPMG's association with them, including the integrity of management and those charged with governance and how the business operates. This also involves background checks on the prospective client, its key management and significant owners. A key focus is

on the integrity of management at a prospective client — the factors to consider in the evaluation include breaches of laws and regulations, anti-bribery and corruption and human rights. The evaluation is always reviewed by a second partner.

Every prospective engagement is likewise evaluated to make sure that member firms can properly undertake the assignment. This includes addressing relevant independence and conflict of interest issues and allocating appropriately experienced and skilled personnel.

Audit clients and engagements are re-evaluated annually, and changes in the risk profile of a client or engagement also trigger re-evaluation. More details on the evaluation of clients and engagement is available in the *Supplementary Report*, section 5.

Keeping information confidential

KPMG International has information security policies and procedures governing the handling of client confidential information and of personal information. Our people must maintain confidentiality of all client and former client information, and our professionals must affirm their understanding of the rules governing confidential client information in writing once a year as part of the annual independence confirmations. We impose minimum technical requirements on member firm IT systems to enhance the protection of such information.

Zero-tolerance approach to bribery

KPMG International prohibits involvement in any type of bribery — even if such conduct is legal or permitted under applicable law or local practice. We also do not tolerate bribery by third parties, including by clients, suppliers or public officials. We require member firms to have appropriate internal controls in place to mitigate the risk of involvement in bribery by the member firm and its personnel. On joining and every two years, all our people are required to take training covering the Code of Conduct, compliance with laws and regulations and anti-bribery and corruption.

3. Ethics and Independence (E&I)



Instilling E&I policies

Independence of an auditor from its client is critical and is a cornerstone of international professional standards and regulatory requirements. Audit reform legislation in a number of jurisdictions means businesses and their auditors face a variety of differing and increasingly complex independence regulations.

To facilitate compliance, KPMG International has detailed independence policies and procedures that incorporate the requirements of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics. These are set out in KPMG's Global Q&RM Manual. Automated tools facilitate compliance with these requirements. These tools include KPMG's web-based application Sentinel™ which must be used for every prospective engagement to identify potential independence (and conflict of interest) issues. Where there are additional applicable independence standards locally, member firms add specific procedures to network-wide processes.

E&I policies and procedures are instilled in our people through mandatory training. The training covers personal and firm independence and includes case studies and real-life examples. Member firms are required to provide all relevant personnel with independence training that is appropriate to their grade and function when they join KPMG and annually thereafter.

Upon acceptance of employment and annually thereafter, all personnel are required to sign a confirmation that they are in compliance with, and will abide by, applicable E&I rules and policies.

In addition to online tools and training, we provide leadership and guidance on independence issues to our people through access to experienced and knowledgeable professionals within each member firm (through its Ethics & Independence Partner) and through the Global Independence Group.

The operation of the independence policies and processes is monitored through annual independence confirmations and compliance audits, as well as through the network's wider monitoring programs described in section 6.

Avoiding conflicts of interest

KPMG International avoids conflicts of interest within the member firms by using Sentinel™ for each prospective engagement to identify and manage potential conflicts both within and across member firms. Risk management professionals are allocated to resolve potential conflict issues, and escalation procedures are followed when agreement on a way forward cannot be reached. Prospective engagements are declined if a potential conflict issue cannot be resolved.

Personal conflicts

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

Raising ethical and quality issues

We require our people to report suspected and actual breaches of KPMG policy or of laws, regulations or professional standards through established channels. When issues are raised, we have procedures to enable them to be properly documented and addressed on a timely basis, and to be communicated to those charged with governance or to any other appropriate authority as required by professional standards or laws and regulations.

Each member firm has procedures and established channels of communication so that personnel can report ethical and quality issues without fear of retaliation. If someone does not feel comfortable using these mechanisms, KPMG International has an International Hotline that can be used by anyone inside or outside KPMG.

More detail on our independence policies and procedures is available in the *Supplementary Report*.

4. Culture of consultation

Culture of consultation



KPMG has a strong culture of consultation that supports our partners throughout their decision-making processes and is a fundamental contributor to audit quality. We promote a culture in which consultation is recognized as a strength, and that encourages personnel to consult on difficult or contentious matters.

To assist audit professionals in addressing difficult or contentious matters, we have established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues.

Professional practice resource

Member firms provide consultation support to audit engagement professionals through professional practice resources (referred to as Department of Professional Practice (DPP)). The DPP role is formalized in policy as an integral part of the system of quality control. The policy sets out the base level practices which assist and guide DPP in fulfilling its role.

Technical support

Technical accounting and auditing support is available to member firms through the Global Service Centre (GSC) and the International Standards Group (ISG) as well as the US Capital Markets Group for Securities and Exchange Commission (SEC) foreign registrants.

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

The ISG works with panels on Global International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA), along with topic teams with geographic representation from around the world, to promote consistency of interpretation of IFRS and auditing requirements between member firms, identify emerging issues and develop global guidance on a timely basis.

Our member firms have professional practice and risk management resources to assist engagement teams where there are differences of opinion either within teams or with the Engagement Quality Control (EQC) reviewer. Unresolved differences are escalated to senior partners for final resolution. The ISG is also available for consultation where required.





4

Our people

Talent management



Continuous development & coaching



Reward & recognition



Right skills & capacity



One of the key drivers of quality is ensuring that our professionals have the appropriate skills and experience, passion and purpose, as well as deep expertise and innovative minds to deliver on our vision. This requires recruitment, development, promotion, retention and assignment of professionals, and a robust capacity and resource management process.

1. Talent management

Talent management



Employer of choice

KPMG strives to be an employer of choice by creating an environment where our people can fulfill their potential and feel proud and motivated. We invest in people programs across our member firms and thrive on developing leaders of tomorrow. We focus on performance development, coaching and mentoring, reward and recognition, flexible benefits, visible leadership, and open and honest colleague communications. We aspire to create a culture of learning,

collaboration and inclusion, all underpinned by a shared set of values and a common purpose.

Across our member firms, we are regularly recognized as an established and reputable employer in both the early career and experienced hire candidate markets. This recognition reinforces our ability to attract talented individuals who are smart, curious, courageous and relish a challenge; enabling us to provide high quality services to clients.

Inclusion and diversity programs

We work hard to foster an inclusive culture. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and perspectives — teams that then bring the most considered and innovative ideas to clients. We believe that a focus on building an inclusive culture enhances our service delivery.

We understand that our leadership and management teams also need to reflect the diversity of our organization and the diversity of clients. Our Global Inclusion & Diversity strategy provides the framework to drive the actions we believe are necessary to promote inclusive leadership across KPMG's global network.

We also support a number of innovative programs that research, promote and sustain a more inclusive culture and work environment.

2. Continuous development and coaching



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

In relation to audit, we deploy a variety of learning solutions that are designed to reinforce our Values, help our professionals get the fundamentals right and develop the necessary skills and attitudes to make judgments as well as develop insights that enhance audit quality and the value of audit.

KPMG International provides instructor-led and virtual classroom training, performance support tools and just-in-time learning, available at the click of a mouse and aligned with job specific role profiles and learning paths. We have also developed professional judgment tools designed to assist engagement teams to demonstrate professional skepticism. Courses are available to enhance personal effectiveness and develop leadership and business skills.

All client service partners and staff are required to maintain continuing professional development (CPD) in accordance with applicable professional standards, laws and regulations. We test a sample of our audit professionals' compliance with the CPD requirements in our annual monitoring program.

We further develop our personnel for high performance through coaching and mentoring on the job, stretch assignments and country rotational and global mobility opportunities.

Ongoing mentoring and on-the-job coaching

Mentoring and on-the-job experience play a key role in developing the personal qualities important for a successful career in auditing, including professional judgment, technical excellence and instinct.

We support a coaching culture throughout KPMG as part of enabling our people to achieve their full potential and instill that every team member is responsible for building the capacity of the team, coaching and sharing experiences. Coaching Guides are available on judgmental audit topics — these are used by audit teams and are embedded within audit learning solutions. Our structured coaching program and coaching network continues to expand with deployment across 15 additional member firms.

3. Reward and recognition



Evaluation process

KPMG's global behaviors, which are linked to our Values, are designed to help articulate to our people what is required for success — both individually and collectively. One of KPMG's global behaviors is 'Delivering Quality'. All professionals, including partners, have annual goal-setting and performance reviews. Each professional is evaluated on agreed-upon goals, demonstration of the KPMG global behaviors, technical capabilities and market knowledge.

KPMG International prohibits audit partners from being evaluated on or compensated based on their success in selling non-assurance services to their audit clients. Member firms are required to identify and document criteria that include audit quality and compliance metrics in assessing overall evaluation, promotion and remuneration of partner and certain personnel. These evaluations are conducted by performance managers and partners who are in a position to assess their performance.

All member firms are encouraged to have compensation and promotion policies that are clear, simple and linked to the performance review process. This helps our people know what is expected of them, and what they can expect to receive in return.

Going beyond performance reviews and compensation, the KPMG global behaviors are designed to extend across all our people processes, including recruitment methodologies, recognition approaches and development planning.

Member firms monitor quality incidents and maintain quality and compliance metrics for the purpose of partner assignments and also for the purposes of partner evaluation, promotion and remuneration.

Retention and promotion

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

Each member firm is required to have a process for admission to the partnership that is rigorous, thorough and involves appropriate representatives of the member firm's leadership. Member firms are required to use criteria for admission to the partnership that are consistent with a commitment to professionalism and integrity, quality, and an employer of choice. These are strongly aligned to KPMG's behavioral capabilities and are based on consistent principles.

Insights from our people

Biennially (and annually for Global Board countries via either a full Global People Survey or a short firm mini survey — the Pulse), all partners and staff, across all functions, are invited to participate in our independent Global People Survey (GPS) which measures our people's attitudes. The GPS also provides an overall Employee Engagement Index (EEI) and Performance Excellence Index (PEI) as well as insights about what drives engagement across different demographic groups and how we are faring in selected categories.

The results, including those by country and function, provide Global Leadership with information about the drivers of business performance, employee engagement and motivation and help to track progress against strategic priorities. Results also provide warning indicators if there are areas of concern.

All member firms are required to participate in the GPS and to take appropriate actions to communicate and respond to the findings of the survey. The results of the GPS are presented to the Global Board each year and appropriate follow-up actions agreed.

4. Right skills and capacity

Right skills
& capacity



Member firms have procedures in place to assign both the engagement partners and other professionals to an audit engagement.

Partner assignment

Function heads are responsible for the partner assignment process which includes consideration of key factors relating to competence, workload and experience including quality and compliance incidents. Specifically, sufficient and appropriate experience, accreditation, 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 and specialist input to be provided.

Engagement teams

Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies, capabilities and capacity, and whether they require the use of specialists to perform audit engagements in accordance with International professional standards, KPMG Audit Methodology (KAM), and applicable legal and regulatory requirements. Where the right resource is not available within the member firm, access is provided to a network of highly skilled KPMG professionals in other member firms.

We take great care to assign the right people with the right mix of industry expertise, technical knowledge and specialisms to the right clients. When considering the appropriate competence and capabilities of the engagement team as a whole, the engagement partner's considerations may include practical experience with audit engagements of a similar nature and complexity and appropriate technical skills, including those related to relevant information technology and specialized areas of accounting or auditing, including any required accreditations.



5

Our approach

Consistent methodology



Robust challenge & review



Innovative tools & technology



Effective communication



We understand that how an audit is conducted and communicated is as important as the final results. Effective and efficient audits are dependent upon applying clear and consistent standards and tools, providing access to the right knowledge and skills, encouraging a culture of consultation with innovation and technology empowering us throughout.

1. Consistent methodology

Consistent methodology



Consistent application of audit standards across the global network is driven through centrally managed groups of global professionals. Our audit methodology and tools, developed and maintained by our GSC are:

- globally consistent and fully compliant with International Standards on Auditing (ISAs)
- designed to be effective in all types of risk environments and economic circumstances
- made available to and required to be used by all KPMG audit professionals where necessary for compliance
- applied even where local auditing standards are less demanding than the ISAs.

The ISG interprets international audit and accounting standards and facilitates consistent application by issuing practical guidance. ISG communicates developments and consequent changes in guidance or requirements to member firms' DPP that support member firm engagement teams. The Global Topic Teams act as a central contact point for technical assistance to ensure consistent application and reporting practices.

Developments from the International Audit and Assurance Standards Board (IAASB) and/or International Accounting Standards Board (IASB) are tracked through the ISA and global IFRS Panels of seasoned industry and technical professionals and contribute, when appropriate, to consultations from standard setters.

The KPMG Audit process

The KPMG audit workflow is enabled through eAudit, an activity based workflow and electronic audit file. eAudit integrates KPMG's audit methodology, guidance and industry knowledge, and the tools needed to manage our audits

consistently from beginning to end. Our high quality audit process includes the following:

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

Further detailed information on the KPMG Audit process can be found in the *Supplementary Report*.

Accreditation requirements

Specific requirements apply for partners, managers and EOC reviewers working on IFRS engagements in countries where IFRS is not the predominant financial reporting framework. Similar policies apply for US Generally Accepted Auditing Standards (GAAS), US Generally Accepted Accounting Principles (GAAP), and the Standards of the PCAOB for SEC and Internal Control Over Financial Reporting (ICOFR) engagements performed outside of the US. 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.

Access to specialist networks

Engagement teams have access to a network of KPMG specialists — either within their member firm or in other KPMG member firms. Engagement partners are responsible for ensuring that their engagement teams have the appropriate competences and capabilities including time and the use of relevant specialists.

The need for specialists in areas such as Information Technology, Tax, Treasury, Actuarial, Forensics, Valuations, to be assigned to a specific audit engagement is considered as part of the audit engagement acceptant and continuance process. Training on audit concepts is provided to specialists who are members of an audit team.

2. Robust challenge and review

Robust challenge & review



Exercise of professional judgment and professional skepticism

By its nature KPMG's audit 'product' is a judgment about people and issues. We recognize that the exercise of professional skepticism is critically important to our role as auditor in delivering a quality audit. Professional skepticism involves a questioning mind, an appetite to challenge and alertness to inconsistencies. It features prominently throughout auditing standards and attracts significant focus from regulators.

We have developed a professional judgment process which facilitates good judgment by introducing a structured approach to auditing areas that require significant judgment. It also reinforces the importance of independence and objectivity and emphasizes the importance of having the right mindset — the need to apply professional skepticism.

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

Further details on the professional judgement framework can be found in the *Supplementary Report*.

Timely engagement quality control review

EOC reviewers are independent of the engagement team and have appropriate experience and knowledge to perform an objective review of the more critical decisions and judgments made by the engagement team and the appropriateness of the financial statements. We are continually seeking to strengthen and improve the role that the EOC review plays in audits and in recent years we have taken a number of actions to reinforce this, including issuing leading practices guidance, incorporating specific review requirements into eAudit and developing policies relating to recognition, nomination and development.

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

The audit is completed only when the EOC reviewer is satisfied that all significant questions raised have been resolved, though the engagement partner is ultimately responsible for the resolution of accounting, auditing and financial reporting matters.

3. Innovative tools and technology

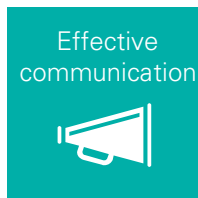


Each KPMG auditor around the world has access to the full suite of KPMG's industry expertise and audit methodology through the electronic audit workflow tool, eAudit. This leads KPMG engagement teams smoothly and consistently through the audit process (outlined in detail in the *Supplementary Report*). This tool continues to evolve to keep pace with the changing demands of the audit environment.

KPMG International is rolling out data and analytics (D&A) tools designed to assist engagement teams by analyzing client financial data in new ways to provide greater insights in our identification and evaluation of key audit risks and substantive testing. D&A innovations enable the engagement team, where appropriate, to dig deeper into the data, revealing more about the client's business and its risks thereby transforming the KPMG audit by helping deliver high-quality, innovative audits with actionable insights for clients.

Further details on innovation in audit tools and technology are set out in the *KPMG International Annual Review*.

4. Effective communications



Appropriate auditors' reports

Effective for December 2016 year ends onward, in compliance with the new IAASB requirements, we are enhancing auditor reporting for those auditors' reports prepared under the ISAs. The changes in auditors' reporting will give users more insight into the audit and improve transparency. For further information [[click here](#)].

Communications with those charged with governance

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

The role of audit committees is key in supporting better quality auditing by managing the relationship between company and auditor and challenging what auditors do and how they do it.

Our communication with audit committees includes overview of the scope and timing of the audit, significant findings, as well as confirmation of independence.

Audit Committee Institute

KPMG member firms provide audit committee and board members with practical insights, resources and peer-exchange opportunities focused on strengthening oversight of financial reporting and audit quality. Our offerings cover the array of challenges facing boards and businesses today — from risk management and emerging technologies to strategy and global compliance.



6

Our monitoring

Quality & compliance programs



Root cause analysis



Remedial actions



Dialogue — internal & external



We commit to continually improve the quality, consistency and efficiency of our audits. Our integrated quality monitoring and compliance programs enable member firms to identify quality issues, to perform root cause analysis and develop, implement and report remedial action plans in response to those issues.

1. Quality and compliance programs

Quality & compliance programs



KPMG member firms commit to continually improve the quality, consistency and efficiency of the audits. Integrated quality monitoring and compliance programs enable member firms to identify quality issues, 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. The integrated quality and monitoring programs include Quality Performance Reviews (QPR), Risk Compliance Programs (RCP) and Global Compliance Reviews (GCR).

Our quality monitoring and compliance programs are globally administered and consistent in their approach across member firms, including the nature and extent of testing and reporting. Member firms are required to compare the results of internal monitoring programs with the results of those of any external

inspection program and take appropriate action. Participation in our quality monitoring and compliance programs is a condition of ongoing membership of the KPMG network.

Our integrated quality monitoring and compliance program covers all member firms and requires assessment of the relevance, adequacy, and effective operation of key quality control policies and procedures and engagement delivery. The results and lessons from the programs are communicated within each member firm, the overall results and lessons are considered and appropriate action is taken at regional and KPMG International levels. The internal monitoring program also contributes to the assessment of whether the member firm's system of quality control has been appropriately designed, effectively implemented and operates effectively. Further detail on QPR, RCP and GCR are provided below.

Audit Quality Performance Reviews (QPR)

The QPR program assesses engagement level performance and identifies opportunities to improve engagement quality. Each audit engagement leader is reviewed at least once in a 3 year cycle as part of QPR. A risk-based approach is used to select engagements.

Member firms conduct the annual QPR program in accordance with global QPR instructions. The reviews are performed at the member firm 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 under review.

There are robust criteria for selection of reviewers. 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.

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.'

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

These areas are also emphasized in subsequent monitoring programs 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 Audit QPR.

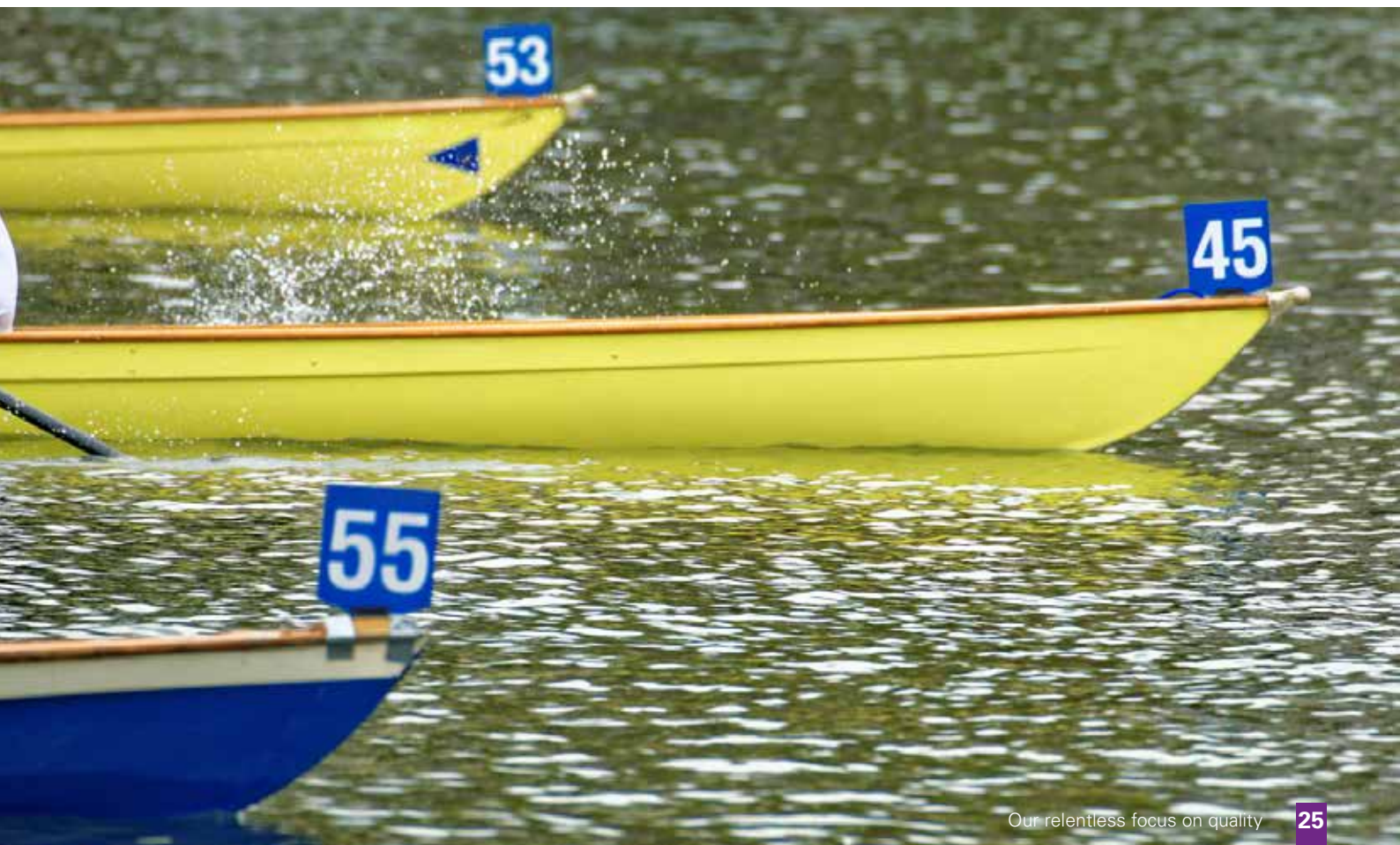
Risk Compliance Program (RCP)

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 International Standard on Quality Control 1 (ISQC 1). During the annual RCP, the member firms perform a robust assessment program consisting of documentation of quality controls and procedures, related compliance testing and reporting of exceptions, action plans and conclusions. The objectives of the RCP include monitoring, documenting and assessing the extent of compliance of the member firm's system of quality control and key legal and regulatory requirements. Where deficiencies are identified the member firm is required to develop appropriate action plans.

Global Compliance Review (GCR)

Every member firm is subject to a GCR conducted by the global GCR team, independent of the member firm, at least once in a 3 year cycle. The GCR provides independent oversight of a member firm's assessment of its system of quality control, including:

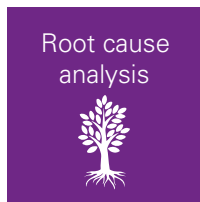
- the member firm's commitment to quality and risk management (tone at the top) and the extent to which its overall structure, governance and financing support and reinforce this commitment



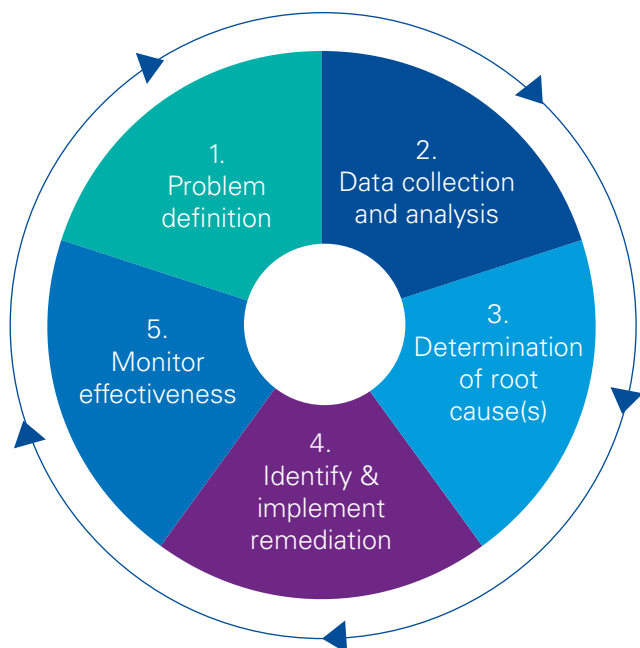
- the member firm’s compliance with policies and procedures related to professional services delivery risk, and requirements that drive consistency in reporting of global information
- the completeness and robustness of the member firm’s RCP.

The member firm is required to develop action plans to respond to all GCR findings and agree to these with the GCR team. The member firm’s progress on action plans is monitored by a global GCR central team.

2. Root Cause Analysis



Member firms perform root cause analysis (RCA) 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, we developed and delivered RCA training, based on our Global RCA 5 Step Principles, targeted at those individuals at member firm level who will be performing RCA or directing those performing 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. Heads of Audit are responsible for the development and implementation of action plans including identification of solution owners. Risk Management Partners monitor their implementation.

3. Remedial actions



At a global level through the GAQIC and the GRMSG, we review the results of the quality monitoring programs, analyze member firm root causes and action plans and develop additional global remedial actions as required.

Our GAQIC, established by the GASG, 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 behavior, 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 we share best practices across the network.

4. Dialogue — internal and external



Regulators

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 by KPMG International and member firms to address such issues. We value the open, honest and transparent dialogue that IFIAR facilitates on global audit quality issues. At a regional level, we also have regular dialogue with representatives from the Committee of European Auditing Oversight Bodies (CEAOB) — formerly known as the European Audit Inspection Group (EAIG) — as well as the ASEAN Audit Regulators Group (AARG).

Client feedback

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

Our relentless focus on quality

**Read more in the Supplementary Report
available at kpmg.com/transparency.**



kpmg.com/socialmedia



kpmg.com/app



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