2018 Audit Quality and Transparency Report

Transforming the audit to deliver enhanced quality, insights and value.

Revised: June 2019

kpmg.ca/audit
A message from leadership

The foundation of financial statement audit will always center on quality, but how quality is delivered is continuously evolving. At KPMG in Canada, quality means executing audits consistently and in line with the requirements of applicable professional standards. To ensure a strong system of quality controls, our audit-related activities are undertaken within an environment where we exercise the utmost level of objectivity, independence, ethics and integrity.

We know that audit quality is paramount to building public trust and is of the utmost importance to strong capital markets. To that end, we are investing globally in audit quality. Our Global Board established an Audit Quality Committee, comprised of senior partners from our largest firms.

In addition to participating in global initiatives, we continue to strengthen our system of audit quality control to enhance the value and consistency of our audits and align with the objectives and requirements of our regulators: Canadian Public Accountability Board (CPAB) and the Public Company Accounting Oversight Board (PCAOB).

We’ve also invested heavily in technology. KPMG Clara, our new global smart audit platform, brings together industry-leading technology, proven methodologies, and the right talent to deliver real-time collaboration and deeper insight into the audit. To stay on top of our clients’ evolving needs, we need to keep challenging ourselves and our people to think bigger and to do better. We leveraged strategic alliances with leading technology companies like Microsoft and IBM Watson that we believe will have a transformative impact on the auditing process and profession. We are embracing change and innovation to help us constantly improve the work that we do and the value we provide to our clients.

What hasn’t changed is our commitment to creating a culture where everyone across the practice understands that audit quality is our single most important priority. We continue to focus on our people and ensuring they understand and are motivated by our purpose and our values. We continue to attract many of the brightest and the best and ensure they have the tools and support they need to deliver high quality audits.

We are committed to advancing the audit profession by offering the training and experience our people need to accelerate their careers in a data-driven world. We joined forces with the Beedie School of Business at Simon Fraser University to launch Digital University, an industry-leading program that provides our audit professionals the opportunity to build their skills for the future through specialized courses on the latest advancements in technology and data and analytics, and prepares them for an era of machine learning, artificial intelligence, and other digital advances.

This report is all about quality; how we drive quality, the initiatives we are pursuing to continuously improve it and our systems of quality control. The report provides insights into our audit practice, the strength of our culture and the effectiveness of our systems and processes that result in quality audits. We are dedicated to working closely with regulators, audit committees, and businesses to meet the expectations of stakeholders, to improve audit quality and build public trust. I hope this report provides you with insights needed to assist you in the execution of your responsibilities.

“At KPMG, enhancing audit quality is a journey with no end point. Every day, we work to identify better ways to conduct our audit and assurance projects – from building alliances with technology companies that can help us delve deeper into our clients’ data more efficiently to creating new opportunities for our people to enhance their skill sets so that they can deliver a high-quality audit and at the same time provide more valuable insights to our clients.”

KRISTEN CARSCALLEN
Canadian Managing Partner, Audit
KPMG in Canada
Our values

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

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

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

We seek the facts and provide insight by challenging assumptions and pursuing facts to strengthen our reputation as trusted and objective business advisors.

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

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

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

“Audit quality is paramount at KPMG. We embody this commitment to quality through our values and our culture of ‘always doing the right thing’. We hold ourselves to the highest standard so we earn the public’s trust and inspire confidence in our capital markets.”

ELIO LUONGO
Chief Executive Officer and Senior Partner
KPMG in Canada
Tone at the top

IN THIS SECTION
- What is Audit Quality?
- The KPMG Audit Quality Framework
- Tone at the top
What is audit quality?

Audit quality is fundamental to maintaining public trust and is the key measure on which our professional reputation stands. At KPMG we believe audit quality is not just about reaching the right opinion, but how we reach that opinion. It is about the processes, thought and integrity behind the final formal audit report. KPMG defines audit quality as being: the outcome when audits are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls, and when all of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

Our commitment

At KPMG, we are committed to providing independent assurance on what matters to stakeholders. We have produced this report to provide you with insights and transparency into how we assess the performance of our audits – not only to help you fulfill your responsibilities, but to enhance the quality of discussions between our audit teams and audit committees.
The KPMG Audit Quality Framework

A robust and consistent system of quality control is an essential requirement in performing high-quality services. KPMG’s Audit Quality Framework is the cornerstone to how we execute our responsibilities. The seven drivers in this framework give KPMG member firms around the world a common language to describe what we believe drives audit quality and, importantly, to highlight how every one of us at KPMG contributes to the delivery of audit quality.

KPMG’s system of audit quality control not only reflects our drive and determination to deliver independent, unbiased assurance and opinions, but also meets the requirements of regulations and professional standards.
Tone at the top

‘Tone at the top’ sits at the core of the KPMG Audit Quality Framework’s seven drivers of audit quality and is critical to establishing the culture of our organization. Tone at the top means that our leadership demonstrates commitment to quality, ethics and integrity and communicates its commitment to clients, stakeholders, and society at large.

We continually strive to create, strengthen and reinforce our culture where delivering high quality audits is not a “nice to have” but an expectation. Our culture is underpinned by our values as well as an environment where people understand that they need to collaborate to get to the right result and that we are stronger as a team rather than as individuals.

Our values are embedded into our working practices and values-based compliance culture. They form the foundation of the KPMG approach to audit and shape how we work together.

We communicate our values clearly to our people and embed them into our people processes — talent attraction, performance development and reward. Our leadership promotes a culture in which consultation is encouraged and recognized as a strength.

Our commitment to quality is apparent in what we do on a day-to-day basis.

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<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2017</th>
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<tbody>
<tr>
<td>Honest and ethical behavior</td>
<td>86%</td>
<td>85%</td>
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Association with the right clients

IN THIS SECTION

- Client and engagement acceptance process
- Continuance process
- Client portfolio management
Association with the right clients

One of the keys to managing audit quality is to understand our clients and the issues they face and build a robust audit response to the identified risks.

We understand our clients are linked to the quality of our work and our reputation.

We have established policies and procedures for determining whether to accept or continue a client relationship, or perform a specific engagement. Rigorous client acceptance and continuance policies are vital to our ability to provide high-quality professional services.

Client and engagement acceptance process

We undertake an evaluation of every prospective client. This involves obtaining sufficient information about the prospective client, its key management and significant beneficial owners, and then properly analyzing the information to be able to make an informed acceptance decision. This evaluation includes completion of a questionnaire to assess the client’s risk profile and obtaining background information on the client, its key management, directors and owners.

A second partner, as well as the evaluating partner, approves each prospective client evaluation. Where the client is considered to be ‘high risk’ the Risk Management Partner or a sufficiently skilled and experienced delegate is involved in approving the evaluation.

Each prospective engagement is also evaluated to identify 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), intended purpose and use of engagement deliverables, as well as factors specific to the type of engagement. For audit services, these include the competence of the client’s financial management team and the skills and experience of personnel assigned to staff the engagement. The evaluation includes review by quality and risk management leadership as required.

Where audit services 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 business and personal relationships.

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

Continuance process

KPMG in Canada undertakes an annual re-evaluation of all its audit clients. The re-evaluation identifies any issues in relation to continuing association and any mitigating procedures that need to be put in place (this may include the assignment of additional professionals such as an Engagement Quality Control (EQC) reviewer or the need to involve additional specialists on the audit).

Client portfolio management

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

We review each audit partner’s client portfolio at least annually in individual discussions with the audit partner. The reviews consider the industry, nature and risk of the client portfolio as a whole along with the competence, capabilities and capacity of the partner to deliver a quality audit for every client.
Clear standards and robust audit tools

IN THIS SECTION
- KPMG Audit Manual
- Technology assisting the audit process
- Investing in the development of innovative technologies
- Independence, integrity, ethics and objectivity
- Personal financial independence
- Employment relationships
- Independence training and confirmations
- Non-audit services
- Avoiding conflicts of interest
- Partner rotation
- External complaints
All of our partners and professionals are expected to adhere to our 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.

**KPMG Audit Manual**
Significant resources are dedicated to keeping our standards and tools complete and up to date. Our audit methodology is based on the requirements of the International Standards on Auditing (ISAs). In Canada, this methodology is adapted to meet the requirements of Canadian auditing standards (CAS’s) and other additional requirements we believe enhance the quality of our audits. This is set out in our KPMG Audit Manual (KAM).

**Technology assisting the audit process**
In 2017, we launched KPMG Clara — our smart audit platform that brings together our audit Data & Analytics (D&A) capabilities, innovative new technologies, collaboration capabilities and audit workflow. This represents our ambition to:

- transform audit execution for our people and clients through new, modern technology-enabled interfaces and collaboration functionality
- integrate the required capability to digitize the audit and deliver new D&A routines
- enable an enhanced and redesigned workflow
- incorporate the development of monitoring capabilities at the engagement level and across engagement portfolios for use by engagement teams and member firms
- support global leadership’s monitoring of the effectiveness of member firm systems of quality control
- develop an extendable audit platform to enable member firm customization and scale, as well as future capabilities.

KPMG Clara also encompasses the tracking of selected engagement-level indicators by audit teams for an individual engagement and across an engagement portfolio. This provides a summary and visualization of these indicators to:

- measure audit engagement progress and foster timely issue resolution
- facilitate audit execution by providing key indicators for prioritizing tasks
- highlight unexpected results/relationships that may require further investigation.

KPMG Clara will be enriched over time as emerging technologies continue to transform the audit, with areas like cognitive and predictive technology being channeled through KPMG Clara to deliver ever greater capabilities.

“Innovation is more than a word at KPMG. It’s a commitment to constantly look at challenges and issues in a new light — to find ways to enhance audit quality, provide our clients with deeper insights from our audit, and conduct audit activities more efficiently.”

NAVEEN KALIA
Partner-in-Charge, Audit Innovation
KPMG in Canada
Investing in the development of innovative technologies

We continue to make significant investments in enhanced methodologies, new technologies and strategic alliances with leading technology companies that can have a transformative impact on auditing and, more broadly, financial reporting. Through alliances with some of the world’s most advanced technology companies such as Microsoft and IBM Watson, we are building the future of audit, aligning with technology leaders to bring new insights faster and, with growing capabilities, deliver even more value.

We are also committed to investing in cognitive technology to develop external auditing tools and technologies. Cognitive technology will enable us to teach a machine how to perceive, reason, and learn like a human being. This capability will be transformative to our profession, allowing us to provide deeper insights that directly benefit our clients in the years to come.

Independence, integrity, ethics and objectivity

Auditor independence is a cornerstone of international professional standards and regulatory requirements. Our Quality and Risk Management Manual sets out our policies and procedures, incorporating the requirements of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics combined with Canadian specific requirements.

These policies are supplemented to ensure compliance with local regulations as well as the requirements of the United States Securities and Exchange Commission and the Public Company Accounting Oversight Board (PCAOB), as applicable. These policies and procedures cover areas such as firm independence, personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services.

Our dedicated Partner-in-Charge of Ethics and Independence, is supported by a core team of specialists who help ensure that robust and consistent independence policies and procedures are in place, and that tools are available to help comply with these requirements.

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I have access to the tools and resources (e.g., hardware, applications, portals)

I need to do my job effectively.

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
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<tbody>
<tr>
<td>87%</td>
<td>85%</td>
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Source: 2018 KPMG Global People Survey

There is strong commitment to innovation from partners at KPMG.

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
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<tbody>
<tr>
<td>65%</td>
<td>68%</td>
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</table>

Source: 2018 KPMG Global People Survey

I believe I can report unethical practices without a fear of negative impact on me.

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
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<tbody>
<tr>
<td>85%</td>
<td>82%</td>
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</table>

Source: 2018 KPMG Global People Survey
Personal financial independence

To help ensure independence, our partners and people are required to be free from prohibited financial interests in, and prohibited relationships with, our audit clients, their management, directors, and significant owners.

Our people are responsible for making appropriate inquiries and taking other appropriate actions on an ongoing basis to ensure they do not enter into or have any prohibited personal financial interests.

We use an online independence tracking system, KPMG Independence Compliance System (KICS), with other member firms in the KPMG global network to assist our partners and staff in complying with independence policies. This system contains a current inventory of publicly available investment products, specifically identifying restricted investments.

All of our partners and client-facing managers are required to use KICS 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 any investment subsequently become restricted. Newly restricted investments must be disposed of within five business days of the notification. KPMG monitors partner and manager compliance with this requirement as part of our program of independence compliance audits of a sample of professionals.

In 2018 over 275 of KPMG in Canada personnel were subject to these audits (this included approximately 30% of our partners).

Employment relationships

Any professional providing services to an audit client irrespective of function is required to notify our Ethics and Independence Partner (EIP) 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 that is a public interest entity.

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

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

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

Independence training and confirmations

Our partners and people, as well as certain other individuals, must complete independence training that is appropriate to their grade and function upon joining the firm and on an annual basis thereafter.

We also provide our people with training on the Global Code of Conduct and ethical behavior, 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 firm policies on a biennial basis.

Non-audit services

We have clear standards that restrict the scope of services provided to audit clients. Providing certain non-audit services to our audit clients may create threats (actual or perceived) to our audit independence, particularly if we were put in a position of auditing our own work. Professional and ethical standards restrict certain non-audit services, and all others need careful evaluation to ensure they do not create, or appear to create, an unacceptable independence threat.

To safeguard our independence and prevent the provision of non-permitted services to audit clients, we use an international proprietary system (Sentinel™) to evaluate the threats arising from the provision of non-audit services and the safeguards available to address them. The lead audit engagement partner reviews, and approves or denies, any proposed service for restricted clients and their affiliates by any KPMG member firm across the globe.
Avoiding conflicts of interest

Conflicts of interest can arise in situations where we 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 (RMP) or the EIP is required in these situations.

Partner rotation

All Audit 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 partners (and any other key roles, 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.

External complaints

To extend our commitment to integrity and ethical culture, KPMG maintains an Ethics and Compliance Hotline that allows phone reports to be made through an independent third-party provider. The firm encourages use of the hotline when KPMG partners and employees feel uncomfortable reporting concerns about possible illegal, unethical, or improper conduct through normal channels or when the normal channels of communication are impractical or perceived as ineffective.

The hotline is available to external parties as well, and any person, including clients, vendors, and professionals from other KPMG member firms working on any KPMG engagements, may file reports by calling the toll-free number, 1-866-683-5434.

Reports filed through the hotline are directed to the Canadian firm’s Ethics and Independence officer for review and, if necessary, for assignment of appropriate firm resources for investigation and resolution. The firm’s Ethics and Independence officer manages, on a day-to-day basis, all personnel matters under investigation. Reports are handled confidentially and anonymously (to the extent allowable by law and consistent with the needs of a thorough investigation) and retaliation or retribution of any kind for good-faith reporting is prohibited.

A KPMG International Hotline is also available for KPMG personnel, partners, employees, and clients of KPMG International member firms and other parties to confidentially report possible illegal, unethical or improper conduct in violation of KPMG International’s Code of Conduct.
Recruitment, development and assignment of appropriately qualified personnel

IN THIS SECTION
- Talent attraction
- Performance development
- Digital University
- KPMG Disruption Labs
- Reward and promotion
- Assignment of professionals
- Global People Survey
Recruitment, development and assignment of appropriately qualified personnel

The assignment of audit partners and staff members with deep understanding of our client’s risks and industry is one of the key drivers of audit quality. We strive for a high performing audit culture embracing continual improvement.

2018

<table>
<thead>
<tr>
<th>Role</th>
<th>Average length of tenure at the firm (in years)</th>
<th>Retention rate (%)</th>
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<tbody>
<tr>
<td>Partner</td>
<td>20</td>
<td>93.8</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>9.2</td>
<td>82.9</td>
</tr>
<tr>
<td>Manager</td>
<td>5.9</td>
<td>72.5</td>
</tr>
<tr>
<td>Senior Accountant</td>
<td>3.7</td>
<td>61</td>
</tr>
<tr>
<td>Staff Accountant</td>
<td>1.4</td>
<td>91</td>
</tr>
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</table>

Source: 2018 KPMG Global People Survey

“At KPMG, we are only as good as our people. Without the right people with the right skills, we simply can’t deliver a quality audit. As the world evolves and we embrace new technologies, we are committed to giving our people the core training, specialist resources, coaching, and development they need to embrace changes and constantly improve the value they provide to clients. Our Digital University initiative is just one example of how we are doing this.”

SOPHIA LANGLOIS
National Partner-in-Charge of People for Audit
KPMG in Canada
Talent attraction
We strive to be an employer of choice by creating an environment where our people can fulfill their potential and feel proud and motivated to give their best.

Our talent attraction strategies are focused on drawing entry-level talent from a broad talent base, including working with established universities, colleges and business schools, but also working with secondary schools, helping build relationships with a younger, diverse talent pool at an early age.

We also recruit significant numbers at an experienced hire and partner level.

All candidates submit an application and are employed following a variety of selection processes, which may include application screening, competency-based interviews, psychometric and ability testing, and qualification/reference checks.

Performance development
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.

Open is KPMG’s performance development process. As the name suggests, Open is about creating an environment where people are open to many things including feedback, personal growth, change and innovation. Our focus is on driving accountability for feedback on the job, better facilitating that exchange of on the job feedback with a survey, enhancing the capability of engagement managers to deliver feedback and working with performance managers to help them have more focused conversations. As part of Open, goals are set and reviewed regularly throughout the year.

Alongside Open, KPMG provides people with a framework (‘Everyone a Leader’) where we articulate high level competencies critical for developing as a leader. These competencies include ‘driving quality’, ‘advancing an ethical environment’ and ‘making sound decisions’. With the continued evolution of Open, the competencies in the Leadership Framework will become part of the performance manager conversations that ultimately feed goal setting and career planning. Opportunities are provided for our people to develop the skills, behaviors, 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.

I am satisfied with the learning and development available to improve my knowledge & skills (including online and traditional classroom learning).

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<tr>
<th>2018</th>
<th>2017</th>
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<tbody>
<tr>
<td>84%</td>
<td>78%</td>
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Source: 2018 KPMG Global People Survey
KPMG Disruption Labs
Aimed at advancing awareness among our audit teams as to the disruptive forces impacting our clients, their industries, and the work we do, we regularly organize Disruption Labs which focus on understanding a wide range of disruptive forces and the impact on our client’s businesses, such as:
- Blockchain
- Internet of Things
- Cognitive Machine Learning
- Race to the Customer
- The Mobile Economy

Reward and promotion
We have compensation and promotion policies that are clear, simple, and linked to the performance review process. This helps our partners and employees know what is expected of them, and what they can expect to receive in return.

Reward decisions are based on consideration of both individual geographical performance. The extent to which our people feel their performance has been reflected in their reward is measured through the Global People Survey, with action plans developed accordingly.

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

Assignment of professionals
We have 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. Key considerations include partner experience and capacity – based on an annual partner portfolio review – to perform the engagement taking into account 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 partners are responsible for ensuring their engagement teams have appropriate competencies, training and capabilities, including time, to perform a high quality audit. This may include involving specialists from within KPMG in Canada or within other KPMG member firms.

Insights from our people – Global People Survey
On an annual basis, we invite all of our people to participate in an independent Global People Survey to share their perception about their experience working for KPMG.

The survey provides leadership with results related to audit quality, upholding KPMG values, employee and partner attitudes to quality, leadership and tone at the top.
At KPMG, we are proud that our culture has been recognized by many organizations, including:
Commitment to technical excellence and quality service delivery

IN THIS SECTION
- Learning and development
- Technical learning
- Developing business understanding and industry knowledge
- Mentoring and on the job training
- Culture of consultation
- Continuing professional development (CPD)
- Access to specialists
Commitment to technical excellence and quality service delivery

All of our professionals are provided with the technical training and support they need to offer our clients exceptional service. This includes access to specialists and the professional practice department, 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. Where the right resource is not available within KPMG in Canada, access is provided to a network of highly skilled professionals in other member firms affiliated with KPMG International.

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

Learning and development

We believe our people learn through a wide-range of approaches. As a result, our learning and development strategy follows the 70:20:10 learning framework.

- **On the job learning**: 70%
- **Structured learning**: 20%
- **Learning through others**: 10%

Our learning curriculum offers programs to hone technical specialization, business acumen and leadership excellence. Our Learning & Development group develops learning to help ensure both consistency and local applicability.

CPA Training

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
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<tbody>
<tr>
<td>KPMG National Pass Rate</td>
<td>93.3%</td>
<td>91.5%</td>
</tr>
<tr>
<td>National CPA Pass Rate</td>
<td>77.6%</td>
<td>76.8%</td>
</tr>
</tbody>
</table>

Source: 2018 KPMG Global People Survey
Technical learning – auditing, financial reporting and independence

KPMG in Canada embraces a culture of active learning. We believe that our people need to continuously enhance their technical knowledge in a relevant way that builds on their existing capabilities. In addition to personal development discussed in the section above, all professionals are required to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

Technical courses covering independence, financial reporting and auditing topics are mandatory for all professional staff. These range from independence training as part of onboarding and annually thereafter through to audit partners and qualified staff attending mandatory accounting and auditing technical updates.

The topics included in audit learning are prioritized based on information from many sources such as:

- a needs analysis, conducted in Canada, and at a global level
- findings from continuous improvement activities including regulatory reviews
- new, revised or emerging standards and regulations

- feedback from learners’ course evaluations, including post course assessments that indicate gaps in understanding
- input nationally from our embedded networks in each office or group.

Developing business understanding and industry knowledge

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

Mentoring and on the job training

Learning is not confined to the classroom – rich learning experiences are available when needed through coaching and just-in-time learning, available at the click of a mouse and aligned with job specific role profiles and learning paths.

Culture of consultation

We encourage a strong culture of consultation to support our teams throughout their decision-making processes. We believe this 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 our professionals in addressing difficult or contentious matters, protocols have been established for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues.

Continuing professional development (CPD)

All client service partners and employees are required to maintain CPD in accordance with applicable Canadian professional standards, laws and regulations. Compliance with the CPD requirements is periodically tested as part of our annual monitoring programs.

Access to specialists

We understand that not all audits are the same or managed in the same way, so our specialists provide input on relevant significant risks in the audit. In certain situations specialist involvement is mandated. Otherwise, the audit partner and manager determine whether to use a specialist by considering the risks for the engagement, and the nature and complexity of the information, data, or calculations to be audited. We provide additional learning on audit concepts to our specialists who are members of an audit team. Our most frequently used in-house specialist capabilities are in the areas of tax, information technology, actuarial, financial risk management and valuations.

We ensure that the full resources of the firm across all areas of our business are available to assist our audit teams. This encourages them to ‘when in doubt, consult’.
Performance of effective and efficient audits

IN THIS SECTION
- Exercising professional skepticism
- Timely partner and manager involvement
- Ongoing mentoring
- Critical assessment of audit evidence
- Efficient and effective work practices
- Materiality and scoping
- Appropriately supported and documented conclusions
- Engagement quality control review partner involvement
- Insightful, open and honest two-way communications
- Communications with those charged with governance
Performance of effective and efficient audits

We understand the way in which we conduct an audit is as important as the final result. Effective and efficient audits are dependent on demonstrating certain behaviours. We focus on these behaviours during the performance of the audit, through education sessions and coaching, and via our review processes.

Exercise of professional judgement and professional skepticism

Professional skepticism involves a questioning mind and alertness to inconsistencies. It features prominently throughout auditing standards and attracts significant focus from regulators. We recognize the exercise of professional skepticism is critically important to our role as auditor.

In exercising professional skepticism, we teach our professionals to consider possible alternatives and conflicting as well as confirming evidence.

Documentation of our final judgements is also critical. We reinforce the exercise of professional skepticism through coaching and education, acknowledging that judgement is a skill developed over time and with different experiences.

Timely partner and manager involvement

To identify and respond to the significant audit risks for each year’s audit, team members require sufficient understanding of the client’s business, financial position and its operating environment. Leadership and participation from the partner early in the audit directs the scope and tone and maximizes the benefit of the partner’s experience and skill.

The partner sets the tone on the audit by their actions and communications with the audit team, reinforcing the importance of professional skepticism and audit quality. The final audit report is also their responsibility.

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

Ongoing mentoring and on the job coaching, supervision and review

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

We understand that skills build over time and through exposure to different experiences. We use a continuous learning environment to invest in the building of skills and capabilities, acknowledging that a significant portion of learning occurs on the job and through others, supplementing classroom learning. A key part of effective supervision is timely review of the work performed so significant matters are promptly identified, fed back to the individual responsible and addressed in the audit.

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

Critical assessment of audit evidence

The fundamental role of the auditor is to design and perform procedures to gather persuasive evidence that the client’s financial report is fairly stated and in compliance with accounting standards.

We focus on evidence gathering techniques to ensure the quality and the quantity of the evidence obtained is responsive to the assessed risks. We recognize externally sourced evidence is more persuasive. We consider all audit evidence obtained, including conflicting or missing information, since the consistency of the evidence and the picture it creates is just as important as individual evidence. The analysis of evidence requires an auditor to use professional judgement and remain professionally skeptical to ensure it is sufficient and appropriate.
Efficient and effective work practices

A quality audit relies on a balance between effectiveness and efficiency. Inefficiency has the potential to impact quality service delivery and client satisfaction, the wellbeing of our people, and ultimately the quality of the audit itself. For example, if a partner fails to give timely and clear directions, staff may perform unnecessary procedures or lack focus, resulting in rework or overwork.

Efficient does not mean cutting corners. It means planning the audit well, leveraging technology, tools and templates, and enhancing behaviours that drive audit quality and efficiency. To allow audit teams to focus on key audit judgements, we optimize offshore processes in performing the audit.

Materiality and scoping

Performing an audit uses the fundamental principles of materiality and scoping. Materiality references the precision we perform our work and assess errors, ordinarily based on a percentage of a key financial metric, such as profit. Scoping references the nature, timing and extent of procedures we perform: deep into or across certain financial statement line items particularly where the client

other features suggesting a disaggregation of the procedures, or both. We develop our risk-weighted audit approach, unique to each client, based on these fundamental principles.

Appropriately supported and documented conclusions

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

Engagement quality control review partner involvement

All listed, high risk and high public profile entity audits have an Engagement Quality Control Reviewer, an independent audit partner assigned as an objective additional reviewer on significant and judgmental elements of the audit.

Engagement Quality Control Reviewers are experienced audit partners independent of the team, appointed by the local Business Unit Professional Practice Partner in consultation with local Business Unit Leader. Engagement Quality Control Reviewers must have the same accreditations as the partner and sufficient time to carry out their review.

The Engagement Quality Control Reviewer’s review must be complete and all significant questions resolved satisfactorily before the issuance of the audit report. The extent of the review depends on the risk and complexity of the audit and does not reduce the responsibilities of the partner. A review includes assessing appropriateness of the financial statements and disclosures, significant judgements made and conclusions reached, communications with those charged with governance, and the proposed audit report. The partner, who signs the audit report, is ultimately responsible for the resolution of accounting, auditing and financial reporting matters.

Insightful, open and honest two-way communications

Communicating with and reporting to our clients, with no surprises, underpins the quality of our audit service. We build relationships based on mutual respect.

Communications with those charged with governance

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

We share insights on the audit, our client’s business practices, the appropriateness of accounting policies, the design and operation of financial reporting systems and controls, key accounting judgements, matters where we may disagree with management’s view, and any audit differences or errors identified. We ensure these reports meet the requirements of auditing standards and share our industry experience to encourage discussion with the members of the audit committee. We see these insights as a key mechanism to support our clients in the execution of their responsibilities.
Commitment to continuous improvement

IN THIS SECTION
- Investing in continuous improvement
- External regulatory reviews
- Other assessments of audit quality
- CPAB inspections of KPMG in Canada
- PCAOB inspections of KPMG in Canada
- Governmental or other inquiries
- Evaluating and responding appropriately to feedback and findings
- Internal quality performance reviews
- Client feedback
Commitment to continuous improvement

We focus on ensuring our work continues to meet the needs of our clients and the capital markets. To achieve this goal we use a broad range of mechanisms to continuously monitor our performance, respond to feedback and seek opportunities for improvement.

The complexity and dynamic nature of the economic environment, our clients’ businesses and the accounting and auditing frameworks are challenging. We always aim to optimize the inputs to the audit process, but opportunities to learn and improve arise. This is why continuous improvement is a specific driver of audit quality.

We use both internal monitoring and external inspections against accepted benchmarks, to evaluate our current performance, to understand the existing quality of our audit work and prioritize the areas for improvement. To deserve the confidence of our clients, the capital markets, regulators and shareholders, we are serious about learning from opportunities, no matter how small.

“We are very proud of our audit quality here in Canada. Yet, we cannot rest on our laurels. That is why we are working with our global network as well as with our regulators across jurisdictions to establish a consistent level of quality around the world.”

BRAD OWEN
Partner-in-Charge, Department of Professional Practice, Assurance & Financial Reporting
KPMG in Canada
Investing in continuous improvement

Globally, we have introduced a number of changes as we continue to invest in continuous improvement. These include the creation of the Global Audit Quality Committee (GAQC) of the Global Board, comprising senior partners from the largest firms, and the appointment of a dedicated Global Head of Audit Quality who reports to the committee.

To demonstrate our commitment to continually advancing audit quality across our global organization, the Global Board has appointed an Audit Quality Committee comprised of senior partners from the largest firms.

Strong practice management support; this includes effective resource allocation and risk management, Department of Professional Practice and engagement of quality control capabilities and coaching, all operating within an effective system of quality controls aligned to the International Standards.

Global Head of Audit Quality, reporting to a new Global Audit Quality Committee of the Global Board, leads in monitoring and driving improvements to audit quality, tracking real-time data across our global organization. The Global Head of Audit Quality oversees a dedicated quality monitoring group that inspects completed audit engagements as well as monitoring elements of member firms’ systems of quality control.

We are investing in our methodology and technology today to bring new levels of consistency across all of our audits. We have introduced a smart audit platform, KPMG Clara, which enables us to incorporate new technologies as they emerge and mature: the platform is truly scalable.
External regulatory reviews
In October 2018, CPAB released its annual inspections report focused on Canada’s four largest public accounting firms.

The CPAB Audit Quality Insights Report covers the 2018 inspections of the Big Four, including KPMG in Canada.

KPMG in Canada and CPAB share the common goals of improving audit quality and maintaining the public’s trust in the capital markets. The inspection of public accounting firms represents an important element of this initiative and we fully support CPAB’s responsibility.

A copy of this report is available on CPAB’s website at www.cpab-ccrc.ca.

Other assessments of audit quality
– Targeted and real time reviews: Conducted by our Second Line of Defense Reviewers using tailored programs to assess particular attributes or focus areas of an audit during the audit. These identify opportunities to improve quality and effectiveness by sharing leading practices.

– Post course assessments: These test understanding of specific content of training materials presented and provide evidence about the quality of learning.

Goal setting and performance evaluation processes: These include explicit evaluation of audit quality inputs and outcomes when an inspection or Quality Performance Review (QPR) finding has occurred. In the rare circumstances where financial statements are reissued, we review restatements to inform our training efforts.

Findings from our risk and audit quality monitoring resulted in impacts to remuneration in fiscal 2018 for a small number of partners.

PCAOB inspections of KPMG in Canada
CPAB has issued a confidential report to KPMG in Canada on the results of its inspections for each of the past thirteen years. Under CPAB’s rules, the recommendations or other comments contained in these reports may not be made public by either CPAB or the inspected firms. We fully intend to implement the recommendations for improvements that CPAB has made related to our audit methodology, quality control processes and engagement execution.

We are committed to responding to all reports on a timely basis. The inspection reports for KPMG in Canada are available on PCAOB’s website at www.pcaobus.org.

Governmental or other inquiries
We are not aware of any inquiry or investigation by governmental or regulatory authorities against the firm or any of its partners that may adversely affect the firm’s operations or its ability to fulfill its obligations as an independent auditor to its clients.

Our firm is also registered with the UK Professional Oversight Board, the Germany Auditor Oversight Commission, the Luxembourg Commission De Surveillance Du Secteur Financier, the Poland Audit Oversight Commission and the Norway Financial Supervisory Authority.

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Evaluating and responding appropriately to feedback and findings

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

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

Internal quality performance reviews

We conduct an annual internal review of our audit practice through the Quality Performance Review (QPR) program. The QPR program is designed to meet the quality control elements of monitoring as required by professional standards. For the five-year period ended September 30, 2018, our QPR program has not identified any issues considered to have a material effect on the conduct of the firm’s audit practice. Like most companies with quality review programs, we identify areas for continuous improvement. Where warranted we conduct formal root cause analysis over audit quality issues and design remedial actions that are responsive to the underlying root causes. These actions include the enhancement of policies and guidance, communications and training for our partners, managers and staff.

Client feedback

The KPMG Client Insights Program actively solicits feedback from clients on the quality of our services. This feedback is considered at an individual audit team level and a firm level to continually learn and improve our client service.

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
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<tr>
<td><strong>Total QPR audit &amp; assurance reviews performed</strong></td>
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<tr>
<td><strong>% of engagement partners reviewed</strong></td>
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<td><strong># of non-local reviewers</strong></td>
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<td><strong>% of reviewers from outside of KPMG Canada</strong></td>
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Appendix

IN THIS SECTION
- Appendix A: Our structure and governance
- Appendix B: Financial Information
- Appendix C: Partner remuneration
- Appendix D: International network arrangement
- Appendix E: Public interest entity audit clients
Appendix A: Our structure and governance

Legal structure
KPMG Canada is a Canadian limited liability partnership formed under the laws of Ontario. It is wholly owned by its partners.

KPMG Canada 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 member firms of the KPMG network are affiliated.

Further details about KPMG International and its business activities, including our relationship with KPMG International, are available in the 2018 KPMG International Transparency Report.

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

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 multi-national clients, manage risk, and deploy global methodologies and tools.

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

Member firms 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 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.

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

Member firms are generally locally owned and managed. 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.

Member firms may consist of more than one separate legal entity. If that is the case, each separate legal entity will be responsible only for its own obligations and liabilities, unless it has expressly agreed otherwise.

Governance structure
KPMG Canada has two principal governing documents: a Partnership Agreement and Operating Procedures.

Together, these documents establish the structure and principal procedures of governance for KPMG Canada. The key governance and management bodies of KPMG Canada are the Management Committee and the Board.

Management committee
The Management Committee consists of the Chief Executive Officer and Senior Partner, the Managing Partners, and such additional partners as may be determined from time to time by the Chief Executive Officer and Senior Partner. The Management Committee has the overall responsibility for managing KPMG Canada, including the quality, strength and profitability of the firm’s operations. Members of the Management Committee are appointed for an indefinite term until removal by the Chief Executive Officer and Senior Partner.
The Board
KPMG Canada’s business, property and affairs are managed under the direction of the Board. The Board is responsible for the firm’s stewardship, including oversight of strategic planning, risk management and succession planning, as well as the appointment of the Chair and the Deputy Chair of the Board.

The Board is comprised of the Chief Executive Officer and Senior Partner and 17 individual partners. Except for the Chief Executive Officer and Senior Partner, upon the appointment of any member of the Board to the Management Committee, such person shall automatically cease to be a member of the Board. With the exception of the Chief Executive Officer and Senior Partner whose initial term is 5 years, members of the Board are appointed for a 3 year term, and are nominated by the Nominating Committee. Board members are eligible for election for two full consecutive terms only.

Key governance committees
The Board has 6 main committees that deal with key aspects of the governance of KPMG Canada. These are the Succession Committee, the Operations & Finance Committee, the Partner Compensation Committee, the Communications & Governance Committee, the Partner Rights Committee, and the Partnership Admissions, Acquisitions and Alliances Committee.

Succession Committee – The role and responsibility of the Succession Committee is to review the processes and procedures regarding the development of future leaders, including client service leaders, industry leaders and firm management. The Succession Committee is comprised of five members, or such other number of members as shall be specified by the Board, who are appointed by the Board for a one year term. The Succession Committee meets a minimum of one time per year, and may call special meetings as required.

Operations & Finance Committee – The role and responsibility of the Operations & Finance Committee is to review the strategic direction set by the Management Committee and to ensure the annual business plan and the financial plan of the firm reflect these strategies. The Operations & Finance Committee is comprised of five members, or such other number of members as shall be specified by the Board, who are appointed by the Board for a one year term. The Operations & Finance Committee meets a minimum of one time per year, and may call special meetings as required.

Partner Compensation Committee – The role and responsibility of the Partner Compensation Committee is to review the Management Committee’s annual recommendations for compensation to all partners, the Management Committee, and the Chief Executive Officer and Senior Partner, in accordance with the Partnership Agreement and Operating Procedures. The Partner Compensation Committee is comprised of five members, or such other number of members as shall be specified by the Board, who are appointed by the Board for a one year term. The Partner Compensation Committee meets a minimum of one time per year, and may call special meetings as required.

Communications & Governance Committee – The role and responsibility of the Communications & Governance Committee is to provide direction and oversee KPMG Canada’s approach to governance matters, including recommendation to the Board of appropriate governance processes and structures, reviewing the requirements for committees of the Board, and monitoring compliance with recognized governance guidelines. The Communications & Governance Committee is comprised of five members, or such other number of members as shall be specified by the Board, who are appointed by the Board for a one year term. The Communications & Governance Committee meets a minimum of one time per year, and may call special meetings as required.

Partner Rights Committee – The role and responsibility of the Partner Rights Committee is to assist the Board by reviewing appeals by partners related to such matters as compensation, termination and disciplinary actions. The Partner Rights Committee is comprised of five members, who are appointed by the Board for a one year term. The Partner Rights Committee meets a minimum of one time per year, and may call special meetings as required.

Partnership Admissions, Acquisitions and Alliances Committee – The role and responsibility of the Partnership Admissions, Acquisitions and Alliances Committee is to review the recommendations of the Management Committee for the admission of internal and direct entry candidates to the partnership, after giving due consideration to the process undertaken and the needs of the firm to admit new partners in relation to succession planning, demographics, diversity and growth. The Committee also reviews the recommendations of the Management Committee related to business acquisitions as well as strategic alliances. The Partnership Admissions, Acquisitions and Alliances Committee is comprised of five members, or such other number of members as shall be specified by the Board, who are appointed by the Board for a one year term. The Committee meets a minimum of one time per year, and may call special meetings as required.

Chief executive officer and senior partner
The Chief Executive Officer and Senior Partner is a member of the Board and the Chair of the Management Committee. The Chief Executive Officer and Senior Partner is responsible for the direction of the activities and policies of...
KPMG Canada appoints the members of the Management Committee, and recommends to the Board the allocation of profits to members of the Management Committee. The initial term of the Chief Executive Officer and Senior Partner is 5 years, with eligibility for reappointment for one additional term of 3 years.

**Leadership responsibilities for quality within the firm**

Our Canadian Managing Partner (CMP) of Audit, who reports to the CEO of the firm, has ultimate responsibility for our Audit practice, which includes our system of audit quality control.

Our CMP of Quality and Risk Management works closely with the CMP of Audit to initiate, shape and lead our initiatives to enhance the quality and effectiveness of our audit practice and to provide ongoing support to our audit activities across the country.

Our Partner-in-Charge, Department of Professional Practice, Assurance & Financial Reporting, who reports to the CMP of Audit, is responsible for accounting and auditing standards and their interpretation, as well as for promoting technical excellence and quality service delivery through training and accreditation, investment in technical support, accounting and auditing specialist networks and effective consultation processes.

**Audit Quality and Professional Practice Network**

The audit quality and professional practice network consists of more than 130 partners, directors, senior managers and other professionals who support the firm’s audit professionals in meeting their responsibilities in the areas of auditing and attestation, accounting and financial reporting, securities including Canadian and SEC reporting matters, continuous improvement in audit quality and internal and external inspection processes.

**Department of Professional Practice (DPP)**

DPP develops firm standards and guidance relating to accounting, auditing, securities and quality matters; provides technical guidance to engagement teams on engagement-specific issues; develops and disseminates topic-specific guidance on emerging technical, professional and quality issues, and assists with firm and individual issues pertaining to compliance with regulatory and professional standards. Through liaisons with the KPMG global network, as well as active participation in Canada’s standards setting processes, DPP professionals develop and represent KPMG’s positions on current topics being addressed by regulatory and other standard-setting bodies. In addition, DPP professionals actively liaise with the KPMG International Standards Group, located in London, on international accounting and auditing standards matters, and with professionals in the Department of Professional Practice, located in New York, on accounting and auditing standards matters related to the Financial Accounting Standards Board (FASB), the Public Company Accounting Oversight Board (PCAOB), the Emerging Issues Task Force (EITF) and the Auditing Standards Board of the AICPA.

**Professional Practice Partners**

The audit practice is supported by a network of senior Professional Practice Partners who provide professional practice and audit quality leadership and direct adherence to firm policies and professional standards within their respective offices and regions.

The roles of our Professional Practice Partners are to (1) support and advise the partners on client-related matters, (2) assimilate information pertaining to the professional risks of the firm, (3) provide reasonable assurance that firm policies and professional standards are followed, and (4) continuously review and seek to improve firm policies and processes.

Local Audit Quality Groups and our Accounting and Audit Technical Topic Team members in the various geographies support the activities of our Professional Practice Partners by assisting teams, in conjunction with DPP, to resolve accounting and auditing matters and enhance audit quality.

**Audit Quality Council**

The Audit Quality Council, chaired by the Partner-in-Charge, Department of Professional Practice, Assurance & Financial Reporting, provides input to and oversight of issue identification, analysis and remediation relating to the most significant matters relative to audit quality and our system of audit quality control.

The Audit Quality Council oversees the:

- Accumulation and analysis of information relative to audit quality matters on a timely and consistent basis (e.g., from internal and external inspections, DPP consultations, litigation and regulatory matters)
- Analysis of such information and identification of common themes and related root causes
- Development of appropriately focused remedial actions in response to those root causes
- Timely implementation, execution and effectiveness of the remedial action plans

In addition, the Audit Quality Council, with the support of the local business unit Professional Practice Partners, helps identify particular characteristics of our audit engagement portfolio for which proactive risk assessment plans are developed (e.g., entities or industry sectors exhibiting higher risk characteristics).
Appendix B: Financial information

The following financial information relates to KPMG Canada’s fiscal year ended September 30, 2018. All amounts are stated in Canadian dollars.

Aggregated revenues generated by KPMG audit firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.8 billion during the year ended September 30, 2018. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent currently calculable and translated at the average exchange rate prevailing in the 12 months ended September 30, 2018.

Financial Statement Audit Revenue from non-EU Audit Clients Listed in the EU: CDN $33,777,970.

Audit Revenue $614,055,000
Tax Revenue $514,389,000
Advisory Revenue $455,788,000
Other $4,882,000
Total Revenue $1,589,114,000

Total turnover achieved by EU/EEA audit firms resulting from the statutory audit of annual and consolidated financial statements
Appendix C: Partner remuneration

Partners’ profit share

Partners are remunerated out of the distributable profits of KPMG Canada (such profits being determined in accordance with KPMG Canada’s accounting policies and as approved by the Board) and are personally responsible for funding pensions and most other benefits. The final allocation of profits to partners is made by KPMG Canada after assessing each partner’s performance for the year. The Partner Compensation Committee approves this process and oversees its application.

There are two elements to partner remuneration:

– base component – a proportion of KPMG Canada’s budgeted profits are allocated to partners as base component; this is effectively partner salary. The amount of base component reflects the role and seniority of each partner; and

– profit related performance component – rewards performance in the year by each partner against individual objectives previously agreed and the overall profits of their part of KPMG Canada as a whole. Our policies for this variable element of partner remuneration take into account a number of factors including quality of work, excellence in client service, growth in revenue and profitability, leadership and living the KPMG values. Audit partners are not permitted to have objectives related to, or receive any remuneration from, selling non-audit services to their audit clients. In addition, a part of their performance-related component is based on an assessment of their ability to deliver audit quality.

Drawings

During the year, KPMG Canada partners received monthly drawings, and from time to time, additional profit distributions. The level and timing of the additional distributions take into account cash requirements for operating and investing activities. All such drawings and profit distributions to partners represent payments on account of current year profits and are reclaimable from partners until profits have been allocated. Any over-distribution of profits during the year is also recoverable from partners.
Appendix D: International network arrangement

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. KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms. One of the main purposes of KPMG International is to facilitate the provision by member firms of high quality Audit, Tax and Advisory services to their clients. KPMG International is an entity which is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture or partnership with each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. The name of each audit firm that is a member of the network and the EU/EEA countries in which each network member firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available here.

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 and regional 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.

Professional indemnity insurance

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

Governance structure

The key governance and management bodies of KPMG International are the Global Council, the Global Board, and the Global Management Team. Global council

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. It performs functions equivalent to a shareholders’ meeting (albeit that KPMG International has no share capital and only has members, not shareholders). Among other things, the Global Council elects the chairman for a term of up to four years (renewable once) and also approves the appointment of Global Board members. It includes representation from 56 member firms that are “members” of KPMG International as a matter of Swiss law. Sub-licensees are generally indirectly represented by a member.

Global board

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International, and approving policies and regulations. It also admits member firms.
The Global Board includes the Chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMAI)) and a number of senior partners of member firms. It is led by the Global Chairman who is supported by the Executive Committee, consisting of the Global Chairman, the Chairman of each of the regions and currently three other senior partners of member firms. The list of Global Board members, as at October 1, 2018, is available in the KPMG Global Review.

One of the other Global Board members is elected as the lead director by those Global Board members who are not also members of the Executive Committee of the Global Board (“non-executive” members). A key role of the lead director is to act as liaison between the Global Chairman and the “non-executive” Global Board members.

**Global management team**

The Global Board has delegated certain responsibilities to the Global Management Team. These responsibilities include developing global strategy by working together with the Executive Committee. The Global Management Team also supports the member firms in their execution of the global strategy and is responsible for holding them accountable for commitments.

It is led by the Global Chairman, and includes the Global Chief Operating Officer, the Global Chief Administrative Officer, global function and infrastructure heads and the General Counsel. The list of Global Management Team members, as at October 1, 2018, is available in the KPMG Global Review.

The Global Steering Groups work closely with regional and member firm leadership to:

- establish and communicate appropriate audit and quality/risk management policies;
- enable effective and efficient risk processes to promote audit quality; and
- proactively identify and mitigate critical risks to the network.


Each member firm is part of one of three regions (the Americas, ASPAC, and EMA). Each region has a Regional Board comprising a regional chairman, regional chief operating officer, representation from any sub-regions, and other members as appropriate. Each Regional Board focuses specifically on the needs of member firms within their region and assists in the implementation of KPMG International’s policies and processes within the region.

Further details about KPMG International including the governance arrangements, can be found in the KPMG International Transparency Report.

**Area quality & risk management leaders**

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders (ARL) who serve a regular and ongoing monitoring and consultation function to assess the effectiveness of a member firm’s efforts and processes to identify, manage and report significant risks that have the potential to damage the KPMG brand. Significant activities of the ARL, including member firm issues identified and related member firm response/remediation, are reported to GOQ&RM leadership.

The objectives of the ARL role are to:

- assist GOQ&RM leadership in the monitoring of member firms’ quality and risk activities;
- work with GOQ&RM leadership and the International Office of General Counsel (IOGC) when significant brand and legal risk issues occur to assist in ensuring that matters are properly handled; and
- monitor the effectiveness of member firm remediation of significant issues, including identification of the root cause(s) of serious quality incidents.
Our CMP of Quality and Risk Management has responsibility for KPMG’s system of quality controls, risk management and ethics, and compliance programs.

The list below sets out public interest entity audit clients listed in European Union member countries for which KPMG Canada carried out an audit during its fiscal year ended September 30, 2018. For this purpose, “public interest entities” are defined in Regulation 3 of the European Communities Regulations 2010 (Statutory Audits) (Directive 2006/43/EC) as follows: companies (or other bodies corporate governed by law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State; credit institutions; and insurance undertakings.

- Bank of Montreal
- The Bank of Nova Scotia
- Hydro-Quebec
- Serinus Energy Inc.
- Wentworth Resources Ltd.