



# Transparency Report 2018

**KPMG in the Channel Islands**



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# 01 - Message from our Chairman



Welcome to the 2018 KPMG Channel Islands Limited transparency report providing information about our firm as at 30 September 2018 or for the year to that date unless otherwise stated.

This report is issued annually and aims to provide an insight into how we uphold our professional obligations and responsibilities, and our commitment to quality, integrity and service excellence. That commitment is based on the extraordinary people we recruit, the values we uphold, and the culture we create.

We strive to be employers of choice by creating an environment where people can fulfil their potential and feel motivated and proud to give their best. We work hard to foster an inclusive culture of diverse talent. We are committed to continuous development and coaching. We measure our people's engagement by inviting them to take part in an annual Global People Survey which also provides valuable insights into many other areas of our business. These insights enable us to focus on maintaining strengths or taking advantages of development opportunities.

Our culture is underpinned by a strong set of values and supporting policies and procedures. Our values are what we believe in and they guide our actions and behaviours – we recognise that trust in our profession cannot be taken for granted; it is not just what we do that matters, but also how we do it. The KPMG Global Code of Conduct was refreshed in 2018 and builds on our values and defines who we are and how we act – all of our people are expected to follow it. Leadership plays a critical role in setting the right tone and our leaders demonstrate complete commitment to the highest standards of professional excellence and leading by example.

We continually monitor our audit quality through internal self-assessment programmes but we are also subject to regular inspection by the external audit regulators who oversee our registrations to audit Guernsey and Jersey companies traded on regulated markets in the EU. Our advisory and tax functions are also subject to internal self-assessment programmes and a number of people in our firm play key roles in various KPMG quality roles.

Finally, the KPMG Story sets out our path to achieving our vision of becoming the "Clear Choice". It provides clarity on who we are and what we stand for, where we are going, how we will get there and what we want to be known for, unifying all our people, not only in the Channel Islands, but around the world. Our local strategy recognises the need to be "future ready" which means growing expertise to support our clients through this period of unprecedented change and disruption.

I hope you will find this report a useful insight into our business. If you would like to discuss any aspect of this report or have any questions or feedback I would be delighted to hear from you.



Jason Laity

Chairman

KPMG Channel Islands Limited

December 2018

# 02 - Who we are

# Who we are

## 2.1 Our business

KPMG Channel Islands Limited (“KPMG CI”) is a leading provider of professional services that delivers audit, tax, and advisory services. Operating out of two offices across the Channel Islands, Guernsey and Jersey, we had an average of 262 personnel in the year to 30 September 2018 (an average of 263 in the year to 30 September 2017).

Our vision, values and, above all, our people determine how we interact with clients, with each other and with the wider community.

We work closely with our clients to add value to their businesses, helping them to mitigate risks and grasp opportunities.

Full details of the services offered by KPMG CI can be found on our website [www.kpmg.com/channelislands](http://www.kpmg.com/channelislands).

## 2.2 Our strategy

Our strategy is set by the KPMG CI Board of Directors (“The Board”) who have determined that our overall vision is to be the clear choice professional services firm in the Channel Islands and this is underpinned by a strategy focused on our people, our communities, new opportunities and transformation”.

# 03 - Our structure and governance

# Our structure and governance

## 3.1 Legal structure

### Legal structure and ownership

KPMG CI is a Jersey registered private company and affiliated with KPMG International Cooperative ("KPMG International"). KPMG International is a Swiss cooperative which is a legal entity formed under Swiss law. It is the entity with which all the member firms of the KPMG network are affiliated. Further details about KPMG International and its business, including our relationship with it, are available in the 'Governance and leadership' section of the [KPMG International Transparency Report](#)

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

During the year to 30 September 2018, there was an average of 21 directors in KPMG CI.

A list of key entities, together with details of their legal structure, regulatory status, the nature of their business and area of operation is set out in Appendix 1.

### 3.2 Name and ownership

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

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 this is the case, each separate legal entity will be responsible only for its own obligations and liabilities, unless it has expressly agreed otherwise.

## 3.3 Responsibilities and obligations of member firms

Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service 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 (see section 4.1).

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.

## 3.4 Governance structure

### The Board and The Management Committee

The key governance and management bodies of KPMG CI are the KPMG CI Board and the Management Committee. Details of these are provided below.

#### The Board

The Board consists of 21 members, being the Chairman, Managing Director and 19 other directors. The Board meets at least quarterly, and during the year ended 30 September 2018 the Board met four times.

#### The Management Committee

Details of who comprises the Management Committee of KPMG CI are set out in Appendix 2.

# 04 - System of quality control

# System of quality control

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

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

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

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

KPMG CI is required to implement KPMG International policies and procedures and also adopts additional systems of quality controls that are designed to meet the rules and standards issued by the Financial Reporting Council, and other relevant regulators as well as local legal and other requirements.

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

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

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

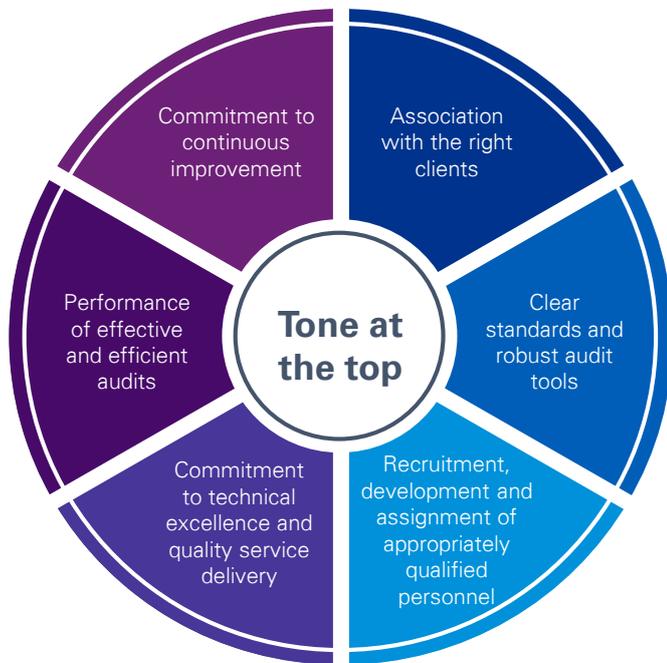
## Audit quality framework

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

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

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

# System of quality control (continued)



Individuals are encouraged to raise their concerns when they see behaviours or actions that are inconsistent with our values or professional responsibilities. The KPMG values, are considered in the performance appraisal process that our people follow and adherence to these values is also reviewed when our people are considered for more senior promotions, including to Director. The KPMG values are set out in Appendix 4.

### KPMG Global Code of conduct

KPMG’s commitment to integrity and quality is enshrined in the KPMG values that lie at the heart of the way we do things. They define KPMG’s diverse and inclusive culture and our commitment to the right personal and professional conduct. The KPMG values emphasise that, above all, KPMG personnel act with integrity, uphold the highest professional standards and provide sound advice while rigorously maintaining independence and complying with laws, regulations, and professional standards. The KPMG values are communicated clearly to all people and are embedded into member firms’ people processes — induction, performance development and reward.

Building on the KPMG values is the KPMG Global Code of Conduct. Member firms, including KPMG CI are required to adopt, as a minimum, the Global Code of Conduct.

It has provisions that require our people to—

- comply with all applicable laws, regulations, professional standards and KPMG CI policies
- work with the right clients and third parties
- focus on quality
- maintain our objectivity and independence
- not tolerate any illegal or unethical acts, committed within KPMG CI, by clients suppliers, or public officials with whom we deal
- protect information
- compete fairly
- help our people to be extraordinary
- be responsible corporate citizens
- build public trust.

All KPMG CI personnel are required to:

- Comply with both the Global Code of Conduct and confirm their compliance with the Code of Conduct upon joining the firm, and annually thereafter; and

### 4.1 Tone at the Top

The culture of KPMG International and the KPMG member firms is underpinned by a strong set of values and supporting policies and processes and enables the right attitudes and behaviours to permeate throughout the KPMG network.

Our global leadership, working with regional and member firm leaderships, plays a critical role in establishing our commitment to quality and the highest standards of professional excellence. A culture based on quality, integrity and ethics is essential in an organization that carries out audits and other services on which stakeholders and investors rely.

At KPMG CI we promote a culture in which consultation is encouraged and recognized as a strength.

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

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

The KPMG values, which have been explicitly codified for a number of years, are embedded into working practices and the values-based compliance culture at KPMG CI.

# System of quality control (continued)

- complete regular training covering the Code of Conduct upon joining the firm and on a biennial basis thereafter

Individuals are encouraged to speak up when they see something that makes them uncomfortable or that is inconsistent with the KPMG values. Moreover, everyone at KPMG is responsible for reporting, and is required to report, any activity that could potentially be illegal or in violation of the KPMG values, KPMG policies, applicable laws, regulations or professional standards.

We have procedures and established channels of communication so that our personnel can report ethical and quality issues. Retaliation is prohibited against individuals who 'raise their hand' and speak up in good faith.

At KPMG CI, we regularly monitor the extent to which our people feel we live the KPMG values through the Global People Survey (refer to section 4.5.6).

In addition, the [KPMG hotline](#) is a mechanism for all KPMG partners, employees, clients and other parties to confidentially report concerns they have relating to certain areas of activity by KPMG International itself, its employees or the senior leadership of a KPMG member firm.

## 4.2 Leadership responsibilities for quality and risk management

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

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

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

### Chairman

In accordance with the principles in ISQC 1, our current Chairman, Jason Laity, has assumed ultimate responsibility for KPMG CI's system of quality control. Details of some of the measures that he and the rest of the Board have taken to ensure that a culture of quality prevails within KPMG CI are set out in section 4.1 'Tone at the top'.

### The firm's risk management function

To support this system, the firm has appointed specific directors and senior personnel with the responsibility for oversight of risk management and quality control.

Currently, Debbie Smith holds the position of Channel Islands Risk Management Partner and has overall responsibility for the function. Steven Hunt is the Channel Islands Ethics and Independence Partner.

The day-to-day running of the function is the responsibility of the Compliance Senior Manager who reports directly to the Risk Management Partner and Ethics and Independence Partner.

### The Audit, Tax, and Advisory function – Function Heads

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

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

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

### Audit Leadership Team

The Audit Leadership Team met four times during the year and these meetings included regular discussions about current and emerging audit quality issues arising from external and internal quality review processes, queries being raised by engagement teams, root cause analysis procedures and other quality matters identified from a variety of sources. These were debated, and together with other observations collected from client-facing teams were considered and actions agreed. Typically, most of these

# System of quality control (continued)

actions are short term, in which case they are developed and communicated through the regular technical briefings issued to the whole Audit function and also, if considered of sufficient magnitude, in the next mandatory training. For more complex issues (which might require amendments to KPMG's global audit methodology or audit tools) these will be raised with Global Audit for consideration and potential development by the Global Services Centre (GSC) and International Standards Group (ISG).

## Investing in continuous improvement

At a global level, KPMG International has introduced a number of changes as the KPMG network continues to invest in continuous improvement. These include the creation of the Global Audit Quality Committee of the Global Board, comprised of Senior Partners from the largest firms in the KPMG network, and the appointment of a dedicated Global Head of Audit Quality who reports to the committee. Through these changes, KPMG International is driving greater accountability among Senior Partners and member firm Audit Leaders, which is backed up and reinforced through other measures such as a re-design of our system of quality control, enhanced global monitoring of audit quality, and enhanced resources, support and tools for engagement teams.

What is audit quality?

Audit quality is fundamental to maintaining public trust and is the key measure on which our professional reputation stands.

We define '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
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

## 4.3 Association with the right clients

### 4.3.1 Acceptance and continuance of clients and engagements

One of the keys to managing audit quality is to understand the nature of 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.

The firm recognises that rigorous client and engagement acceptance and continuance policies and processes help protect KPMG's reputation, support the KPMG brand and are an important part of our ability to provide high-quality professional services.

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

### 4.3.2 Client and engagement acceptance process

#### Client evaluation

Prior to accepting a client, KPMG CI undertake an evaluation of the prospective client. This involves obtaining sufficient information about the client, its key management and significant beneficial owners and then properly analysing 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.

Both Guernsey and Jersey have adopted strict anti-money laundering legislation, something the firm has to adhere to at all times. This includes background checks on the prospective client, its key management and beneficial owners. A key focus is on the integrity of management at a prospective client.

A second director, as well as the evaluating director, approves each prospective client evaluation. Depending on the risk grade assigned to the client, a risk management partner will be required to approve the evaluation. A risk grading is awarded following the completion of the evaluation using the online tool.

#### Engagement evaluation

The prospective engagement director evaluates each prospective engagement, in practice this may be completed at the same time as the client evaluation, particularly in respect of audit appointments. The evaluation identifies potential risks in relation to the engagement. A range of factors are considered as part of this evaluation including potential independence and conflict of interest issues (using Sentinel™, KPMG's conflicts and independence checking system), intended purpose and use of the 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 is made in consultation with other senior KPMG CI personnel and 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

# System of quality control (continued)

additional procedures including a review of any non-audit services provided to the client and of other relevant relationships.

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

We follow specific procedures (detailed further in section 4.4.2.7) to identify and evaluate threats to independence for prospective audit clients that are public interest entities.

Depending on the overall risk assessment of the prospective client and engagement, additional safeguards may be introduced to help mitigate the identified risks. Any potential independence or conflict of interest issues are documented, discussed with the Ethics and Independence Partner and resolved prior to acceptance.

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

#### 4.3.3 Continuance process

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

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

#### 4.3.4 Withdrawal

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

#### 4.3.5 Client portfolio management

Our leadership appoints engagement directors who have the

appropriate competence, capabilities, time and authority to perform the role for each engagement.

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

#### 4.4 Clear standards and robust audit tools

All of our professionals adhere to the clear policies and procedures (including independence policies) that we set and we provide a range of tools and guidance to support them in meeting these expectations. The policies and procedures we set for audit engagements incorporate the relevant requirements of accounting, auditing, ethical and quality control standards, and other relevant laws and regulations.

##### 4.4.1 Our Approach

KPMG has been investing significantly in evolving the network's audit capabilities and will continue to do so in the coming years including a new global electronic audit workflow delivered through KPMG Clara platform – KPMG's smart, modular audit platform – capable of continually integrating new and emerging technologies, with advanced capabilities embedded that leverage data, automation, and visualisation. Data & Analytics (D&A) is integral to the way how KPMG member firms obtain audit evidence and interact with clients in the digital era.

KPMG's high-quality audit process will continue to include:

- timely partner and manager involvement throughout the engagement
- access to the right knowledge including involvement of specialists, training and experience requirements 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 and
- managing and documenting the audit.

##### 4.4.1.1 Consistent audit methodology and tools

We dedicate significant resources to keeping KPMG's standards and tools complete and up to date. The KPMG audit methodology, developed by the Global Service Centre (GSC), is based on the requirements of the

# System of quality control (continued)

International Standards on Auditing (ISAs). The KPMG audit methodology is set out in KPMG Audit Methodology (KAM) and includes additional requirements that go beyond the ISAs, and which KPMG International believes enhance the quality of audit. KPMG member firms may add local requirements and/or guidance in KAM to comply with additional professional, legal or regulatory requirements.

The methodology emphasises applying appropriate professional scepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence. Enhancements to the audit methodology, guidance and tools are made regularly to be in compliance with standards, emerging auditing areas of focus and audit quality results (internal and external). Key topics include accounting estimates, internal control, revenue recognition, group audits, audit sampling and risk assessment.

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

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

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

The KPMG audit workflow is enabled through eAudit an activity-based workflow and electronic audit file. eAudit is KPMG's audit documentation workflow that allows 75,000+ professionals to complete high quality and consistent audits. eAudit integrates KPMG's audit methodology, guidance and industry knowledge, and the tools needed to execute and document the audit work performed.

eAudit can be "scaled" to present the relevant requirements and guidance, depending on the nature of the entity to be audited and in accordance with professional standards and applicable legal and regulatory requirements. It provides direct access to our audit guidance, professional standards and documentation templates.

Significant investments are underway to revise and enhance the KPMG audit methodology (KAM) and workflow tool

(eAudit), with the deployment of KPMG Clara Workflow which is planned for initial deployment globally in 2019, and full deployment beginning in 2020.

## **KPMG Clara, KPMG Clara Workflow and Audit Data & Analytics (D&A)**

KPMG International is making significant investments to improve audit quality, drive consistency in execution of audits and strengthen both the member firm and global monitoring of engagements.

### **KPMG Clara**

In 2017, KPMG International commenced the global launch of KPMG Clara – KPMG's Smart Audit Platform, bringing together KPMG's Audit Data & Analytics (D&A) capabilities, innovative new technologies, collaboration capabilities and audit workflow.

This represents KPMG's ambition to:

- transform audit execution for our people and clients through new, modern technology-enabled interfaces and collaboration functionality;
- integrate the required capability to digitise the audit and deliver new D&A routines;
- enable an enhanced and re-designed 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; and
- 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 engagement teams for an individual engagement and across an engagement portfolio. This provides a summary and visualisation of these indicators to:

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

# System of quality control (continued)

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. Through alliances with some of the world's most advanced technology companies such as Microsoft, KPMG is building the future of audit, aligning with technology leaders to bring new insights faster and, with growing capabilities, deliver even more value through KPMG member firm audits. KPMG International's investment strategy also includes innovation, working with universities on important applied audit research and working with member firms as they develop advanced technologies.

## KPMG Clara Workflow

Building on the launch of KPMG Clara in 2017, KPMG International is creating a new workflow tool that will be used by KPMG audit teams to execute and document KPMG audits. It will be intuitive, user-friendly and modern. The new system will genuinely be a workflow – guiding audit teams through a series of steps in a logical sequence, with clearer display of information and visuals, knowledge and guidance available at the moment of need, and with embedded advanced D&A capabilities. The workflow and methodology will also be scalable – adjusting the requirements to the size and complexity of the audit engagement. This globally-driven project will significantly overhaul and redesign the execution of an audit by KPMG professionals and drive improvements in audit quality.

KPMG Clara Workflow will incorporate the development of monitoring capabilities (e.g. data mining) at the engagement level for use by member firms. The KPMG Clara Workflow is being piloted in 2018, with initial deployment globally in 2019 and full deployment beginning in 2020. The predecessor audit workflow tool, eAudIT, is expected to be decommissioned in the 2021 fiscal year.

## Audit data & analytics (D&A)

### KPMG's audit, powered by D&A:

- enhances audit quality; by providing a deeper understanding of data populations, giving focus to higher risk transactions;
- is secure; by restricting access to data both in transit and within KPMG's IT environments; and
- is transparent; by facilitating detailed analysis to uncover the reasons behind, and root causes of, outliers and anomalies and provide increased visibility into higher risk transactions and process areas.

D&A tools and routines are built on principles and professional standards underlying an audit and do not relieve auditors of

their responsibilities.

## 4.4.2 Independence, integrity, ethics and objectivity

### 4.4.2.1 Overview

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

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

These policies are supplemented by other processes to ensure compliance with the standards issued by the UK Financial Reporting Council and those of other applicable regulatory bodies. These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, director rotation and approval of audit and non-audit services.

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

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

Amendments to KPMG International's ethics and independence policies in the course of the year are communicated by email alerts and included in regular quality and risk communications. Member firms are required to implement changes as specified in the email alerts, and this is checked through the internal monitoring programs described in section 4.8.1

KPMG CI personnel are required to consult with the EIP on certain matters as defined in the Global Q&RM Manual. Consultations may also be required with the Global Independence Group, depending upon the facts and circumstances.

# System of quality control (continued)

## 4.4.2.2 Personal financial independence

KPMG International policies require that KPMG member firms and KPMG professionals are free from prohibited financial interests in, and prohibited relationships with, KPMG member firm audit clients, their management, directors, and significant owners. The policies also extends the IESBA Code of Ethics restrictions on ownership of audit client securities to every member firm director or partner in respect of any audit client of any member firm.

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

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

Directors and all manager grade and above client-facing staff are required to use the KICS system prior to entering into an investment to identify whether they are permitted to do so. They are also required to maintain a record of all of their investments in KICS, which automatically notifies them if any investment subsequently become restricted. Newly restricted investments must be disposed of within five business days of the notification. KPMG monitors director and manager compliance with this requirement as part of our program of independence compliance audits of a sample of professionals.

In 2018 24 of our people were subject to these audits (this included approximately 46% of our directors).

## 4.4.2.3 Employment relationships

Any professional providing services to an audit client irrespective of function is required to notify our EIP if they intend to enter into employment negotiations with that audit client. For directors, 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 directors of a member firm are prohibited from joining an audit client in certain roles unless they have disassociated from the member firm financially and have ceased participating in KPMG CI's business or professional activities.

Key audit directors 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 KPMG CI professionals by audit clients.

## 4.4.2.4 Firm financial Independence

KPMG member firms must also be free from prohibited interests in, and prohibited relationships with, audit clients, their management, directors and significant owners.

In common with other KPMG member firms, KPMG CI uses KICS to record their own investments in SEC entities and affiliates (including funds), locally listed companies and funds, direct and material indirect investments held in pension, and employee benefit plans (including non-public entities and funds).

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

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

## 4.4.2.5 Business relationships/suppliers

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

These include establishing and maintaining a process to evaluate potential third-party arrangements (for example business alliances and joint working arrangements, procurement relationships and marketing and public affairs activities) with particular regard to whether they have a bearing on auditor independence.

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

# System of quality control (continued)

## 4.4.2.6 Business acquisitions, admissions and investments

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

## 4.4.2.7 Independence clearance process

KPMG CI follow specific procedures to identify and evaluate threats to independence related to prospective audit clients that are public interest entities; these procedures, also referred to as 'the independence clearance process,' must be completed prior to accepting an audit engagement for these entities.

## 4.4.2.8 Independence training and confirmations

All KPMG CI directors and client service professionals, as well as certain other individuals, must complete independence training that is appropriate to their grade and function upon joining KPMG CI and on an annual basis thereafter.

New personnel who are required to complete this training must do so by the earlier of (a) thirty days after joining KPMG CI or (b) before providing any services to or becoming a member of the chain of command for, any audit client, including any of its related entities or affiliates.

We also provide all personnel with training on the Global Code of Conduct and ethical behaviour, including KPMG's anti-bribery policies, compliance with laws, regulations, and professional standards, and reporting suspected or actual non-compliance with laws, regulations, professional standards, and KPMG's policies on a biennial basis. New personnel are required to complete this training within 3 months of joining KPMG CI.

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

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

## 4.4.2.9 Non-audit services

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

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

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

## 4.4.2.10 Fee dependency

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

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

In addition to monitoring the 10% fee dependency level noted above, KPMG CI also monitor fee dependency at a level of 5% in compliance with the Ethical and Independence requirements of the Financial Reporting Council in the UK.

No audit client accounted for more than 5% or 10% of the total fees received by KPMG CI over the last two years.

# System of quality control (continued)

## 4.4.2.11 Avoiding conflicts of Interest

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

All KPMG member firms and personnel are responsible for identifying and managing conflicts of interest which are circumstance or situations that have, or may be perceived by a fully informed, reasonable observer, to have an impact on a member firm or its personnel in their ability to be objective or otherwise without bias. Sentinel™ is the tool all KPMG member firms use for potential conflict identification so that these can be addressed in accordance with legal and professional requirements.

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

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

## 4.4.2.12 Breaches of Independence Policy

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

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

Matters arising are factored into promotion and compensation decisions and, in the case of engagement leaders and

managers, are reflected in their individual quality and risk metrics.

## 4.4.2.13 Compliance with laws, regulations, and anti-bribery and corruption

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

We prohibit 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 our clients, suppliers or public officials.

On joining KPMG CI, and every two years thereafter, we provide anti-bribery and corruption training and training on compliance with laws, regulations, professional standards and the KPMG Code of Conduct to all personnel.

Further information on KPMG International anti-bribery and corruption can be found on the anti-bribery and corruption site [here](#).

## 4.4.2.14 Director rotation

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

KPMG CI directors 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 directors in certain roles may provide statutory audit services to a client, followed by a 'time-out' period during which time these directors 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.

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

## 4.5 Recruitment, development and assignment of appropriately qualified personnel

One of the key drivers of quality is ensuring that KPMG professionals have the skills and experience appropriate to

# System of quality control (continued)

deliver our vision. This requires recruitment, promotion and retention of professionals and robust capacity and resource management processes. The KPMG performance development approach, linked to the KPMG values, and is designed to articulate what is required for success – both individually and collectively. Ensuring Audit quality is an essential element of the training, planning and development underway to support the KPMG Clara workflow roll-out and the associated updated KPMG audit methodology, with processes embedded in all KPMG learning programs.

## 4.5.1 Recruitment

KPMG CI strives 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 recruiting 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.

KPMG CI also recruits experienced hires.

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.

KPMG CI recruited 59 new people in the year ended 30 September 2018 (2017: 62).

Where individuals are recruited for senior grades a formal independence discussion is conducted with them by the Ethics and Independence Partner or a delegate. KPMG CI does not accept any confidential information belonging to the candidate's former firm/employer.

The Director hire process is rigorous and thorough, involving appropriate members of leadership. Our criteria for Director hires are consistent with our commitment to professionalism and integrity, quality, and being an employer of choice.

## 4.5.2 Personal development

It is important that all our professionals have the necessary business and leadership skills to be able to perform quality work in addition to technical skills (see section 4.6.1).

KPMG is launching a new Performance Development process which will apply to all member firms called 'Everyone a Leader', where stretching goals should be set and reviewed regularly throughout the year. Leadership competencies will include 'driving quality', 'advancing an ethical environment'

and 'making sound decisions'. A goals library is available for colleagues to gain inspiration around what goals they want to set, with one category of goals focused specifically around quality.

A culture of continuous improvement is encouraged to drive feedback, both positive and developmental, from both junior and senior colleagues, as well as peers. In our performance development approach feedback can be sought and received through two mechanisms, informal feedback, which should be regular and owned by the individual for their own development and growth, and formal feedback through an engagement review form. The engagement review form specifically requests feedback on quality and is required quarterly, and inputs into performance evaluations.

Directors and certain professionals are also required to be evaluated on key quality and compliance metrics. KPMG CI monitors quality incidents and maintains quality and compliance metrics for the purpose of director assignments and also for the purposes of director evaluation, promotion and remuneration.

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

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

## 4.5.3 Inclusion and Diversity programmes

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

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

We believe that the established Global Inclusion and Diversity strategy of KPMG International provides the framework to drive the actions that are necessary to promote inclusive leadership at KPMG CI and across the KPMG network.

# System of quality control (continued)

More information about Inclusion & Diversity at KPMG can be found [here](#).

## 4.5.4 Performance & Reward

Evaluation process including quality and compliance metrics

KPMG CI professionals, including directors, have annual goal-setting and performance reviews. Each professional is evaluated on their agreed-upon goals, demonstration of the leadership competencies, technical capabilities and market knowledge. A culture of continuous improvement is encouraged to drive feedback, both formal and informal, from junior and senior colleagues, as well as peers. Feedback gathered forms an integral part of performance reviews.

KPMG CI monitors quality and compliance incidents and maintains quality metrics for the purposes of manager and director assignments and also for the purposes of manager and director evaluation, promotion and remuneration.

KPMG CI's policies prohibits audit directors from being evaluated on or compensated based on their success in selling non-assurance services to their audit clients.

### Reward

We have compensation and promotion policies that are clear, simple, and linked to the performance evaluation process, which for directors and managers includes the achievement of key audit quality and compliance metrics. This helps our directors 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 and organizational (member firm) performance. The extent to which our people feel their performance has been reflected in their reward is measured through the Global People Survey, with action plans developed accordingly (refer to section 4.5.6).

### Promotion

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

### Director appointments

Our processes for appointment to the position of Director are rigorous and thorough, involving various levels of assessment carried out both by the local firm and at a sub-regional level. The procedures include the presentation of a business case and a personal case for each individual candidate.

All appointments to the Board of KPMG CI need to be approved by the Board.

## 4.5.5 Assignment of professionals

KPMG CI has procedures in place to assign both the engagement directors and professionals to a specific engagement on the basis of their skill sets, relevant professional and industry experience, and the nature of the assignment or engagement. Function heads are responsible for the process of allocating particular engagement directors to clients. Key considerations include director experience and capacity, based on an annual director portfolio review, to perform the engagement in view of the size, complexity and risk profile of

the engagement and the type of support to be provided (i.e., the engagement team composition and specialist involvement).

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

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

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

# System of quality control (continued)

## 4.5.6 Insights from our people – Global People Survey (GPS)

Annually KPMG CI invite all our people to participate in an independent Global People Survey (GPS) to share their perception about their experience working for KPMG. The GPS provides an overall measure of our people's engagement through an Employee Engagement Index (EEI) as well as insights into areas driving engagement which may be strengths or opportunities. The survey also identifies opportunities to strengthen those levels of engagement. Results can be analysed across different demographic groups on how we are faring in selected categories.

The results of the GPS provide KPMG CI leadership and KPMG global leadership with results related to audit quality, upholding the KPMG values, employee engagement and director attitudes to quality, leadership and tone at the top.

KPMG CI participate in the GPS, monitor results and take appropriate actions to communicate and respond to the findings of the survey. This includes monitoring GPS results including those related to audit quality and tone at the top, and employee engagement through the EEI.

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

## 4.6 Commitment to technical excellence and quality service delivery

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

Where the right resource is not available within KPMG CI, access is provided to a network of highly skilled KPMG professionals in other KPMG member firms.

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

### 4.6.1 Lifetime learning strategy

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

## Formal training

Audit Learning and Development steering groups at global, regional and KPMG CI identify annual training priorities for development and delivery using a blend of classroom, e-learning and virtual classroom methods.

The Audit Learning and Development team work with subject matter experts and leaders from GSC, the ISG and DPP to

ensure the training is of the highest quality, is relevant to performance on the job and is delivered on a timely basis.

In addition to rolling out the training released by the Audit Learning and Development group, KPMG CI develops and provides local audit training for all audit professional staff. This training provides an overview of the industries operating in the Channel Islands and KPMG CI's approach to auditing such entities.

## Mentoring and on the job training

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

## 4.6.2 Licensing and mandatory requirements for IFRS and U.S. GAAP engagements

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

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

In addition we have specific requirements for directors and managers working on IFRS engagements in countries where IFRS is not the predominant financial reporting framework.

# System of quality control (continued)

## 4.6.3 Access to specialist networks

Our KPMG CI engagement teams have access to a network of local KPMG specialists as well as specialists in other KPMG member firms.

Specialists who are members of an audit team and have overall responsibility for specialist involvement on an audit engagement have the competencies, capabilities and objectivity to appropriately fulfil their role. Training on audit concepts is provided to these specialists.

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

## 4.6.4 Culture of consultation

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

To assist audit engagement 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. In addition, the Global Q&RM Manual includes mandatory consultation requirements where certain matters are identified such as concerns over client integrity.

## Technical consultation and global resources

Technical auditing and accounting support is available to all member firms through the GSC and the ISG as well as (for work on SEC foreign registrants) the U.S. Capital Markets Group based in London.

## Global Services Centre (GSC)

The GSC's mission is to drive success for KPMG's global network of Audit practices through collaboration, innovation and technology. The GSC develops, maintains and deploys KPMG's audit methodology and technology-based tools used by KPMG audit professionals to facilitate effective and efficient audits.

With three global locations, one in each region, the GSC Audit team is made up of professionals with backgrounds in audit,

IT, data science, mathematics, statistics, and more from around the world who bring diverse experiences and innovative ways of thinking to further evolve KPMG's audit capabilities.

## International Standards Group (ISG)

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

Further details about the GSC and ISG and its activities are available in the [KPMG International Transparency Report](#).

## Member firm professional practice resource

Appropriate consultation support on auditing and technical accounting matters is provided to audit engagement professionals through our professional practice resources (referred to as Department of Professional Practice or DPP). DPP also assists engagement teams where there are differences of opinion either within teams or with the EOC reviewer. Unresolved differences are required to be escalated to senior partners for final resolution. The ISG is also available for consultation when required.

KPMG International policies include minimum requirements for member firm DPPs.

## 4.6.5 Developing business understanding and industry knowledge

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

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

## 4.7 Performance of effective audits

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

# System of quality control (continued)

## 4.7.1. Ongoing mentoring and on the job coaching, supervision and review

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

Ongoing mentoring and supervision during an audit involves:

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

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

### 4.7.1.1 Timely engagement quality control (EQC) reviewers

An EQC 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 EQC review under applicable laws or regulations, and other engagements as designated by the Risk Management Partner or country Head of Audit.

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

- selected audit documentation;
- significant judgments the engagement team made and the conclusions it reached;
- the financial statements and proposed auditor's report; and
- the conclusions reached in formulating the auditors' report and consideration of whether the proposed report is appropriate.

Although the engagement director is ultimately responsible

for the resolution of financial reporting and auditing matters, the EQC reviewer must be satisfied that all significant questions raised have been resolved before an audit can be considered to be complete.

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

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

### 4.7.1.2 Reporting

Auditing standards and the Company Law requirements in Guernsey and Jersey or similar legislative requirements largely dictate the format and content of the auditors' report that includes an opinion on whether the client's financial statements give a true and fair view. Experienced engagement directors form all audit opinions based on the audit performed.

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

### 4.7.1.3 Insight, open and honest two-way communication

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

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

# System of quality control (continued)

Communications with audit committees include:

- an overview of the planned scope and timing of the audit, which includes communicating significant risks identified
- significant findings from the audit which may include control deficiencies and audit misstatements
- annual written communication that states the

engagement team and KPMG has complied with relevant independence requirements; describes all relationships and other matters between KPMG and the audit client that, in our professional judgment, may reasonably be thought to bear on independence; and states related safeguards we have applied to eliminate (or reduce to an acceptable level) identified threats to independence.

We ensure such communications meet the requirements of professional standards.

## Audit Committee Institute

In recognition of the demanding and important role that audit committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, our [Audit Committee Institute](#) (ACI) aims to help audit committee members enhance their commitment and ability to implement effective audit committee processes. The ACI operates in 35 countries across the globe and provides audit committee members with authoritative guidance (such as the [ACI Audit Committee Handbook](#)) on matters of interest to audit committees as well as the opportunity to network with their peers during an extensive program of technical updates and awareness seminars.

The ACI's offerings cover the array of challenges facing Audit Committees and businesses today — from risk management and emerging technologies to strategy and global compliance.

## IFRS Institute

KPMG's Global IFRS Institute provides information and resources to help the KPMG CI Board and Audit Committee members, executives, management, stakeholders and government representatives gain insight and access thought leadership about the evolving global financial reporting framework.

### 4.7.2 Client confidentiality, information security and data privacy

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

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

The policies include the retention period for audit documentation and other records relevant to an engagement in accordance with the relevant IESBA rules as well as other applicable regulatory bodies' standards and regulations.

## 4.8 Commitment to continuous improvement

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

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

### 4.8.1. Internal monitoring and compliance programs

Our monitoring programs evaluate both:

engagement performance in compliance with the applicable standards, applicable laws and regulation and KPMG International policies and procedures

KPMG CI's compliance with KPMG International policies and procedures and the relevance, adequacy and effective operation of key quality control policies and procedures.

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

Two KPMG International developed and administered

# System of quality control (continued)

inspection programmes are conducted annually across the Audit, Tax, and Advisory functions, being QPR and RCP.

Additionally all member firms are covered at least every 3 years by the cross-functional GCR program. Participation in QPR, RCP and GCR is a condition of ongoing membership of the KPMG network.

## Audit Quality Performance Reviews (QPRs)

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

## Risk-based approach

Each engagement leader is reviewed at least once in a 3 year cycle. A risk-based approach is used to select engagements. The reviews are performed at a KPMG CI level and their completion and results are monitored regionally and globally. Member firm Audit QPR reviews are overseen by a senior experienced lead reviewer independent from the member firm.

## Reviewer selection, preparation and process

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

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

## Evaluations from Audit QPR

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

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

## Reporting

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

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

Lead audit engagement partners are notified of unsatisfactory engagement ratings on their respective cross-border engagements. Additionally, lead audit engagement partners of parent companies/head offices are notified where a subsidiary/affiliate of their client group is audited by a member

firm where significant quality issues have been identified during the QPR.

## Risk Compliance Programme (RCP)

KPMG International develops and maintains quality control policies and processes that apply to all member firms. These policies and processes and their related procedures, include the requirement of ISQC 1.

During the annual RCP, we 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 are to:

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

Where deficiencies are identified, we are required to develop appropriate action plans and monitor the status of each item.

## Global Compliance Review (GCR) program

Each 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 team performing the reviews is independent of the KPMG member firm and is objective and knowledgeable of Global Quality and Risk Management policies. GCRs assess compliance with selected KPMG International policies and procedures and share best practices among member firms. The GCR provides an independent assessment of:

- a 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; and
- a member firm's compliance with key KPMG CI policies and procedures; and
- the robustness with which the member firm performs its own compliance program (RCP).

# System of quality control (continued)

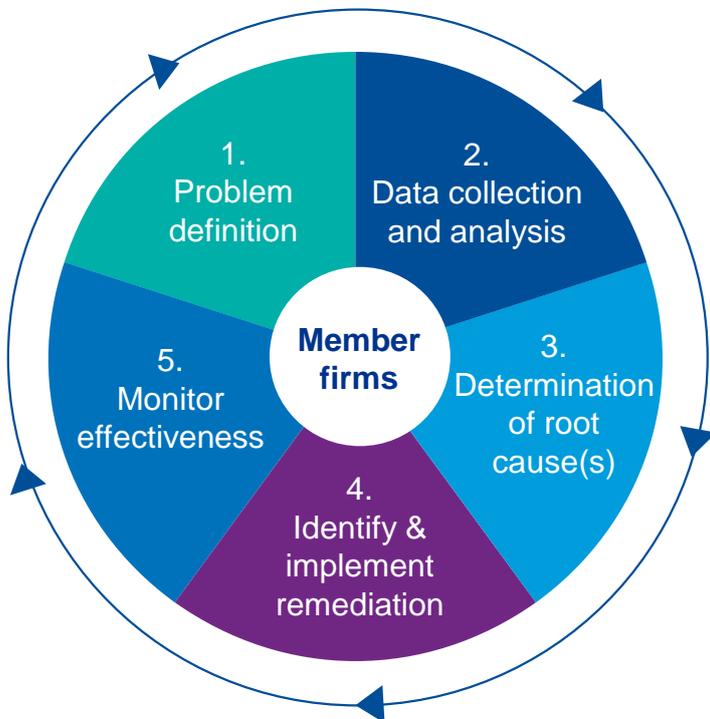
We develop action plans to respond to all GCR findings and agree these with the GCR team. Our progress on action plans is monitored by a Global GCR Central Team. Results are reported to the Global Quality & Risk Management Steering Group (GQ&RMSG), and where necessary to appropriate KPMG International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

### Root Cause Analysis (RCA)

KPMG CI performs root cause analysis to identify and address audit quality issues in order to prevent them from recurring and help identify good practices as part of

continuous improvement. In 2016, RCA training based on our Global RCA 5 Step Principles was attended by those individuals at KPMG CI who will be performing RCA or directing those performing RCA. The training provides a common platform for advancing the practices and skills associated with resourcing, planning and conducting RCA.

### The Global RCA 5 Step Principles are as follows:



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

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

### 4.8.2 Recommendations for improvements

At a global level, through the GAQSC and the GQ&RMSG, KPMG International reviews the results of the quality monitoring programs, analyses member firm root causes and action plans and develops additional global actions as required.

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

### 4.8.3 External feedback and dialogue

#### 4.8.3.1 Regulators

From 5 April 2010, there were changes to the requirements for firms that audit companies incorporated in one of the Crown Dependencies (Jersey, Guernsey and the Isle of Man) which have 'transferable securities' admitted to trading on a 'regulated market' in the EU. These requirements apply even if the firm or company is not operating in a Crown Dependency.

As a result of these changes, effective from 5 April 2010, KPMG CI is now subject to inspection by the Audit Quality Review team of the Financial Reporting Council ("AQR"). The AQR's first full inspection of KPMG CI commenced in May 2012 and the AQR's report was finalised in April 2013. The AQR's second full inspection commenced in May 2015 and its report was finalised in July 2016. Our third full inspection commenced in March 2018 and is currently ongoing.

KPMG CI's registration to audit entities with 'transferable securities' admitted to trading on a 'regulated market' in the EU was renewed by the Jersey Financial Services Commission and Guernsey Registry on 27 July 2016 and 28 July 2016 respectively.

# System of quality control (continued)

## 4.8.3.2 Client feedback

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

## 4.8.3.3 Monitoring of complaints

We have robust procedures in place for monitoring and addressing complaints received from clients relating to the quality of our work. These procedures are detailed in our general terms of business. All formal complaints are investigated by the Chairman and/or the Managing Director.



# 05- Quality in our Tax Practice

# Quality in our Tax Practice

KPMG International is committed to being a responsible tax practice. This is manifested in its Tax Quality Framework and the Global Principles for the Responsible Tax Practice.

## 5.1 The Tax Quality Framework

The Tax Quality Framework summarizes KPMG's quality and risk management initiatives for tax by outlining the six drivers of tax quality. It is our global framework, applicable to all member firms. It is how we deliver on our commitment to become the Clear Choice for Tax.



### 5.1.1 Tone at the Top

All of our leaders live our values, show leadership and act with integrity.

### 5.1.2 Monitoring and Improvement

To foster continuous improvement, we measure our performance against client expectations and professional standards.

### 5.1.3 Engagement Performance

Our processes enable the production of high quality deliverables for our clients

### 5.1.4 Clients and Services

Our acceptance processes allow us to understand the

background and business profile of our clients.

### 5.1.5 Standards

By observing the highest level of objectivity and integrity we meet professional standards and gain the trust of our clients.

### 5.1.6 People

Matching the right people with each specific engagement leads to the success of our clients and our network.

## 5.2 Global Principles for a Responsible Tax Practice

Our Principles for a Responsible Tax Practice bring to life KPMG's values and our Global Code of Conduct in a way that is meaningful for the everyday situations we face as tax professionals.

- We act lawfully and with integrity and expect the same from our people, our firms' clients, tax authorities and other parties with whom we interact. Above all else, in every respect our work shall be fully compliant with relevant legal, regulatory and professional requirements.
- We are committed to providing clients with high quality tax advice tailored to their particular circumstances.
- We shall explain clearly and objectively to our clients the technical merits and the sustainability of any tax advice we give.
- Whenever relevant and practical to assess, we may discuss with clients any likely impact of any tax advice we give on relevant communities and stakeholders and any potential reputational risk.
- We shall make recommendations to clients only where:
  - i) we consider, at least on the balance of probabilities, that the relevant interpretation of law is correct; or
  - ii) it otherwise clearly meets the applicable local professional standards.
- We shall only advise clients to enter into, or assist them to implement, transactions or arrangements on the basis that they have any substance required by law, as well as any business, commercial or other non-tax purpose required by law.
- We shall not advise clients to enter into transactions with the purpose of securing a tax advantage clearly and unambiguously contrary to the relevant legislation and shall not assist them to implement such transactions. If, in our view, the language of the

# Quality in our Tax Practice (continued)

legislation is uncertain, we shall consider the intention of the relevant legislators when advising clients.

We support a relationship with tax authorities aimed at building mutual trust and respect which will enable constructive dialogue and responsiveness by all parties, facilitate compliance and reduce or assist in early resolution of disputes.

We shall comply with all our disclosure requirements and advise our clients to do the same.

When advising clients on entering into transactions we shall do so on the understanding that all material facts will be known to the tax authorities.

## 5.3 Policies and Procedures to Prevent the Facilitation of Tax Evasion

### Introduction

The Criminal Finances Act 2017 ("the Act") is UK legislation which came into force on 30 September 2017. A key aspect of the Act is the introduction of corporate criminal offences of the failure to prevent the facilitation of tax evasion ("the corporate criminal offences"). From 30 September, it is an offence for the organisation if someone within it or an associate helps to facilitate tax evasion and the organisation does not have in place 'reasonable procedures' to prevent it

As a firm engaged in the provision of a wide array of services, which include tax advice and auditing entities that may have been established for tax purposes, the offences are highly relevant to KPMG CI's business activity and create a heightened risk environment in respect of all our services. This is because, whilst KPMG CI (or member firms) would not intentionally facilitate tax evasion, the corporate criminal offences could arise not simply through the provision of tax related services but, for example, through other projects (e.g. restructuring engagements or assurance and related services to entities used in a tax structure) and /or through KPMG's own contracting and billing processes.

The Corporate Criminal Offences

There are three stages to the corporate criminal offences:

1. Criminal tax evasion by a taxpayer under the existing law;
2. Criminal facilitation of this offence by an associated person (including employees and agents); and
3. The entity failing to prevent its representative from committing the criminal act at Stage 2.

There does not need to be a conviction for either Stage 1 or Stage 2 for the third stage to be present.

The only defence an organisation has is that it had reasonable procedures in place to prevent the criminal facilitation, or, that it was reasonable for that organisation not to have procedures. Organisations that are found guilty under this offence are subject to an unlimited fine and a criminal conviction, which could lead to action by the Financial Conduct Authority (FCA) against approved persons, potential exclusion from governmental contracts, loss of licenses and reputational damage. It is likely to have a similar impact in the Channel Islands.

### Reasonable procedures

KPMG CI has long been alert to the potential risk of facilitating tax evasion within its business. As such we have processes and procedures to enable the risk assessment and to prevent any potential involvement in facilitation. In particular, vigilance against tax evasion has been a feature of the Islands' regulatory regime for many years. HMRC guidance sets out six principles that underlie what they consider to be reasonable procedures for an organization to ensure there is no Failure to Prevent ("FTP") the facilitation of criminal tax evasion.

### Principle 1 - Risk assessment

The relevant body assesses the nature and extent of its exposure to the risk of those who act for or on its behalf engaging in activity during the course of business to criminally facilitate tax evasion.

The mature financial services sector in the Channel Islands, allied with low or zero taxes for non-residents, means that there is a heightened risk of tax evasion activities within KPMG CI's marketplace. As a consequence of this and related regulatory requirements, we have nominated experienced partners within the practice with specific risk management responsibilities; this includes a partner within the tax department, who has over 25 years' professional experience. In addition there is a full-time dedicated Risk and Compliance team of four individuals, one at senior manager level.

Under global rules, KPMG CI is required to undertake an Enterprise Risk Assessment annually. The ERA is prepared by the firm's Senior Partner, in conjunction with functional RMPs and considers the changing nature of our marketplace and any impact on that risk assessment. For the reasons stated above, this will always include the risks posed from tax evasion and its facilitation.

All staff are trained in anti-money laundering principles which includes the detection of tax evasion. New clients and new engagements are subject to due diligence and risk assessment, by the relevant client manager which is

# Quality in our Tax Practice (continued)

approved by the engagement director. Any risk assessed more than low is subject to a second partner approval. That assessment is documented and retained. The assessment is reviewed and renewed annually in most cases.

The wider risk team meet monthly to discuss current and emerging issues. The tax risk partner participates in the wider KPMG global tax risk team and attends annual tax risk management training.

## **Principle 2 - Proportionality of risk-based prevention procedures**

Reasonable procedures will be proportionate to the risk a relevant body faces of persons associated with it committing tax evasion facilitation offences. This will depend on the nature, scale and complexity of the relevant body's activities. We recognise that the reasonableness of prevention procedures should take account of the level of control and supervision the organisation is able to exercise over a particular person acting on its behalf, and the proximity of the person to the relevant body. The new offences do not require relevant bodies to undertake excessively burdensome procedures in order to eradicate all risk, but they do demand more than mere lip-service to preventing the criminal facilitation of tax evasion.

The firm is primarily an audit practice and the large majority of the audit client base are businesses that are either regulated by the JFSC and GFSC or are administered by regulated businesses. Whilst this does not eliminate the risk of the facilitation of tax evasion within our client base, it does reduce the risk.

That said, all clients and engagements are evaluated and regularly reviewed to assess the risk profile and to ensure that does not change.

All new client engagements come from a direct relationship between KPMG CI and the client or a referral from another KPMG member firm. In all cases, the same risk assessment of engagements is performed. Whilst the firm may be introduced to prospective clients by intermediaries such as law firms and administrators, in all cases, we will have a direct relationship with the client and all normal evaluation and risk assessment procedures are applied.

It is also important to note the requirements placed on individual staff members. Prior to joining the firm, all prospective employees are subject to screening, including police checks, and references are requested. All partners and staff are committed to abiding by the KPMG Global Code of Conduct. Further, annual training in ethics and anti-money laundering is mandatory for all personnel at all levels. These include clear procedures on how personnel should report



# Quality in our Tax Practice (continued)

suspicions of tax evasion and money laundering, as well as unethical behavior by colleagues. Finally, directors and staff are not remunerated or otherwise rewarded by reference to tax savings for clients or similar metrics.

## Principle 3 - Top level commitment

The top-level management of a relevant body should be committed to preventing persons associated with it from engaging in criminal facilitation of tax evasion. They should foster a culture within the relevant body in which activity intended to facilitate tax evasion is never acceptable.

The senior leadership of KPMG CI are committed to preventing the facilitation of tax evasion. The firm RMP is a member of the management committee. As stated above, each function has a partner charged with risk management responsibility. The risk committee, comprised of the firm and functional RMPs, the Ethics & Independence Partner and senior members of the Compliance Team, meet monthly and formulate risk policy (including tax evasion detection and prevention) all policies and procedures are approved by the Board and communicated to all personnel.

In 2012, KPMG CI adopted the Principles of a Responsible Tax Practice. This commitment was communicated to all staff through training and notification on the portal. In 2017, the firm adopted the revised Global Principles and again communicated this to all personnel.

Regular communications from senior leadership (in particular from successive Senior Partners) unequivocally articulate the Firm's zero tolerance for facilitation of tax evasion.

## Principle 4 - Due diligence

The organisation applies due diligence procedures, taking an appropriate and risk based approach, in respect of persons who perform or will perform services on behalf of the organisation, in order to mitigate identified risks.

As stated above, KPMG CI has rigorous due diligence procedures for taking on new clients and new engagements. When delivering those engagements, all work is undertaken by directly employed personnel (apart from the occasional contractor) supervised by directors. It is a strict requirement of the firm that all work is subject to review by a senior staff member and all final deliverables

are required to be approved by the engagement director (with the exception of routine compliance work that nonetheless requires review by an experienced senior staff member). This manner of engagement performance reduces the scope for individual personnel to deviate from firm policy in regard to the prevention of tax evasion.

To ensure compliance with these procedures, a range of independent reviews are undertaken.

The Compliance team undertake regular reviews or checks of engagement evaluations and report the results to heads of function and functional RMPs.

All engagement leaders are reviewed at least once every three years by a review team, made up of senior personnel from other KPMG offices. These reviews included detailed examination of engagement files.

All functions include some form of review of engagements by other personnel independent of the engagement teams.

The outcome of these reviews feed into individuals' annual performance appraisal.

## Principle 5 - Communication (including training)

The organisation seeks to ensure that its prevention policies and procedures are communicated, embedded and understood throughout the organisation, through internal and external communication, including training. This is proportionate to the risk to which the organisation assesses that it is exposed.

The firm has a strict policy of annual AML training that also includes wider risk issues, such as facilitation of tax evasion. It is mandatory for all partners and staff to attend this training.

Furthermore, through the internal portal regular updates on risk management matters are communicated. Within the tax function, specific risk management updates are delivered by the Tax RMP to all staff. This always includes awareness of the particular risks faced in providing tax services. The zero tolerance to facilitation of tax evasion is communicated as well as detailed

# Quality in our Tax Practice (continued)

guidance on the Global Principles for the Responsible Tax Practice.

KPMG CI makes clear its commitment to ethical behavior and to the principles of responsible tax on its website. A summary of this document has been placed on our website for public consumption. The full document will be made available to clients and associates on request to assist them in discharging their own responsibilities under the Act.

## Principle 6 - Monitoring and review

The organisation monitors and reviews its prevention procedures and makes improvements where necessary.

There are a number of existing arrangements that enable the review and improvement of procedures to detect and prevent the facilitation of tax evasion:

- The annual Enterprise Risk Assessment process;
- The monthly meeting of the risk committee;
- The attendance by functional RMPs at KPMG risk management training events;
- Updates and communications from the JFSC and GFSC.

## Associated persons

An entity may have committed an offence where an “associated person” has criminally facilitated the evasion of tax. An associated person is an agent (either a person or entity) who provides services for or on behalf of the entity. The firm needs to consider what FTP risk there is in relation to the work of associated persons and whether additional policies or safeguards are required.

Possible associated persons for KPMG CI include:-

- Employees;
- Contractors;
- Alliance partners;
- KPMG member firms (e.g. via Multi-Firm Engagements (MFEs) or otherwise);
- Third party service providers.

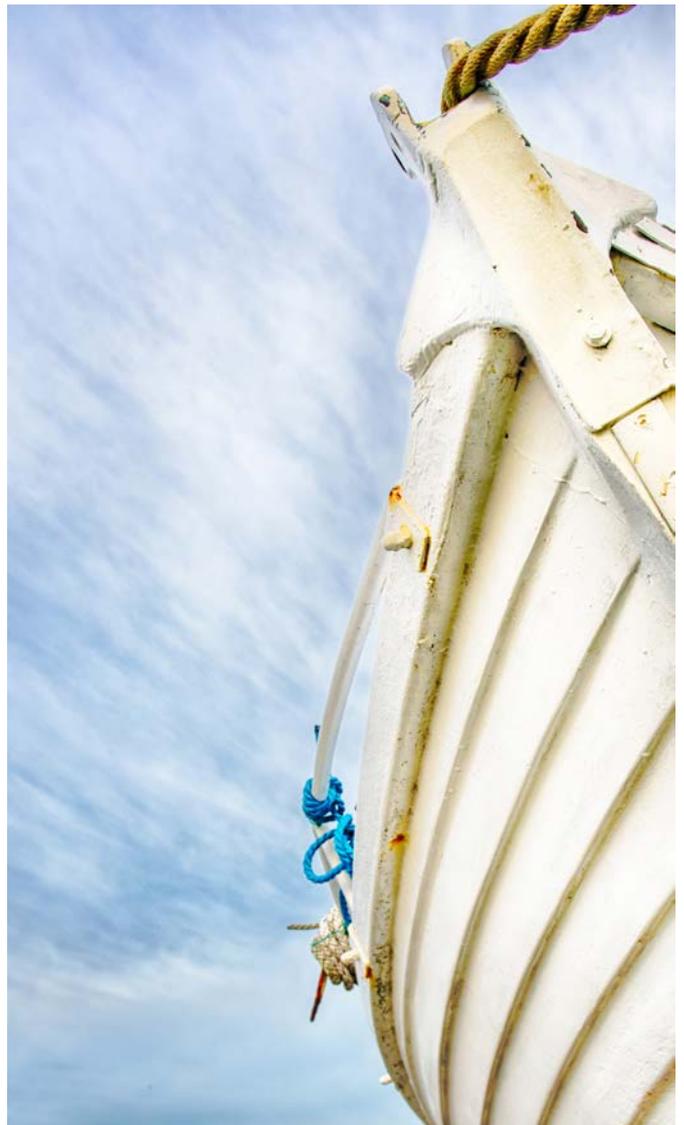
Employees are covered in the assessment above. Contractors, to the limited extent that they are used, are subject to the same policies, procedures and screening as employees.

We interact with other KPMG member firms in two ways: as Originating Firm and as Participating Firm. In the case of the former, we have the direct relationship with the client and the other member firm will be acting only under our instruction.

Therefore, our FTP procedures should be sufficient in managing any risk in these situations.

In the case of the latter, as mentioned, even when we are instructed by another member firm, we will nonetheless complete our normal engagement evaluation procedures. So no additional FTP procedures should be required.

We do not use third party service providers in the direct delivery of services to clients without the control and supervision by KPMG CI personnel. When clients are introduced to us by third parties, as already stated, our normal client and engagement evaluation provisions are applied.



# 06 – Financial information

# Financial information

The results set out below for the year to 30 September 2018 have been extracted from the draft KPMG CI accounts which have yet to be finalised and approved by the Board. The amounts in respect of 2017 have been extracted from the approved accounts.

**Total fee income for the year to 30 September 2018 was £30.18m (2017 - £28.5m)**

<b>£ million</b>	<b>FY18</b>	<b>FY17</b>
Audit	*20.45	21.20
Non-audit services for audit clients	**3.66	2.10
Other assurance, tax, advisory	6.07	5.20

\*included in this figure is £3.7m of income from public interest entity clients (£3.3m 2017).

\*\*included in this figure is £0.1m of income from public interest entity clients (£0.1m 2017).

The classification above for audit work includes a small proportion of revenues derived from other assurance services which are directly related to audit.

# 07 – Director remuneration

# Director remuneration

Directors who own an equity interest in the firm (“Executive Directors”) are remunerated out of the distributable profits of the firm as set out in the KPMG CI accounts and as approved by the Board.

The determination of the profits available for distribution is based on the results of the firm as a whole and is not dependent directly on the performance of any particular line of business or function. The final allocation of profits to the Executive Directors is made after assessing each director’s contribution for the year. This assessment is considered on an individual basis by the Chairman and Managing Director.

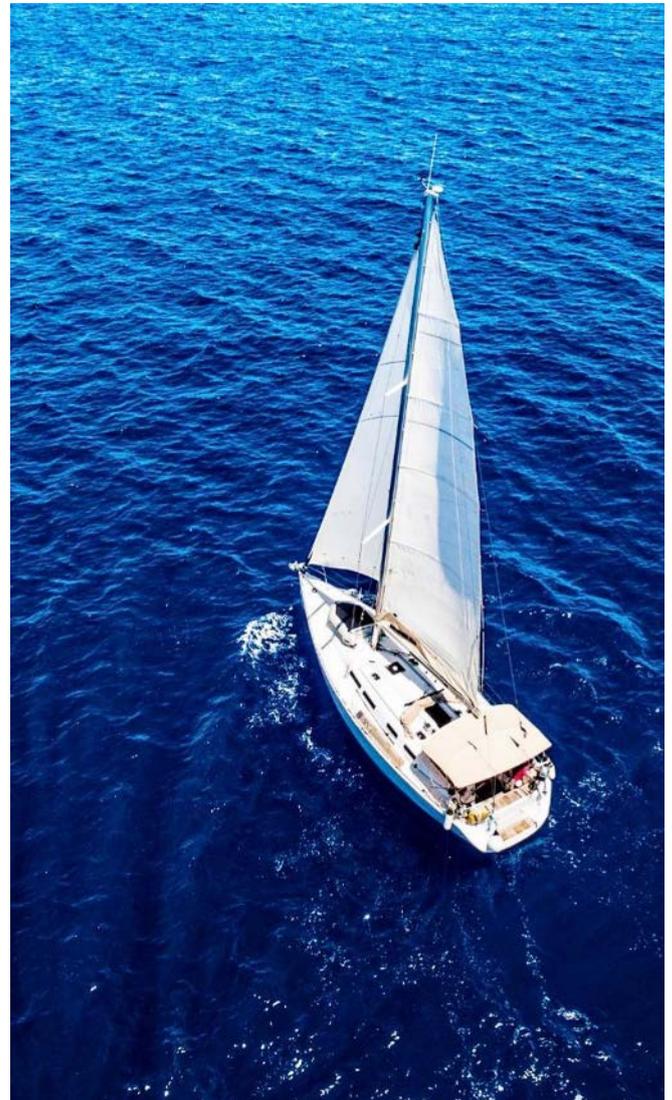
The Chairman and Managing Director consider each director’s own view of performance against objectives over the previous financial year, receive a report from functional leadership on his/her individual performance for the year and input from the Risk Management Partner and Ethics and Independence Partner setting out any observations he or she may wish to make on the quality of work performed by directors during the year.

Executive director remuneration comprises an element which reflects the seniority and experience of each director plus an element which reflects individual performance.

Our policies for all elements of director remuneration take into account a number of factors including quality of work, results of the quality and compliance matrix, excellence in client service, growth in revenue and profitability, leadership and supporting the firm’s values.

Directors of the firm who do not hold an equity interest are remunerated based on a fixed salary plus a discretionary bonus dependent on their individual performance against set objectives (which include objectives covering the above factors) and the performance of the firm as a whole.

Audit directors are not permitted to have any objectives related to, or receive any remuneration based on, selling non-audit services to their audit clients.



# 08 - Network arrangements

# Network arrangements

## 8.1 Legal structure

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

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 its member firms.

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

KPMG International is an entity that is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture or in a principal or agent relationship or partnership with each other. No 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 oblige 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](#).

Total turnover achieved by EU/EEA audit firms resulting from the statutory audit of annual and consolidated financial statements .

Aggregated revenues generated by KPMG audit firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.8 billion during the year ending 30th September 2018. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent calculable and translated at the average exchange rate prevailing in the 12 months ended 30th September 2017.

*The financial information set forth represents combined information of the separate KPMG member firms from EU and EEA Member States that perform professional services for clients. The information is combined here solely for presentation purposes. KPMG International performs no services for clients nor, concomitantly, generates any client*



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## 8.2 Responsibilities and obligations of member firms

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

## 8.3 Professional Indemnity Insurance

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

## 8.4 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, therefore,

# Network arrangements (continued)

only has members, not shareholders). Among other things, the Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 56 member firms that are "members" of KPMG International as a matter of Swiss law. Sublicenses are generally indirectly represented by a member.

## Global Board

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International, and approving policies and regulations. It also admits member firms and ratifies the Global Chairman's appointment of the Global Deputy Chairman.

The Global Board includes the Global Chairman, the Global Deputy Chairman, the Chairman of each of the 3 regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)) and a number of senior partners of member firms.

It is led by the Global Chairman, who is supported by the Executive Committee, consisting of the Global Chairman, the Global Deputy 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 1 October 2018 is available in the International Annual 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 Deputy Chairman and includes the Global Chairman, the Global Chief Operating Officer, global function and infrastructure heads, and the General Counsel.

The list of Global Management Team members as at 1 October 2018 is available in the International Annual Review.

## Global Steering Groups

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;
- proactively identify and mitigate critical risks to the network.

The Global Steering Groups act under the oversight of the Global Management Team. The roles of the Global Audit Steering Group and the Global Quality & Risk Management Steering Group are detailed in the [KPMG International Transparency Report](#).



# Network arrangements (continued)

Each member firm is part of one of 3 regions (the Americas, ASPAC, and EMA). Each region has a Regional Board comprising a regional chairman, regional chief operating officer, representation from many 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, which is available [here](#).

## 8.5 Area Quality & Risk Management Leaders

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

- serve a regular and ongoing monitoring and consultation function to assess the effectiveness of a 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 GQ&RM leadership.

The objectives of the ARL role are to:

- assist GQ&RM leadership in the monitoring of member firms in an effort to reduce the number of significant brand and legal risk matters;
- work with GQ&RM leadership and the International Office of General Counsel (IOGC) when significant brand and legal risk issues occur to assist in ensuring that matters are properly handled to reduce negative brand and financial impact; and
- monitor the effectiveness of member firm remediation of significant issues, including identification of the root cause(s) of serious quality incidents.



09 - Statement by  
the board of KPMG CI  
on the effectiveness  
of quality controls  
and independence

# Statement by the board of KPMG CI on the effectiveness of quality controls and independence

The measures and procedures that serve as the basis for the system of quality control for KPMG CI outlined in this report aim to provide a reasonable degree of assurance that the statutory audits carried out by KPMG CI comply with the applicable laws and regulations.

The Board of KPMG CI has considered:

- the design and operation of the quality control systems as described in this report;
- the findings from the various compliance programmes operated by our firm (including the KPMG International Review Programmes as described in section 4.8.1 and our local compliance monitoring programmes); and
- findings from regulatory inspections and subsequent follow up and/or remedial actions.

Taking all of this evidence together, the Board of KPMG CI confirms with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 30 September 2018.

Further, the Board of KPMG CI confirms that an internal review of independence compliance within our firm has been conducted in the year to 30 September 2018.



# Appendices

# Appendix 1

# Appendix 1 – Key legal entities and areas of operation

Name of Entity	Legal Structure	Regulatory Status	Nature of Business	Area of operation
KPMG Channel islands Limited	Jersey limited liability company	Subject to audit regulation under Crown Dependencies' Audit Rules	Professional services	Channel Islands

# Appendix 2

# Appendix 2 – Management Committee

## Senior team members



**Jason Laity**  
Chairman



**John Riva**  
Head of Tax



**Ashley Paxton**  
Head of Advisory



**Andrew Quinn**  
Head of Audit



**Neale Jehan**  
Managing Director



**Debbie Smith**  
Deputy Head of Audit and  
Channel Islands Risk  
Management Partner

# Appendix 3

## Appendix 3 – Market traded companies\*

- Aberdeen Emerging Markets Investment Company Limited
- Acorn Income Fund Limited
- Alcentra European Floating Rate Income Fund Limited
- Apax Global Alpha Limited
- Argentina Synthetic Sovereign Investments (Jersey) Limited
- Ashmore Global Opportunities Limited
- AXA Property Trust Limited
- BH Global Limited
- BH Macro Limited
- Bluefield Solar Income Fund Limited
- Celsius Capital PCC Limited
- db ETC Index Plc
- db ETC Plc
- ETFS Commodity Securities Limited
- ETFS Equity Securities Limited
- ETFS Foreign Exchange Limited
- ETFS Hedged Commodity Securities Limited
- ETFS Hedged Metal Securities Limited
- ETFS Metal Securities Limited
- ETFS Oil Securities Limited
- Fair Oaks Income Fund Limited
- GCP Infrastructure Investments Limited
- Gold Bullion Securities Limited
- Henderson Far East Income Limited
- HICL Infrastructure Company Limited
- Marble Point Loan Financing Limited
- Merian Chrysalis Investment Company Limited
- NB Distressed Debt Investment Fund Limited
- NB Private Equity Partners Limited
- Oryx International Growth Fund Limited
- ÖVAG Finance (Jersey) Limited
- Picton Property Income Limited
- RZB Finance (Jersey) III Limited
- Schroder Real Estate Investment Trust Limited
- Sequoia Economic Infrastructure Income Fund Limited
- Sirius Aircraft Leasing Fund Limited
- Tetragon Financial Group Limited
- Volta Finance Limited
- Yatra Capital Limited

\*Market Traded Companies are defined as companies incorporated in one of the Crown Dependencies (Jersey, Guernsey and the Isle of Man) which have transferable securities admitted to trading on a 'regulated market' in the EU

# Appendix 4

# Appendix 4 – KPMG’s global values

	<p><b>We lead by example</b></p>	<p>At all levels we act in a way that exemplifies what we expect of each other and our clients.</p>
	<p><b>We work together</b></p>	<p>We bring out the best in each other and create strong and successful working relationships.</p>
	<p><b>We respect the individual</b></p>	<p>We respect people for who they are and for their knowledge, skills and experience as individuals and team members.</p>
	<p><b>We seek the facts and provide insight</b></p>	<p>By challenging assumptions and pursuing facts, we strengthen our reputation to provide insight as trusted and objective business advisers.</p>
	<p><b>We are open and honest in our communication</b></p>	<p>We share information, insight and advice frequently and constructively and manage tough situations with courage and candor.</p>
	<p><b>We are committed to our communities</b></p>	<p>We act as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities.</p>
	<p><b>Above all, we act with integrity</b></p>	<p>We are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.</p>



[kpmg.com/channelislands](https://kpmg.com/channelislands)



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