



2020 Transparency Report

Our relentless focus on quality

KPMG Channel Islands Limited

kpmg.com/channelislands

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Our Values represent what we believe in, and what's important to us as an organisation. They guide our behaviors day-to-day, informing how we act, the decisions we make, and how we work with each other, our clients, companies that we audit, and all our stakeholders.

Our Values are:

- **Integrity:** We do what is right.
- **Excellence:** We never stop learning and improving.
- **Courage:** We think and act boldly.
- **Together:** We respect each other and draw strength from our differences.
- **For Better:** We do what matters.

KPMG's Values express the organisation's long-standing core beliefs, and in 2020 the language was updated to make them bolder, simpler and more memorable to help each of us bring them to life every day.

Message from our Chairman

Welcome to the 2020 KPMG Channel Islands Limited ("KPMG CI"), transparency report providing information about our firm as at 30 September 2020 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 2020 and builds on our Values and defines who we are and how we act – all 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 take our commitment to audit quality very seriously and are continually investing in people, our control environment and digital solutions.

We will not be complacent as expectations of auditors increase and will continue to regularly 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 several people in our firm play key roles in wider KPMG quality initiatives.

Our 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.

2020 has certainly been an unprecedented and disruptive year as the world reacts to COVID-19. Our first priority in early 2020 was to the safety of our people, moving to remote working ahead of government guidance to protect ourselves and to continue to deliver to our clients. We service industry sectors that are likely to remain buoyant post COVID and, therefore, we continued to recruit throughout the initial lockdown which will allow us to match the increased demand for our services and more importantly, continue to invest in and deliver on our audit quality objectives.

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.¹



Neale Jehan

Chairman
KPMG Channel Islands Limited
March 2021²
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¹ Throughout this document, "KPMG" refers to the network of independent member firms operating under the KPMG name and affiliated with KPMG International Cooperative ("KPMG International") or to one or more of these firms or to KPMG International. KPMG International, a Swiss entity, provides no client services. Throughout the document, "we", "our", and "us" refer to KPMG Channel Islands Limited. KPMG Channel Islands Limited is a member firm of the KPMG network of independent member firms affiliated with KPMG International. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

² Following 30 September 2020, KPMG Channel Islands Limited entered into a series of agreements to work more closely with KPMG in the Isle of Man that culminated in an announcement of the merger of the two businesses from 1 January 2021. The merger allows the new KPMG in the Crown Dependencies business to invest in Quality across a larger platform and to embed some significant preparatory steps for the operational separation of the Audit function. More detail will be included in our Transparency Report for 2021

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

We define “audit quality” as 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.

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

Message from our Head of Audit

KPMG CI Audit has had a successful year both in terms of audit quality and growth. As I have said before, audit quality and building trust with our stakeholders remains the foundation of our success and without audit quality and trust we will not have any growth.

The last 6 months of the financial year presented many challenges as a result of the COVID-19 pandemic, especially the changes in working practices that were required due to the lockdowns and increases in working from home. I am extremely proud of how everyone in the Channel Islands Audit team rose to these challenges, maintained our quality and worked as a cohesive supportive team.

During 2020 we rolled out several additional audit quality initiatives as part of KPMG's Global Audit Quality Transformation Programme, such as:

- A new Second Line of Defence Programme on a selection of public interest entity audits
- Added additional resources to our dedicated Audit Quality Team
- Became a key member of the KPMG Islands Group Audit Quality and Professional Practice Group
- Extended our deployment of KPMG's new smart audit platform, KPMG Clara, which integrates a new workflow and methodology with powerful technology to enhance the audit process
- Enhanced our monthly Channel Islands Audit Quality and DPP bulletins and rolled out bite-size back-to-basics audit methodology training
- Continued development of standardised audit working papers and industry guidance for common types of clients

Audit is the foundation of the KPMG brand and has been the backbone of our business in the Channel Islands for nearly 50 years. Locally KPMG CI is determined to set the standard for quality across our profession.

As Head of Audit, I understand the responsibility we have in building an audit practice ready for a very different future. To do this, I have three goals: excellent audit quality; to be the most trusted and trustworthy firm in the Channel Islands; and sustainability for our business and our people.

This message does not cover events occurring after 30 September 2020, which will be covered in the next report.



Andrew Quinn

Head of Audit
KPMG Channel Islands Limited
March 2021

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2. Who we are

2.1 Our business

KPMG 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 277 directors and employees in the year to 30 September 2020 (an average of 265 in the year to 30 September 2019).

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

Full details of the services offered by KPMG CI can be found on our website www.kpmg.com/channelislands.

2.2 Our strategy

Our strategy is set by the KPMG CI Board, and demonstrates a commitment to quality and trust. Our focus is to invest significantly in priorities that form part of a multi-year collective strategy implementation that is taking place across our entire global organisation.

3. Our structure and governance

3.1 Legal structure

KPMG CI is a Jersey registered private company and is affiliated with KPMG International Cooperative (“KPMG International”). KPMG International is a Swiss cooperative which is a legal entity formed under Swiss law. Prior to 1 October 2020 it was the coordinating entity for the network and the entity with which all the member firms of the KPMG organisation were required to be affiliated with. Further details about KPMG International and its business activities, including our relationship with it for the financial year ending 30 September 2020, are available in the ‘Governance and leadership’ section of the [2019 KPMG International Transparency Report](#) and the [2020 KPMG International Transparency Report](#).

During the year to 30 September 2020, there was an average of 24 directors in KPMG CI (22 in 2019).

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.

Legal structure and ownership from 1 October 2020

On 1 October 2020, KPMG CI and all other KPMG firms entered into new membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organisation became members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee. KPMG International Limited acts as the coordinating entity for the overall benefit of the KPMG member firms. It does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

Further detail on the revised legal and governance arrangements for the KPMG global organisation from 1 October 2020 can be found in section ‘Governance and leadership’ of the [2020 KPMG International Transparency Report](#).

3.2 Name, ownership and legal relationships

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

Member firms are generally locally owned and managed. Each member firm is responsible for its own obligations and 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

Pursuant to their membership agreements with KPMG International, member firms are required to comply with KPMG International’s policies, procedures 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 which are set out at the beginning of this document.

KPMG International’s activities are funded by an annual payment paid to it 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 organisation may be terminated if, among other things, it has not complied with the policies, procedures and regulations set by KPMG International or any of its other obligations owed to KPMG International.

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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.

Chairman Appointment Process

On 1 October 2019, Neale Jehan was appointed as Chairman of KPMG Channel Islands Limited. The process to identify and appoint a Chairman of the Board involved both the local Board of Directors and KPMG at a regional level. Neale's background as a previous Head of Audit of the Company who understands the challenges the profession faces to restore trust in audit was an important factor in his appointment as Chairman.

The Board

The Board consists of 24 members, being the Chairman, Managing Director and 22 other directors. The Board meets at least quarterly, and during the year ended 30 September 2020 the Board met four times. It is the Board's responsibility to steward the business, manage the statutory affairs and direct strategy. The Board delegates certain activities to the Management Committee to action between full meetings of the Board.

The Management Committee

Details of who comprises the Management Committee of KPMG CI are set out in Appendix 2. The Management Committee meets monthly and is responsible for taking action on key matters delegated to it by the Board to ensure that the business can respond proactively in between meetings of the full Board.

The Operations Committee

The Operations Committee consists of a range of the Managing Director and employees from all functions of the firm who meet monthly and is responsible for taking action on routine operational matters and driving various operational projects of the business.

The Audit Quality Panel

The Audit Quality Panel, chaired by the Head of Audit, reports to the senior partner and ensures risk and quality matters are a priority for audit leadership.

Specifically, its responsibilities include:

- driving effective and timely implementation of Audit Quality initiatives and policies;
- meeting at least once each quarter or on an ad-hoc basis as required with members of the Audit Quality Panel to receive reports on Audit Quality monitoring activities and confirm priority for the audit quality actions;
- providing input and commentary on draft policies and workpapers;
- monitor emerging issues and consult with KIG AQPP in determining the local action in response to the emerging issues; and
- act as the ultimate reviewer of the inputs and outputs of the Root Cause Analysis process and to serve as a challenge panel in determining the root cause of quality issues.

4. System of quality control

Overview

Tone at the top, leadership, and a clear set of Values and conduct are essential to set the framework for quality. However, these are required to be backed up by a system of quality control that ensures our performance meets the highest professional standards.

To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver a quality audit, KPMG has developed the Audit Quality Framework, based on International Standards on Quality Control (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), which apply to professional services firms that perform audits of financial statements.

KPMG International has quality control policies that apply to all member firms. These are included in KPMG’s Global Quality & Risk Management Manual (GQRM) which applies to all KPMG personnel. KPMG CI is required to establish and maintain a system of quality control and design, implement, and test the operating effectiveness of quality controls.

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

Quality control and risk management are the responsibility of all KPMG CI directors and employees. 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 directors and employees wherever they are based.

We are implementing our program to adopt the new international standard on quality management (ISQM 1), which was approved by the IAASB in September 2020 and is expected to be effective from December 2022. ISQM 1 requires each KPMG firm to design, implement and operate a system of quality management to consistently deliver quality audits, and to evaluate the

effectiveness of the system on an annual basis.

While this Transparency Report summarises KPMG’s approach to audit quality, it may also be useful for stakeholders interested in a member firm’s tax and advisory services, as many KPMG quality control procedures and processes are cross-functional and apply equally to all services offered.

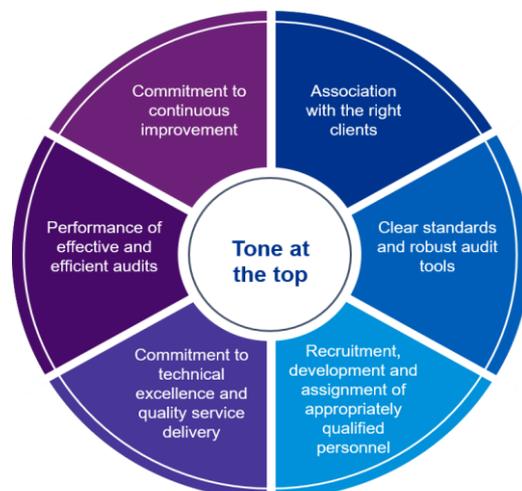
Audit quality framework

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 auditors’ report. The outcome of a quality audit is the delivery of an appropriate and independent opinion in compliance with relevant professional standards and applicable legal and regulatory requirements.

To help all audit professionals concentrate on the fundamental skills and behaviours required to deliver a quality audit, KPMG International has developed the Audit Quality Framework.

KPMG’s audit quality framework introduces a common language that is used by all KPMG firms to describe what drives audit quality and to help highlight to their audit professionals how they contribute to its delivery

‘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 all KPMG firms. All the other drivers create a virtuous circle, because each driver is intended to reinforce the others.



4.1 Tone at the Top

KPMG global leadership, working with regional and member firm leadership, 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 organisation that carries out audits and other services on which stakeholders rely.

At KPMG CI we promote a culture in which consultation is encouraged and recognised 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 to earn public trust.

The KPMG Values are set out at the beginning of this document.

KPMG Global Code of Conduct

Outlined in KPMG’s Global Code of Conduct are the responsibilities all KPMG personnel have to each other, our clients, and the public. It shows how our Values inspire our greatest aspirations and guide all of our behaviours and actions. It defines what it means to work at and be part of KPMG, as well as our individual and collective responsibilities.

Our Values lie at the heart of the way we do things. To do the right thing, the right way. Always. They drive our daily behaviours, guide our decisions, and shape our admissions. They form the foundation of a resilient culture ready to meet challenge with integrity, so we never lose sight of our principal responsibility to protect the public interest. And they propel us forward — through our work and the example we set — as we inspire confidence and empower change throughout the world.

All KPMG CI directors and employees are required to: comply with the KPMG Global Code of Conduct and

- confirm their compliance with the Code of Conduct; and
- complete regular training covering the Code.

We are committed to holding ourselves accountable for behaving in a way that is consistent with the Code. Individuals are encouraged to speak up if they see something that makes them uncomfortable or that is inconsistent with our 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 our Values, KPMG policies, applicable laws, regulations or professional standards.

To safeguard this, each KPMG firm is required to have procedures and established channels of communication so that anyone working there can report suspected ethical and quality issues or concerns

In addition, the [KPMG International hotline](#) is a mechanism for KPMG personnel, clients and other third parties to confidentially report concerns they have relating to certain areas of activity by any KPMG International entity, activities of KPMG firms, or KPMG personnel.

All KPMG firms and personnel are prohibited from retaliating against individuals who have the courage to speak up in good faith. Retaliation is a serious violation of the Code, and any person who takes retaliatory action will be subject to their firm’s disciplinary policy.

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

4.2 Leadership responsibilities for quality and risk management

KPMG CI demonstrates commitment to quality, ethics and integrity, and communicates our focus on quality to clients, stakeholders and society. Our leadership plays a critical role in setting the right tone and leading by example — demonstrating an unwavering commitment to the highest standards of professional excellence and championing and supporting major initiatives.

Our leadership team is committed to building a culture based on quality, integrity and ethics, demonstrated through their actions - written and digital 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, Neale Jehan, 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’.

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Risk Management Partner

The Risk Management Partner (RMP) is responsible for setting overall professional risk management and quality control policies and monitoring compliance for KPMG CI. The RMP has a seat on the Management Committee and has a direct reporting line to the Senior Partner. The RMP consults with the appointed Area Quality and Risk Management Leader (ARL) when required. Quarterly updates are provided to the ARL who also visits the firm at least twice a year (subject to lockdown travel restrictions). Currently, the position of Channel Islands Risk Management Partner is held by Debbie Smith. The fact that role is a Management Committee position, and seniority of the reporting lines, underlines the importance that the firm places on risk and quality issues.

Ethics and Independence Partner

The Ethics and Independence Partner (EIP) has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG CI and like the RMP has a direct reporting line to the Senior Partner. The current EIP for KPMG CI is Antony Mancini.

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

The Audit, Tax, and Advisory functions – 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. They are responsible for the execution 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 in the firm

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

- setting the right 'tone at the top' by demonstrating an unwavering commitment to the 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; and
- 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 of KPMG CI met five times

during the year to 30 September 2020, (2019, four times) 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 actions are short term, in which case they are developed and communicated through the regular technical briefings issued to the whole Audit function of KPMG CI 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 the KPMG International Global Audit groups for consideration and potential development of solutions by the KPMG Global Solutions Group (KGSG) and the International Standards Group (ISG). For more information about the KGSG and the ISG refer to section 4.6.4.

Team Investing in continuous improvement

KPMG continues to invest significantly in audit quality across the global organisation. We are building on our sound audit quality foundations, both in terms of how we manage our firms and how we execute audit engagements. This means ongoing investment in our system of quality management, global monitoring of audit quality, enhanced support, and providing best-in class technology and tools for engagement teams.

Our global audit quality program supports consistent deployment of investments to enhance and drive a common approach.

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 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 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

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

KPMG's client and engagement acceptance and continuance policies and processes are designed to identify and evaluate

any potential risks prior to accepting or continuing a client relationship or performing a specific engagement.

KPMG firms are required to evaluate whether to accept or continue a client relationship or perform a specific engagement. Where client/engagement acceptance (or continuance) decisions pose significant risks, additional approvals are required. Leadership team is committed to building a culture based on quality, integrity and ethics, demonstrated through their actions - written and digital communications, presentations to teams and one-to-one discussions.

4.3.2 Client and engagement acceptance process

Client evaluation

KPMG CI undertakes an evaluation of the prospective client.

This involves obtaining enough information about the prospective 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 in order to carry out our detailed searches on the client, its key management, directors and owners.

Both Guernsey and Jersey have adopted strict anti-money laundering legislation, something the firm always must adhere to.

Engagement evaluation

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors are considered as part of this evaluation including potential independence and conflict of interest issues (using Sentinel™, KPMG's conflicts and independence checking system), intended purpose and use of the engagement deliverables, public perception, 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 directors and employees assigned to staff the engagement. The evaluation is made in consultation with other senior KPMG CI directors and employees 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 additional independence evaluation procedures, including

a review of any non-audit services provided to the client and of other relevant business, financial and personal 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.

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 required to be documented and resolved prior to acceptance.

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

4.3.3 Continuance process

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

Recurring or long running non-audit engagements are also subject to periodic re-evaluation.

In addition, clients and engagements are required to be re-evaluated if there is an indication that there may be a change in their risk profile, and as part of the continuous independence evaluation process, engagement teams are required to identify if there have been any changes to previously identified threats or if there are new threats to independence. The threats are then evaluated and, if not at an acceptable level, are eliminated or appropriate safeguards are applied to reduce the threats to an acceptable level.

4.3.4 Withdrawal process

Where KPMG CI comes to a preliminary conclusion that indicates that we should withdraw from an engagement or 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

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

4.4.1 Our approach to audit

The KPMG organisation has been investing significantly in evolving its 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, science, audit automation, data visualisation and more. Digital audit 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 managing and documenting the audit

KPMG’s commitment to audit quality during the COVID-19 pandemic

The COVID-19 pandemic has forced us all to think differently, we continue to respond to and embrace this challenge. Most organisations are likely to be impacted by the COVID-19 pandemic, either directly or indirectly, and the increased economic uncertainty and risk may have significant financial reporting implications. Issues including going concern, asset impairments and valuations will require careful judgment as organisations deal with a high degree of uncertainty and market volatility. KPMG firms’ role as auditors is to evaluate these judgements.

Since the start of the pandemic KPMG have maintained an online COVID-19 | Financial reporting resource centre to assist companies and other stakeholders understand potential accounting and disclosure implications.

KPMG International has issued extensive guidance to assist teams in addressing the various accounting, financial reporting and audit related matters arising from the impacts of the COVID-19 pandemic including going concern, asset impairments, valuations and related disclosures, materiality, risk assessment, group audits, inventory, subsequent events, audit evidence communications with Those Charged With Governance, and considerations for remote working environments.

KPMG’s guidance has been continually updated throughout the pandemic as other significant auditing, accounting and reporting issues have been identified.

KPMG is a technology-enabled organisation, with all audit technical accounting and auditing resources, guidance and audit platforms and tools available electronically, enabling the conversion to a remote working environment.

Communication has been increasingly important to everyone during the COVID-19 pandemic. We have leveraged our investments in technology to provide KPMG firms with more regular updates, including virtual meetings to share best practices and guidance.

Additionally in the Channel Islands, we utilised technology to have regular communication forums across the whole staff body and in teams or individually, to ensure that we connected with everyone in the organisation to support them during our transition into and out of office working and during periods of strict lockdown. Mental health and wellbeing, as well as meeting audit quality commitments, have been paramount in our response.

4.4.1.1 Consistent audit methodology and tools

Our audit methodology, tools and guidance are:

- globally consistent and fully compliant with the applicable standards, including International Standard on Auditing (ISA), Public Company Accounting Oversight Board (PCAOB) and the American Institute of CPAs (AICPA) and are supplemented to comply with local auditing standards and regulatory or statutory requirements by member firms
- inclusive of KPMG methodology interpretations that drive consistency in areas where the applicable standards are not prescriptive in the approach to be followed
- centred on identifying risk, focusing on risks of material misstatements and the necessary audit response
- made available to all KPMG audit professionals and required to be used, where necessary
- applied even where local auditing standards may be less demanding than the ISAs

The KPMG audit methodology is set out in KPMG’s Audit Manual (currently used with eAudit) and the KPMG Audit Execution Guide (for use with the KPMG Clara workflow) and includes additional requirements that go beyond the ISAs, which we believe enhance audit quality. The methodology emphasises applying appropriate professional skepticism 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 maintain compliance with standards and address emerging auditing areas of focus and audit quality results (internal and external). For example, as a result of the COVID-19 pandemic, many companies are experiencing significant financial uncertainty. We have issued guidance to our auditors on conducting audit procedures in a remote-working environment, raising awareness of key audit risks such as going concern and impairments and provided reminders of the importance of exercising professional skepticism taking appropriate actions if information is identified that is unexpected or unusual and may be indicative of potential management bias, a fraud risk or fraud.

KPMG firms may add local requirements and/or guidance in the Audit manual to comply with additional professional, legal or regulatory requirements.

Delivering through our current audit workflow

The current KPMG audit is enabled through eAudit an activity-based workflow and electronic audit file used by all KPMG firms.

eAudit is KPMG’s audit documentation workflow that

allows professionals to complete quality and consistent audits. eAudit integrates KPMG’s audit methodology, guidance and industry specific, 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 KPMG’s audit guidance, professional standards and documentation templates.

Investing for the future

While our current audit workflow and methodology are robust and consistent with all auditing standards’ requirements the changes we are making will enable us to execute on our objective of a relentless focus on audit quality and provide us with the platform to build in continuous enhancements as the power of new technologies develops.

We have laid the groundwork for this already with the launch of our smart audit platform, KPMG Clara, in 2017.

Audit solutions for today’s world

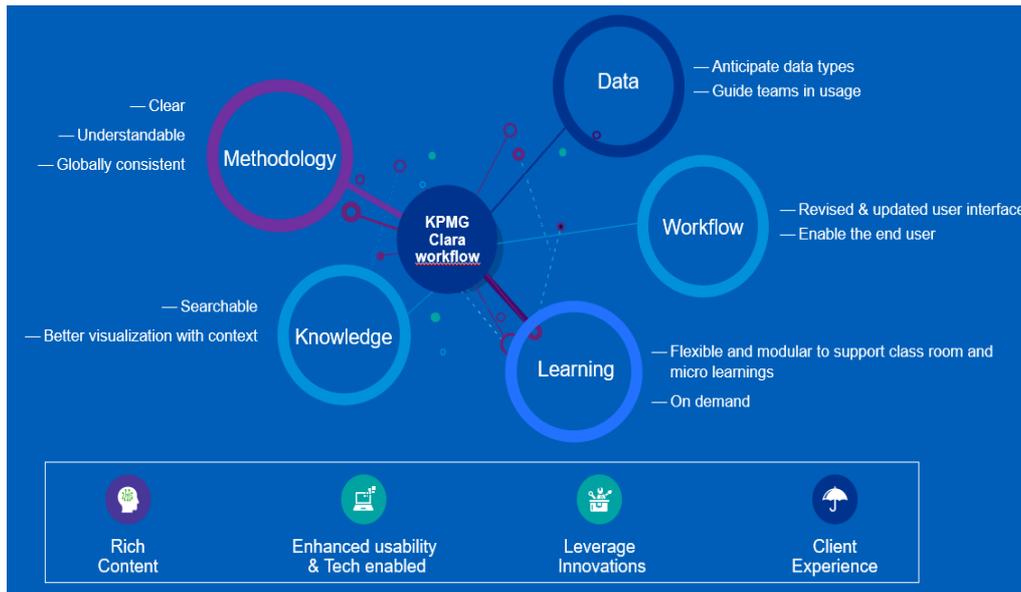
We recognise that in order to deliver quality audits, we need to continually evolve and develop our technology solutions to keep pace with today’s digital world.

That is why we embarked on a process of reimagining our audit platform, workflow and methodology to provide enhanced consistency and support to our audit engagement teams, deliver more detailed insights to our clients, and future-proof our systems for the expected continued development of new technologies such as robotic process automation, machine learning and cognitive technologies.

The continuation of this process will see a new workflow and revised audit methodology embedded into the KPMG Clara platform. Limited deployment of new “KPMG Clara Workflow” took place during 2019 and full deployment globally started 2020 and is expected to be completed by the end of 2022.

Bringing it all together in KPMG Clara

The KPMG Clara smart audit platform brings together KPMG’s digital audit) capabilities, innovative new technologies, collaboration capabilities and our new KPMG Clara workflow.



Creating the new KPMG Clara Workflow

The new KPMG Clara workflow will be used by our audit teams to execute and document KPMG audits. It will guide audit teams through a series of steps in a logical sequence aligned to the applicable auditing standards, with a clear display of information, visuals, and guidance available at the moment of need, and with embedded advanced digital audit capabilities. The workflow and revised audit 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 clearly drive audit quality and global consistency.

Through the use of data mining and tracking of relevant engagement level data indicators, the KPMG Clara Workflow will also facilitate member firms’ monitoring of audit execution at the engagement level.

Once the KPMG Clara Workflow has been fully deployed our predecessor audit workflow tool, eAudit, will be retired.

Strategically embedding the use of data through digital audit capabilities

KPMG Clara also allows us to more seamlessly build digital audit capabilities into our audits. Digital audit routines are capable of interrogating and analysing vast quantities of data.

KPMG’s audit is designed to:

- **enhance audit quality**; by providing a deeper understanding of data populations, giving focus to higher risk transactions;
- **be secure**; by restricting access to data both in transit and within KPMG’s IT environments; and
- **be 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.

Digital audit capabilities and routines are built on principles and professional standards underlying an audit and do not relieve auditors of their responsibilities.

Current capabilities in this area facilitate the performance of planning and risk assessment activities and substantive procedures, and include capabilities that:

- enable the analysis of account balances and journal entry data
- automate ‘period on period’ balances comparison and ‘time series’ evolution information
- enable the analysis of sub-ledger, transactional data over certain business processes and accounts.

Together with our KPMG Clara platform, we are significantly investing in digital audit capabilities and paving the way for the increasing use of emerging technologies such as robotic process automation and machine learning which will take the power of technology applied in the audit to an even greater level.

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 GQRMM, which applies to all KPMG firms. Automated tools, which are required to be used for every prospective engagement to identify potential independence and conflict of interest issues, 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.

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 and procedures are in place at KPMG firms, and that tools are available to help the firms and their personnel to comply with these requirements.

KPMG CI has a designated EIP who has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG CI. The EIP is responsible for communicating and implementing KPMG global policies and procedures and ensuring that local policies and procedures are established and effectively implemented when they are more stringent than the global requirements. The EIP fulfills this responsibility through:

- implementing/monitoring the ethics and independence quality control process and structure within the firm;
- approving/appointing partners responsible for ethics and independence within the firm;
- overseeing the processes related to the evaluation of specific independence threats in connection with clients and prospective clients;
- participating in the development and delivery of training materials;
- monitoring compliance with policies;
- implementing procedures to address non-compliance; and
- overseeing the disciplinary process for ethics and independence matters.

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

KPMG CI directors and employees are required to consult with the EIP on certain matters as defined in the GQRMM. The EIP may also be required to consult with the Global Independence Group, depending upon the facts and circumstances.

4.4.2.2 Personal financial independence

KPMG International policies require that KPMG firms and KPMG professionals are free from prohibited financial interests in, and prohibited financial relationships with, KPMG firm assurance and audit clients (by definition, 'audit client' includes its related entities or affiliates), their management, directors, and where required significant owners. All KPMG directors irrespective of their firm or function are generally prohibited from owning securities of any audit client of any KPMG firm.

KPMG firms use a web-based independence compliance system (KICS) to assist KPMG professionals in their compliance with personal independence investment policies. This system contains an inventory of publicly available investments and provides a tracking mechanism for required users to report acquisitions and disposals of their financial interests. The system facilitates monitoring by identifying and reporting impermissible investments and other non-compliant activity (i.e., late reporting of an investment acquisition).

All directors and all manager grade and above client-facing employees 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 publicly traded entities in KICS, which automatically notifies them if any investment subsequently becomes restricted. Newly restricted investments are required to 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

professionals. The Global Independence Group provides guidance and required procedures relating to the audit and inspection by KPMG firms of personal compliance with KPMG's independence policies. This includes sample criteria including the minimum number of professionals to be audited annually.

In 2020 22 of our directors and employees were subject to these audits (this included approximately 41% of our directors).

4.4.2.3 Employment relationships

Any KPMG CI 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 firm that is a public interest entity.

Former members of the audit team or former directors of KPMG CI are prohibited from joining an audit client in certain roles unless they have disengaged from all significant connections to KPMG CI, including payments which are not fixed and predetermined and/or would be material to KPMG CI and have ceased participating in KPMG CI's business and 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 and partnership of KPMG CI professionals by audit clients.

4.4.2.4 Firm financial Independence

KPMG firms are required to also be free from prohibited interests in, and prohibited relationships with, audit clients, their management, directors and where required, significant owners.

In common with other KPMG firms, KPMG CI uses KICS to record their own direct and material indirect investments in listed entities and funds (or similar investment vehicles) as well as in non-listed entities or funds. This includes investments held in associated pension and employee benefit plans.

Additionally, KPMG CI is required to record in KICS all borrowing and capital financing relationships, as well

as 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 with audit clients are maintained in accordance with the IESBA Code of Ethics and other applicable independence requirements such as those promulgated by the SEC.

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 other third parties are also required to complete independence training.

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 consultations with the Global Independence Group and Global Quality & Risk Management are required to enable independence and other issues to be addressed when integrating the business into KPMG CI and the wider global organisation.

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,' are required to 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 facing professionals, as well as certain other individuals, are required to complete independence training that is appropriate to their grade and function upon joining KPMG CI and on an annual basis thereafter.

New directors and relevant employees who are required to complete this training should 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.

We also provide all directors and employees with annual 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.

New personnel are required to complete this training within 3 months of joining KPMG CI.

All KPMG directors and employees are required to sign, upon joining KPMG CI and thereafter, an annual confirmation stating that they have remained in compliance with applicable ethics and independence policies throughout the year.

4.4.2.9 Non-audit services

All KPMG firms are required at a minimum to comply with the IESBA Code of Ethics and applicable laws and regulations related to the scope of services that can be provided to audit clients.

KPMG CI is 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. KPMG CI's EIP is involved in the review of potential independence issues related to these new or modified services.

In addition to identifying potential conflicts of interest, Sentinel™ facilitates compliance with independence requirements. Certain information on all prospective engagements, including detailed service descriptions, deliverables and estimated fees are required to be entered into Sentinel™ as part of the engagement acceptance process. When the engagement is for an audit client, an evaluation of potential independence threats and safeguards is also required to be included in the Sentinel™ submission.

maintain group structures for their publicly traded and certain other audit clients including their related entities or affiliates in Sentinel™. 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. For entities for which group structures are maintained, Sentinel enables LAEPs to review and request revision, approve, or deny, any proposed service for those entities worldwide. For approved proposed services, Sentinel designates a timeframe during which the approval remains valid. Upon expiration of the established timeframe, the services are required to be complete or be re-evaluated for permissibility; otherwise, the services are required to be exited.

KPMG global independence policies prohibit member firm audit directors from being evaluated on, or compensated based on, their success in selling non-assurance services to their audit clients.

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 KPMG firm expressing the audit opinion. These policies require firms to consult with their Area Quality & Risk Management Leader where it is expected that total fees from an audit client will exceed 10 percent of the annual fee income of the member firm for two consecutive years. 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 these policies further require that:

- This be disclosed to those charged with governance at the audit client and;
- A partner from another KPMG member firm 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.

4.4.2.11 Resolving conflicts of Interest

Conflicts of interest can arise in situations where KPMG CI directors or employees 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.

KPMG International policies are also in place to prohibit KPMG directors and employees from offering or accepting inducements, including gifts and hospitality to or from audit clients, unless the value is trivial and inconsequential, is not prohibited by relevant law or regulation and is not deemed to be have been offered with the intent to improperly influence the behavior of the recipient or which would cast doubt on the individual's or the member firm's integrity, independence, objectivity or judgment.

All KPMG firms and personnel are responsible for identifying and managing conflicts of interest which are circumstances or situations that have or may be perceived to have an impact on a firm's and/or its directors' or employees' ability to be objective or otherwise act without bias.

All KPMG firms are required to use Sentinel™ for potential conflict identification so that these can be addressed in accordance with legal and professional requirements.

KPMG CI has risk management resources who are responsible for reviewing any identified potential conflict and working with the affected member firms to resolve the conflict, the outcome of which are required to be documented.

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 Independence breaches

All KPMG CI 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. All breaches of independence rules are required to be reported to those charged with governance as soon as possible except where alternative timing for less significant breaches has been agreed to with those charged with governance.

KPMG CI has a documented and communicated disciplinary policy in relation to breaches of independence policies incorporating incremental sanctions reflecting the seriousness of any violations.

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 everyone at KPMG CI. In particular, we have 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 [anti-bribery and corruption site](#).

4.4.2.14 Director rotation

KPMG International rotation policies are consistent with the requirements of 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 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;
- in any way influence the outcome of the audit;
- lead or coordinate professional services at the client;
- oversee the relationship of the firm with the audit client; or
- have any other significant or frequent interaction with senior management or those charged with governance at the client

At KPMG CI we monitor the rotation of audit engagement leaders (and any other key roles, such as the Key Audit Partner and Engagement Quality Control 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.

4.5 Recruitment, development and assignment of appropriately qualified people

One of the key drivers of quality is ensuring that KPMG professionals have the appropriate skills and experience, passion and purpose to deliver high quality audits. This requires the right recruitment, development, reward, promotion, retention and assignment of professionals.

4.5.1 Recruitment

KPMG CI is committed to building an extraordinary people experience for all current and prospective KPMG directors and employees.

Our recruitment strategy is 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. These leverage fair and job-related criteria to ensure that candidates possess the appropriate skills and experience to perform competently, are suitable and best placed for their roles.

KPMG CI recruited 97 new people in the year ended 30 September 2020 (2019:61).

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

4.5.2 Personal development

Development

KPMG CI's approach to performance development 'Open Performance Development', is built around the 'Everyone a Leader' performance principles, and includes:

- Global role profiles (including role profiles specific to audit quality accountabilities and responsibilities);
- a goal library (including audit quality content); and
- Standardised review forms (with provision for audit quality ratings).

Open Performance Development is linked to the KPMG Values and designed to articulate what is required for success — both individually and collectively.

We know that by being clear and consistent about the behaviour we're looking for and rewarding those who demonstrate them, we will continue to drive a relentless focus on audit quality.

At the same time, we are driving a shift in our

performance-driven culture, supported by and enacted through leading technology that allows us to embed audit quality into the assessment of performance and the decisions around reward as well as drive consistency across the global organisation.

KPMG CI monitors quality and compliance incidents and maintains quality and compliance metrics in assessing the overall evaluation, promotion and remuneration of directors and managers. These evaluations are conducted by performance managers and directors who are in a position to assess performance.

4.5.3 Inclusion and Diversity programmes

KPMG CI is committed to fostering an inclusive culture for all. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and perspectives.

Our leadership and management teams also need to reflect the diversity within our firm and the diversity of our clients.

We believe that the established KPMG Global Inclusion and Diversity strategy provides the framework to drive the actions that are necessary to promote inclusion and diversity at KPMG CI and across all KPMG member firms.

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

4.5.4 Reward and Promotion

Reward

KPMG CI has compensation and promotion policies that are informed by market data, clear, simple, and linked to the performance review process. This helps our directors and employees understand what is expected of them, and what they can expect to receive in return. The connection between performance and reward is achieved by assessing relative performance across a peer group to inform reward decisions.

Reward decisions are based on consideration of both individual and firm performance.

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

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.

Promotion

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

Director appointments

The KPMG CI process 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 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 director assignment process. 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 our audit methodology, professional standards and applicable legal and regulatory requirements. This may include involving KPMG's specialists from our own or other KPMG member firms or external experts.

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
- Quality Performance Review (QPR) inspection results and the results of external regulatory inspections.

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 of working for KPMG.

The GPS provides an overall measure of our people's engagement through an Engagement Index as well as insights into areas driving engagement which may be strengths or opportunities. Results can be analysed by functional or geographic area, grade, role, gender to provide additional focus for action. Additional insight is provided on how we are faring on categories known to impact employee engagement. We also cover areas of focus which are directly relevant to audit quality; the survey includes specific audit quality related questions that all individuals who participated in audit respond to, giving us a particular data set for audit quality related matters.

The survey also specifically provides KPMG CI leadership and KPMG global leadership with results related to quality and risk behaviours, audit quality, upholding the KPMG Values, employee and director attitudes to quality, leadership and tone at the top.

KPMG CI participate in the GPS; monitors results and takes appropriate actions to communicate and respond to the findings of the survey. The results of the GPS are also aggregated for the entire global organisation and Global Board 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 to perform their roles. This includes access to internal specialists and professional practice departments, either to provide resources to the engagement team or for consultation. Where the right resource is not available within KPMG CI, the firm accesses a network of highly skilled KPMG professionals in other KPMG firms.

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

4.6.1 Lifetime learning strategy

Formal training

Annual training priorities for development and delivery are identified by the Audit Learning and Development steering groups at global, regional and where applicable at a local level. Training is delivered using a blend of learning approaches and performance support to assist auditors on the job.

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 a single approach — rich learning experiences are available when needed through coaching and just-in-time learning, available at the click of a mouse and aligned with job-specific role profiles and learning paths.

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

We support a coaching culture throughout KPMG as part of enabling KPMG professionals to achieve their full potential and instil that every team member is responsible for building the capacity of the team, coaching other team members and sharing experiences.

In relation to audit, KPMG CI:

- deploys a variety of learning solutions that are designed to reinforce the KPMG Values and ensure our professionals get the fundamentals right, and develop the necessary skills and attitudes to make judgments, and apply professional skepticism that enhance audit quality and the value of audit
- provide instructor-led and virtual classroom training, performance support tools, coaching guides and just-in-time learning. Guidance is available on judgmental audit topics — this is used by audit teams and this guidance is embedded across audit learning solutions
- have also developed professional judgment tools, designed to reinforce the importance of independence and objectivity, and to assist engagement teams in demonstrating professional skepticism
- provide courses to enhance personal effectiveness and develop leadership and business skills.

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

Licensing

All KPMG CI professionals are required to comply with applicable professional licence rules and satisfy the Continuing Professional Development requirements in the jurisdiction where they practice. KPMG International/CI's policies and procedures are designed to facilitate compliance with license requirements.

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 being IFRS and UK accounting standards.

Mandatory requirements – IFRS and U.S. GAAP engagements

We have specific policies for engagements performed outside the U.S. to report on financial statements or financial information prepared in accordance with U.S. GAAP and/or audited in accordance with U.S. auditing standards, including reporting on the effectiveness of the entity's internal control over financial reporting (ICOFR). These require that at a minimum the director, manager, and, if appointed the Engagement Quality Control (EQC) reviewer (and for engagements conducted in accordance with US GAAP and/or US auditing standards engagements, the engagement partner, engagement team members and, if appointed the EQCR reviewers) assigned to the engagement have completed relevant training and that the engagement team, collectively, has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

4.6.3 Access to specialist networks

Our KPMG CI engagement teams have access to a network of local KPMG specialists either within their firm or in other KPMG firms.

These specialists receive the training they need to ensure they have the competencies, capabilities and objectivity to appropriately fulfil their role.

The need for specialists to be assigned to an audit engagement in an areas such as information, technology, tax, treasury, actuarial, forensic and valuations is considered as part of the audit engagement acceptance and continuance process, as well as during the conduct of the engagement.

4.6.4 Culture of consultation

Encouraging a culture of consultations

KPMG encourages a strong culture of consultation that supports engagement teams at KPMG firms 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 all KPMG professionals to consult on difficult or contentious matters.

To help with this, are required to have established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. In addition, the GORMM includes mandatory consultation requirements on certain matters.

Technical consultation and global resources

Technical auditing and accounting support are available to member firms through the Global Audit Methodology Group (GAMG), KPMG Global Solutions Group (KGS) , the ISG and the PCAOB Standards Group (PSG).

Global Audit Methodology Group (GAMG)

KPMG’s audit methodology is developed and maintained by the Global Audit Methodology Group (GAMG). The GAMG develops our audit methodology based on the requirements of the applicable auditing standards – International Standards on Auditing, PCAOB and AICPA.

KPMG Global Solutions Group (KGS)

The KGS and GAMG work collaboratively to support member firms through collaboration, innovation and technology. We have made significant investment in our audit methodology and tools with the core focus of improving audit quality and global consistency.

Key areas of work performed include:

- developing innovative audit capabilities (i.e. technology solutions) and deploying and using advanced audit solutions
- deploying KPMG Clara — our smart audit platform, incorporating advanced technologies, data science, audit automation, data visualisation and more
- enhancing KPMG’s audit methodology, workflow and knowledge used by member firms’ audit professionals

With locations, in each of the three KPMG regions (Americas, EMA and ASPAC), the KGS and GAMG teams comprise 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 topic teams with geographic representation from around the world, and the IFRS Panel and ISA Panel to promote consistency of interpretation of IFRS between member firms, identify emerging issues, and develop global guidance on a timely basis. The ISG also supports the following groups to facilitate information sharing within the DPP network, and to ensure sector-specific issues are dealt with proactively.

- Global Topic Teams, which formulate guidance on IFRS accounting and reporting practice on sector specific or specific technical areas, and act as central contact points for their regions/home practices in identifying and addressing issues related to relevant topics

The Global IFRS Panel is responsible for monitoring the development of IFRS guidance and response letters to the International Accounting Standards Board and/or regulators by the ISG and the Topic Teams. The panel is chaired by the Global IFRS Leader and includes Global IFRS topic leaders.

PCAOB Standards Group (PSG)

The PCAOB Standards Group (PSG) comprises a dedicated group of professionals with background in PCAOB auditing standards who promote consistency of interpretation of PCAOB auditing standards applied globally in KPMG firms’ audits of non-US components and foreign private issuers and non-US components of SEC issuers, as defined by SEC regulations. The PSG also provides input into the development of training for auditors who work on PCAOB audit engagements and, where practicable, facilitates delivery of such training.

Member firm professional practice resource

Member firms provide consultation support on auditing and technical accounting matters to their audit professionals through professional practice resources (referred to as Department of Professional Practice or DPP). This resource also assists engagement teams where there are differences of opinion either within teams or with the EQC reviewer. Unresolved differences are required to follow a prescribed escalation protocol for final resolution. KPMG’s International Standards Group and PCAOB are also available for consultation support when required.

Across KPMG CI, the role of DPP is crucial in terms of the support that it provides to the Audit function. It provides technical guidance to client service professionals on specific engagement related matters, develops and disseminates specific topic related guidance on emerging local technical and professional issues and disseminates international guidance on IFRS and ISAs.

4.7 Performance of effective and efficient audits

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

4.7.1. Embedding ongoing mentoring, supervision and review

To invest in the building of the skills and capabilities of KPMG professionals, KPMG CI promotes a continuous learning environment and supports a coaching culture.

Ongoing mentoring and supervision during an audit involve:

- 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;
- helping engagement team members address any significant matters that arise during the audit 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 Engagement quality control (EQC) reviewers

The EQC review is an important part of KPMG's framework for quality. 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.

An EQC review provides reasonable assurance that the team has appropriately identified significant risks, including fraud risks, and has designed and executed audit procedures to address them.

KPMG CI is continually seeking to strengthen and improve the role that the EQC review plays in member firm audits, and have taken a number of actions to reinforce this including issuing leading practice guidance incorporating specific review requirements into our audit workflow, and developing policies relating to recognition, nomination and development of EQC reviewers.

EQC reviewers are required to meet training and experience criteria to perform a quality control review for a particular engagement. Reviewers are independent of the engagement team and audit client and have the appropriate experience and knowledge to perform an objective review of the more critical decisions and judgments made by the engagement team and the appropriateness of the financial statements. The audit is completed only when the EQC reviewer is satisfied that all significant questions raised have been resolved, though the engagement director is ultimately responsible for the resolution of accounting and auditing matters.

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

4.7.1.3 Engagement Documentation

Our audit documentation is completed and assembled according to the timeline established by the global policy, auditing standards and we have implemented administrative, technical and physical safeguards to protect the confidentiality and integrity of client and firm information.

4.7.1.4 Insightful, open and honest two-way communication

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

At KPMG CI we stress the importance of keeping those charged with governance informed of issues arising throughout the audit. 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.

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, 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 KPMG Global Code of Conduct, training, and the annual affidavit/confirmation process, that all of our professionals are required to complete.

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

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

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 overall system of quality control.

The quality monitoring and compliance programs

(see section 4.8.1 for details), 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

KPMG CI's monitoring programs evaluate both:

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

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. These include:

- Quality Performance Reviews (QPR) which are conducted annually for Audit, and at least every three years for the Tax, and Advisory functions;
- Risk Compliance Programs (RCP) which are conducted annually covers all areas of the business; and
- A cross-functional Global Compliance Review (GCR) program with firms selected for review at various intervals based on identified risk criteria.

The results and lessons from the integrated monitoring programs are communicated internally and appropriate action is taken at local, regional and global levels.

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 in every KPMG firm, is reviewed at least once in a three-year cycle. A risk-based approach is used to select engagements.

KPMG CI conducts the annual QPR program in accordance with KPMG International QPR instructions. The reviews are performed at a KPMG CI level and their completion and results are monitored regionally and globally. 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 firm under review.

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

Evaluations from Audit QPR

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

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

Reporting

Findings from the QPR Programme are disseminated to 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 KPMG 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:

- document, assess and monitor the extent of compliance of KPMG CI's system of quality control with Global Quality & Risk Management (GQ&RM) policies and key legal and regulatory requirements relating to the delivery of professional services; and
- 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 KPMG firm is subject to a GCR conducted by the global GCR team, independent of the member firm, at various intervals based on identified risk criteria.

The GCR team performing the reviews is independent of the firm and is objective and knowledgeable of GQ&RM 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:

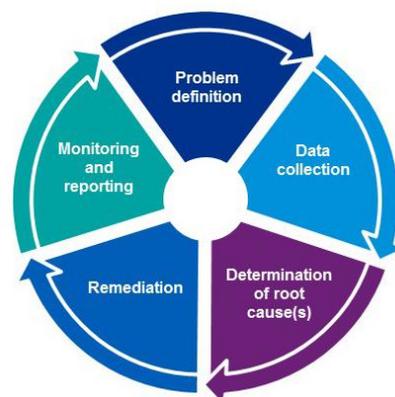
- Quality a firm's commitment to quality and risk management (tone at the top) and the extent to which its overall structure, governance and financing support and reinforce this commitment;
- a firm's compliance with key KPMG CI policies and procedures; and
- the robustness with which the member firm performs its own compliance program (RCP).

KPMG CI develop action plans to respond to all GCR findings that indicate improvement is required and agree these with the GCR team. Our progress on action plans is monitored by the GCR Central Team. Results are reported to the GQ&RM Steering Group and where necessary to appropriate KPMG International and regional leadership.

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 20120 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 all KPMG 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. Our Risk Management Partner monitors their implementation.

4.8.2 Recommendations for improvements

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

Global remediation actions developed by KPMG International are aimed at changing culture and behaviour across the global organisation and at driving consistent engagement team performance within KPMG firms. The remediation actions have been implemented through the development of global training, tools and guidance to drive consistency, ensure the fundamentals are right and that best practice is shared across the global organisation.

4.8.3 External feedback and dialogue

4.8.3.1 Regulators

In the Channel Islands, the Audit Quality Review team of the Financial Reporting Council ("AQR") has been carrying out independent inspections since 2010. They completed their work on the 2018 inspection in March 2019. Our 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 following completion of that inspection.

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.

5. 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 summarises 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 KPMG 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 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 organisation 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 approved by the engagement partner. 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.

Introduction	Who we are	Our structure and governance	System of quality control	Quality in our Tax Practice	Financial information	Director remuneration	Network arrangement	Statement by the Board	Appendices
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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 suspicions of tax evasion and money laundering, as well as unethical behaviour by colleagues. Finally, partners 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 or partners. 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 partner (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 Risk and 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.

Introduction	Who we are	Our structure and governance	System of quality control	Quality in our Tax Practice	Financial information	Director remuneration	Network arrangement	Statement by the Board	Appendices
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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 guidance on the Global Principles for the Responsible Tax Practice.

KPMG CI makes clear its commitment to ethical behaviour 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 bi-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.

6. Financial information

The results set out below for the year to 30 September 2020 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 2019 have been extracted from the approved accounts.

Total fee income for the year to 30 September 2020 was £34.34m* (2019 - £30.88m)		
£ million	FY20	FY19
Audit	*27.1	22.64
Non-audit services for audit clients	** 1.08	0.99
Other assurance, tax, advisory	6.16	7.25

**included in this figure is £3.4m of income from public interest entity clients (£3.4m 2019).*

***included in this figure is £0.1m of income from public interest entity clients (£0.1m 2019).*

7. 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 and receive a report from functional leadership on his/her individual performance for the year.

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.

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

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.

8. Network arrangements

8.1 Legal structure

Legal structure for the Financial Year ending 30 September 2020

KPMG CI is affiliated with KPMG International Cooperative (“KPMG International”). KPMG International is a Swiss cooperative which is a legal entity formed under Swiss law. Prior to 1 October 2020 it was the coordinating entity for the network and the entity with which all the member firms of the KPMG organisation were required to be affiliated with. Further details about KPMG International and its business activities, including our relationship with it for the financial year ending 30 September 2020, are available in the ‘Governance and leadership’ section of the 2019 report. 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.

Pursuant to their membership agreements with KPMG International, member firms are required to comply with KPMG International’s policies, including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes being professionally and financially stable, having an ownership, governance and management structure that ensures continuity and stability and long term success and being able to comply with policies issued by KPMG International, adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools.

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.

Legal structure from 1 October 2020

On 1 October 2020, KPMG CI and all other KPMG firms entered into new membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organisation became members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee. From 1 October 2020, KPMG International Limited acts as the coordinating entity for the overall benefit of the KPMG member firms. It does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

Further detail on the revised legal and governance arrangements for the KPMG global organization from 1 October 2020 can be found in section ‘Governance and leadership’ of the [2020 KPMG International Transparency Report](#).

KPMG International Limited and the KPMG member firms are not a global partnership, single firm, multinational corporation, 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 Limited, any of its related entities or any other member firm vis-à-vis third parties, nor does KPMG International Limited or any of its related entities have any such authority to obligate or bind any member firm.

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 KPMG firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG Values as set out in the appendices to this document.

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 firm and its participation in the KPMG global organisation may be terminated if, among other things, it has not complied with the policies 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 captive 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.

Introduction	Who we are	Our structure and governance	System of quality control	Quality in our Tax Practice	Financial information	Director remuneration	Network arrangement	Statement by the Board	Appendices
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Global Council

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms.

Among other things, the Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 61 KPMG firms that are “members” of KPMG International as a matter of Swiss law. Sublicensee firms³ 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 global strategy, protecting and enhancing the KPMG brand and reputation, overseeing the Global Management Team and approving policies with which KPMG firms are required to comply.

The Global Board includes the Global 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, and also includes the Chairman of each of the regions and a number of other member firm senior partners. The list of current Global Board members is set out in the KPMG Global Review and [here](#).

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 the global strategy by working together with the Executive Committee and jointly recommending the global strategy to the Global Board for its approval. The Global Management Team also supports the member firms in their execution of the global strategy and is responsible for holding them accountable against their commitments.

It is led by the Global Chairman and includes the Global Chief Operating Officer, Global Chief Administrative Officer, global function and infrastructure heads, the Global Head of Quality, Risk and Regulatory and the General Counsel.

The list of current Global Management Team members is available in the [Leadership](#) section on KPMG.com.

Global Steering Groups

There is a Global Steering Group for each key function and infrastructure area, chaired by the relevant member of the Global Management Team, and, together they

assist the Global management Team in discharging its responsibilities. In particular the Global Audit Steering Group and Global Quality & Risk Management Steering Group work closely with regional and member firm leadership to:

- Establish and ensure communication of appropriate audit and quality/risk management policies;
- Establish and support effective and efficient risk processes to promote audit quality;
- promote and support strategy implementation in member firms’ audit functions, including standards of audit quality; and
- assess and monitor audit quality issues, including those arising from quality performance and regulatory reviews, and focus on best practices that reduce audit quality findings.

The roles of the Global Audit Steering Group and the Global Quality & Risk Management Steering Group are detailed in the ‘Governance and leadership’ section of the [2020 KPMG International Transparency Report](#).

Each 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 any sub-regions, and other members as appropriate. Each Regional Board focuses specifically on the needs of member firms within their region and assists in the implementation of KPMG International’s policies and processes within the region.

Further details about KPMG International including the governance arrangements for the year ending 30 September 2020, can be found in section ‘Governance and leadership’ of the [2020 KPMG International Transparency Report](#)

8.5 Area Quality & Risk Management Leaders

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

The objectives of the ARL role are to:

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

3. Unless otherwise stated, the words ‘member firm’ or ‘KPMG member firm’ when used in this Transparency Report include the following:

Those entities that are members of KPMG International as a matter of Swiss law because KPMG International is a Swiss cooperative (i.e. similar to shareholders, albeit KPMG International has no share capital and, therefore, only has members not shareholders).

Those entities (‘sublicensees’) that are not members of KPMG International as a matter of Swiss law but have still entered into legal agreements with KPMG International and also an entity that is a ‘member’.

9. Statement by the board

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. Because of its inherent limitations, the system of quality controls is not intended to provide absolute assurance that non-compliance with relevant laws and regulations would be prevented or detected.

The Board of KPMG 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 2020.

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 2020.



10. Appendices

Appendix 1

Key legal entities and areas of operation

Name of entity	KPMG Channel Islands Limited
Legal structure	Jersey limited liability company
Regulatory status	Subject to audit regulation under Crown Dependencies Audit Rules
Nature of business	Professional services
Area of operation	Channel Islands

Appendix 2

Management Committee



Neale Jehan
Chairman



Andrew Quinn
Managing Director and Head of Audit



Linda Johnson
Head of Advisory



John Riva
Head of Tax



Debbie Smith
Channel Islands Risk Management Partner



Steve Stormonth
Head of Markets & Marketing

Appendix 3

Market traded companies *

Aberdeen Asian Income Fund Limited
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
BH Global Limited
BH Macro Limited
Bluefield Solar Income Fund Limited
Celsius Capital PCC Limited
db ETC Index Plc
db ETC Plc
Fair Oaks Income Fund Limited
GCP Infrastructure Investments Limited
Genesis Emerging Markets Limited
Henderson Far East Income Limited
Marble Point Loan Financing Limited
Merian Chrysalis Investment Company Limited
NB Distressed Debt Investment Fund Limited
NB Private Equity Partners Limited
NextEnergy Solar Fund Limited
Oryx International Growth Fund Limited
Picton Property Income Limited
RTW Venture Fund Limited
RZB Finance (Jersey) III Limited
Sequoia Economic Infrastructure Income Fund Limited
Tetragon Financial Group Limited
The Schiehallion Fund Limited
VietNam Holding 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 – this list is at 30 September 2020*

kpmg.com/channelislands



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