



Transparency Report 2020

January 2021

kpmg.co.im

Contents

1.	Message from our Senior Partner	2
2.	Who we are	4
2.1	Our businesses	5
2.2	Our strategy	5
3.	Our structure and governance	6
3.1	Legal structure	7
3.2	Name, ownership and legal relationships	7
3.3	Responsibilities and obligations of member firms	7
3.4	Governance structure	8
4.	System of quality control	9
4.1	Tone at the top	11
4.2	Leadership responsibilities for quality and risk management	11
4.3	Association with the right clients	12
4.4	Clear standards and robust audit tools	14
4.5	Recruitment, development and assignment of appropriately qualified personnel	21
4.6	Commitment to technical excellence and quality service delivery	23
4.7	Performance of effective and efficient audits	25
4.8	Commitment to continuous improvement	27
5.	Financial information	31
6.	Partner and Director remuneration	33
7.	Network arrangements	35
7.1	Legal structure	36
7.2	Responsibilities and obligations of member firms	37
7.3	Professional Indemnity Insurance	37
7.4	Governance structure	37
7.5	Area Quality & Risk Management Leaders	37
8.	Statement by the Board of KPMG Isle of Man on the effectiveness of quality controls and independence	38
Appendix 1	Key legal entities and areas of operation	40
Appendix 2	Board of KPMG LLC	42
Appendix 3	EU Public interest entity listing at 30 September 2020	44
Appendix 4	The KPMG Values	46
Appendix 5	Quality in our Tax Practice	48



Message from our Senior Partner

Welcome to the 2020 KPMG Isle of Man 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 Isle of Man companies traded on regulated markets in the EU and UK. 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.



Message from our Senior Partner (continued)

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 Isle of Man, 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 ensure 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 and have a strong pipeline of candidates, 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

Russell Kelly
Senior Partner, KPMG LLC ²
February 2021

1. Throughout this document, “KPMG” “we”, “our” and “us” refers to the global organisation or to one or more of the member firms of KPMG International Limited each of which is a separate entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. No member firm has any authority to obligate or bind KPMG International Limited or any other member firm vis-à-vis third parties, nor does KPMG International Limited have any such authority to obligate or bind any member firm. Throughout this document, references to “Firm”, “KPMG firm”, “member firm” and “KPMG member firm” refer to firms which are either: members of KPMG International Limited; sublicensee firms of KPMG International Limited; or entities that are wholly or dominantly owned and controlled by an entity that is a member or a sublicensee. The overall governance structure of KPMG International and its associated entities is provided in the ‘Governance and leadership’ section of the 2020 KPMG International Transparency Report.

2. Following 30 September 2020, KPMG in the Isle of Man entered into a series of agreements to work more closely with KPMG Channel Islands Limited 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.

Section 2

Who we are

2. Who we are

2.1 Our businesses

KPMG Audit LLC and KPMG LLC (referred to throughout this document as KPMG Isle of Man) are professional services firms that deliver Audit, Tax and Advisory services.

Operating out of one office in the Isle of Man, we had an average of 111 personnel in the year to 30 September 2020 (2019: 115).

Our audit services in the Isle of Man are delivered through KPMG Audit LLC. All other services are delivered by KPMG LLC.

Full details of the services offered by KPMG Isle of Man can be found on our website www.kpmg.com/im.

2.2 Our strategy

Our strategy is set by the KPMG Isle of Man 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.

Section 3

Our structure and governance

3. Our structure and governance

3. Our structure and governance

3.1 Legal structure

Legal structure and ownership for the financial year ended 30 September 2020

KPMG Isle of Man is made up of Isle of Man registered companies 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 KPMGI Transparency Report](#).

Legal structure and ownership from 1 October 2020

On 1 October 2020, KPMG Isle of Man 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](#).

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 or any of its related entities have any such authority to obligate or bind any member firm. KPMG Isle of Man is part of

the KPMG global organisation of professional services firms providing Audit, Tax, and Advisory services to a wide variety of public and private sector organisations. The KPMG organisation structure is designed to support consistency of service quality and adherence to agreed Values wherever its member firms operate.

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

KPMG Isle of Man operates through two Isle of Man LLCs, KPMG LLC and KPMG Audit LLC. The members of KPMG LLC are the economic owners of KPMG Isle of Man. The members are not legally partners but are titled as "Partners".

During the year to 30 September 2020, there was an average of 5 partners in KPMG LLC (2019: 6 partners).

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

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

3.3 Responsibilities and obligations of member firms

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.

3. Our structure and governance (continued)

3.3 Responsibilities and obligations of member firms (continued)

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

Member firms commit to a common set of KPMG Values – see Appendix 4.

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.

3.4 Governance structure

The principal governance and oversight body of KPMG Isle of Man is the Board of KPMG LLC.

As at 30 September 2020, the Board consisted of 5 members, being the Senior Partner and the 4 other partners. The Board meets at least quarterly, and during the year ended 30 September 2020 the Board met 12 times.

Details of the Senior Partner and others comprising the Board of KPMG LLC are set out in Appendix 2.

Section 4

System of quality
control

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 must 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 behaviours 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 (Global Q&RM Manual) which applies to all KPMG partners and employees. KPMG Isle of Man is required to establish and maintain a system of quality control and design, implement, and test the operating effectiveness of quality controls.

KPMG Isle of Man 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 Isle of Man Financial Services Authority (IOMFSA), the UK Financial Reporting Council (FRC), the Institute of Chartered Accountants in England and Wales (ICAEW) and other relevant regulators, as well as applicable legal and regulatory requirements.

Quality control and risk management are the responsibility of all KPMG Isle of Man partners and employees. This responsibility includes the need to understand and adhere to firm policies and associated procedures in carrying out their day-to-day activities. The system of quality control applies to all KPMG partners 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 member firms' Tax and Advisory services, as many KPMG quality control procedures and processes are cross-functional and apply equally to all services offered.

KPMG Isle of Man has adopted KPMG's Principles for a Responsible Tax Practice – as detailed in Appendix 5.

Audit Quality Framework

At KPMG Isle of Man, 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 of the other drivers create a virtuous circle because each driver is intended to reinforce the others.



4. System of quality control (continued)

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 and investors rely.

At KPMG Isle of Man, we promote a culture in which consultation is encouraged and recognised as a strength.

Tone at the top means that KPMG Isle of Man 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 in Appendix 4.

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 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.

Everyone at KPMG is required to comply with the Global Code of Conduct and to confirm their compliance with the Code. Everyone at KPMG is also required to take 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 all 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 Isle of Man, we regularly monitor the extent to which our people feel 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 Isle of Man 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, communications, presentations to teams and one-to-one discussions.

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

Senior Partner

In accordance with the principles in ISQC1, our Senior Partner, Russell Kelly, has assumed ultimate responsibility for KPMG Isle of Man's system of quality control. Details of some of the measures that he and the rest of the Board members have taken to ensure that a culture of quality prevails within KPMG Isle of Man are set out in section 4.1 'Tone at the top'.

4. System of quality control (continued)

4.2 Leadership responsibilities for quality and risk management (continued)

Risk Management Partner (RMP)

The RMP is responsible for setting overall professional risk management and quality control policies and monitoring compliance for KPMG Isle of Man. He has a direct reporting line to the Senior Partner and consults with the Area Quality and Management Risk Leader (ARL).

The RMP is David Parsons and he is supported by a team of partners and professionals in each of the functions, including Simon Nicholas who is the Deputy RMP and has specific responsibility for the risk management of the Audit function.

Ethics and Independence Partner (EIP)

The EIP is David Parsons and he has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG Isle of Man.

The Audit, Tax and Advisory functions – Function Heads

The three heads of the client service functions (Audit, Tax and Advisory) are accountable to the Senior Partner 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 RMP. 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.

Audit Leadership Team

KPMG Isle of Man's Head of Audit is responsible for leading a sustainable high-quality Audit practice that is attractive to KPMG partners and employees. This includes:

- setting the right “tone at the top” by demonstrating an unwavering commitment to the highest standards of professional excellence, including scepticism, objectivity, and independence;
- developing and implementing strategies to monitor and maintain knowledge and skills required of engagement leaders and employees to fulfil their professional responsibilities; and

working with the RMP 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.

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 our audit engagements.

This means significant 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 ensures consistent deployment of investments to enhance and support a common approach.

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.

4.3.2 Client and engagement acceptance process

Client Evaluation

KPMG Isle of Man undertakes an evaluation of every prospective client.

4. System of quality control (continued)

4.3.2 Client and engagement acceptance process (continued)

Client Evaluation (continued)

This involves obtaining sufficient 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 on the client, its key management, directors and owners. In addition, we obtain additional information required to satisfy our local legal and regulatory requirements.

The Isle of Man has adopted strict anti-money laundering legislation, something the firm has to adhere to at all times. This includes background checks on the prospective client, its key management and beneficial owners.

A second partner or director as well as the evaluating partner or director, approves the prospective client evaluation. Depending on the risk grade assigned to the client, the RMP or a sufficiently skilled and experienced delegate may also be required to approve the evaluation.

Engagement Evaluation

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

(PIE) 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 Isle of Man undertakes annual re-evaluations 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 Reviewer (EQCR) 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 Isle of Man obtains information that indicates that we should withdraw from an engagement or from a client relationship, we consult internally and identify any required legal, professional and regulatory responsibilities. We also communicate as necessary with those charged with governance and any other appropriate authority.

4.3.5 Client portfolio management

KPMG Isle of Man leadership appoints audit engagement leaders (AELs) who have the appropriate competence, capabilities, time and authority to perform the role for each engagement.

4. System of quality control (continued)

4.4.1 Client portfolio management (continued)

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

4.4 Clear standards and robust audit tools

All KPMG Isle of Man professionals are expected to adhere to KPMG International and KPMG Isle of Man policies and procedures, including independence policies, and are provided with a range of tools to support them in meeting these expectations. The KPMG Isle of Man 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 the KPMG Clara platform – KPMG's smart, modular audit platform – capable of continually integrating new and emerging technologies, with advanced capabilities embedded that leverage data, automation, and visualisation and more. Digital audit is integral to the way 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 AEL 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 judgement;
- ongoing mentoring, supervision and review of the engagement team; and
- 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 we 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.

4. System of quality control (continued)

4.4.1.1 *Consistent audit methodology and tools*

Bringing consistency through our methodology

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 (KAM) (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 KPMG International believes enhance the quality of the audit.

The methodology emphasises applying appropriate professional scepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence.

Enhancements to the audit methodology, guidance and tools are made regularly to maintain compliance with standards, 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 scepticism 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 member firms may add local requirements and/or guidance in KAM 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 member 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.

4. System of quality control (continued)

4.4.1.1 Consistent audit methodology and tools (continued)

Audit solutions for today's world (continued)

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 the new "KPMG Clara workflow" took place during 2019, and full deployment globally started in 2020, and is expected to be completed by the end of 2022.

The release of the KPMG Clara workflow and revised audit methodology is an important milestone in KPMG's journey to innovate, digitalise and transform the audit experience for our people.

It is a significant investment that underlines our commitment to audit quality, consistency and innovation.

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.

4. System of quality control (continued)

4.4.1.1 *Consistent audit methodology and tools (continued)*

Strategically embedding the use of data through digital audit capabilities (continued)

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, in 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 has detailed independence policies and procedures, incorporating the requirements of the IESBA Code of Ethics. These are set out in KPMG's Global Quality & Risk Management Manual, which applies to all KPMG firms. Automated tools, which must 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 (FRC). 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, engagement leader 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 Isle of Man has a designated EIP who has primary responsibility for the direction and execution of ethics and independence policies and procedures at KPMG Isle of Man.

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 fulfils 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 programmes described in 4.8.1.

KPMG Isle of Man Partners and employees are required to consult with the EIP on certain matters as defined in the GQR&M Manual. 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 partners — irrespective of their member firm and function — are generally prohibited from owning securities of any audit client of any member firm.

KPMG member firms use a web-based independence compliance system (KICS) to assist our professionals in complying 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).

4. System of quality control (continued)

4.4.2.2 *Personal financial independence (continued)*

All partners 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 partner and manager compliance with this requirement as part of our program of independence compliance audits of a sample 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, 9 KPMG Isle of Man partners and employees (2019: 9) were subject to these audits (this included 2 (2019: 4) of our partners and directors).

4.4.2.3 *Employment relationships*

Any KPMG Isle of Man professional providing services to an audit client irrespective of function is required to notify the EIP if they intend to enter into employment negotiations with that audit client. For partners, this requirement extends to any audit client of any KPMG firm that is a public interest entity.

Former members of the audit team or former AELs of KPMG Isle of Man are prohibited from joining an audit client in certain roles unless they have disengaged from all significant connections to KPMG Isle of Man, including payments which are not fixed and predetermined and/or would be material to KPMG Isle of Man and ceased participating in KPMG Isle of Man business and professional activities.

AELs and members of the chain of command for an audit client that is a PIE 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 Isle of Man professionals by audit clients.

4.4.2.4 *Firm financial independence*

KPMG member 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 Isle of Man uses KICS to record its 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 Isle of Man is required to record in KICS all borrowings and capital financing relationships, as well as custodial, trust and brokerage accounts that hold member firm assets.

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

4.4.2.5 *Business relationships/suppliers*

KPMG Isle of Man has policies and procedures in place that are designed to ensure its 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.

4.4.2.6 *Business acquisitions, admissions and investments*

If KPMG Isle of Man is in the process of considering the acquisition of, or investment in, a business, it is 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 Isle of Man and the wider global organisation.

4.4.2.7 *Independence clearance process*

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

4. System of quality control (continued)

4.4.2.8 *Independence training and confirmations*

All KPMG Isle of Man partners and client facing professionals, as well as certain other individuals, must complete independence training that is appropriate to their grade and function upon joining KPMG Isle of Man and on an annual basis thereafter.

New partners and client facing employees who are required to complete this training must do so by the earlier of (a) thirty days after joining KPMG Isle of Man or (b) before providing any services to, or becoming a member of the chain of command for, any audit client (by definition, "audit client" includes its related entities or affiliates).

We also provide all partners and employees with annual training on:

- the Global Code of Conduct, 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 partners and employees are required to complete this training within three months of joining KPMG Isle of Man.

All KPMG partners and employees are required to sign, upon joining KPMG Isle of Man, 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 Isle of Man is required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG Isle of Man. KPMG Isle of Man'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 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 in the Sentinel™ submission.

Lead audit engagement partners (LAEPs) are required to: maintain group structures for their publicly traded and certain other audit clients as well as 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 partners 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 KPMG firms to consult with their ARL 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 PIE audit client and its related entities were to represent more than 10 percent of the total fees received by a particular member firm for two consecutive years; these policies further require that:

- this would be disclosed to those charged with governance at the audit client; and
- a partner from another KPMG member firm be appointed as the EQCR.

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

4. System of quality control (continued)

4.4.2.11 *Resolving conflicts of interest*

Conflicts of interest can arise in situations where KPMG Isle of Man partners 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 RMP or EIP is required in these situations.

KPMG International policies are also in place to prohibit KPMG partners and staff from offering or accepting inducements, including gifts and hospitality from audit clients, unless the value is trivial and inconsequential, is not prohibited by relevant law or regulation and is not deemed to have been offered with the intent to improperly influence the behaviour 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 member firm and/or its partners or employees in their ability to be objective or otherwise act without bias.

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

KPMG Isle of Man 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 must 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 Isle of Man 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 our 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 must 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 Isle of Man has a documented and communicated disciplinary policy in relation to breaches of independence policies, incorporating incremental sanctions reflecting the seriousness of any violations. Our EIP oversees policies and procedures in relation to ethical matters and breaches of requirements. Matters arising are factored into our 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 Isle of Man. 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.

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

4.4.2.14 *Audit engagement leader and firm rotation*

KPMG International rotation policies are consistent with the requirements of the IESBA Code of Ethics and also require all member firms to comply with any stricter local applicable rotation requirements, which means we also comply with the FRC revised Ethical Standard.

KPMG Isle of Man AELs 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 AELs in certain roles may provide audit services to a client, followed by a "time-out" period during which time these partners may not:

- participate in the audit;
- provide quality control for the audit;
- consult with the engagement team or the client regarding technical or industry-specific issues;
- in any way influence the outcome of the audit;

4. System of quality control (continued)

4.4.2.14 Audit engagement leader and firm rotation (continued)

- 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.

KPMG Isle of Man monitors the rotation of AELs (and any other key roles, such as the EQCR, where there is a rotation requirement) and develops transition plans to enable allocation of AELs with the necessary competence and capability to deliver a consistent quality of service to clients.

Firm rotation

EU Public Interest Entities are required to rotate their firm of auditors. This is known as Mandatory Firm Rotation (MFR). Under the UK MFR rules, all EU PIEs must tender their audit contract at least every 10 years and change or rotate their auditor at least every 20 years. There are transitional provisions in place on implementation of the MFR rules. KPMG Isle of Man has processes in place to track and manage audit firm rotation.

4.5 Recruitment, development and assignment of appropriately qualified personnel

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

4.5.1 Recruitment

KPMG Isle of Man is committed to building an extraordinary people experience for all KPMG partners and employees and prospective KPMG partners 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 Isle of Man also recruits significant numbers at an experienced hire level.

All candidates submit an application and are employed following a variety of selection processes, which may include application screening, competency-based interviews, psychometric and ability testing, and qualification/ reference checks. 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 Isle of Man recruited 5 new graduates in the year ended 30 September 2020 (2019:10).

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

4.5.2 Personal development

KPMG Isle of Man'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 allow us to embed audit quality to the assessment of performance and the decisions around reward as well as drive consistency across the Global organisation.

4. System of quality control (continued)

4.5.2 Personal development (continued)

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

4.5.3 Inclusion and Diversity programmes

KPMG Isle of Man 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 Isle of Man and across all KPMG firms.

For more about Inclusion & Diversity at KPMG read [here](#).

4.5.4 Reward and Promotion

Reward

KPMG has compensation and promotion policies that are informed by market data, clear, simple, and linked to the performance review process. This helps our partners 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 through assessing relative performance across a peer group to inform reward decisions.

Reward decisions are based on consideration of both individual and organisational (member firm) performance.

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

Partner admissions

The KPMG Isle of Man process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. Our criteria for admission to the KPMG Isle of Man partnership are consistent with our commitment to professionalism and integrity, quality, and being an employer of choice.

4.5.5 Assignment of professionals

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

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

AELs are required to be satisfied that their engagement teams have appropriate competencies, training and capabilities, including time, 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 firm or other KPMG firms, or external experts.

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

4. System of quality control (continued)

4.5.5 Assignment of professionals (continued)

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

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

Annually, KPMG Isle of Man invites all its people to participate in an independent Global People Survey 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 about what drives engagement, which may be strengths or opportunities. Results can be analysed by functional or geographic area, grade, role or 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 Isle of Man leadership and KPMG global leadership with results related to quality and risk behaviours, audit quality, upholding the KPMG Values, employee and partner attitudes to quality, leadership and tone at the top.

KPMG Isle of Man participates 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 are presented to the Global Board each year and appropriate follow-up actions agreed.

4.6 Commitment to technical excellence and quality service delivery

All KPMG Isle of Man professionals are provided with the technical training and support they need to perform their roles. This includes access to internal specialists and the professional practice department, either to provide resources to the engagement team or for consultation. Where the right resource is not available within KPMG Isle of Man, 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 Isle of Man develops and provides local audit training for all audit professional staff. This training provides an overview of the industries operating in the Isle of Man and KPMG Isle of Man’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.

4. System of quality control (continued)

4.6.1 Lifetime learning strategy

Mentoring and on the job training (continued)

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

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

4.6.2 Licensing and mandatory requirements for IFRS and US GAAP engagements

Licensing

All KPMG Isle of Man professionals are required to comply with applicable professional licensing rules and satisfy the Continuing Professional Development (CPD) requirements in the jurisdiction where they practice. KPMG Isle of Man policies and procedures are designed to facilitate compliance with licensing 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 frameworks of IFRS and UK GAAP.

Mandatory requirements – IFRS and US GAAP engagements

In addition, KPMG has specific requirements for audit engagement leaders, managers and EQCR's working on IFRS engagements in countries where IFRS is not the predominant financial reporting framework.

Similar policies apply to engagements performed outside the US to report on financial statements or financial information prepared in accordance with US GAAP and/or audited in accordance with US auditing standards, including reporting on the effectiveness of the entity's internal control over financial reporting (ICOFR). These require that, at a minimum, all partners, managers, engagement team members and if appointed EQCRs 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

KPMG Isle of Man 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 a specific audit engagement in an area such as Information, Technology, Tax, Treasury, Actuarial, Forensic and Valuation is considered as part of the audit engagement acceptance and continuance process.

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. KPMG Isle of Man promotes a culture in which consultation is recognised as a strength and that encourages all KPMG professionals to consult on difficult or contentious matters.

To help with this, firms 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 GQ&RM Manual includes mandatory consultation requirements on certain matters.

Technical consultation and global resources

Technical auditing and accounting support is available to all member firms and their professionals through the Global Audit Methodology Group (GAMG), KPMG Global Solutions Group (KGSG), 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.

4. System of quality control (continued)

4.6.4 Culture of Consultation (continued)

KPMG Global Solutions Group (KGSG)

The KGSG 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; and

enhancing KPMG's audit methodology, workflow and knowledge used by member firms' audit professionals.

- 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; and
- 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 KGSG and GAMG teams comprise 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 and auditing requirements between member firms, identify emerging issues, and develop global guidance on a timely basis.

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 our 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 EQCR. Unresolved differences are required to follow a prescribed escalation protocol for final resolution. KPMG's International Standards Group (ISG) and PCAOB Standards Group are also available for consultation support when required.

Member firm professional practice resource

Member firms provide consultation support on auditing and technical accounting matters to their audit professionals through our 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 EQCR. Unresolved differences are required to follow a prescribed escalation protocol for final resolution. KPMG's International Standards Group (ISG) and PCAOB Standards Group are also available for consultation support when required.

4.7 Performance of effective and efficient audits

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

4. System of quality control (continued)

4.7.1 Embedding ongoing mentoring and on the job coaching, supervision and review

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

Ongoing mentoring, coaching and supervision during an audit involves:

AEL participation in the 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, discussed and addressed.

4.7.1.1 Engagement quality control (EQC) review

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

EQCR 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 EQCR is satisfied that all significant questions raised have been resolved, though the engagement partner is ultimately responsible for the resolution of accounting and auditing matters.

KPMG 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 EQCRs.

4.7.1.2 Reporting

Auditing standards and various Isle of Man Companies Acts, or similar legislative requirements, largely dictate the format and content of the auditors' report that includes an opinion on the fair presentation of the client's financial statements in all material respects. Experienced AELs form all audit opinions based on the audit performed.

In preparing auditors' reports, AELs have access to extensive reporting guidance and technical support through consultations with our DPP, 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, honest two-way communication

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

At KPMG Isle of Man, 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 Audit Committee or board meetings, and, when appropriate, ongoing informal discussions with management and members of the Audit Committee.

4. System of quality control (continued)

4.7.1.4 *Insightful, open, honest two-way communication (continued)*

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, the 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 more than 40 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; updates on issues like EU audit reform, changes to accounting standards and other matters of interest to Audit Committees (such as cyber security and corporate culture); and 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.

Further details and insights on Audit Committee Institute are available [here](#).

IFRS Institute

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

4.7.2 Client confidentiality, information security, and data privacy

The importance of maintaining client confidentiality is emphasised through a variety of mechanisms including the KPMG Global Code of Conduct, training, and the annual affidavit/confirmation process, that all KPMG 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 Isle of Man 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 KPMG firms, including the nature and extent of testing and reporting.

KPMG Isle of Man compares the results of its internal monitoring programs with the results of those of any external inspection programs and take appropriate action.

4.8.1 Internal monitoring and compliance programmes

KPMG Isle of Man monitoring programme evaluate both:

- engagement performance in compliance with the applicable standards, applicable laws and regulation and KPMG International key policies and procedures; and
- KPMG Isle of Man 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) and Risk Compliance Programs (RCP), which are conducted annually across the Audit, Tax and Advisory functions; and
- A cross functional Global Compliance review (GCR) program with firms selected for review at various intervals based on identified risk criteria.

4. System of quality control (continued)

4.8.1 Internal monitoring and compliance programmes (continued)

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 Isle of Man conducts the annual QPR programme in accordance with KPMG International QPR instructions. The reviews are performed at KPMG Isle of Man level and are monitored regionally and globally. Firm Audit QPR reviews are overseen by a senior experienced lead reviewer independent from the 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 program are disseminated to firm professionals through written communications, internal training tools, and periodic partner, manager and staff meetings.

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

Lead audit engagement partners are notified of less than satisfactory engagement (defined as 'Performance Improvement Needed' or 'Unsatisfactory') 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 Program (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 requirements 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 the KPMG Isle of Man system of quality control with Global Quality & Risk Management policies and key legal and regulatory requirements relating to the delivery of professional services; and
- provide the basis for KPMG Isle of Man 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 action item.

Global Compliance Review Programme (GCR)

Each KPMG firm is subject to a GCR conducted by KPMG International's GCR team, independent of the KPMG firm, at various intervals based on identified risk criteria.

4. System of quality control (continued)

4.8.1 Internal monitoring and compliance programmes (continued)

Global Compliance Review Programme (GCR) (continued)

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

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

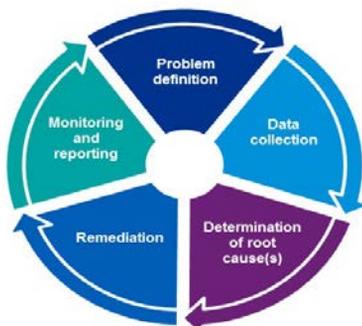
KPMG Isle of Man develops action plans to respond to all GCR findings and agrees these with the GCR team. Our progress on action plans is monitored by the GCR central team. Results are reported to the Global Quality & Risk Management Steering Group (GQ&RMSG) and, where necessary, to appropriate KPMG International and regional leadership.

KPMG Isle of Man was most recently subject to a GCR in December 2020.

Root Cause Analysis (RCA)

KPMG Isle of Man 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.

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 Isle of Man’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 RMP monitors their implementation.

4.8.2 Recommendations for improvements

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

Global remediation plans 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 plans 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

KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss audit quality findings and actions taken to address such issues across the entire organisation.

Firms that audit companies incorporated in one of the Crown Dependencies (Jersey, Guernsey and the Isle of Man) which have ‘transferable securities’ admitted to trading on a ‘regulated market’ in the EU are subject to inspection by the ICAEW Audit Registration Committee. Firms that audit EU PIE clients are subject to inspection visits by the Audit Quality Review (AQR) department of the FRC. Since 2016, any such AQR visit would include within its scope any listed Crown Dependency audits which would otherwise be subject inspection by the ICAEW Audit Registration Committee. The latest Crown Dependency visit of KPMG Isle of Man was performed by the ICAEW and was conducted in May 2016.

4. System of quality control (continued)

4.8.3 External feedback and dialogue (continued)

The firm is also subject to inspections by the Quality Assurance Department of the ICAEW, covering audits of UK entities and Whole Firm procedures. The latest UK entities inspection was in June 2019.

None of the external inspections have identified any issues that have a material impact on the conduct of our statutory audit business.

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 procedures in place for monitoring and addressing complaints received relating to the quality of our work. These procedures are detailed in our general terms of business. All formal complaints are investigated by the Senior Partner and/or the RMP.

4.8.3.4 *Other assessments of audit quality*

In addition to KPMG Global monitoring, a local programme of cold and in-flight reviews is undertaken internally to assess the quality of our audit work.

Section 5

Financial information

5. Financial information

The financial information set out below represents revenue generated in the year ended 30 September 2020.

Revenue derived from:	£'000
Statutory audit of PIE* clients and related entities	123
Permitted non-audit service to PIE* clients and related entities (required by laws and regulations)	70
Permitted non-audit service to PIE* clients and related entities (not required by laws and regulations)	0
Statutory audit of other clients	6,307
Non-audit services to other clients	3,810

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

* For the above purposes, "PIE" refers to EU PIEs as defined in Article 2.13 of EU Directive 2006/43. Revenues derived from PIE clients and related entities are reported net, exclusive of expenses incurred in the performance of the audit, also excluding amounts paid to other KPMG member firms who have assisted in the performance of statutory audits.

Section 6

Partner and Director remuneration

6. Partner remuneration

6.1 Partner remuneration

Partners are remunerated out of the distributable profits of KPMG Isle of Man as set out in the 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 partners includes two components which depend upon length of time as a partner, together with two components which are determined by performance factors.

With regard to the latter, the assessment of individual performance for the year will include input from the RMP and EIP setting out any observations he or she may wish to make on the quality of work performed by partners during the year.

6.2 Drawings

All drawings and profit distributions to partners represent payments on account of current year profits and are reclaimable from members until profits have been allocated. Any over-distribution of profits during the year is also recoverable from partners.

6.3 Director remuneration

Directors act as engagement leaders on certain engagements. Their remuneration comprises an element which reflects the seniority and experience of each individual plus a discretionary bonus element which reflects individual performance.

Audit partners and directors are not permitted to have any objectives related to, or receive any remuneration based on, selling non-audit services to their audit clients. In addition, a part of their performance-related component is based on an assessment of their ability to deliver audit quality.

Section 7

Network

arrangements

7. Network arrangements

7. Network arrangements

7.1 Legal structure

Legal structure for the Financial Year ending 30 September 2020

KPMG Isle of Man 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 obligate or bind any member firm.

The name of each audit firm that is a member of the organisation and the EU/EEA countries in which each firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available at the [following link](#).

Legal structure from 1 October 2020

On 1 October 2020, KPMG Isle of Man 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 organisation from 1 October 2020 can be found in section ‘Governance and leadership’ of the 2020 KPMG International Transparency Report.

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

Aggregated revenues generated by KPMG firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.8 billion during the year ending 30 September 2020.

3. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent currently calculable and translated at the average exchange rate prevailing in the 12 months ended 30 September 2020.

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

7. Network arrangements (continued)

7.2 Responsibilities and obligations of member firms

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

Each member firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG values as set out in Appendix 4.

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

7.3 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.

7.4 Governance structure

The key governance and management bodies of KPMG International are the Global Council, the Global Board and the Global Management Team. Further details about KPMG International including the governance arrangements for the year ended 30 September 2020 can be found in the section 'Governance and leadership' of the [2020 KPMG International Transparency Report](#).

7.5 Area Quality & Risk Management Leaders

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders (ARLs) 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 Global Quality & Risk Management (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.

Section 8

Statement by the Board
of KPMG Isle of Man on
the effectiveness of
quality controls and
independence

8. Statement by the Board of KPMG Isle of Man 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 Isle of Man outlined in this report aim to provide a reasonable degree of assurance that the statutory audits carried out by our firm comply with 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 Isle of Man 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 Isle of Man 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 Isle of Man confirms that an internal review of independence compliance within our firm has been conducted in the year to 30 September 2020.



On behalf of the Board

Russell Kelly

Senior Partner

KPMG Isle of Man

February 2021

Appendix 1

Key legal entities and
area of operation

Appendix 1

Key legal entities and areas of operation

Name of Entity	Legal Structure	Regulatory Status	Nature of Business	Area of Operation
KPMG LLC (100% owned by the members of KPMG LLC)	Isle of Man LLC	Not subject to audit. Regulated by the Isle of Man Financial Services Authority and ICAEW.	Professional services	Isle of Man
KPMG Audit LLC (100% owned by the members of KPMG Audit LLC)	Isle of Man LLC	Not subject to audit. Regulated by the Isle of Man Financial Services Authority and ICAEW.	Audit and audit related services	Isle of Man

Appendix 2

Board of KPMG LLC

Appendix 2

Board of KPMG LLC



Russell Kelly *
Senior Partner and Head of
Advisory



David Parsons
RMP and EIP



Nick Quayle *
Head of Audit



Micky Swindale
Advisory Partner



Simon Nicholas *
Audit RMP

* Also a member of KPMG Audit LLC

Appendix 3
EU Public interest
entity listing at 30
September 2020

Appendix 3

EU Public interest entity listing at 30 September 2020

Integralife (UK) Limited

Appendix 4

The KPMG Values

Appendix 4

The KPMG Values

Our Values represent what we believe in, and what's important to us as an organisation. They guide our behaviours 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.

Our Values express our firm'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.

Appendix 5
Quality in
our Tax Practice

Quality in Our Tax Practice

Quality in Our Tax Practice

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

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.



Tone at the Top

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

Monitoring and Improvement

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

Engagement Performance

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

Clients and Services

Our acceptance processes allow us to understand the background and business profile of our clients.

Standards

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

People

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

Global Principles for a Responsible Tax Practice

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

- We act lawfully and with integrity and expect the same from our people, our firms' clients, tax authorities and other parties with whom we interact. Above all else, in every respect our work shall be fully compliant with relevant legal, regulatory and professional requirements.
- We are committed to providing clients with high quality tax advice tailored to their particular circumstances.
- We shall explain clearly and objectively to our clients the technical merits and the sustainability of any tax advice we give.
- Whenever relevant and practical to assess, we may discuss with clients any likely impact of any tax advice we give on relevant communities and stakeholders and any potential reputational risk.
- We shall make recommendations to clients only where:
 1. we consider, at least on the balance of probabilities, that the relevant interpretation of law is correct; or
 2. 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.

Quality in Our Tax Practice (continued)

- 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.

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 the corporate criminal offence of the failure to prevent the facilitation of tax evasion (the corporate criminal offence). 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 Isle of Man's business activity and create a heightened risk environment in respect of all our services. This is because, whilst KPMG Isle of Man (or member firms) would not intentionally facilitate tax evasion, the corporate criminal offence 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 Offence

There are three stages to the corporate criminal offence:

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 Isle of Man.

Reasonable procedures

KPMG Isle of Man 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 Island's 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.

Quality in Our Tax Practice (continued)

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 Isle of Man, allied with low or zero taxes for non-residents, means that there is a heightened risk of tax evasion activities within KPMG Isle of Man'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 dedicated Risk and Compliance team.

Under global rules, KPMG Isle of Man 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 leader. 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.

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 a significant proportion of the audit client base are businesses that are either regulated by the IOM FSA 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 Isle of Man 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 Isle of Man are committed to preventing the facilitation of tax evasion. As stated above, each function has a partner charged with risk management responsibility.

Quality in Our Tax Practice (continued)

In 2012, KPMG Isle of Man adopted the Principles of a Responsible Tax Practice. This commitment was communicated to all staff through training and in departmental meetings. 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 Isle of Man 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 supervised by directors. It is a strict requirement of the firm that all work is subject to review by a senior staff member and all final deliverables are required to be approved by the engagement leader (with the exception of routine compliance work that nonetheless requires review by an experienced senior staff member). This manner of engagement performance reduces the scope for individual personnel to deviate from firm policy in regard to the prevention of tax evasion.

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

- The Compliance team undertake regular reviews or checks of engagement evaluations and report the results to heads of function and functional RMPs.
- All engagement leaders are reviewed at least once every three years by a review team, made up of senior personnel from other KPMG offices. These reviews included detailed examination of engagement files.
- All functions include some form of review of engagements by other personnel independent of the engagement teams.

Principle 5 - Communication (including training)

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

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.

Within the tax function, specific risk management updates are delivered by the Tax Risk Management Partner 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 a Responsible Tax Practice.

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

Principle 6 - Monitoring and review

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

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

- The annual Enterprise Risk Assessment process;
- The attendance by functional Risk Management Partners at KPMG risk management training events; and
- Updates and communications from the IOM FSA.

Quality in Our Tax Practice (continued)

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 Isle of Man include:

- Employees;
- Contractors;
- KPMG member firms (e.g. via Multi-Firm Engagements (MFEs) or otherwise); and
- 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 Isle of Man personnel. When clients are introduced to us by third parties, as already stated, our normal client and engagement evaluation provisions are applied.





kpmg.co.im



© 2021 KPMG LLC, an Isle of Man limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.