



Gibraltar Transparency Report 2018

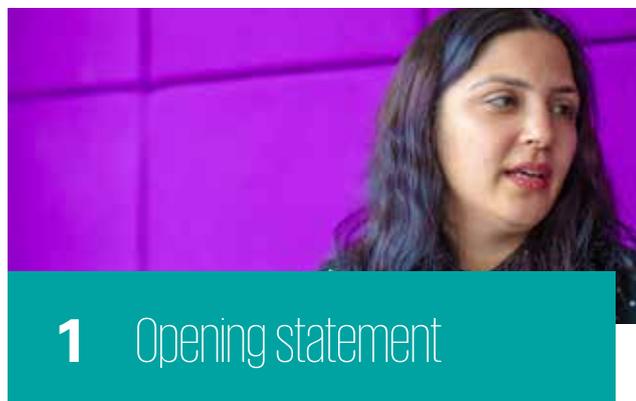
**In respect of the year
ended 30 September 2018**

January 2019

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1 Opening statement





Jonathan Tricker

Managing Director



Message from our Managing Director

Our 2018 Transparency Report provides insight into how we uphold our professional obligations and responsibilities. The key to our success is our reputation and we have a responsibility to our people, our clients and society to maintain the highest levels of integrity in everything that we do.

The 2018 financial year has been a significant year of change for the Gibraltar office of KPMG, with the acquisition in April 2018 by the UK member firm of KPMG, which draws to a conclusion more than 10 years of association with and ownership by the Isle of Man member firm. That development has brought opportunities for both our clients and our people to leverage the deep expertise and experience of the UK firm. In terms of risk management and this transparency report, this document focuses on the Gibraltar office since the transition to UK ownership (ie the current position) – relevant information with respect to the office in its previous association to the Isle of Man member firm (to the date of acquisition by the UK member firm) is provided in KPMG Isle of Man's 2017 transparency

report available online¹. A summary of the manner in which this document meets the disclosure requirements of the EU Audit Regulation is set out in appendix 6.

Transparency about how we operate is more important than it's ever been. Public expectations of business are changing, and scrutiny of our profession is increasing. We have a duty to get it right – for our people, our profession and for wider society. In Gibraltar we are proud to act as trusted auditor to some of the most important entities in the jurisdiction. I trust you will find this report a useful insight into how we strive to enhance the quality of our work. If you would like to discuss any aspect of this report or have any questions or feedback I would be pleased to hear from you.

Jonathan Tricker
Managing Director

¹ <https://home.kpmg/im/en/home/about/governance/transparency-report.html>

2 Quality



Audit Quality

We are committed to achieving the highest levels of quality in our work and ethical standards with continuous improvement in both areas.

Monitoring and continuous improvement

We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for continuous improvement.

The results of internal and external quality reviews and the agreed Audit Quality Indicators are summarised in this section of the Report.

External monitoring

In March 2018, the Gibraltar firm's audit practice was the subject of a periodic Quality Assurance Review as required under Article 26 of the EU Audit Directive by the Gibraltar Financial Services Commission. Three audit files were reviewed, one of them being an EU Public Interest Entity, and the audit work reviewed was found to be generally acceptable and only limited areas for further development were identified.

Internal monitoring

Our internal monitoring comprises principally three main components:

- Quality Performance Review ('QPR');
- Risk Compliance Programme ('RCP') and;
- Global Compliance Review ('GCR').

Our QPR programme assesses engagement level quality for each of our functions including Audit. All engagements are awarded one of three grades: 'Satisfactory', 'Performance Improvement Necessary' ('PIN') and 'Unsatisfactory'. In Audit, a 'Satisfactory' grading requires both (i) the audit work performed, the evidence obtained and the audit documentation produced to comply fully with our internal policies, applicable auditing standards and legal and regulatory requirements in all bar inconsequential areas and (ii) key judgements concerning significant matters in the audit and the audit opinion itself to have been appropriate.

Achieving a 'Satisfactory' standard represents a very high bar. A 'PIN' grading is attributed where the auditor's report is either supported by the work evidenced on file but our independent reviewer requires some explanation to reach this conclusion, or where the evidence on file needs to be supplemented by information obtained as part of the audit but not sufficiently referenced in the work documented on file or where specific requirements of our audit methodology are not fully embedded. A 'PIN' rated engagement does not indicate concerns about the appropriateness of the audit opinion issued or the financial statements to which the opinion referred.

An 'Unsatisfactory' grading is attributed where the engagement was not performed in accordance with the Firm's policies and professional standards in a more significant area, or where there are potential deficiencies in the related financial statements.

Where appropriate, engagement files are remediated to ensure the audit evidence obtained is adequately documented. Engagement teams are required to undertake specific incremental or remedial training or review specific support materials. In addition, engagement leaders receiving a 'PIN' or 'Unsatisfactory' grading are considered for either full follow-on reviews of other engagements or reviews focused on the specific areas of findings. The ratings from the annual QPR programme are taken account of in the performance assessment and remuneration of all engagement leaders and managers. The quality scorecard used to assess the performance of audit Partners takes into account the results from internal and external quality reviews in addition to other quality features.

In 2018, the year in which the Gibraltar audit firm was the subject of external inspection by the Financial Services Commission, no files were the subject of QPR. In 2017, one file relating to a statutory audit opinion of KPMG Limited was selected for QPR and received a satisfactory rating.

The RCP is our annual self-assessment programme which monitors, assesses and documents Firm-wide/cross functional compliance with KPMG International's quality and risk management policies



and applicable legal and regulatory requirements as they relate to the delivery of professional services. The 2018 RCP self-assessment applicable to KPMG Isle of Man and Gibraltar was 'Green'.

The GCR is a triennial review focused on significant governance, risk management (including an assessment of the robustness of the Firm's RCP), independence and financial processes. It is undertaken by representatives of KPMG International who are independent of the firm under review. KPMG Isle of Man and Gibraltar were most recently subject to a Global Compliance Review in December 2017; no matters requiring immediate action were identified and a small number of recommendations were made. The UK Firm was last subject to GCR inspection in October 2018 where a small number of opportunities for improvement were identified including areas which were generally identified by the UK Firm's own compliance and quality control processes. The next inspection is due in 2021.

Training delivered in audit

Our annual training programme runs for a calendar year to match the typical audit cycle and the majority of training takes place in summer and autumn. For the year ended 30 September 2018 our formal audit training programme (excluding those courses for unqualified staff on training contracts) included mandatory technical and risk courses.

In addition to this formal structured training, Partners and staff are required to complete additional training relevant to their grade and role. This includes, for example, mandatory Audit Quality Workshops for all engagement leaders, mandatory training and accreditation for all Partners and managers providing services on US GAAP and/or US GAAS/PCAOB audits, and industry-specific training. This year we introduced the KPMG Audit University. This is a three-day compulsory immersive training course in which participants cover all aspects of the audit process with a practical focus on how to evidence effectively designed and executed audit procedures. All Gibraltar-based audit staff of KPMG attended KPMG Audit University, which will be an annual part of the training programme.



People Survey

We recognise the importance of listening to feedback from our people about how they are feeling about KPMG and their working environment. The results from the People Survey conducted during autumn 2018 for our Gibraltar people for the following questions are shown below:



KPMG's commitment to quality is apparent in what we do on a day-to-day basis

92%

favourable response



I have access to the tools and resources I need to do my job effectively

73%

favourable response



I am satisfied with the training available to improve my knowledge and skills

67%

favourable response

As at the date of this report we are in discussions with our people to determine an action plan working towards improving the results on the above key areas, in particular with respect to learning and tools/resources.

System of quality control

KPMG International has policies of quality control based on the International Standard on Quality Control 1 ('ISQC1') issued by the International Auditing and Assurance Standards Board ('IAASB') and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, relevant to firms that perform statutory audits and other assurance and related services engagements. These policies and associated procedures are designed to assist Member Firms in complying with relevant professional standards, regulatory and legal requirements, to help our personnel act with integrity and objectivity, and perform their work with diligence.

KPMG in the UK supplements KPMG International policies and procedures with additional policies and procedures that are designed to address rules and standards issued by the FRC and KPMG Gibraltar strives to achieve compliance with both KPMG International's and KPMG in the UK's policies and procedures.

Quality control and risk management are the responsibility of all KPMG personnel. This responsibility includes the need to understand and adhere to policies and associated procedures in carrying out their day-to-day activities. The system of quality control applies to all of our personnel whether based in the UK, Gibraltar or at one of our off-shore locations.

KPMG in the UK's system of quality control is set out in the UK firm's 2018 transparency report, which is available online².

At KPMG audit quality is not just about reaching the right opinion, but how we reach that opinion. It is about the processes, thought and integrity behind the audit report. We view the outcome of a quality audit as the delivery of an appropriate and independent opinion which is compliant with the auditing standards. This means, above all, being independent, objective and compliant with relevant legal and professional requirements.

To help all audit professionals concentrate on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have a global Audit Quality Framework. This framework introduces a common language that is used by all KPMG Member Firms to describe what we believe drives audit quality, and to highlight how every audit professional at KPMG contributes to the delivery of audit quality. Tone at the Top sits at the core of the Audit Quality Framework and helps ensure that the right behaviours permeate across our Firm.

All of the other drivers are presented within a circle, because each driver is intended to reinforce the others. We have a series of performance metrics linked to each of these drivers that are monitored and reviewed regularly. Each of the seven drivers, and how they were applied in the year, are described in more detail in Appendix 2 of this Report. The policies and practices set out also ensure that persons eligible for appointment as statutory auditors continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level.

² <https://assets.kpmg/content/dam/kpmg/uk/pdf/2018/12/annual-report-2018-transparency-report.pdf>



3 Structure and Governance

Structure and governance

Legal structure

Until 27 April 2018, KPMG Limited ('the Gibraltar Audit Firm'), the entity licensed to act as external auditor to Gibraltar entities, was owned by KPMG Audit LLC and ultimately by the partners of the Isle of Man member firm of KPMG. Since that date, the entity's immediate parent entity is KPMG Holdings Limited, with ultimate ownership by KPMG LLP.

KPMG LLP ('the Firm') is incorporated as a limited liability partnership in the UK under the Limited Liability Partnerships Act 2000. The capital in KPMG LLP is contributed by its Members (the Members are referred to as "Partners" within the Firm and the two terms are used interchangeably in this report).

KPMG LLP is affiliated with KPMG International Cooperative ('KPMG International'), a legal entity which is formed under Swiss law. Further details about KPMG International and its business, including our relationship with it, are set out in Appendix 1.

KPMG Limited has one subsidiary, KPMG Advisory Limited, which provides non-audit services to clients of the Gibraltar office of KPMG.

As described in Appendix 1, all KPMG International Member Firms (including KPMG LLP) belong to one of three regions – Asia Pacific ('ASPAC'), the Americas or Europe, Middle East and Africa ('EMA'). KPMG LLP belongs to the EMA region.

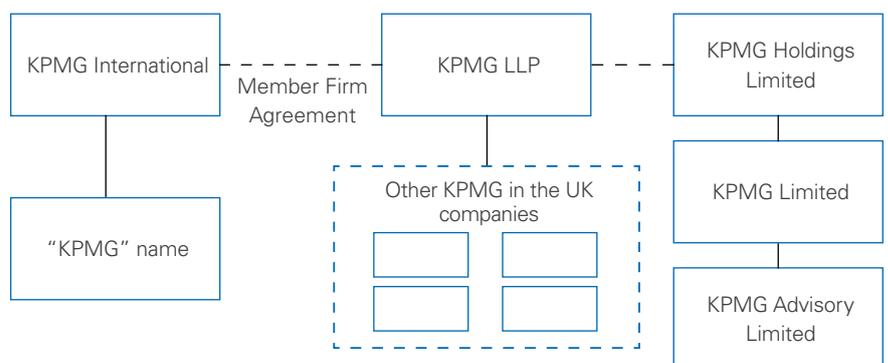
Ownership

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

Governance structure of KPMG LLP

Consistent with our commitment to build trust, we apply high standards of governance and adopt a legal structure reflective of the nature and extent of our activities.

Legal structure



The core of our legal structure is KPMG LLP, owned by our Partners and connected to the global KPMG network by a membership agreement with KPMG International Cooperative.

The Firm's governance structures, management team and Members are subject to formal, rigorous and on-going performance evaluation.

Senior Partner

The Firm is led by an elected Chairman and Senior Partner, Bill Michael, who was appointed in July 2017 following a competitive election campaign and confidential vote of all Partners (administered by the Electoral Reform Society).

The Senior Partner is responsible for leading the Board and ensuring that the Board members receive accurate, timely and clear information and ensuring effective communication and relationships with the members at large. The Senior Partner also regularly meets with the Non-Executive members (without the Executive Committee members present).

The UK Board

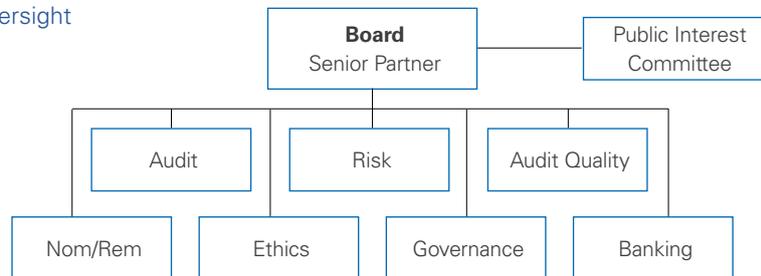
The main governance body of the Firm is the UK Board, which is responsible for the growth and long term prosperity of the Firm ensuring it keeps with, and is true to, its purpose, its vision and the 'KPMG Values'. The Senior Partner leads the Board, which provides leadership to the organisation, approves the Firm's strategy and oversees its implementation, monitoring performance against our business plan. The Board also ensures that there is a satisfactory process for managing cultural, ethical, risk and reputational matters affecting KPMG in the UK business including compliance with laws, other regulations relevant to our business and global KPMG's policies.

As at 30 September 2018, the Board comprised fifteen members: the Chairman, the Deputy Chair, three Executive members, four Vice Chairs, and six Non-Executives who are all Partners in the Firm.

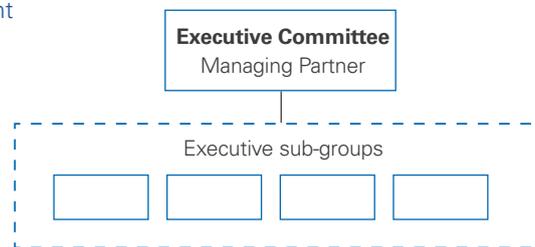
The Board is attended by the Chair of the Public Interest Committee and by the other Independent Non-Executives on a rotational basis and, by two senior leaders from the KPMG International network of Member Firms.

Governance structure

Oversight



Management



Our governance complies with the Audit Firm Governance Code. The Board, chaired by the Senior Partner and supported by a number of committees, provides oversight of the Executive Committee (chaired by the Managing Partner). In addition, the Public Interest Committee (chaired by an Independent Non-Executive) provides independent challenge to help the Firm fulfil its public interest purposes.

Our triennial Board evaluation has recommended a rationalisation of committees for implementation during FY19.

Non-Executive members of the Board are elected by the Members for fixed terms. The current Non-Executive members are serving two or three-year terms up to a maximum of five years, in order to maintain relevant skills and breadth of experience on the Board.

The Board met formally 11 times in the year to 30 September 2018. In addition, the Board held a number of ad-hoc calls and meetings to discuss other matters arising during the year.

The Board of KPMG Limited

The main governance body of the Gibraltar audit firm is the Board of KPMG Limited, which is responsible for growth and long term prosperity, ensuring it keeps with, and is true to, its purpose, its vision and the 'KPMG Values'.

Until 27 April 2018, the Board consisted of all duly licensed statutory auditors in Gibraltar, being Jonathan Tricker, Russell Kelly and Nicholas Quayle. Upon acquisition by the UK member firm of KPMG, Russell Kelly

and Nicholas Quayle stepped down as directors, being replaced on the same day by Michael Harper, the National Markets Head of Audit for KPMG in the UK.

On 6 June 2018, Stuart Crisp, the Financial Services Head of Audit for KPMG in the UK, and Sarah Willows, the Chief Financial Officer and Head of Operations for KPMG in the UK, also joined the Board.

KPMG Limited's Board met formally 6 times during the year to 30 September 2018.

Risk management



Responsibility for quality and risk management

Quality control and risk management are the responsibility of all KPMG personnel. This responsibility includes the need to understand and adhere to policies and associated procedures in carrying out their day-to-day activities. However, our Senior Partner assumes ultimate responsibility for KPMG in the UK's system of quality control in accordance with the principles in the revised International Standard on Quality Control (UK) 1 ('ISQC1') issued by the International Auditing and Assurance Standards Board ('IAASB').

During the year, operational responsibility for the system of quality control, risk management and compliance was delegated to the UK Head of Quality & Risk Management, who was responsible for setting overall professional risk management and quality control policies and monitoring compliance for KPMG in the UK. He had a direct reporting line to the Senior Partner and a seat on both the Board and ExCo of KPMG in the UK which underlines the importance that our Firm places on risk and quality issues. The UK Head of Quality & Risk Management was supported directly by a team of Partners and professionals (including Partners with specific responsibility for each of the client service functions all of whom are supported by a function risk team).

Our system of quality control

KPMG International has policies of quality control based on the ISQC1 and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ('IESBA'), relevant to firms that perform statutory audits and other assurance and related services engagements. These policies and associated procedures are designed to guide Member Firms in complying with relevant professional standards, regulatory and legal requirements, and to help our personnel act with integrity and objectivity and perform their work with diligence.

Details of some of the measures that the Senior Partner and the rest of the UK Board have taken to ensure that a culture of quality prevails within KPMG in the UK are set out in the UK Member Firm's transparency report, which is available online³.

Risk management

The identification, evaluation, management and monitoring of the most significant risks that face our Firm and could threaten the achievement of our strategic objectives are the responsibility of our Board. The principal risks and uncertainties facing our Firm are outlined below. Of particular relevance to KPMG's audit practice in Gibraltar is the risk posed by Brexit, which is expected to impact some of the firm's clients (particularly those which previously made use of the EU financial services passporting regime) and, in the worst case scenario, could impact the practice's clients and people through boarder restrictions.

³ <https://assets.kpmg/content/dam/kpmg/uk/pdf/2018/12/annual-report-2018-transparency-report.pdf>

	Risk description	Mitigation
Major or multiple audit failures	Issuance of an incorrect audit opinion and/or poor quality auditing resulting in shareholder loss, litigation, regulatory action or lost clients through the resulting reputational damage.	<ul style="list-style-type: none"> – A tone at the top which emphasises quality, ethics and integrity. – Board oversight of both internal and external audit quality reviews, recommendations and actions. – Robust audit quality controls including adoption of all KPMG UK audit policies and procedures – Rigorous client and engagement acceptance procedures and risk policies. – Involvement of UK EQCRs on all high risk clients and public interest entities – Involvement of actuaries on all insurance clients – Global methodologies and mandatory training.
Major litigation or regulatory investigation	Actual or suspected failure in any of our services potentially resulting in loss for our clients and shareholders, harming our reputation, opening us to increased scrutiny, the prospect of major claims and legal costs or significant remediation costs.	<ul style="list-style-type: none"> – A tone at the top which emphasises quality, ethics and integrity. – General engagement quality and risk management controls, including robust contracts put in place with clients and recipients of our reports. – Rigorous and robust inter-firm contracting protocols when working with other KPMG International Member Firms. – Rigorous client and engagement acceptance procedures.
Data loss	Failure to protect client confidential or personal data, as a result of either cyber attack or through failures in our internal procedures leading to loss for our clients, potential damage to our reputation, loss of key clients, potential litigation and/or regulatory fines.	<ul style="list-style-type: none"> – Migration to KPMG UK IT security policies and processes. – Ongoing training and awareness campaigns. – Our Code of Conduct.
Financial risk	Failure to achieve growth or budget aspirations thereby losing market share and competitor positioning. Poor cost control and ineffective cash management (including significant bad debt losses, failure to control costs such as staff, premises and IT). Reliance on a small number of large clients.	<ul style="list-style-type: none"> – Board role in budget and performance oversight – Quarterly financial analysis at board level – Financial support from KPMG UK
Delivering inappropriate services	Delivery of services which are either illegal, unethical, contravene professional standards or are otherwise perceived by investors, regulators or other stakeholders as inappropriate could damage our or our clients' reputations and potentially result in regulatory sanctions, legal action or damage our relationship with key regulators.	<ul style="list-style-type: none"> – Our internal quality control system, adopted from the UK and overseen by the Board, including (i) Rigorous client and engagement acceptance procedures, (ii) Engagement quality controls (including the involvement of an Engagement Quality Control Review), (iii) Robust conflicts checking processes, (iv) Policies and procedures around auditor independence, (v) Robust compliance programmes and (vi) Our Code of Conduct and Values. – Whistle-blowing processes.
Failure of another network firm	Our ability to service our clients or our reputation in the marketplace is severely impacted by the failure of another KPMG Member Firm.	<ul style="list-style-type: none"> – Global processes and procedures including (i) Risk policies and procedures and (ii) Audit methodology and (iii) Quality Review Programmes

	Risk description	Mitigation
Working with the wrong clients	Working with the wrong clients damages our reputation in the marketplace/with the regulators or exposes the Firm to litigation.	<ul style="list-style-type: none"> – Robust client acceptance processes, for example with relation to high risk industries such as online gaming and cryptocurrencies – Speak-Up hotline
Cultural behaviour	Actual behaviour and actions of individuals not aligned with target culture leading to disengagement and demotivation. Behaviours of Gibraltar people not aligned to KPMG Values / KPMG Way.	<ul style="list-style-type: none"> – A tone at the top which emphasises quality, ethics and integrity – Global People Survey results and actions – Robust people management process – Code of Conduct and Values training
Failure to manage resources	Capability gaps, an inability to retain and recruit appropriate resource and poorly motivated Partners and staff adversely impacts the Firm's ability to generate revenue and service clients. A loss of key individuals bringing about short term client service and wider retention problems.	<ul style="list-style-type: none"> – Recruitment plan and investment in recruitment – Succession planning (including through more Gibraltar resident responsible individuals) and talent development – Process to identify key skills and capabilities required – People management processes and remuneration benchmarking
Failure to respond to changes in marketplace	Unanticipated national and global market developments (including the impact of Brexit) result in the Firm being unprepared for shifts in the marketplace and/or changes in the needs and priorities of clients causing loss of market position.	<ul style="list-style-type: none"> – Diversification of client base and core services – Ongoing investment in core capabilities – Ongoing assessment of impact of Brexit and other changes in the market place on Gibraltar and the firm's client base (for example pressures on Gibraltar from the OECD or EU)

Statement by the Board on the effectiveness of internal controls and independence

Internal controls statement

The Board of KPMG Limited is responsible for the Gibraltar Audit Firm's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, loss, or non-compliance with relevant regulatory or legislative requirements.

The key elements of the Board's review of the risk management systems and internal controls during the period under review have been:

- Consideration of the design and operation of the quality control systems as described in this report;
- Consideration of the findings from the various compliance programs operated by our firms (including the KPMG International review programmes as described in this report and findings from oversight provided by the UK Member Firm of KPMG);
- Findings from regulatory inspections and subsequent follow-up and/or remedial actions; and
- The program of work to transition the business onto UK systems and processes following the change of control.

Conclusions

The Board of KPMG Limited confirms that internal reviews of the effectiveness of internal controls and of independence practices within the Gibraltar Audit Firm have been undertaken and work continues to transition the business onto UK systems. Our compliance programmes identify deficiencies and opportunities for improvement and, in such instances, remediation activities are agreed with subsequent follow up to assess the extent to which the matters identified have been addressed satisfactorily. However, matters arising from these activities are not considered either individually or in the aggregate to undermine the overall system of internal control in place.



4 Appendices



Appendix 1 - Network arrangements

Legal structure

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

KPMG International carries on business activities for the overall benefit of the KPMG network of Member Firms but does not provide professional services to clients. Professional services to clients are exclusively provided by Member Firms.

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

KPMG International is an entity that is legally separate from each Member Firm. KPMG International and the Member Firms are not a global partnership, joint venture, or in a principal or agent relationship or partnership with each other. No Member Firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any Member Firm.

The name of each audit firm that is a Member of the network and the EU/EEA countries in which each network Member Firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available at the following link⁴.

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

Responsibilities and obligations of Member Firms

Under agreements with KPMG International, Member Firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools. Each Member Firm takes responsibility for its management and the quality of its work. Member Firms commit to a common set of KPMG Values (see Appendix 7).

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

Professional indemnity insurance

Insurance 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.

Governance structure

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

Global Council

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among Member Firms. It performs functions equivalent to a shareholders' meeting (albeit KPMG International has no share capital and, only has members, not shareholders). Among other things, the Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 58 Member Firms that are "members" of KPMG International as a matter of Swiss law. Sub-licensees are generally indirectly represented by a member.

Global Board

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International, and approving policies and regulations. It also admits Member Firms.

⁴ <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2018/12/eu-and-eea-audit-entities-list-30-09-2018.pdf>

The Global Board includes the Global Chairman, the Chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)) and a number of senior Partners of Member Firms. It is led by the Global Chairman, who is supported by the Executive Committee, consisting of the Global Chairman, the Chairman of each of the regions and currently three other senior Partners of Member Firms. The list of Global Board members, as at 1 October 2018 is available in the International Annual Review⁵.

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

Global Management Team

The Global Board has delegated certain responsibilities to the Global Management Team. These responsibilities include developing global strategy by working together with the Executive Committee. The Global Management Team also supports the Member Firms in their execution of the global strategy and is responsible for holding them accountable for commitments. It is led by the Global Chairman and includes the Global Chief Operating Officer, Global Chief Administrative Officer, global function and infrastructure heads, and the General Counsel.

The list of Global Management Team members as at 1 October 2018 is available in the International Annual Review⁵.

Global Steering Groups

The Global Steering Groups work closely with regional and Member Firm leadership to:

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

The Global Steering Groups act under the oversight of the Global Management Team. The roles of the Global Audit Steering Group and the Global Quality & Risk Management Steering Group is detailed in section ‘Governance and leadership’ of the KPMG International Transparency Report⁵.

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

Further details about KPMG International including the governance arrangements is in the ‘Governance and leadership’ section of the KPMG International Report⁵.

Area Quality & Risk Management Leaders

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

The objectives of the Area Quality & Risk Management Leaders are to:

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

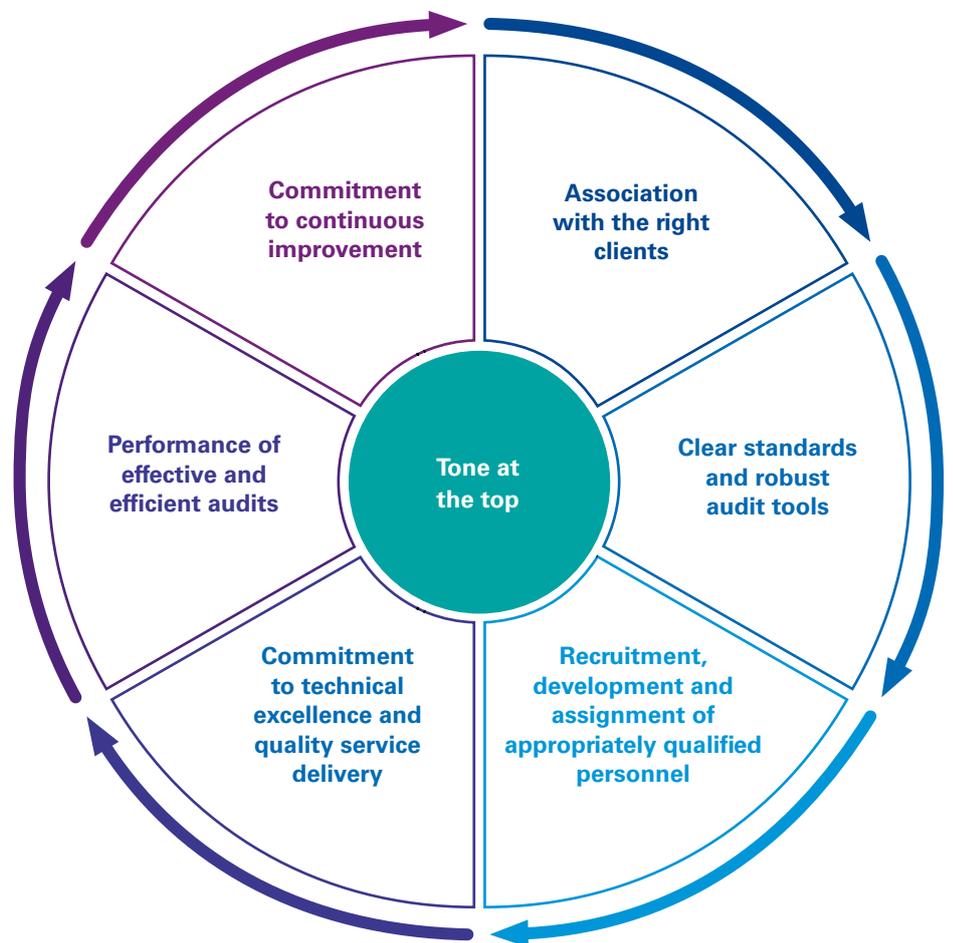
⁵ <https://home.kpmg.com/xx/en/home/about.html>

Appendix 2 - Audit Quality Framework

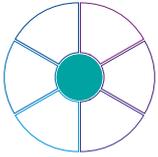
To help all audit professionals concentrate on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have a global Audit Quality Framework. This framework introduces a common language that is used by all KPMG Member Firms to describe what we believe drives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

Tone at the Top sits at the core of the Audit Quality Framework and helps ensure that the right behaviours permeate across our Firm. All of the other drivers are presented within a circle, because each driver is intended to reinforce the others. We have a series of performance metrics linked to each of these drivers that are monitored and reviewed regularly.

Each of the seven drivers, and how they were applied in the year, is described in more detail below. The policies and practices set out also ensure that persons eligible for appointment as statutory auditors continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level.



1. Tone at the Top



KPMG's Tone at the Top provides a clear focus on quality through:

- Culture, Values, and Code of Conduct – clearly stated and demonstrated in the way we work;
- A strategy with quality at its heart;
- Standards set by leadership; and
- Governance structures and clear lines of responsibility for quality, with skilled and experienced people in the right positions to influence the quality agenda.

Our leadership demonstrates and communicates their commitment to quality, ethics and integrity. The Audit Newsletter publication is released regularly to all audit professionals in addition to regular technical bulletins to cover emerging issues, new developments, policies, and guidance; and key audit technical and quality messages.

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG Core Value – 'Above all, we act with integrity'. For us, integrity means constantly striving to uphold the highest professional standards in our work, providing sound good-quality advice to the entities we audit and rigorously maintaining our independence. Our Values, which have been explicitly codified now for a number of years, are embedded into our working practices at KPMG. For example, they are considered in the performance appraisal process that our people follow and adherence to these Values is also reviewed when our people are considered for more senior promotions, including to Partner. Our Values are set out in Appendix 7.

Our Code of Conduct incorporates our Values, and defines the standards of ethical conduct that we require from our people. The Code of Conduct was updated during the year to reflect changes in laws, regulations and professional ethics. It sets out KPMG's

ethical principles and helps Partners and employees to understand and uphold those principles. The Code of Conduct emphasises that each Partner and employee is personally responsible for following the legal, professional and ethical standards that apply to his or her job function and level of responsibility. It includes provisions that require KPMG people to:

- Comply with all applicable laws, regulations and KPMG policies;
- Report any illegal acts, whether committed by KPMG personnel, clients or other third parties;
- Report breaches of risk management policies by KPMG Firms or people;
- Uphold the highest levels of client confidentiality; and
- Not offer, promise, make, solicit or accept bribes (whether directly or through an intermediary).

The 'Speak-Up hotline' operates as a whistle-blowing hotline in the UK which is available for our personnel (including Gibraltar-based personnel), entities we audit and other parties to confidentially report concerns they have relating to how others are behaving (both internally and externally) and concerns regarding certain areas of activity by the Firm, its Partners or employees. The Speak-Up hotline allows people to report their concerns (via telephone, secure internet lines or surface mail) to a third party organisation. Our people can raise matters anonymously and without fear of retaliation. During 2018, 30 matters which required investigation were reported to the Speak-Up hotline (2017: 20 cases investigated). Matters reported to the hotline are investigated under the supervision of our external ombudsman who reports to KPMG in the UK's Ethics Committee on the operation of the hotline in the year.

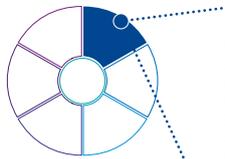
// Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG Core Value – 'Above all, we act with integrity'."

The commitments in our Code of Conduct underlie our values-based compliance culture where individuals are encouraged to raise their concerns when they see behaviours or actions that are inconsistent with our values or professional responsibilities and required to do so when they see breaches of KPMG policies, laws and regulations and professional standards.

All our personnel are required to confirm their understanding of, and compliance with, the applicable Code of Conduct upon joining the Firm, and annually thereafter; and complete training on the applicable Code of Conduct upon joining the Firm and on a biennial basis thereafter. KPMG personnel are encouraged to raise their concerns when they see behaviours or actions that are inconsistent with our values or professional responsibilities.

The ombudsman's 2018 report highlighted key themes including the modest rise in the number of reports, the drop in third party reports since inception and the higher proportion of anonymous reports and concludes that the whistle-blowing hotline is a useful tool which was being utilised and none of the cases raised issues of major policy concern for the Firm.

2. Association with the right clients



- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

Acceptance and continuance of clients and engagements

Rigorous client and engagement acceptance and continuance policies and processes are vitally important to our ability to provide quality professional services and to protect KPMG's reputation and support its brand.

Prospective client and engagement evaluation process

Before accepting a client, we undertake an evaluation of the prospective client. This evaluation is completed through our SAP enabled engagement management system and involves an assessment of its principles, its business and other service-related matters.

This also involves background checks on the prospective client, its key management and beneficial owners. A key focus is on the integrity of management as a prospective client.

A second Partner, as well as the Evaluating Partner, approves the prospective client evaluation. Where the client is considered to be 'high risk' a Risk Management Partner is involved in approving the evaluation. Each prospective engagement is also evaluated. In practice this may be completed at the same time as the client evaluation, particularly in respect of audit appointments. The engagement leader evaluates this in consultation with other senior personnel and decisions are reviewed by Quality & Risk Management leadership as required.

A range of factors is considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel™, KPMG International's proprietary global conflicts and independence checking system) as well as factors specific to the type of engagement including, for audit services, the competence of the client's financial management team. Controls are built into our SAP system to help ensure that a valid client and engagement acceptance process has been completed as appropriate.

In addition, when taking on a statutory audit 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 entity for whom we are considering providing audit services and of other relevant relationships and matters which may have a bearing on our independence. Similar independence evaluations are performed when an existing entity we audit becomes a public interest entity or additional independence restrictions apply following a change in the circumstances of the entity. As part of this evaluation, all key audit tender documents and a sample of others are reviewed by Quality & Risk Management prior to release to ensure that quality messages are factual and appropriate and that the proposals are balanced and consistent with the latest, often unpublished, trend information.

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

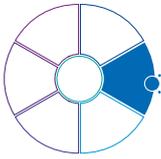
We will decline a prospective client or engagement if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional and Firm standards, or if there are other quality and risk issues that cannot be appropriately mitigated. Further information on our independence and conflict checking policies can be found below.

Continuance process

may be a change in their risk profile. Recurring or long-running engagements are also subject to periodic re-evaluation. Audit services are reviewed at least annually.

This re-evaluation serves two purposes. Firstly, we will decline to act for any entity we consider it would not be appropriate to continue to be associated with. Secondly, and more commonly, we use the re-evaluation process to consider whether or not any additional risk management or quality control procedures need to be put in place for the subsequent engagements we perform for that entity (this may include the assignment of additional professionals or the need to involve additional specialists in the case of audit).

3. Clear standards and robust audit tools



- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

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

Audit methodology and tools

Significant resources are dedicated to keeping our standards and tools complete and up-to-date. Our global audit methodology, developed by the Global Service Centre ('GSC'), is based on the requirements of the International Standards on Auditing ('ISAs'). The methodology is set out in KPMG International's KPMG Audit Manual ('KAM') which all Member Firms are obliged to follow and includes additional requirements that go beyond the ISAs and which KPMG believes enhance the quality of our audits. KPMG in the UK also adds local requirements and/or guidance in KAM to comply with additional professional, legal or regulatory requirements specific to the UK and our own internal policies in the UK.

Our audit methodology is supported by eAudit, KPMG's electronic audit tool, which provides KPMG auditors worldwide with the methodology, guidance and industry knowledge needed to perform effective and focused quality audits. eAudit has been deployed to all audit professionals in KPMG Gibraltar and is regularly updated to add additional functionality to support the efficient and effective delivery of quality audit services. eAudit's activity-based workflow provides engagement teams with ready access to relevant information and knowledge at the right time throughout the audit, thereby enhancing effectiveness, efficiency and delivering value to our stakeholders.

KAM contains examples and guidance for, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks. Our methodology encourages engagement teams to exercise professional judgement in all aspects of planning and performing an audit and to exercise professional scepticism and appropriate challenge when undertaking procedures and reaching conclusions. The methodology requires the involvement of relevant specialists in the core audit engagement team when certain criteria are met or where the audit team considers it appropriate or necessary.

KAM includes the implementation of quality control procedures at the engagement level that provide us with reasonable assurance that our engagements comply with the relevant professional, legal, regulatory and KPMG requirements. The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the Global Quality & Risk Management Manual that is applicable to all KPMG Member Firms, functions and personnel and is tailored in the UK for any local policies and procedures – KPMG Gibraltar applies the UK's local policies and procedures where appropriate.

Technology and innovation are changing the way we execute our

audit engagements, empowering our people to deliver greater quality and value. Making data and analytics (D&A) a core part of the KPMG audit is critical to our mission of driving audit quality. KPMG Clara is our smart audit platform which builds on our existing eAudit platform to offer teams new ways of interacting, accessing audit methodology and tools and also providing access to collaboration solutions. It puts technology and D&A right at the heart of our approach, enabling teams to leverage data and bring advanced capabilities and knowledge together in one environment. KPMG Clara integrates all of our advanced capabilities and knowledge, and empowers our people to work in smarter ways, unlocking the power of innovation to help deliver a robust and leading-edge audit. It is our gateway to continued audit innovation, and incremental additions will be made over time.

“KPMG Clara integrates all of our advanced capabilities and knowledge, and empowers our people to work in smarter ways, unlocking the power of innovation to help deliver a robust and leading-edge audit.”

The KPMG Clara client collaboration tool facilitates secure collaboration between the entities we audit and audit teams wherever they are in the world and will drive effective and timely communication, allowing us to share information and manage projects in real time, in a single location.

In the next 12 months we will also begin the deployment of our new KPMG Clara Audit Workflow tool (our internal record of audit evidence) which will significantly transform the way our staff deliver and document audits. It will incorporate artificial intelligence, robotics, data & analytics and chat bot technology.

Independence, integrity, ethics and objectivity

We have adopted the KPMG Global Independence Policies which are derived from the IESBA Code of Ethics (the IESBA Code) and incorporate, as appropriate, the US Securities & Exchange Commission, the PCAOB and other applicable regulatory standards.

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, Partner rotation and approval of audit and non-audit services. In the UK, the Ethics Partner is supported by a core team to help ensure that we apply robust and consistent independence policies, processes and tools. Ethics and independence policies are set out on our intranet-hosted Quality & Risk Management Manual, which contains all our independence policies, and reinforced through an annual training programme. Amendments to the ethics and independence policies in the course of the year are communicated by bullet-ins and e-mail alerts.

Failure to comply with the Firm's independence policies, whether identified in the rolling compliance review, self-declared or otherwise, is factored into promotion and compensation decisions and, in the case of engagement leaders and managers, reflected in their individual quality, ethics and compliance metrics. Our approach is communicated to all professionals and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations.

Personal independence

KPMG International policy extends the IESBA Code restrictions on ownership of audited entity securities to every Member Firm Partner in respect of any audited entity of any Member Firm.

Our professionals are responsible for making appropriate inquiries to ensure that they do not have any personal financial, business or family interests that are restricted for independence purposes. In common with other Member Firms of KPMG International, we use a web-based independence tracking system ('KICS') to assist our professionals in their compliance with personal independence investment policies. This system contains an inventory of publicly available investment products. Partners and all client-facing staff are required to use this system prior to entering into an investment to identify whether they are permitted to do so. They are also required to maintain a record of all of their investments in KICS, which automatically notifies them if their investments subsequently become restricted. Partners and partner-equivalents are required to obtain specific clearance from the Partner Independence Team ('PIT') for any investment they or their immediate family propose to make. The PIT maintain the Partners' KICS account and are the gateway for pre-clearing any investments.

We monitor Partner and manager compliance with these requirements as part of a programme of independence compliance audits of a sample of professionals. In the year ended 30 September 2018, 456 (2017: 463) of KPMG in the UK people were subject to these audits (this included approximately 20% (2017: 20%) of our Partners). In addition to these, all direct-entry Partners are subject to a compliance audit as a condition of their admission, and are subject to a further audit after 12 months in the Firm.

We have amended the policy which applies to members of the audit team being recruited by entities we audit such that it goes beyond the requirements of the ES. We now apply the requirement for Partners to inform the Ethics Partner of possible employment by an entity we audit to all members of the audit team rather than when such employment is probable as required by the ES. Additionally, we have amended our terms of business to reflect this and to safeguard the Firm's independence. Our internal policy in relation to retiring, or recently retired Partners goes beyond the requirements of the revised ES.

Significant matters not governed by the ES or our internal policy but which are considered to have a bearing on independence are presented to the Ethics Committee for their consideration.

Firm financial independence

KPMG in the UK maintains a record of its investments (made, for example, through pension and retirement plans and treasury activities) in KICS. This record is monitored through our compliance process.

Business relationships/suppliers

We have policies and procedures in place that are designed to ensure that business relationships are maintained in accordance with both the ES and the IESBA Code. Detailed guidance is maintained covering, inter alia, business alliances and joint working arrangements, procurement relationships and marketing and public affairs activities. Consultation with our ethics and independence professionals is required in any case of uncertainty to ensure that no relationship is entered into with an entity we audit or its management which is not permitted for independence purposes. Compliance with these policies and procedures is reviewed periodically.

Independence training and confirmations

We provide all relevant personnel (including all Partners and client service professionals) with independence training twice per year appropriate to their grade and function and provide all new personnel with relevant training when they join the Firm.

All personnel are required to sign an independence confirmation upon joining the Firm. Thereafter, professionals are required to provide an annual confirmation that they have remained in compliance with applicable ethics and independence policies throughout the period. This confirmation is used to evidence the individual's compliance with and understanding of our independence policies.

Audit engagement leader rotation

All audit engagement leaders are subject to periodic rotation of their responsibilities for entities we audit under applicable laws and regulations and independence rules. These limit the number of years that engagement leaders in certain roles may provide audit services to an audited entity. KPMG rotation policies are consistent with the IESBA Code and also require our Firm to comply with any stricter applicable rotation requirements where relevant.

We monitor the rotation of audit engagement leaders and any other key roles where there is a rotation requirement, including the Engagement Quality Control reviewer and have transition plans to enable us to allocate Partners with the necessary competence and capability to deliver a consistent quality of service to clients. The rotation monitoring is subject to compliance testing.

Firm rotation

EU Public Interest Entities ('EU PIEs'), as defined in the FRC's ES, are required to rotate their firm of auditors. This is known as Mandatory Firm Rotation ('MFR'). MFR rules in the UK and Gibraltar require that 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. We have processes in place to track and manage MFR.

Non-audit services

We have policies regarding the scope of services that can be provided to companies for whom we are auditors which are consistent with the ES and the IESBA Code. KPMG policies require the audit engagement leader to evaluate the threats arising from the provision of non-audit services and the safeguards available to address those threats.

Group audit engagement leaders are required to maintain group structures for all publicly traded and certain other entities and their affiliates for whom we are auditors in Sentinel™, which facilitates compliance with KPMG policies. Every engagement intended to be entered into by a KPMG Member Firm is required to be included in Sentinel™ prior to starting work. Sentinel™ enables lead audit engagement Partners for entities for which group structures are maintained, to review and approve, or deny, any proposed service for those entities worldwide.

To maintain auditor independence, no individual can be rewarded for selling non-audit services to entities we audit.

Post the 30 September 2018 year-end, KPMG in the UK announced that we are working towards discontinuing the provision of non-audit services (other than those required by law or regulation or closely related to the audit) to the FTSE350 companies we audit. This goes beyond the requirements of the ES and is a step we have taken to remove even the perception of a possible conflict. The same policy has been applied to Gibraltar subsidiaries of FTSE 350 groups.

Fee dependency

KPMG International's policies recognise that self-interest or intimidation threats may arise if the total fees from an entity which we audit represent a large proportion of the total fees of the Member Firm expressing the audit opinion.

In particular, these policies require that in the event that the total fees from a public interest entity that we audit and its related entities were to represent more than 10% of the total fees received for two consecutive years:

- This would be disclosed to those charged with governance at the audit entity; and
- A Senior Partner from another KPMG Member Firm would be appointed as the engagement quality control reviewer.

No public interest entity to whom KPMG Gibraltar provides audit services accounted for more than 10% of the total fees received in either of the last two years.

Conflicts of interest

Conflicts of interest may prevent our Firm from accepting or continuing an engagement. Sentinel™ is also used to identify and manage potential conflicts of interest within and across Member Firms. Any potential conflict issues identified are resolved in consultation with other parties as applicable, and the outcome is documented. An escalation procedure exists in the case of dispute between Member Firms. If a potential conflict issue cannot be resolved, the engagement is declined or terminated.

We have risk management resource who are responsible for reviewing an identified potential conflict and working with the affected Member Firms to resolve the conflict the outcome of which must be documented. It may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise or be perceived to arise so that the confidentiality of all clients' affairs is maintained. Such procedures may, for example, include establishing formal dividers between engagement teams serving different clients and making arrangements to monitor the operation of such dividers.

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

We provide training on compliance with laws (including those relating to anti-bribery and corruption), regulations, professional standards and the KPMG Code of Conduct to all client-facing Partners and employees on joining the Firm, and every two years thereafter. The same training is also provided to certain other non-client-facing personnel (such as those who work in finance, procurement or sales and marketing).

We keep under review our anti-money laundering and anti-bribery systems and controls to ensure that these meet the requirements of legislation.

4. Recruitment, development and assignment of appropriately qualified personnel



- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

We are committed to equipping our people with the skills and tools they need to cut through the complexity of today's world – complexity that sees our people increasingly working across borders, collaborating on a global basis and taking on challenging and innovative projects.

One of the key drivers of quality is ensuring the assignment of professionals with the skills and experience appropriate to the entity we audit and to deliver a high quality audit. This requires a focus on recruitment, development, promotion and retention of our personnel and the development of robust capacity and resource management processes.

We believe it is essential to attract and retain the best people.

Recruitment

All candidates applying for professional positions are required to 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.

Upon joining the Firm, new personnel are required to participate in an on-boarding programme designed to help ensure that any independence or conflicts of interest are addressed before the individual's employment or partnership commences. This includes training in areas such as ethics and independence, quality and risk management principles, our people management procedures, our values and the KPMG Story. For qualified joiners to Audit we have developed a two-week face to face induction.

Personal development

Attracting, retaining and developing talented individuals is at the very top of our people agenda and there is a significant investment of time, money and other resources to build professional capability, leadership and business skills and technical expertise.

An international and UK Partner development framework provides blended learning solutions via coaching, mentoring and senior level training programmes across the partnership. Partners are encouraged to make use of these development opportunities, and also to actively identify and manage talent and act as role models for the development of other Partners and staff.

All staff are encouraged to think about their careers and personal development needs via regular performance conversations with ongoing feedback and support. The Career Paths portal provides information about roles and career options across the Firm, along with learning paths and tools to help individuals and their managers progress their careers. To support career and professional development there is a range of core skills programmes that provide performance improvement and ensure that individuals reach their full potential. The Firm uses a model for learning and development which focuses learning on critical and stretching experiences, learning through others and informal learning with more formal learning for the development of key technical, leadership and business skills.

Development centres and feedback tools enable our Firm to identify high performers who also have the potential to take on more senior or more complex roles. We also have long term development programmes to support the journey to manager for more junior grades, and for those in the promotion pipeline for identified director and Partner roles.

// Talent and development is at the very top of our people agenda and there is a significant investment of time, money and other resources to build professional capability, leadership and business skills and technical expertise."

To complement the mix between education, collaboration and experience, and to provide training accessible at the right time in a flexible and interactive approach, we also provide training via online learning and virtual classrooms.

In relation to Audit we provide specific opportunities from graduate upwards for professionals to develop and maintain the skills, behaviours and personal qualities that form the foundations of a successful career in auditing. Courses are available to enhance personal effectiveness and develop technical, leadership and business skills. We further develop our personnel for high performance through coaching and mentoring on the job, country rotational and global mobility opportunities and client secondments.

Inclusion, diversity and social equality

Our trust and growth objectives are underpinned by an inclusive culture, which is critical to ensuring that we can thrive as a firm.

We embrace diversity of background, diversity of experience, diversity of perspective – as we recognise the value that diverse thinking brings to our organisation and our reputation in the marketplace. We're committed to inclusion at every level in our organisation and acknowledge the role of leaders in driving this from the top through their inclusive actions and behaviours.

We want to bring about a positive integration between work and life that not only promotes career achievement but also provides an environment that enables everyone, regardless of gender, ethnicity, age, disability, religion, socio-economic background or sexual orientation, to reach their full potential by being valued for being themselves. We strive to be an employer of choice by ensuring that all our people are empowered to make decisions and feel proud and motivated to do their best. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and ways of working.

Our established Inclusion, Diversity and Social Equality strategy provides the framework to drive the actions that we believe are necessary to promote inclusive leadership and increased diversity across the KPMG network. Our diverse workforce delivers innovative solutions for our clients, but it is our culture and environment that enables us to harness this most effectively. Our Employee Networks and our calendar of awareness-raising events throughout the year help us to engage all colleagues in conversation and to drive action. We also recognise the importance of enabling people to work in the ways that best suit them, so that high performance and increased engagement can lead to better service for our clients.

Our processes, policies and practices are consistently reviewed to ensure that we are attracting, retaining and developing the best people from the broadest talent pools possible.

Performance evaluation and compensation

At KPMG our commitment to our professionalism, openness and risk management principles starts at the very top with our Partners but also extends throughout the people processes. A culture of continuous improvement is encouraged to drive feedback, both positive and developmental, from both junior and senior colleagues, as well as peers.

All professionals undergo annual goal-setting and performance reviews. Each professional is evaluated on attainment of agreed-upon goals, demonstration of the KPMG global behaviours, technical capabilities and market knowledge. This is achieved through our global performance management process, which is supported by a SAP-based application. These evaluations are conducted by performance managers and Partners who are in a position to assess performance. In preparation for their counselling all of our staff are required to seek evidence of their performance during the year. As part of the year-end counselling process they discuss their achievement of agreed goals,

strengths and development areas. Any colleagues who are not meeting expected levels of performance are clearly given this message by their performance managers. The performance discussion influences the total amount of remuneration that they are paid. The results of the annual counselling are also considered when promotion decisions are being made.

Similarly, each year, Partners are also required to agree objectives for the coming year which are specific to their individual role. They do this using a goal setting form which records both their objectives and their performance against those objectives at year-end, including their performance related to quality and risk matters (which is of course important for all of our services but absolutely critical for statutory audit). As for staff, as part of the year-end counselling process our Partners discuss achievement of agreed goals, strengths and development areas with particular focus on the delivery and personal development of the Partner attributes. They are required to provide objective evidence to demonstrate this, which includes their individual quality, ethics and compliance metrics.

These standardised metrics (which are issued to all engagement leaders) are one of the inputs to the annual performance appraisal process. The quality, ethics and compliance metrics include a number of parameters, such as the results of external regulatory reviews, timely completion of training and the outcome of internal monitoring programmes. Individuals received metrics (which are either red, amber or green) in relation to each of Quality, Ethics and Compliance. The 2018 KPMG in the UK results indicate generally a good level of quality and risk compliance across our whole Firm. 92% of our Partner to manager group were awarded green metrics, 5% amber and 3% red in one or more of the three categories of Quality, Ethics and Compliance.

The action taken in respect of any Partner with amber and red ('adverse') metrics is dependent upon the cause of the adverse metric initially. The

range of actions that can be taken includes remediation of the initial deficiency giving rise to the adverse metric, remedial training, one-to-one counselling with functional leadership and/or Quality & Risk Partners on the issue arising, or, ultimately, the suspension of signing rights. Adverse metrics generally result in a reduction in the overall compensation paid to the Partner concerned.

We use the same system of quality, ethics and compliance metrics for manager grade staff to reinforce the message that responsibility for engagement quality extends beyond the engagement leader.

For the most recent round of performance reviews we expanded the inputs into our quality assessment of audit engagement leaders beyond the results of internal and external inspections. These assessments now include indicators of the individual's personal contribution to the firm's overall audit quality through their participation in quality improvement actions, their involvement in quality monitoring and similar programmes together with other matters, positive and negative, that inform us of the individual's commitment to audit quality.

For this coming year we are introducing changes to our performance management process with the introduction of a quality scorecard. This functionality is built into our new performance management system.

Compensation and promotion

We have compensation and promotion policies that are clear, simple, and linked to the performance evaluation process so that our people know what is expected of them and what they can expect to receive in return. Reward decisions are based on consideration of both individual and Firm performance.

Partner admissions

Our process for admission to Partner is rigorous and thorough, involving appropriate members of leadership. This procedure includes a business case and a personal case for the individual candidate. KPMG also engage an external provider to gain an independent assessment of the candidates against a range of criteria/competencies. Our key criteria for admission to Partner are consistent with a commitment to professionalism and integrity, quality and being the best choice for our clients and people. Anyone who is being considered for promotion to Partner is evaluated against criteria which include evidence of the way that an individual has managed quality and risk as well as their overall adherence to our Values. Similarly, attitude to quality and risk is explored for any external Partner hires that we are considering.

Assignment

We have procedures in place to assign both engagement leaders and other professionals to a specific engagement on the basis of their skills, relevant professional and industry experience, and the nature of the assignment or engagement. Within the Audit function, key considerations include Partner experience, accreditation and capacity to perform the engagement in view of the size, complexity and risk profile of the engagement and the type of support to be provided (i.e. the engagement team composition and specialist involvement).

Audit engagement leaders are required to be satisfied that their engagement teams have appropriate competencies and capabilities, including time, to perform audit engagements in accordance with KAM, professional standards and applicable legal and regulatory requirements. This may include involving local specialists or those from other KPMG Member Firms.

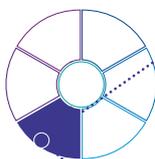
When considering the appropriate competencies and capabilities expected of the engagement team as a whole, the audit engagement leader's considerations may include the following:

- An understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation;
- An understanding of professional standards and legal and regulatory 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; and
- An understanding of KPMG's quality control policies and procedures.

KGS Audit ('KGS') is KPMG in the UK's Audit off-shoring capability and comprises more than 800 employees located in Delhi and Bangalore, India. Since December 2018, KGS employees have been available for an audit team to utilise as an extension of the Gibraltar audit team. Where it has been determined by the professional judgement of the individual audit teams that KGS has the appropriate skills and experience audit procedures will be allocated to KGS on the same basis as to Gibraltar-based team members and is subject to the same review process and oversight.

One of the primary benefits of utilising KGS is that Gibraltar-based team members have more time to interact with entities we audit and to focus on key judgements and significant audit risks. The training and recruitment process at KGS is based on the UK model and the same high standards are maintained at KGS as in the UK. All KGS employees have completed training in applying our KAM methodology and UK GAAP accounting and reporting and where appropriate KGS employees receive industry specific training. The Firm's system of quality control, as described in this report, applies to all of our personnel whether based in the UK, Gibraltar or at one of our off-shore locations.

5. Commitment to technical excellence and quality service delivery



- Technical training and support
- Accreditation and licensing
- Access to specialists networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

We provide all professionals with the technical training and support they need, including access to networks of specialists and technical experts, in particular DPP Accounting & Reporting and DPP Auditing which are made up of senior professionals with extensive experience in audit, reporting and risk management, either to provide resources to the engagement team or for consultation.

At the same time we use our audit accreditation and licensing policies to require professionals to have the appropriate knowledge and experience for their assigned engagements. Our structure enables our engagement teams to apply their business understanding and industry knowledge to deliver valued insights and to maintain audit quality.

Technical training

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

Our technical training curriculum covers all grades of staff with a core training programme for junior staff and periodic and appropriate ongoing training for qualified and experienced staff and Partners. In recognition of the continued focus on audit quality, we also run Audit Quality Workshops for engagement leaders (which is extended to all audit staff through Audit Quality Department Workshops) which cover key messages regarding quality, and actions in respect of the internal and external monitoring. In addition, we run workshops involving audit Partners and staff which focus on quality and audit planning and all audit Partners and staff complete quarterly technical training which focuses on performing an effective quality audit with different topic areas included as relevant. KPMG Audit University is a three-day compulsory immersive training course in which participants cover all aspects of the audit process with a practical focus on how to evidence effectively designed and executed audit procedures and will be an annual part of the training programme.

Audit Learning and Development steering groups at the global, regional and local levels identify annual technical training priorities for development of new courses, content for periodic and annual update training and amendments to the core programme with input from relevant audit technical teams including DPP Auditing, DPP Accounting & Reporting, and Audit Quality & Risk Management.

The Audit Learning and Development team works with subject experts to ensure the training is of the highest quality, relevant to performance on the job and is delivered on a timely basis. In developing training materials they have regard to emerging market developments, matters identified through internal and external reviews, common queries raised through internal consultation processes and technical helpline queries from the relevant technical teams working directly with audit teams.

Delivery of formal training is through a blend of classroom, e-learning and virtual classroom. Certain training programmes also include an assessment that is required to be passed in order to complete the training.

Audit training includes mandatory courses and completion of these is monitored through a Learning Management System. This allows individuals to monitor their compliance both with their ongoing Continuing Professional Development requirements and with KPMG's mandatory training and accreditation requirements. Non-attendance or the late completion of mandatory training is captured as one of the measures in the quality, ethics and compliance metrics.

In addition to structured technical training, we encourage coaching, consultation, on-the-job training and mentoring.

Accreditation and licensing

We are responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge and experience in the local predominant financial reporting framework. We have accreditation requirements for many of our services (including for US audit and accounting work, Transactions Services, Corporate Finance services and Reporting Accountant work) which ensure that only Partners and employees with the appropriate training and experience are assigned to engagements and are appropriately licensed where necessary.

All Audit professionals are also required to maintain accreditation with their professional body and satisfy the Continuing Professional Development requirements of that body. Our policies and procedures are designed to ensure that those individuals who require a licence to undertake their work are appropriately licensed.

Access to specialist networks

Our engagement teams have access to a network of specialists (including, where necessary, in other KPMG Member Firms). Engagement leaders are responsible for ensuring that their engagement teams have the appropriate resources and skills.

The need for specialists (for example, Information Technology, Tax, Treasury, Pensions, Forensic, Valuation) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process, as well as during the risk assessment and planning stage of each audit. Annually we assess the availability of specialists to audit teams to ensure that adequate resources are available when required.

Consultation

Internal consultation, both formal and informal, is a fundamental contributor to quality; it is always encouraged and mandated in certain circumstances.

We provide appropriate consultation support to audit engagement professionals through professional practice resources that includes DPP Accounting & Reporting and DPP Audit Support. These resources are crucial in terms of the support they provide to the Audit function and audit teams.

They provide technical guidance to client service professionals on specific engagement-related matters, develop and disseminate specific topic-related guidance on emerging local technical and professional issues and disseminate international guidance on International Financial Reporting Standards ('IFRS') and ISAs.

To assist audit engagement professionals in addressing difficult or contentious matters, we have established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. Our policies include mandatory consultation requirements on certain matters such as client integrity.

If consultation within the team or with peers does not enable teams to resolve the issues then discussions with DPP technical specialists will be undertaken. If resolution is not reached after discussions with DPP, then the issue may be elevated to a Client Panel. A Client Panel is a discussion between a number of independent, senior and appropriately qualified Members of the Firm. In exceptional circumstances, a matter may be referred to the Head of Audit or an appropriately qualified delegate.

Technical support is also available through the International Standards group ('ISG') as well as the US Capital Markets group based in New York, for work on SEC registrants, or our US Accounting and Reporting group based in London.

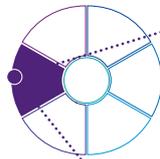
The ISG works with global IFRS and ISA topic teams with geographic representation from around the world to promote consistency of interpretation of IFRS between Member Firms, identify emerging issues and develop global guidance on a timely basis.

Developing business understanding and industry knowledge

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

For significant industries global audit sector leads are appointed to support the development of relevant industry information, which is made available to audit professionals within eAudIT. This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes). In addition, industry overviews are available which provide general and business information in respect of particular industries, as well as a summary of the industry knowledge provided in eAudIT. We, along with other KPMG Member Firms, provide specialist input into the development of global industry knowledge and deploy it via the use of eAudIT and other technical resources used by our audit teams.

6. Performance of effective and efficient audits



- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

How an audit is conducted is as important as the final result. We expect our people to demonstrate certain key behaviours in the performance of effective quality audits. These behaviours are discussed below.

KPMG audit process

As already described, our audit workflow is enabled in eAudIT. In addition to those audit quality initiatives described in the Audit Quality Indicators section of this Report, the key behaviours that our auditors apply throughout the audit process to deliver effective quality audits are:

- Timely Partner, manager and Second Line of Defence (where relevant) involvement;
- Appropriate and timely involvement of specialists;
- Critical assessment of audit evidence, exercise of professional judgement and professional scepticism;
- Ongoing mentoring and on-the-job coaching, supervision and review;
- Appropriately supported and documented conclusions;
- Appropriate and timely involvement of the Engagement Quality Control reviewer;
- Clear reporting of significant findings;
- Insightful, open and honest two-way communication with those charged with governance;

- Focus on effectiveness of group audits; and
- Client confidentiality, information security and data privacy.

Timely Partner, manager and Second Line of Defence involvement

To identify and respond to the significant audit risks applicable to each audit, the engagement team requires an understanding of the business of the entity we audit, its financial position and the environment in which it operates. The Engagement Leader is responsible for the overall quality of the audit engagement and therefore for the direction, supervision and performance of the engagement.

Involvement and leadership from the Engagement Leader early in the audit process helps set the appropriate scope and tone for the audit and enables the engagement team to obtain maximum benefit from the Engagement Leader's experience and skill. Timely involvement of the Engagement Leader at other stages of the engagement allows the Engagement Leader to identify and appropriately address matters significant to the engagement, including critical areas of judgement and significant risks.

The Engagement Leader is responsible for the final audit opinion and reviews key audit documentation – in particular documentation relating to significant matters arising during the audit and conclusions reached. The engagement manager assists the Engagement Leader in meeting these

responsibilities and in the day-to-day liaison with the client and team. To ensure a holistic approach, we conduct an annual formal portfolio review with each engagement leader. The purpose of this is to review each individual's commitments and conclude on their capacity to address the allocated responsibilities.

Timely completion of audit planning activities is a key step in driving audit quality. In order to reinforce this, during the year we introduced a requirement which mandates the completion and review of audit planning activities within specified timeframes to evidence completion of the relevant planning activities.

Our Second Line of Defence team is a group made up of senior auditors which supports our higher risk engagements and performs in-flight reviews of audits to improve the quality of audit execution and documentation, including effective challenge of management in judgemental areas. They support teams throughout the audit cycle from planning to completion providing a mix of help when teams identify emerging issues and a greater level of monitoring activity to identify issues before they impact audit quality. This has a dual purpose, firstly, to enable coaching of teams and secondly to act as another level of review and challenge to help engagement teams in the delivery of high quality audits.

Appropriate and timely involvement of specialists

Audit engagement leaders are required to be satisfied that their engagement teams have appropriate competencies and capabilities, including time, to perform audit engagements in accordance with KAM, professional standards and applicable legal and regulatory requirements. Our engagement teams have access to a network of specialists and this may include involving local specialists or those from other KPMG Member Firms.

The need for specialists (for example, Information Technology, Tax, Treasury, Pensions, Forensic, Valuation) to be assigned to a specific audit engagement is considered as part of

the audit engagement acceptance and continuance process, as well as during the risk assessment and planning stage of each audit. Annually we assess the availability of specialists to audit teams to ensure that adequate resources are available when required.

Our audit methodology requires the involvement of relevant specialists in the core audit engagement team when certain criteria are met or where the audit team considers it appropriate or necessary.

Critical assessment of audit evidence, exercise of professional judgement and professional scepticism

We consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence. The nature and extent of the audit evidence we gather is responsive to the assessed risks. We critically assess audit evidence obtained from all sources. The analysis of the audit evidence requires each of our team members to exercise professional judgement, maintain professional scepticism and demonstrate appropriate challenge to obtain sufficient appropriate audit evidence. Professional scepticism involves a questioning mind and alertness to contradictions or inconsistencies in audit evidence.

Professional scepticism features prominently throughout auditing standards and receives significant focus from regulators. Our Professional Judgement Framework emphasises the importance of maintaining an attitude of professional scepticism throughout the audit.

We have developed a Professional Judgement Framework that provides audit professionals with a structured approach to making judgements. Our Professional Judgement Framework has professional scepticism at its heart. It recognises the need to be alert to biases which may pose threats to good judgement, consider alternatives, critically assess audit evidence by challenging management's assumptions and following up contradictory or inconsistent information

and document the rationale for conclusions reached on a timely basis as a means of testing their completeness and appropriateness.

Professional judgement training is embedded in our core audit technical training programme for junior staff and ongoing training for more experienced staff. We continue to deliver training on professional judgement for senior staff and Partners as necessary.

Ongoing mentoring and on-the-job coaching, supervision and review

We understand that skills build over time and through exposure to different experiences. To invest in the building of skills and capabilities of our professionals, without compromising on quality, we use a continuous learning environment. We support a coaching culture throughout KPMG as part of enabling personnel to achieve their full potential.

Ongoing mentoring and on-the-job coaching and supervision during an audit include:

- Engagement Leader participation in planning discussions;
- Tracking the progress of the audit engagement;
- Considering the competence and capabilities of 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 monitoring, coaching and supervision is timely review of the work performed so that significant matters are promptly identified, discussed and addressed.

Appropriately supported and documented conclusions

Audit documentation records the audit procedures performed, evidence obtained and conclusions reached on significant matters on each audit engagement. Our policies require review of documentation by more experienced engagement team members.

Our methodology recognises that documentation prepared at the time the work is performed is likely to be more efficient and effective than documentation prepared later. Teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period.

The key principle that engagement team members are required to consider is whether an experienced auditor, having no previous connection with the engagement, will understand:

- The nature, timing, and extent of audit procedures performed to comply with the ISAs;
- Applicable legal and regulatory requirements;
- The results of the procedures performed;
- The audit evidence obtained;
- Significant findings and issues arising during the audit and actions taken to address them (including additional audit evidence obtained); and
- The basis for the conclusions reached, and significant professional judgements made in reaching those conclusions.

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 rules as well as other applicable regulatory bodies' standards and regulations.

Appropriate involvement of the Engagement Quality Control reviewer ('EQC reviewer')

Our EQC reviewers have appropriate experience and knowledge to perform an objective review of the decisions and judgements made by the engagement team. They are experienced audit professionals who are independent of the engagement team and are required to be involved throughout the audit. They offer an objective review of the more critical and judgemental elements of the audit.

An EQC reviewer is required to be appointed for the audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements as designated by the Head of Audit Quality & Risk Management or the UK Head of Audit. Accreditation to act as an EQC reviewer is granted to appropriate individuals by the Audit Quality & Risk Management Partner and the EQC reviewers for individual engagements proposed by the regional Heads of Audit and ratified by Audit Quality & Risk Management and specifically, for high risk engagements, the Audit Quality & Risk Management Partner. Before the date of the auditor's report, these individuals review:

- Selected audit documentation and communications;
- Appropriateness of the financial statements and related disclosures; and
- The significant judgements that the engagement team made and the conclusions it reached with respect to the audit.

The audit report can only be released when the EQC reviewer is satisfied that all significant questions raised have been resolved.

Clear reporting of significant findings

Experienced audit engagement leaders arrive at all audit opinions based on the audit performed. In preparing audit reports, Engagement Leaders have access to extensive reporting guidance and technical support through consultations with DPP Accounting & Reporting, especially where there are significant matters to be reported to users of the audit report, either as a qualification to the audit report or through the inclusion of an emphasis of matter paragraph, as well as key audit matters to be communicated.

Auditing standards and the Gibraltar Companies Act or similar legislative requirements largely dictate the format and content of the audit report that includes an opinion on the fair presentation of the entity's financial statements in all material respects. The audit reports of EU PIEs must now also include a key audit matters section in the auditor's report.

Insightful, open and honest two-way communication with those charged with governance

Two-way communication with those charged with governance is key to audit quality. Often the audit committee will be the body identified as being charged with governance. We stress the importance of keeping those charged with governance informed of issues arising throughout the audit and of understanding their views. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings and ongoing discussions with members of the audit committee.

We deliver insights such as the appropriateness of accounting policies, the design and operation of financial reporting systems and controls, key accounting judgements and matters where we may disagree with management's view, and any uncorrected audit misstatements. We ensure the content of these reports meets the requirements of auditing standards and we share our industry experience to encourage discussion and debate with those charged with governance.

Focus on effectiveness of group audits

Our audit methodology covers the conduct of group audits in detail. We stress the importance of effective two-way communication between the group engagement team and the component auditors, which is key to audit quality. The group Audit Engagement Leader is required to evaluate the competence of component auditors, whether or not they are KPMG Member Firms, as part of the engagement acceptance process. Our recent guidance and training has focused on the quality of group audit instructions, the oversight of component auditor team structures, the evaluation of their work, communication between group and component audit teams, scoping of components, review and evaluation of the components work and clearly evidencing this, the involvement of the EQC reviewer with group and component auditors, and the conclusions reached by the group team on the group file.

Client confidentiality, information security and data privacy

well as protecting the privacy of our clients, service providers and other third parties.

The importance of maintaining client confidentiality is emphasised through a variety of mechanisms including through regular communications on the topic, the Code of Conduct, training and the annual independence/confirmation process, which all of our professionals are required to complete.

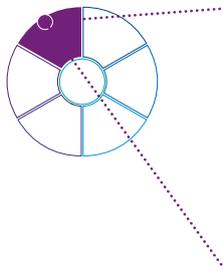
Within Quality & Risk Management the Firm has a Director in charge of Information Protection and a dedicated National IT Security Officer both whom have the necessary authority, skills and experience to lead the UK's information protection function.

Our information protection requirements are set out in the Global Information Security Policy published by KPMG International. Compliance monitoring against these standards and policies is carried out through our internal information security audit programme and is supplemented by annual checks by the Global Information Protection Group.

We believe that everyone has a role to play in protecting client and confidential information. Policies and practices are communicated to all personnel and, as appropriate, reinforced through guidance, awareness and training. Our personnel are required to comply with our Acceptable Use Policy – this policy encourages effective and appropriate use of KPMG information technology resources, and highlights the protection requirements of all employee, KPMG and client confidential information. Data privacy and Information Management policies are also in place governing the handling of personal and confidential information.

The Firm continues to work towards further strengthening of privacy and data protection compliance by introducing further technical measures, tools and automation.

7. Commitment to continuous improvement



- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

We focus on ensuring our work continues to meet the needs of participants in the capital markets. To achieve this goal, we employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for continuous improvement.

Additionally, we have processes in place to proactively identify emerging risks and opportunities to improve quality and provide insights.

Internal monitoring

KPMG International has an integrated monitoring programme that covers all Member Firms to assess the relevance, adequacy and effective operation of key quality control policies and procedures. This monitoring addresses both engagement delivery and KPMG International policies and procedures and meets the revised ISQC1 monitoring requirements. The results and lessons from the programmes are communicated to all Partners and staff of the Firm, and the overall results and lessons from the programmes are considered and appropriate actions taken, within our group as well as at regional and global levels. Our internal monitoring programme also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented and operates effectively.

Our monitoring procedures involve ongoing consideration of:

- Compliance with KPMG International's policies and procedures;
- The effectiveness of training and other professional development activities; and
- Compliance with applicable laws and regulations as well as our standards, policies, and procedures.

We use two formal inspection programmes conducted annually by each Member Firm across the Audit, Tax and Advisory functions, the Quality Performance Review ('QPR') Programme and the Risk Compliance Programme ('RCP'). Both programmes are developed and administered by KPMG International.

Additionally, all KPMG Member Firms are covered once in a three-year cycle by cross-functional Global Compliance Reviews ('GCRs') performed by reviewers in the Global Compliance group who are independent of the Member Firm and report to Global Quality & Risk Management.

These programmes are designed by KPMG International and participation in them is a condition of ongoing membership of the KPMG network.

We also perform ongoing compliance testing, the results of which are presented to the UK firm's ExCo and Audit and Risk Committees on a periodic basis.

Quality Performance Review ('QPR') programme in the UK

The QPR Programme is the cornerstone of KPMG's efforts to monitor engagement quality and one of the primary means of ensuring that Member Firms collectively and consistently meet both KPMG International's requirements and applicable professional standards. The QPR Programme assesses engagement level performance in the Audit, Tax and Advisory functions and identifies opportunities to improve engagement quality. All engagement leaders are generally subject to selection for review at least once in a three-year cycle. The reviews are tailored to the relevant function, performed at functional level, overseen by a Lead Reviewer from outside of KPMG in the UK, and are monitored regionally and globally. Remedial action plans for all significant deficiencies noted are required at an engagement and Firm level. We disseminate our findings from the QPR Programme to our professionals through written communications, internal training tools and periodic Partner, manager and staff meetings. These areas are also emphasised in subsequent inspection programmes to gauge the extent of continuous improvement.

Audit

KPMG International continues to refine and strengthen the Audit QPR Programme. In the UK we have applied this strengthening to establish a consistent process that is no less challenging than that conducted by any of our external regulators.

To further enhance the quality, rigour and consistency of the QPR Programme, the Global Audit Quality Monitoring Programme ('GAQMP') was launched by KPMG International in 2016. The GAQMP is comprised of a team of Partners, directors and senior managers experienced in performing QPR Programme reviews of listed and related entity ('LRE') audit engagements. The team also includes Partners and professionals with experience in auditing general information technology controls and application controls. Each of the GAQMP reviewers attends the Global QPR training delivered for their respective Member Firm. The GAQMP team is responsible for performing selected QP reviews of LRE audit engagements as determined by Global Quality & Risk Management.

We seek to learn from matters raised in both external and internal reviews by preparing action plans following root-cause analysis of issues arising so that we may address these, as well as the specific matters identified in the relevant reviews.

Risk Compliance Programme ('RCP')

The RCP is our annual self-assessment programme which monitors, assesses and documents Firm-wide/cross functional compliance with KPMG International's quality and risk management policies and applicable legal and regulatory requirements as they relate to the delivery of professional services.

In the RCP, Member Firms are required to self-assess their overall levels of compliance as 'Green', 'Yellow' or 'Red'. A 'Green' rating indicates that the Firm is substantially compliant with KPMG's policies and procedures and where there are issues identified these are minor and isolated and are acted on promptly. A 'Yellow' rating also indicates that the Firm is substantially compliant with KPMG policies and procedures and, although there may be several instances of non-compliance with policies or procedures, these do not indicate serious deficiencies within the Firm as a whole. A 'Red' grade indicates that there are serious deficiencies. The Firm's RCP evaluation also considers the results and status of action plans arising from other reviews assessing risk, quality and compliance, including QPRs and GCRs.

The 2018 RCP self-assessment applicable to KPMG Isle of Man and Gibraltar was 'Green'.

KPMG in the UK's self-assessment relating to overall levels of compliance in 2018 was 'Yellow' (2017: 'Yellow') indicating substantial compliance with KPMG's policies and procedures but where issues identified require attention in order to meet the highest standards to which we hold ourselves.

Global Compliance Review ('GCR')

The GCR is a triennial review focused on significant governance, risk management (including an assessment of the robustness of the Firm's RCP), independence and financial processes. It is undertaken by representatives of KPMG International who are independent of the UK firm. KPMG Isle of Man and Gibraltar were most recently subject to a Global Compliance Review in December 2017. The UK Firm was last subject to GCR inspection in October 2018 where a small number of opportunities for improvement were identified including areas which were generally identified by the UK Firm's own RCP and other compliance and quality control processes. The next GCR is due in 2021.

External monitoring

Quality Assurance Review

The Financial Services Commission performed their inspection of KPMG Limited in March 2018. Three files were reviewed, one of them being an EU Public Interest Entity. In April 2018, a summary of findings was received which noted "We found audit work in the areas we reviewed to be generally acceptable and only identified limited areas for further improvement." KPMG Limited continues to be licensed to perform audits in Gibraltar.

Client feedback

Understanding our clients' needs and what they value is of critical importance. Client feedback is therefore a subject that we are extremely passionate about. It helps us to develop strong relationships and ensure delivery of services that not only meet, but exceed, clients' expectations.

KPMG's Client Voice programme gives all clients the opportunity to quickly and easily provide feedback following work delivered. Clients are automatically sent an email asking how likely they would be to recommend KPMG for a similar engagement, on a scale of 0 (would not recommend) to 10 (would recommend). This is widely known as the Net Promoter methodology. This straightforward format allows clients to respond in seconds, or to expand upon the score they give with an option to add further comments in a free text field. Once submitted, client feedback is sent to the Engagement Leader and Lead Partner in real time.

Senior Leadership has visibility of all feedback to identify trends and ensure appropriate response. And client feedback is collated at a departmental and Firm-wide level to aid management decisions and drive continuous improvement.

This simple feedback process sits alongside other forms of feedback, for example Engagement Leaders carry out telephone debriefs, coffee catch ups or more formal interviews; Partners informally catch up with many board members; and for larger accounts a broad and deep interview approach is used.

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 on our website and are also included in our general terms of business. All formal complaints are investigated under the authority of the Chief Risk Officer (prior to the creation of the Chief Risk Officer role complaints were investigated under the authority of the Head of Quality & Risk Management).

Interaction with regulators

At a global level KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators ('IFIAR') to discuss issues identified and actions taken to address such issues at a network level.

In the UK, the Head of Audit and Head of Audit Quality have regular meetings and ongoing dialogue with the AQR team of the FRC which is responsible for the monitoring of the audits of all listed and other major public interest entities. These meetings are to discuss reviews of the Firm and our audits as well as changes in regulation and the audit arena.

In Gibraltar, KPMG Limited meets formally with the firm's audit regulator, the Gibraltar Financial Services Commission, at least once a year to discuss matters of relevance as stipulated by EIOPA and EBA Guidelines on information exchanges between auditors and their supervisory body.

Appendix 3 – Financial Information

Relative importance of statutory audit work

Revenue 2018	KPMG Limited	KPMG Advisory Limited	Total £m
Audit and directly related services	1,105	-	1,105
Other assurance work	-	77	77
	1,105	77	1,182
Tax and other non-audit services	-	335	335
	1,105	412	1,517

Total KPMG Gibraltar revenues can be further analysed on the following basis:

Revenue 2018	Total £m
Audit and directly related services for audit clients	1,105
Non-audit services for audit clients	105
Non-audit services for non-audit clients	307
	1,517

Audit and directly related services reflects revenue of £320k in respect of Gibraltar-registered EU public interest entities and their subsidiaries and £785k audit and related services provided to other entities.

Appendix 4 - Basis of partner remuneration

The remuneration model is designed to drive and reward one-firm behaviour consistent with our strategy and values, reflect an individual's medium term value as well as current year performance against their goals, and promote clarity and transparency amongst Members of the LLP regarding their own remuneration and that of other Members. A Member's remuneration generally comprises three elements as described below based on benchmark pay. Benchmark pay is communicated to members in November/December each year and is determined in relation to an individual's medium term value to the group. Each member's benchmark pay is determined with quality as the primary factor and with others factors such as past performance, market value of skill set, individual capability, leadership qualities and overall contribution to the group also taken into account.

The profit allocated to members is distributed as follows:

- Basic profit share – each member will receive 60% of their benchmark pay;
- One Firm Profit Share – each member will receive a set percentage of their benchmark pay (the same percentage applies to all members) which is determined by reference to the Firm's overall profitability;
- Discretionary Profit Share – paid from a pool of profit that is equal to the aggregate of the One Firm Profit Shares and is allocated to members on the basis of their relative in-year performance against their balanced scorecard goals.

During the year members receive monthly drawings and, from time to time, additional profit distributions. The level and timing of the additional profit distributions are decided by the Executive Committee, taking into account the partnership's cash requirements for operating and investing activities. Both the monthly drawings and profit distributions are reclaimable from members until the date on which profits are allocated.

To maintain auditor independence, no individual can be rewarded for selling non-audit services to companies we audit.

Appendix 5 - Public interest entities listing

1) Article 13.2 (f) of the EU Audit Regulation

The list below has been prepared in accordance with Article 13 of the EU Audit Regulation and is in respect of the year ended 30 September 2018.

The list includes the entities which meet all of the following conditions: i) the entity is incorporated/established in Gibraltar; ii) KPMG Limited signed an audit report on the entity's annual financial statements during the year

ended 30 September 2018; iii) on the date the audit report was signed the entity was an EU PIE; and iv) the audit was a statutory audit within the meaning of section 257 of the Gibraltar Companies Act.

Pursuant to the EU Audit Regulation, the definition of a PIE includes:

i) Companies with transferable securities listed on EU regulated markets (as opposed to all markets in the EU) and governed by the law

of an EU member state; ii) Credit institutions authorised by EU member states authorities; iii) Insurance undertakings authorised by EU member state; and iv) Other entities a member state may choose to designate as a PIE.

Entity name

Acromas Insurance Company Limited

Advantage Insurance Company Limited

Argus Insurance Company Limited

Lighthouse General Insurance Company Ltd

Lighthouse Life Assurance Company Ltd

Mulsanne Insurance Company Limited

Appendix 6 – Disclosure requirements

Under Article 13.2 of the EU Audit Regulation we are required to disclose certain information. The table below shows where these disclosures may be found in this Transparency Report.

	Provision of Article 13.2	How KPMG Limited complies
1	A description of the legal structure and ownership of the audit firm;	A description of our legal structure and ownership is set out on page 16.
2	where the statutory auditor or the audit firm is a member of a network: <ol style="list-style-type: none"> i. a description of the network and the legal and structural arrangements in the network; ii. the name of each statutory auditor operating as a sole practitioner or audit firm that is a member of the network; iii. the countries in which each statutory auditor operating as a sole practitioner or audit firm that is a member of the network is qualified as a statutory auditor or has his, her or its registered office, central administration or principal place of business; iv. the total turnover achieved by the statutory auditors operating as sole practitioners and audit firms that are members of the network, resulting from the statutory audit of annual and consolidated financial statements; 	A description of the network and its legal and structural arrangements are set out in Appendix 1.
3	a description of the governance structure of the audit firm;	A description of our governance structure is set out on pages 16 and 17.
4	a description of the internal quality control system of the statutory auditor or of the audit firm and a statement by the administrative or management body on the effectiveness of its functioning;	A description of our internal quality control systems is set out on pages 10 to 13 and Appendix 2. The statement by the Board on the effectiveness of internal controls is included on page 21.
5	an indication of when the last quality assurance review referred to in Article 26 was carried out;	A description of the external monitoring process is set out on page 10.
6	a list of public-interest entities for which the statutory auditor or the audit firm carried out statutory audits during the preceding financial year;	A list of relevant public interest entities is set out in Appendix 5.
7	a statement concerning the statutory auditor's or the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted;	A description of our independence procedures is set out in Appendix 2 and the confirmation in relation to the review of independence practices by the Board is included on page 21.
8	a statement on the policy followed by the statutory auditor or the audit firm concerning the continuing education of statutory auditors referred to in Article 13 of Directive 2006/43/EC;	A statement of the policies and practices applied is included in Appendix 2.

Provision of Article 13.2	How KPMG Limited complies
9 information concerning the basis for the partners' remuneration in audit firms;	A description of the basis for Partner remuneration is set out in Appendix 4.
10 a description of the statutory auditor's or the audit firm's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7);	A description of the Firm's basis for the rotation of key audit Partners is set out in Appendix 2.
<p>12 where not disclosed in its financial statements within the meaning of Article 4(2) of Directive 2013/34/EU, information about the total turnover of the statutory auditor or the audit firm, divided into the following categories:</p> <ul style="list-style-type: none"> i. revenues from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity; ii. revenues from the statutory audit of annual and consolidated financial statements of other entities; iii. revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and iv. revenues from non-audit services to other entities. 	Financial information is included within Appendix 3.

Appendix 7 – KPMG's Values

KPMG's Values

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

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