



Transparency Report 2018

January 2019

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Contents

Message from our Managing Director	2
1. Who we are	3
1.1 Our businesses	4
1.2 Our strategy	4
2. Our structure and governance	5
2.1 Legal structure	6
2.2 Name, ownership and legal relationships	6
2.3 Responsibilities and obligations of member firms	6
2.4 Governance structure	6
3. System of quality control	7
3.1 Tone at the top	9
3.2 Leadership responsibilities for quality and risk management	10
3.3 Association with the right clients	12
3.4 Clear standards and robust audit tools	13
3.5 Recruitment, development and assignment of appropriately qualified personnel	19
3.6 Commitment to technical excellence and quality service delivery	23
3.7 Performance of effective and efficient audits	25
3.8 Commitment to continuous improvement	28
4. Financial information	31
5. Director remuneration	33
6. Network arrangements	35
6.1 Legal structure	36
6.2 Responsibilities and obligations of member firms	36
6.3 Professional Indemnity Insurance	36
6.4 Governance structure	36
6.5 Area Quality & Risk Management Leaders	37
7. Statement by the Board of KPMG Isle of Man on the effectiveness of quality controls and independence	38
Appendix 1 Key legal entities and areas of operation	40
Appendix 2 Board of Directors of KPMG LLC	42
Appendix 3 EU Public interest entity listing at 30 September 2018	44
Appendix 4 KPMG's global values	46
Appendix 5 Quality in our tax practice	48



Russell Kelly

Managing Director

Message from our Managing Director

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

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

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

For our audit practice we have implemented our Audit Quality Framework which describes our approach to audit quality starting with tone at the top. We continually monitor our progress on audit quality through programmes such as our Audit Quality Self Assessment process and are subject to both KPMG Global Audit Quality inspection programmes and regulatory inspections.

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

Russell Kelly
Managing Director
KPMG Isle of Man
January 2019

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

Section 1

Who we are

1. Who we are

1.1 *Our businesses*

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

Until 27 April 2018, KPMG Isle of Man owned KPMG Limited and KPMG Advisory Limited in Gibraltar. As of that date, ownership of the Gibraltar firm transferred to KPMG LLP, the UK member firm of KPMG International.

This report has been prepared solely with reference to KPMG Isle of Man.

Operating out of one office in the Isle of Man, we had 119 personnel as at 30 September 2018 (109 as at 30 September 2017).

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

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

1.2 *Our strategy*

Our strategy is set by the KPMG Isle of Man Board of Directors ("the Board") and has remained consistent for some time. The Board has determined that our overall ambition is to be the professional services firm in the Isle of Man that clients want to work with, people want to work for and to be the envy of our competitors.

The Board has determined that a commitment to quality is of paramount importance.

Section 2

Our structure and governance

2. Our structure and governance

2.1 *Legal structure*

Legal structure and ownership

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

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

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

KPMG Isle of Man operates through two Isle of Man LLCs, KPMG LLC and KPMG Audit LLC. The members of KPMG LLC are the economic owners of KPMG Isle of Man. The members are not legally partners and are titled as "Directors". However, throughout this document they are, for consistency with KPMG International terminology, referred to as Partners where appropriate.

During the year to 30 September 2018, there was an average of 7 Directors in KPMG LLC.

2.2 *Name, ownership and legal relationships*

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

Member firms are generally locally owned and managed. Each member firm is responsible for its own obligations and liabilities. KPMG International and other member firms are not responsible for a member firm's obligations or liabilities.

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

2.3 *Responsibilities and obligations of member firms*

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

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

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

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

2.4 *Governance structure*

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

As at 30 September 2018, the Board consisted of 6 members, being the Managing Director and the 5 other directors. The Board meets at least quarterly, and during the year ended 30 September 2018 the Board met 12 times.

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

Section 3

System of quality
control

3. System of quality control

A robust and consistent system of quality control is an essential requirement in performing high quality services. Accordingly, KPMG International has quality control policies that apply to all member firms. These are included in KPMG’s Global Quality and Risk Management Manual (Global Q&RM Manual) available to all KPMG personnel. These policies and associated procedures are designed to guide member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances as well as help member firm personnel act with integrity and objectivity and perform their work with diligence.

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

KPMG Isle of Man is required to implement KPMG International policies and procedures and also adopts additional systems of quality controls that are designed to address rules and standards issued by the UK Financial Reporting Council (FRC), Isle of Man Financial Services Authority (IOMFSA) and other relevant regulators, as well as applicable local legal and regulatory requirements.¹

Amendments to risk and quality policies, including ethics and independence policies, are included in risk management alerts and are communicated by email. KPMG Isle of Man is required to implement changes specified in the email alerts and this is checked through internal monitoring.

KPMG Isle of Man has adopted [KPMG’s Principles for a Responsible Tax Practice](#) – as detailed in Appendix 5.

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

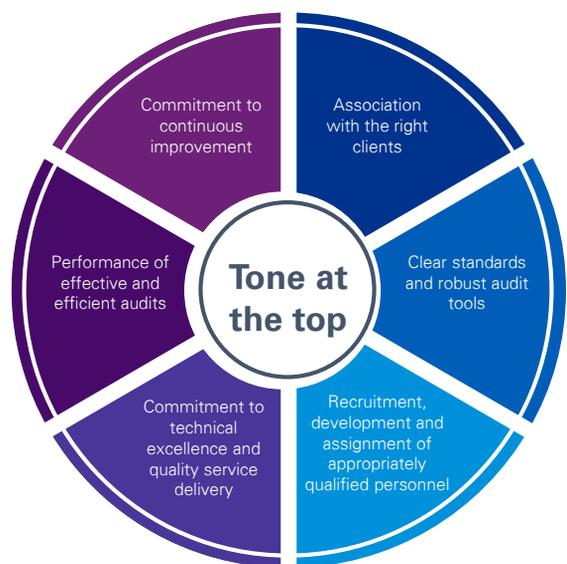
While many KPMG quality control processes are cross-functional, and apply equally to tax and advisory work, the remainder of this section is focused on the delivery of quality audits.

Audit Quality Framework

At KPMG Isle of Man, audit quality is not just about reaching the right opinion, but how that opinion is reached. It is about the processes, thought and integrity behind the auditors’ report. The outcome of a quality audit is the delivery of an appropriate and independent opinion in compliance with relevant professional standards and applicable legal and regulatory requirements.

To help all audit professionals concentrate on the fundamental skills and behaviours required to deliver a quality audit, KPMG International has developed the Audit Quality Framework. This framework uses a common language that is adopted by all KPMG member firms including KPMG Isle of Man to describe what the KPMG network believes drives audit quality, and to highlight how every audit professional at each KPMG member firm contributes to the delivery of audit quality.

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



¹ All the references to “KPMG policies and procedures” or “our policies and procedures” refer to the KPMG International policies and to the additional KPMG Isle of Man policies together.

3. System of quality control (continued)

3.1 *Tone at the top*

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

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

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

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

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG value – “Above all, we act with integrity”. For us this means we are constantly striving to uphold the highest professional standards, provide sound, good quality advice and rigorously maintain our independence.

The KPMG values, which have been explicitly codified for a number of years, are embedded into our working practices and values based compliance culture at KPMG Isle of Man. The KPMG values form the foundation of our culture and set the tone at the top. They also form the foundation of the KPMG approach to audit and shape how we work together.

We communicate the KPMG values clearly to our people and embed them in our people processes – induction, performance development and reward. Adherence to the KPMG values is also specifically reviewed when our people are considered for more senior promotions, including to Director.

The KPMG values are set out in Appendix 4.

Code of Conduct

KPMG’s commitment to integrity and quality is enshrined in the KPMG values that lie at the heart of the way we do things. They define KPMG’s diverse and inclusive culture and our commitment to the right personal and professional conduct.

The KPMG values emphasise that, above all, KPMG personnel act with integrity, uphold the highest professional standards and provide sound advice while rigorously maintaining independence and complying with laws, regulations and professional standards. The KPMG values are communicated clearly to all people and are embedded into member firms’ people processes — induction, performance development and reward.

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

The KPMG Global Code of Conduct lays out the expectations of ethical behaviour that is required for all partners and employees at KPMG Isle of Man and is built on the foundation of the KPMG values, the shared set of beliefs and principles at KPMG. In addition, the KPMG Global 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. The KPMG Global Code of Conduct sets out our commitments and includes provisions that require KPMG Isle of Man personnel, in summary to:

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

All KPMG Isle of Man personnel are required to:

- comply with the Global Code of Conduct and confirm their compliance with the Code of Conduct on joining the firm, and annually thereafter; and
- complete regular training covering the Global Code of Conduct upon joining the firm and on a biennial basis thereafter.

3. System of quality control (continued)

3.1 *Tone at the top (continued)*

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

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

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

At KPMG Isle of Man, we regularly monitor the extent to which our people feel we live the KPMG values through the Global People Survey (refer to section 3.5.6).

3.2 *Leadership responsibilities for quality and risk management*

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

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

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

Managing Director

In accordance with the principles in ISQC1, our Managing Director, Russell Kelly, has assumed ultimate responsibility for KPMG Isle of Man's system of quality control. Details of some of the measures that he and the rest of the Board members have taken to ensure that a culture of quality prevails within KPMG Isle of Man are set out in section 3.1 'Tone at the top'.

The firm's risk management function

To support this system, the firm has appointed specific directors and senior personnel with the responsibility for oversight of risk management and quality control. David Parsons holds the position of Risk Management Partner ("RMP") and Gregory Jones is the Ethics & Independence Partner ("EIP").

Risk Management Partner

Operational responsibility for the system of quality control, risk management and compliance in KPMG Isle of Man has been delegated to the RMP who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for the firm. He has a direct reporting line to the Managing Director and consults with the Area Risk Leader.

The RMP is supported by a team of directors and professionals in each of the functions, including Simon Nicholas who is the Deputy RMP with specific responsibility for the Audit function.

Ethics and Independence Partner

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

The Audit, Tax and Advisory functions – Function Heads

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

3. System of quality control (continued)

3.2 Leadership responsibilities for quality and risk management (continued)

The Audit, Tax and Advisory functions – Function Heads (continued)

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

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

Investing in continuous improvement

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

3. System of quality control (continued)

3.3 Association with the right clients

3.3.1 Acceptance and continuance of clients and engagements

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

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

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

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

3.3.2 Client and engagement acceptance process

Client Evaluation

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

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

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

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

Engagement Evaluation

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors is considered as part of this evaluation including potential independence and conflict of interest issues (using Sentinel™, KPMG's global conflicts and independence checking system), intended purpose and use of engagement deliverables, as well as factors specific to the type of engagement. For audit services, these include the competence of the client's financial management team and the skills and experience of personnel assigned to staff the engagement. The evaluation is made in consultation with other senior KPMG Isle of Man personnel and includes review by quality and risk management leadership as required.

Where audit services are to be provided for the first time, the prospective engagement team is required to perform additional procedures including a review of any non-audit services provided to the client and of other relevant business and personal relationships.

Similar independence evaluations are performed when an existing audit client becomes a Public Interest Entity (PIE) or additional independence restrictions apply following a change in the circumstances of the client.

We follow specific procedures (detailed further in section 3.4.2) to identify and evaluate threats to independence for prospective PIE audit clients. The RMP and EIP approve all new PIE audit clients.

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

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

3. System of quality control (continued)

3.3.3 Continuation process

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

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

In addition, clients and engagements are required to be re-evaluated if there is an indication that there may be a change in their risk profile.

3.3.4 Withdrawal

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

3.3.5 Client portfolio management

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

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

3.4 Clear standards and robust audit tools

All KPMG Isle of Man professionals are expected to adhere to KPMG International and KPMG Isle of Man policies and procedures, including independence policies, and are provided with a range of tools to support them in meeting these expectations. The 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.

3.4.1 Our approach to audit

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

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

- timely partner and manager involvement throughout the engagement;
- access to the right knowledge including involvement of specialists, training and experience requirements and relevant industry expertise;
- critical assessment of all audit evidence obtained during the audit, exercising appropriate professional judgement;
- ongoing mentoring, supervision and review of the engagement team; and
- managing and documenting the audit.

3.4.1.1 Consistent audit methodology and tools

Significant resources are dedicated to keeping KPMG's standards and tools complete and up to date. The KPMG audit methodology, developed by the Global Service Centre (GSC), is based on the requirements of the International Standards on Auditing (ISAs). The KPMG audit methodology is set out in KPMG's Audit Manual (KAM) and includes additional requirements that go beyond the ISAs, which KPMG International believes enhance the quality of the audit.

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

3. System of quality control (continued)

3.4.1.1 Consistent audit methodology and tools (continued)

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

KAM contains examples and guidance for, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks.

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

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

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

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

Significant investments are underway to revise and enhance the KPMG audit methodology and workflow tool (eAudit), with the deployment of KPMG Clara Workflow which is planned for initial deployment globally in 2019, and full deployment beginning in 2020.

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

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

KPMG Clara

In 2017, KPMG International commenced the global launch of KPMG Clara – KPMG's Smart Audit Platform,

bringing together KPMG's Audit Data & Analytics (D&A) capabilities, innovative new technologies, collaboration capabilities and audit workflow.

This represents KPMG's ambition to:

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

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

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

KPMG Clara will be enriched over time as emerging technologies continue to transform the audit, with areas like cognitive and predictive technology being channeled through KPMG Clara to deliver ever greater capabilities. Through alliances with some of the world's most advanced technology companies such as Microsoft, KPMG is building the future of audit, aligning with technology leaders to bring new insights faster and, with growing capabilities, delivering even more value through KPMG member firm audits. KPMG International's investment strategy also includes innovation, working with universities on important applied audit research and working with member firms as they develop advanced technologies.

3. System of quality control (continued)

3.4.1.1 Consistent audit methodology and tools (continued)

KPMG Clara Workflow

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

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

Audit data & analytics (D&A)

KPMG's audit, powered by D&A:

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

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

3. System of quality control (continued)

3.4.2 *Independence, integrity, ethics and objectivity*

3.4.2.1 *Overview*

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

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

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

KPMG International has a Partner-in-Charge of the Global Independence Group, who is supported by a core team of specialists to help ensure that robust and consistent independence policies and procedures are in place at KPMG member firms, and that tools are available to help them and their personnel comply with these requirements.

KPMG Isle of Man has a designated EIP who has primary responsibility for the direction and execution of ethics and independence policies and procedures at KPMG Isle of Man.

Amendments to KPMG International's ethics and independence policies in the course of the year are included in regular quality and risk communications. Member firms are required to implement changes as specified in the email alerts, and this is checked through the internal monitoring programmes described in 3.8.1.

KPMG Isle of Man personnel are required to consult with the EIP on certain matters as defined in the GQR&M Manual. Consultations may also be required with the Global Independence Group, depending upon the facts and circumstances.

3.4.2.2 *Personal financial independence*

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

every KPMG member firm partner, in respect of any audit client of any member firm.

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

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

Directors and all manager grade and above client facing personnel 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 any investment subsequently becomes restricted. Newly restricted investments must be disposed of within 5 business days of the notification. KPMG monitors compliance with this requirement as part of our programme of independence compliance audits of a sample of professionals. In 2018, 9 of our people were subject to these audits (this included 4 of our Directors / Associate Directors).

3.4.2.3 *Employment relationships*

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

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

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

We communicate and monitor requirements in relation to employment of KPMG Isle of Man professionals by audit clients.



3. System of quality control (continued)

3.4.2.4 Firm financial independence

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

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

Additionally, KPMG Isle of Man is required to record in the system all borrowing and capital financing relationships, and custodial, trust and brokerage accounts that hold member firm assets.

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

3.4.2.5 Business relationships/suppliers

KPMG Isle of Man has policies and procedures in place that are designed to ensure that business relationships are maintained in accordance with the IESBA Code of Ethics and any additional applicable independence requirements.

3.4.2.6 Independence clearance process

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

3.4.2.7 Independence training and confirmations

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

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

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

In addition, certain non-client-facing personnel who work in finance, procurement or sales and marketing departments, and who are at manager level and above, are also required to undertake anti-bribery training.

Upon acceptance of employment, all KPMG personnel are required to confirm that they are in compliance with, and will abide by, applicable ethics and independence rules and policies. Thereafter, all KPMG personnel are required to sign an annual confirmation stating that they have remained in compliance with applicable ethics and independence policies throughout the year covered by the confirmation as well as their understanding of, and compliance with, the Global Code of Conduct. This confirmation is used to evidence the individual's compliance with and understanding of KPMG's independence policies.

3.4.2.8 Non-audit services

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

We are required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG Isle of Man. KPMG Isle of Man's EIP is involved in the review of potential independence issues, and the Global Independence Group is involved in the case of services developed which are intended to be delivered to audit or assurance clients in more than one jurisdiction.

3. System of quality control (continued)

3.4.2.8 Non-audit services (continued)

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

3.4.2.9 Fee dependency

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

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

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

3.4.2.10 Avoiding conflicts of interest

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

All KPMG member firms and personnel are responsible for identifying and managing conflicts of interest, which are circumstances or situations that have, or may be perceived by a fully informed, reasonable observer, to have an impact on a member firm or its personnel in their ability to be objective or otherwise act without bias.

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

KPMG Isle of Man has risk management resources (Resolvers) who are responsible for reviewing an identified potential conflict and working with the affected member firm 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.

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

3.4.2.11 Breaches of independence policy

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

KPMG Isle of Man has a documented disciplinary policy in relation to breaches of independence policies. The disciplinary policy is communicated to all professionals and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations. Our EIP oversees policies and procedures in relation to ethical matters and breaches of requirements. Any breaches of auditor independence regulations are reported to those charged with governance at the audit client, on the basis agreed with them but at a minimum on an annual basis.

Matters arising are factored into our promotion and compensation decisions and, in the case of engagement leaders and managers, are reflected in their individual quality and risk metrics.

3. System of quality control (continued)

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

Compliance with laws, regulation and standards is a key aspect for all KPMG Isle of Man personnel. In particular, we have zero tolerance of bribery and corruption.

We prohibit involvement in any type of bribery - even if such conduct is legal or permitted under applicable law or local practice. We also do not tolerate bribery by third parties, including by our clients, suppliers or public officials.

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

3.4.2.13 Audit engagement leader and firm rotation

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

KPMG Isle of Man audit engagement leaders are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG International policy. These requirements place limits on the number of consecutive years that engagement leaders in certain roles may provide statutory audit services to a client, followed by a 'time-out' period during which time these engagement leaders may not participate in the audit, provide quality control for the audit, consult with the engagement team or the client regarding technical or industry-specific issues or in any way influence the outcome of the audit.

KPMG Isle of Man monitors the rotation of audit engagement leaders (and any other key roles, such as the EQCR, where there is a rotation requirement) and develops transition plans to enable allocation of engagement leaders with the necessary competence and capability to deliver a consistent quality of service to clients. Audit engagement leader rotation monitoring is subject to compliance testing.

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

3.5 Recruitment, development and assignment of appropriately qualified personnel

One of the key drivers of quality is ensuring that our professionals have the appropriate skills and experience, passion and purpose, to deliver the highest quality in audit. This requires appropriate recruitment, development, promotion, retention and assignment of professionals. The KPMG performance development approach, linked to the KPMG values, is designed to articulate what is required for success - both individually and collectively. Ensuring Audit quality is an essential element of the training, planning and development underway to support the KPMG Clara Workflow roll-out and the associated updated KPMG audit methodology, with processes embedded in all KPMG learning programs.

3.5.1 Recruitment

KPMG Isle of Man strives to be an employer of choice by creating an environment where our people can fulfil their potential and feel proud and motivated to give their best.

Our recruiting strategies are focused on drawing entry-level talent from a broad talent base, including working with established universities, colleges and business schools, but also working with secondary schools, helping build relationships with a younger, diverse talent pool at an early age. KPMG Isle of Man also recruits at an experienced hire and Director level.

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

KPMG Isle of Man recruited 10 new graduates in the year ended 30 September 2018 (2017: 6).

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

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

3. System of quality control (continued)

3.5.2 Personal development

It is important that all our professionals have the necessary business and leadership skills to be able to perform quality work in addition to technical skills (see section 3.6.1).

KPMG is launching a new Performance Development process which will apply to all member firms called 'Everyone a Leader', where stretching goals should be set and reviewed regularly throughout the year. Leadership competencies will include 'driving quality', 'advancing an ethical environment' and 'making sound decisions'. A goals library is available for colleagues to gain inspiration around what goals they want to set, with one category of goals focussed specifically around quality.

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

Partners and certain professionals are also required to be evaluated on key quality and compliance metrics. KPMG Isle of Man monitors quality incidents and maintains quality and compliance metrics for the purpose of engagement leader assignments and also for the purposes of engagement leader evaluation, promotion and remuneration.

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

KPMG Isle of Man professionals are also developed for high performance through access to coaching and mentoring on the job, stretch assignments, and country rotational and global mobility opportunities.

3.5.3 Inclusion and Diversity programmes

KPMG Isle of Man works hard to foster an inclusive culture. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and perspectives.

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

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

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

3.5.4 Performance and reward

Evaluation process including quality and compliance metrics

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

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

KPMG Isle of Man's policy prohibits audit engagement leaders from being evaluated on or compensated based on their success in selling non-assurance services to audit clients.

3. System of quality control (continued)

3.5.4 Performance and reward (continued)

Reward

We have compensation and promotion policies that are clear, simple, and linked to the performance review process which, for audit engagement leaders, includes the achievement of key audit quality and compliance metrics. This helps our engagement leaders and employees know what is expected of them, and what they can expect to receive in return.

Reward decisions are based on consideration of both individual and organisational (member firm) performance. The extent to which our people feel their performance has been reflected in their reward is measured through the Global People Survey, with action plans developed accordingly (refer to section 3.5.6).

Promotion

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

Director appointments

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

Our criteria for admission as a member of KPMG Isle of Man are consistent with our commitment to professionalism and integrity, quality, and being an employer of choice. These are strongly aligned to KPMG's behavioural capabilities and are based on consistent principles.

3.5.5 Assignment of professionals

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

Function heads are responsible for the process for allocating particular engagement leaders to clients. Key considerations include engagement leader experience, accreditation, and capacity, based on an annual engagement leader portfolio review, to perform the engagement in view of the size, the 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, training and capabilities, including time, to perform audit engagements in accordance with KAM, professional standards and applicable legal and regulatory requirements. This may include involving KPMG's specialists from our own firm or other KPMG member firms.

When considering the appropriate competence and capabilities expected of the engagement team as a whole, the 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;
- an understanding of KPMG Isle of Man's quality control policies and procedures; and
- QPR (Quality Performance Review) results and results of regulatory inspections.

3. System of quality control (continued)

3.5.6 *Insights from our people – Global People Survey (GPS)*

Biennially KPMG Isle of Man invites all its people to participate in an independent Global People Survey to share their perception about their experience of working for KPMG. The GPS provides an overall measure of our people's engagement through an Employee Engagement Index (EEI) as well as insights about what drives engagement, which may be strengths or opportunities. The survey also identifies opportunities to strengthen those levels of engagement. Results can be analysed by functional or geographic area, grade, role or gender to provide additional insight. Additional insight is provided on how we are faring on categories known to impact employee engagement.

The survey also specifically provides KPMG Isle of Man leadership and KPMG Global leadership with results related to audit quality, upholding the KPMG values, employee and director attitudes to quality, leadership and tone at the top.

KPMG Isle of Man participates in the GPS, monitors results and takes appropriate actions to communicate and respond to the findings of the survey. This includes monitoring GPS results including those related to audit quality and tone at the top, and employee engagement through the EEI. The results of the GPS are also aggregated for the KPMG network and are presented to the Global Board each year and appropriate follow-up actions agreed.

3. System of quality control (continued)

3.6 Commitment to technical excellence and quality service delivery

All KPMG Isle of Man professionals are provided with the technical training and support they need. This includes access to specialists and the Department of Professional Practice ("DPP"), which is made up of senior professionals with extensive experience in audit, reporting and risk management, either to provide resources to the engagement team or for consultation. Where the right resource is not available within KPMG Isle of Man, access is provided to a network of highly skilled KPMG professionals in other KPMG member firms.

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

3.6.1 Lifetime learning strategy

In addition to personal development discussed in the section above, our lifetime learning strategy is underpinned by policies requiring all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

Formal training

Annual training priorities for development and delivery are identified by the Audit Learning and Development steering groups at global, regional and, where applicable, KPMG Isle of Man level. Training is delivered using a blend of classroom, digital learning and performance support to assist auditors on the job. Audit Learning and Development teams work with subject matter experts and leaders from the GSC, the ISG and member firm DPP as appropriate, to ensure the training is of the highest quality, is relevant to performance on the job and is delivered on a timely basis.

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

3.6.2 Licensing and mandatory requirements for IFRS and US GAAP engagements

Licensing

All KPMG Isle of Man professionals are required to comply with applicable professional licensing rules and satisfy the Continuing Professional Development (CPD) requirements in the jurisdiction where they practice.

Policies and procedures are designed to facilitate compliance with licensing requirements. We are responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge, and experience in the local predominant financial reporting frameworks of IFRS and UK GAAP.

Mandatory requirements – IFRS and US GAAP engagements

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

Similar policies apply to engagements performed outside the US to report on financial statements or financial information prepared in accordance with US GAAP and/or audited in accordance with US auditing standards, including reporting on the effectiveness of the entity's internal control over financial reporting (ICOFR). These require that the audit engagement leader, manager, and EQCR have completed relevant training and that the engagement team, collectively, has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

3. System of quality control (continued)

3.6.3 Access to specialist networks

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

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

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

3.6.4 Culture of Consultation

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

To assist audit engagement professionals in addressing difficult or contentious matters, protocols have been established for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. In addition, the KPMG Global Q&RM Manual includes mandatory consultation requirements where certain matters are identified such as concerns over client integrity.

Technical consultation and global resources

Technical auditing and accounting support is available to all member firms and their professionals through the Global Services Centre and the International Standards Group as well as the US Capital Markets Group for SEC foreign registrants.

Global Services Centre (GSC)

The GSC's mission is to drive success for KPMG's global network of Audit practices through collaboration, innovation and technology. The GSC develops, maintains and deploys KPMG's audit methodology and technology-based tools used by KPMG audit professionals to facilitate effective and efficient audits. With three global locations, one in each region, the GSC Audit team is made up of professionals with backgrounds in audit, IT, data science, mathematics, statistics, and more from around the world who bring diverse experiences and innovative ways of thinking to further evolve KPMG's audit capabilities.

International Standards Group (ISG)

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

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

Member firm professional practice resource

Appropriate consultation support on auditing and technical accounting matters is provided to audit engagement professionals through our professional practice resources (referred to as Department of Professional Practice or DPP). DPP also assists engagement teams where there are differences of opinion either within teams or with the Engagement Quality Control Reviewer. Unresolved differences are required to be escalated. In these cases the matter may be referred to the Head of Audit, Audit RMP or ultimately the Managing Director. The ISG is also available for consultation when required.

KPMG International policies include minimum requirements for member firm DPPs.

3.6.5 Developing business understanding and industry knowledge

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

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

3. System of quality control (continued)

3.7 Performance of effective and efficient audits

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

3.7.1 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 KPMG professionals, without compromising on quality, KPMG Isle of Man promotes a continuous learning environment and supports a coaching culture.

The engagement leader, supported by the engagement manager, is responsible for driving a culture of coaching and continuous learning throughout the audit process and setting an example in the performance of the audit to drive a culture of continuous audit quality improvement.

Ongoing mentoring, coaching and supervision during an audit involves:

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

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

3.7.1.1 Timely Engagement Quality Control reviews (EQC review)

EQC reviewers are independent of the engagement team and have the appropriate experience and knowledge to perform an objective review of the more critical decisions and judgements made by the engagement team and the appropriateness of the financial statements.

An EQC reviewer (EQCR) is required to be appointed for audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with a high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements as designated by the RMP or Head of Audit.

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

- review of selected audit documentation relating to significant judgements the engagement team made and the conclusions it reached;
- review of the financial statements and proposed audit report; and
- evaluation of the conclusions reached in formulating the audit report and consideration of whether the proposed report is appropriate.

Although the engagement leader is ultimately responsible for the resolution of financial reporting and auditing matters, the EQCR must be satisfied that all significant questions raised have been resolved before an audit can be considered complete.

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

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

3. System of quality control (continued)

3.7.1.2 *Timely Limited Scope Quality Control reviews (LSQC review)*

In certain circumstances where a full EQC review is not required, Limited Scope Quality Control reviews (LSQCR) may be used. Similar to the EQCR, the LSQCRs 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. They offer an objective review of the more critical and judgemental elements of the audit.

Examples of where an LSQCR may be used are as follows:

- where the engagement is a high risk engagement due to significant risks in a discrete area (e.g. revenue recognition, business restructuring, significant valuations/estimates, asset impairment, or tax exposures/risks) or financial statement level risks (e.g. going concern) in which case, the purpose of the LSQCR is to evaluate the judgements and conclusions related to the risk(s) and the related financial statement disclosure. The LSQCR must be approved by the Audit RMP;
- where the engagement leader, Head of Audit or the RMP requests that another partner with experience in an industry or a specific regulatory framework review the financial statements and discuss significant matters arising during the audit/review, significant professional judgements made and related conclusions reached with the engagement leader; or
- for modified opinions, where the engagement leader determines that an LSQC review is required. Reasoning must be clearly documented and approved by the engagement leader. Emphasis-of-matter paragraphs are considered to be modified audit opinions.

3.7.1.3 *Reporting*

Auditing standards and the various Isle of Man Companies Acts or similar legislative requirements largely dictate the format and content of the audit report that includes an opinion on the fair presentation of the client's financial statements in all material respects. Experienced engagement leaders arrive at all audit opinions, based on the audit performed. The existing requirements to include a key audit matters section in the auditor's report for entities that are required, or choose voluntarily, to report on how they have applied the UK Corporate Governance Code has now been extended to include PIEs and listed entities and we are also required to provide a long form audit report for all listed entities.

3.7.1.4 *Insightful, open and honest two-way communication*

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

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

Communications with audit committees include:

- an overview of the planned scope and timing of the audit, which includes communicating significant risks identified;
- significant findings from the audit which may include control deficiencies and audit misstatements; and
- an annual written communication that states that the engagement team and KPMG Isle of Man have complied with relevant independence requirements, describes all relationships and other matters between KPMG Isle of Man and the audit client that, in our professional judgement, may reasonably be thought to bear on independence, and states related safeguards we have applied to eliminate (or reduce to an acceptable level) identified threats to independence.

We ensure such communications meet the requirements of professional standards.

Audit Committee Institute

In recognition of the demanding and important role that audit committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, the [Audit Committee Institute](#) (ACI) aims to help audit committee members enhance their commitment and ability to implement effective audit committee processes.

3. System of quality control (continued)

3.7.1.4 *Insight, open and honest two-way communication (continued)*

Audit Committee Institute (continued)

The ACI operates in more than 40 countries across the globe and provides audit committee members with authoritative guidance (such as the [ACI Audit Committee Handbook](#)) on matters of interest to audit committees, updates on issues like EU audit reform, changes to accounting standards and other matters of interest to Audit Committees (such as cyber security and corporate culture) and the opportunity to network with their peers during an extensive programme of technical updates and awareness seminars.

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

IFRS Institute

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

3.7.2 *Client confidentiality, information security and data privacy*

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

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

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

3. System of quality control (continued)

3.8 Commitment to continuous improvement

KPMG commits to continually improve the quality, consistency and efficiency of KPMG audits. Integrated quality monitoring and compliance programmes enable member firms to identify quality deficiencies, to perform root cause analysis and develop, implement and report remedial action plans, both in respect of individual audit engagements and KPMG's system of quality control.

KPMG International's integrated quality and monitoring programmes include the Quality Performance Review (QPR) programme, the Risk Compliance (RCP) programme and the Global Compliance Review (GCR) programme.

The quality monitoring and compliance programmes are globally administered and consistent in their approach across all member firms, including the nature and extent of testing and reporting. KPMG Isle of Man compares the results of its internal monitoring programmes with the results of any external inspection programmes and takes appropriate action.

3.8.1 Monitoring

Our monitoring programmes evaluate both:

- engagement performance in compliance with the applicable standards, applicable laws and regulations and KPMG International policies and procedures; and
- KPMG Isle of Man compliance with KPMG International policies and procedures and the relevance, adequacy and effective operation of key quality control policies and procedures.

The results and lessons from the integrated monitoring programmes are communicated internally, and the overall results and lessons from the programmes are considered and appropriate action is taken at local, 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.

Two KPMG International developed and administered inspection programmes are conducted annually across the Audit, Tax, and Advisory functions: QPR and RCP.

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

Audit Quality Performance Reviews (QPRs)

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

Risk-based approach

Each engagement leader is reviewed at least once in a three year cycle. A risk-based approach is used to select engagements.

KPMG Isle of Man conducts the annual QPR programme in accordance with KPMG International QPR instructions. The reviews are performed at KPMG Isle of Man level and are monitored regionally and globally. Member firm Audit QPR reviews are overseen by a senior experienced lead reviewer independent from the member firm.

Reviewer selection, preparation and process

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

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

Evaluations from Audit QPR

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

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

Reporting

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

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

3. System of quality control (continued)

3.8.1 Monitoring (continued)

Lead audit engagement partners are notified of less than satisfactory engagement (defined as 'Performance Improvement Needed' or 'Unsatisfactory') ratings on their respective cross-border engagements. Additionally, lead audit engagement partners of parent companies/head offices are notified where a subsidiary/affiliate of their client group is audited by a member firm where significant quality issues have been identified during the QPR.

Risk Compliance Programme (RCP)

KPMG International develops and maintains quality control policies and processes that apply to all member firms. These policies and processes, and their related procedures, include the requirements of ISQC 1. During the annual RCP, we perform a robust assessment programme consisting of documentation of quality controls and procedures, related compliance testing and reporting of exceptions, action plans and conclusions.

The objectives of the RCP are to:

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

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

Global Compliance Review Programme (GCR)

Each member firm is subject to a GCR conducted by KPMG International's GCR team, independent of the member firm, at least once in a 3 year cycle.

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

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

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

KPMG Isle of Man was most recently subject to a GCR in December 2017.

Root Cause Analysis (RCA)

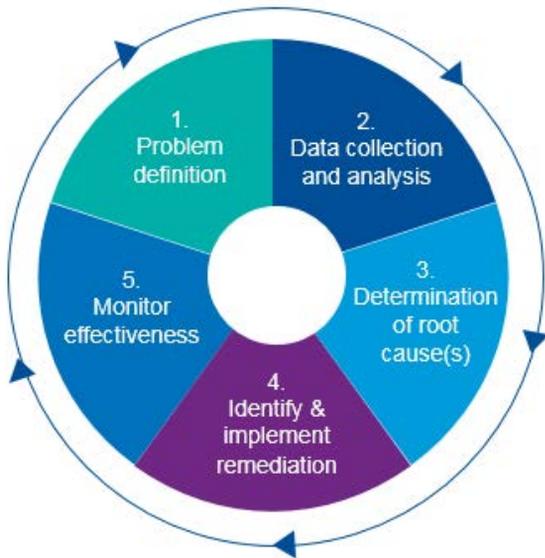
KPMG Isle of Man performs root cause analysis to identify and address audit quality issues in order to prevent them from recurring and help identify good practices as part of continuous improvement. In 2018, RCA training based on our Global RCA 5 Step Principles was attended by those individuals at KPMG Isle of Man who will be performing RCA or directing those performing RCA. The training provides a common platform for advancing the practices and skills associated with resourcing, planning and conducting RCA.

3. System of quality control (continued)

3.8.1 Monitoring (continued)

Root Cause Analysis (RCA) (continued)

The Global RCA 5 Step Principles are as follows:



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

KPMG Isle of Man's Head of Audit is responsible for the development and implementation of action plans as a result of RCA, including identification of solution owners. The RMP monitors their implementation.

3.8.2 Recommendations for improvements

At a global level, through the Global Audit Quality Issues Council (GAQIC) and the Global Quality & Risk Management Steering Group (GQ&RMSG), KPMG International reviews the results of the quality monitoring programmes, analyses member firm root causes and action plans and develops additional global actions as required.

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

3.8.3 External feedback and dialogue

3.8.3.1 Regulators

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

Firms that audit companies incorporated in one of the Crown Dependencies (Jersey, Guernsey and the Isle of Man) which have 'transferable securities' admitted to trading on a 'regulated market' in the EU are subject to inspection by the ICAEW Audit Registration Committee. The first Crown Dependency visit of KPMG Isle of Man was conducted in May 2013 and the latest was in May 2016.

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

3.8.3.2 Client feedback

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

3.8.2.3 Monitoring of complaints

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

3.8.3.4 Other assessments of audit quality

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

Section 4

Financial information

4. Financial information

The financial information set out below represents revenue generated in the year ended 30 September 2018.

Revenue derived from:	£'000
Statutory audit of PIE* clients and related entities	152
Permitted non-audit service to PIE* clients and related entities	20
Statutory audit of other clients	6,488
Non-audit services to other clients	3,948

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

* For the above purposes, "PIE" refers to EU PIEs as defined in Article 2.13 of EU Directive 2006/43

Section 5

Director

remuneration

5. Director remuneration

5.1 *Director remuneration*

Directors are remunerated out of the distributable profits of the firm as set out in the accounts and as approved by the Board.

The determination of the profits available for distribution is based on the results of the firm as a whole and is not dependent directly on the performance of any particular line of business or function. The final allocation of profits to the Directors includes two components which depend upon length of time as a director, together with two components which are determined by performance factors.

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

5.2 *Drawings*

During the year, members working within KPMG Isle of Man received monthly drawings, and from time to time, additional profit distributions. The level and timing of the additional distributions are decided by the Finance Director taking into account cash requirements for operating and investing activities. Such drawings and profit distributions to members may include payments on account of current year profits which are reclaimable from members until profits have been allocated. Any over-distribution of profits during the year is also recoverable from members.

5.3 *Associate Director remuneration*

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

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

Section 6

Network

arrangements

6. Network arrangements

6.1 Legal structure

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

KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by 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 link.¹

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 EUR2.8billion during the year ending 30 September 2018. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent – currently calculable and translated at the average exchange rate prevailing in the 12 months ended 30 September 2018.²

6.2 Responsibilities and obligations of member firms

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

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

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

6.3 Professional Indemnity Insurance

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

6.4 Governance structure

The key governance and management bodies of KPMG International are the Global Council, the Global Board and the Global Management Team. Further details on KPMG International's governance structure can be found in the [2018 KPMG International Transparency Report](#).

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

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

6. Network arrangements continued

6.5 *Area Quality & Risk Management Leaders*

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

The objectives of the ARL role are to:

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

Section 7

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

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

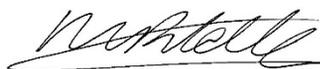
The measures and procedures that serve as the basis for the system of quality control for KPMG Isle of Man outlined in this report aim to provide a reasonable degree of assurance that the statutory audits carried out by our firm comply with applicable laws and regulations. Because of its inherent limitations, the system of quality controls is not intended to provide absolute assurance that non-compliance with relevant laws and regulations would be prevented or detected.

The Board of KPMG Isle of Man has considered:

- the design and operation of the quality control systems as described in this report;
- the findings from the various compliance programmes operated by our firm (including the KPMG International Review Programmes as described in section 3.8.1 and our local compliance monitoring programmes); and
- findings from regulatory inspections and subsequent follow up and/or remedial actions.

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

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



On behalf of the Board

Russell Kelly

Managing Director

KPMG Isle of Man

January 2019

Appendix 1

Key legal entities and area of operation

Appendix 1

Key legal entities and areas of operation

Name of Entity	Legal Structure	Regulatory Status	Nature of Business	Area of Operation
KPMG LLC (100% owned by the members of KPMG LLC)	Isle of Man LLC	Not subject to audit. Regulated by the Isle of Man Financial Services Authority and ICAEW.	Professional services	Isle of Man
KPMG Audit LLC (100% owned by the members of KPMG Audit LLC)	Isle of Man LLC	Not subject to audit. Regulated by the Isle of Man Financial Services Authority, ICAEW, Jersey Financial Services Commission and Johannesburg Stock Exchange (until 19 December 2018).	Audit and audit related services	Isle of Man

Appendix 2

Board of Directors of

KPMG LLC

Appendix 2

Board of Directors of KPMG LLC



Greg Jones
EIP and Head of Tax



Russell Kelly *
Managing Director and Head
of Advisory



David Parsons
RMP



Nick Quayle *
Head of Audit



Micky Swindale
Advisory Director



Simon Nicholas *
Audit RMP

* Also a member of KPMG Audit LLC

Appendix 3
EU Public interest
entity listing at 30
September 2018

Appendix 3

EU Public interest entity listing at 30 September 2018

Integralife (UK) Limited

Appendix 4

KPMG's global values

Appendix 4

KPMG's global 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 to provide insight 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 candor.
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.

Appendix 5
Quality in
our Tax Practice

Quality in Our Tax Practice

Quality in Our Tax Practice

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

The Tax Quality Framework

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



Tone at the Top

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

Monitoring and Improvement

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

Engagement Performance

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

Clients and Services

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

Standards

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

People

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

Global Principles for a Responsible Tax Practice

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

- We act lawfully and with integrity and expect the same from our people, our firms' clients, tax authorities and other parties with whom we interact. Above all else, in every respect our work shall be fully compliant with relevant legal, regulatory and professional requirements.
- We are committed to providing clients with high quality tax advice tailored to their particular circumstances.
- We shall explain clearly and objectively to our clients the technical merits and the sustainability of any tax advice we give.
- Whenever relevant and practical to assess, we may discuss with clients any likely impact of any tax advice we give on relevant communities and stakeholders and any potential reputational risk.
- We shall make recommendations to clients only where:
 1. we consider, at least on the balance of probabilities, that the relevant interpretation of law is correct; or
 2. it otherwise clearly meets the applicable local professional standards.
- We shall only advise clients to enter into, or assist them to implement, transactions or arrangements on the basis that they have any substance required by law, as well as any business, commercial or other non-tax purpose required by law.

Quality in Our Tax Practice (continued)

- We shall not advise clients to enter into transactions with the purpose of securing a tax advantage clearly and unambiguously contrary to the relevant legislation and shall not assist them to implement such transactions. If, in our view, the language of the legislation is uncertain, we shall consider the intention of the relevant legislators when advising clients.
- We support a relationship with tax authorities aimed at building mutual trust and respect which will enable constructive dialogue and responsiveness by all parties, facilitate compliance and reduce or assist in early resolution of disputes.
- We shall comply with all our disclosure requirements and advise our clients to do the same.
- When advising clients on entering into transactions we shall do so on the understanding that all material facts will be known to the tax authorities.

Policies and Procedures to Prevent the Facilitation of Tax Evasion

Introduction

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

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

The Corporate Criminal Offence

There are three stages to the corporate criminal offence:

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

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

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

Reasonable procedures

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

Principle 1 - Risk assessment

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

Quality in Our Tax Practice (continued)

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

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

All staff are trained in anti-money laundering principles which includes the detection of tax evasion. New clients and new engagements are subject to due diligence and risk assessment by the relevant client manager which is approved by the engagement leader. Any risk assessed more than low is subject to a second partner approval. That assessment is documented and retained. The assessment is reviewed and renewed annually in most cases.

Principle 2 - Proportionality of risk-based prevention procedures

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

The firm is primarily an audit practice and a significant proportion of the audit client base are businesses that are either regulated by the IOM FSA or are administered by regulated businesses. Whilst this does not eliminate the risk of the facilitation of tax evasion within our client base, it does reduce the risk.

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

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

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

Finally, partners and staff are not remunerated or otherwise rewarded by reference to tax savings for clients or similar metrics.

Principle 3 - Top level commitment

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

The senior leadership of KPMG Isle of Man are committed to preventing the facilitation of tax evasion. As stated above, each function has a director charged with risk management responsibility.

In 2012, KPMG Isle of Man adopted the Principles of a Responsible Tax Practice. This commitment was communicated to all staff through training and in departmental meetings. In 2017, the firm adopted the revised Global Principles and again communicated this to all personnel.

Quality in Our Tax Practice (continued)

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

Principle 4 - Due diligence

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

As stated above, KPMG Isle of Man has rigorous due diligence procedures for taking on new clients and new engagements. When delivering those engagements, all work is undertaken by directly employed personnel supervised by directors. It is a strict requirement of the firm that all work is subject to review by a senior staff member and all final deliverables are required to be approved by the engagement director (with the exception of routine compliance work that nonetheless requires review by an experienced senior staff member). This manner of engagement performance reduces the scope for individual personnel to deviate from firm policy in regard to the prevention of tax evasion.

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

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

Principle 5 - Communication (including training)

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

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

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

Within the tax function, specific risk management updates are delivered by the Tax Risk Management Partner to all staff. This always includes awareness of the particular risks faced in providing tax services. The zero tolerance to facilitation of tax evasion is communicated as well as detailed guidance on the Global Principles for a Responsible Tax Practice.

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

Principle 6 - Monitoring and review

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

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

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

Quality in Our Tax Practice (continued)

Associated persons

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

Possible associated persons for KPMG Isle of Man include:

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

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

We interact with other KPMG member firms in two ways: as Originating Firm and as Participating Firm. In the case of the former, we have the direct relationship with the client and the other member firm will be acting only under our instruction. Therefore, our FTP procedures should be sufficient in managing any risk in these situations.

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

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





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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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