



Rebuilding Trust, Redefining Professionalism

KPMG South Africa
Annual Integrated Report 2018

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“As we take stock of the many changes we have implemented, we are confident that we have a solid foundation upon which to build a renewed KPMG South Africa.”

*Professor Wiseman Nkuhlu
Executive Chairman, KPMG South Africa*

In order to streamline our report, we have provided “click-down” supplementary information to provide more detailed insight into particular areas. These supplementary pages can be accessed in the electronic copy of our report available online and are denoted with the following symbol:



We have also provided inter-document links that allow you to access related information located in another part of the same document. Note your current location before clicking on the link and jumping to the related information should you wish to return later. These ‘internal’ links are denoted with the following symbol:



Message from our Executive Chairman

It is my pleasure to present to you the first full Integrated Report of KPMG South Africa. This report builds upon the foundation laid by our Baseline Report, published in July 2018. The purpose of this report is to provide an account of the changes we have made so far and a review of our performance towards achieving our goals. It is also a reflection of our continuing commitment to transparency and accountability. We recognise that rebuilding KPMG South Africa will take time and that our community of stakeholders needs to be kept abreast of our progress regularly in order to remain confident that we are on course and holding ourselves accountable.

DEEP REFLECTION AND DECISIVE ACTION

2018 was a very challenging year for KPMG as we continued to manage the consequences of legacy engagements that caused harm to the firm. It was a period of deep reflection as we undertook further reviews to understand issues facing the firm, co-operated fully with the various independent inquiries and held difficult, open discussions with our broad community of stakeholders. Yet it was also a period of considerable activity as all of these experiences informed the far-reaching changes to the firm. KPMG South Africa today is a very different business compared to what it was eighteen months ago.

“KPMG South Africa today is a very different business compared to what it was eighteen months ago.”



At the heart of what we did was an unflinching analysis of our work habits and culture to better understand the root causes of our shortcomings. This in-depth process has been intensive and ongoing. It has provided us with a more complete and holistic understanding of how best to redesign the policies, procedures and practices of the firm. A comprehensive overview of the actions taken to address identified issues and set our future direction has been set out on pages 12 to 16.

EXTERNAL INQUIRIES AND INVESTIGATIONS

We remain committed to co-operating fully with ongoing external inquiries and investigations which concern matters in which the firm or its partners have had involvement. While we have already taken extensive steps to address issues concerning the firm, we are committed to making further changes should these inquiries identify matters that have not already been addressed. We have been notified by the South African Institute of Chartered Accountants (SAICA) that the Ntsebeza Inquiry released its findings to them in December 2018; however, we have not yet been provided with a copy of this report. We remain committed to co-operating and working in a constructive manner with the Independent Regulatory Board for Auditors (IRBA) in connection with its ongoing investigations. We have also committed to make a submission to the Zondo Commission of Inquiry into 'State Capture', if called upon to do so.

AUDIT FILE REVIEWS AND AUDIT QUALITY MONITORING

Audit quality is the single most important priority for KPMG South Africa. In April 2018, following the VBS Mutual Bank matter, the firm announced that an additional programme of extensive audit quality file reviews had commenced. The objective of this additional programme was to assess the commitment to quality and professionalism of each audit partner. Undertaken in addition to our normal internal and external reviews, this additional programme was conducted by experienced reviewers from elsewhere in the KPMG Network.

The review identified a number of deficiencies that were classified into thematic areas for improvement. We have undertaken a primary cause analysis of these issues and adopted additional remediation plans to address them. Certain audit partners were identified as requiring some intervention or disciplinary action. We have also shared the findings of our review programme, and related remedial actions, with IRBA to demonstrate to our commitment to improving audit quality.

Our 2018 Quality Performance reviews have now been finalised and we understand that the results of the 2018 IRBA file inspections will be finalised shortly. While the number of findings from these reviews is higher than we would like, they relate to the same thematic areas for improvement identified by our additional audit file review programme and, accordingly, we have already embedded a significant number of actions to remediate the identified issues. We are confident that the full implementation of our Audit Quality Plan from January 2019 will bring about significant improvements in audit quality.

INTEGRITY CHECKS AND WHISTLE-BLOWING

We introduced extensive integrity and compliance checks of partners (and their spouses/partners), run by an external law firm and overseen by KPMG International, in addition to our existing annual declaration and independence review processes. There were findings against certain partners related to a lack of discipline and diligence towards personal compliance requirements and maintaining up to date KPMG Independence Compliance System records, and monitoring of independence of partner and spouse/spousal equivalent financial affairs. Immediate remedial actions included disciplinary actions and sanctions, together with developing programmes to improve knowledge of, and compliance with, policies.

We also launched a 'Speak Up' campaign during the year, run by an external law firm and overseen by KPMG International, to draw attention to our existing whistle-blowing channels and the fact that it is our professional duty to report incidents of fraud, corruption or unusual transactions. KPMG International did not find any matters of significant concern or matters that would result in the need to take disciplinary action.

We are determined to maintain an environment in which members of staff are both encouraged to report anything suspicious, without fear of reprisals, and understand that they have an obligation to do so.

CLIENT ACCEPTANCE AND CONTINUANCE

Our experiences have taught us that we did not know certain of our clients as well as we should have. We have since re-evaluated our entire client portfolio and ended relationships that were not aligned with our risk assessment criteria or business model going forward. We have implemented much more rigorous standards of client acceptance and continuance, based on a more centralised process, improved awareness of the environment in which we are working and more stringent approval levels.

LEADERSHIP AND GOVERNANCE

As has been reported in detail previously, we began making swift and significant changes to the leadership and governance of the firm from September 2017. The Executive Committee (Exco) and the Policy Board were separated, with only two executive directors sitting on the Policy Board, and new members were appointed to both the Exco and the Policy Board, including an independent non-executive Chairman and an independent non-executive director. Further non-executive appointments are being considered. .

We also established a Public Interest, Social & Ethics Committee in early 2018 to ensure that ethics and the public interest remain at the top of our agenda. In addition, we decided that our Risk, Quality & Compliance Committee should be chaired by an independent party. I am delighted to confirm that Professor Ben Marx is now fulfilling this particular role. We continue to refine our governance structures and processes and more developments are afoot.

REMUNERATION

We are rebuilding the firm with a renewed sense of purpose and pride. Our focus is on ensuring our work is characterised by the very highest levels of integrity and professionalism. With this in mind, we have reviewed and revised our remuneration and sanctions policies. Significantly, we have explicitly

linked the remuneration and sanctions of partners to our core values, including trust, integrity and the public interest, together with quality, accountability and professional scepticism, alongside other changes we have made.

CULTURE AND PEOPLE

It has been a very challenging year for our people. The firm is two-thirds of the size it was two years ago and our colleagues have been embarrassed and disappointed by the controversy that affected the firm. They have also been subjected to uncomfortable and invasive internal reviews and processes, and have had to endure harsh public criticism. In spite of these challenges, I am pleased to confirm that our people remain determined and have displayed extraordinary resilience. Our people have embraced our renewed sense of purpose and there is an air of positive determination around the firm. I have been amazed and humbled by the resilience and professionalism of our people.

KPMG has always had strong skills and competencies, especially in the high-growth industries underpinning the fourth industrial revolution. The firm is known for the sought-after, 'tier one' clients it has been privileged to serve over the years. I am grateful to report that we still have an attractive, diversified portfolio of clients on which to build.

“There is an air of positive determination around the firm.”

We are proud to have retained our BBBEE Level 1 Empowered Supplier status and remain fully committed to becoming a fully transformed, diverse and inclusive firm that is representative of the demographics of South Africa.

KPMG INTERNATIONAL SUPPORT

The significant support that we have received from KPMG International and our network of firms has been vital in the process of rebuilding our firm. The firm has capitalised on the respective expertise of the team of global leaders and specialists who have been working in South Africa since August 2017. As we rebuild and renew, we are able to continue drawing on the international support and expertise available throughout the KPMG global network. We are able to fuse this expertise with the bright, young local talents that are joining us because of our progressive, revitalised culture; a culture that is focused on serving the public interest and which emphasises transformation and nurturing, through training and mentorship.

I am thankful that the KPMG network of firms have committed to support us with resources and expertise to ensure that we retain our talent and can continue to service our clients at the requisite levels.

ENGAGING WITH STAKEHOLDERS

It is pleasing to note that the wide-ranging changes we have made are already being recognised, even though we still have much to do. We are realistic and appreciate that many of our reforms will take some time to deliver results that are visible to our stakeholders, but we are thankful that several important clients allowed us to engage with them on a regular basis during the year and have chosen to reappoint us. Similarly, we are gratified that Business Leadership South Africa (BLSA) gave us opportunities to present and discuss our renewal project and has since readmitted us.

Undoubtedly, we have become better at engaging with our broad community of stakeholders this year. The criticism we received from civil society, NGOs, the regulators and our clients was difficult to hear at times, but it has made us better listeners and enabled us to learn a lot about ourselves. An ongoing challenge is to communicate our progress, and the steps we have taken, in a transparent, credible and consistent manner. One of the ways we are aiming to achieve this is through our reporting process. In this report, and future annual editions,

we intend to hold ourselves publicly accountable by publishing a broader set of key performance indicators that measure and describe our progress. We fully acknowledge and respect the significant role of our regulators and we are fully committed to working hard to develop a constructive, transparent and respectful relationship with our principal regulator, IRBA, over the next year. We are also considering external surveys by reputable organisations to help us monitor and measure the impact of our efforts.

“The criticism we received [...] was difficult to hear at times, but it has made us better listeners and enabled us to learn a lot about ourselves.”

STRATEGIC PRIORITIES

I was personally delighted and inspired by the updated purpose-led strategy adopted at the KPMG Global partner conference in September 2018. The new KPMG Global strategy places trust at the centre of everything we do and is perfectly aligned with our renewal project locally. I commend the KPMG network for being bold, because one of the key lessons we have learnt from the humbling experiences of the last 18 months is that trust is like oxygen: easily taken for granted and overlooked, but little else matters if it is no longer there.

“[T]rust is like oxygen: easily taken for granted and overlooked, but little else matters if it is no longer there.”

CHANGING OF THE GUARD

The Policy Board and I would like to take this opportunity to welcome our new Chief Executive Officer designate, Ignatius Schoole, who is scheduled to start as CEO from May 2019. As we embarked on the next phase of our renewal project, we felt it was important to appoint an external candidate to the firm;

a leader with strong industry credentials. In Ignatius, we have found a leader equal to the task. He will bring new energy and clarity of purpose to our firm and his strong record in promoting black chartered accountants will be a key asset in promoting transformation as well.

We would also like to thank Nhlamulo Dlomu for her courageous and heartfelt leadership during a most difficult and turbulent time. Ignatius will continue the important work, begun by Nhlamulo, of rebuilding trust in our firm. We wish her well in her new position with KPMG International and remain grateful for her indefatigable enthusiasm and steadfast resolve during her tenure.

A SOLID FOUNDATION

As we take stock of the many changes we have implemented, we are confident that we have a solid foundation upon which to build a renewed KPMG South Africa. We have learned from the past and look forward to a future in which we continue to serve business and society in South Africa. We believe that the changes we have made to date have earned us a second chance and an opportunity to rebuild the firm. We look forward to playing a key role in helping to create a positive future for South Africa and the accounting profession.

In closing, the Policy Board and I would like to thank each and every one of our stakeholders; those who have reminded us of our role as guardians of the

“We have learned from the past and look forward to a future in which we continue to serve business and society in South Africa.”

public interest; those who have demanded we do better, but recognised our commitment to the highest standards of professionalism; those who have given us a chance to redeem ourselves. In particular, we would like to thank the people of the renewed KPMG South Africa. Your professionalism, determination and enthusiasm continue to inspire us and permit us to look forward with confidence and positive determination.

Professor Wiseman Nkuhlu
Executive Chairman
KPMG South Africa

Integrated Reporting at KPMG South Africa

WHY HAVE WE ADOPTED INTEGRATED REPORTING?

Our adoption of Integrated Reporting (<IR>) is a reflection of our intention to be a transparent and accountable organisation that is focused on creating and sustaining value for all our stakeholders.

The process of reporting publicly on an ongoing basis is also a tangible expression of our commitment to transparency and engagement with all our stakeholders, as well as our determination to back up our words with action.

As we rebuild KPMG South Africa, the International <IR> Framework provides us with a set of guidelines on how best to communicate concisely our business model, strategy, governance, performance and prospects in the context of our external environment and engagement with stakeholders.

An added benefit of the process is that it will encourage ‘integrated thinking’ within the business, which is an approach designed to help make organisations more alert, agile and responsive.

For KPMG South Africa, integrated reporting is more than just disclosure: it is a process that supports changes to behaviour in the way that we manage our business and focus our people on our strategy and higher purpose aspirations.

“Integrated Reporting will help us communicate with our stakeholders openly, comprehensively and honestly.”

OUR INTEGRATED REPORTING OBJECTIVES:

- Rebuilding trust within our community of stakeholders;
- Embedding accountability and stewardship throughout the organisation;
- Visibly expressing our commitment to transparency and accountability; and
- Improving internal reporting, analysis and decision-making processes.

Integrated thinking fosters a greater awareness of the interdependencies and connectivity between the range of factors that impact the ability of an organisation to create value. It is a way of looking at an organisation that leads to an improved quality and flow of information into management reporting, analysis and decision-making processes.



The following [supplementary click-down document](#) provides further insight into our approach to integrated reporting at KPMG South Africa, including:

- What is integrated reporting?;
- Reporting principles and frameworks;
- Reporting boundary and scope;
- Materiality; and
- Assurance and comparability.

This suite of reports is available online on our website (www.home.kpmg/za/integratedreport2019) or by contacting Nqubeko Sibiyi at nqubeko.sibiyi@kpmg.co.za



REPORTING SUITE

The following table describes the suite of reports that will be produced by KPMG South Africa. The purpose of this set of reports is to go beyond regulatory compliance and to provide our diverse and wide-ranging community of stakeholders with an accurate and complete portrayal of the firm. We will commence with the production of an Audit Quality Transparency Report for the year ending 30 September 2019, once our audit quality indicator monitoring programme is fully established and matured. We have included a supplementary report back on audit quality in the ‘Our Performance and Outlook’ section (refer page 40). It is our hope that these reports will enable you to make knowledgeable and confident decisions about KPMG South Africa and your working relationship with us.

Baseline Report	Integrated Report	Integrated Report and Audit Quality Transparency Report
July 2018	Year ended 30 September 2018	Year ending 30 September 2019
 <p>A once-off report on the key issues identified and actions taken since September 2017. This report also sets a path for the 2018 Annual Integrated Report.</p>	 <p>An annual, comprehensive publication designed to provide stakeholders with a complete view of the firm to enable them to make informed decisions about the progress, performance and outlook for KPMG South Africa, including a supplementary Governance Report.</p>	 <p>Commencing from the year ending 30 September 2019, we will produce a supplementary report to the Integrated Report, published annually, which describes our systems of audit quality control, independence and risk management policies, audit approach, ethical standards, audit quality indicators and related governance processes.</p>

POLICY BOARD RESPONSIBILITY AND APPROVAL

The Policy Board is, ultimately, responsible for overseeing the integrity of this Integrated Report. The Policy Board confirms that, after applying its collective mind to the preparation and presentation of this report and reviewing the content herein, it considers this report to be accurate, reliable and complete in presenting material information about the firm. The Policy Board approved the Annual Integrated Report 2018 on 28 February 2019.

Acknowledging and Addressing our Past Issues

Past events have required us to step back and examine our business and practices. The auditing of Gupta-related South African entities, the SARS work and the VBS Mutual Bank situation are separate incidents with their own fact patterns. Each of them has been thoroughly investigated to understand fully the primary causes of the underlying issues in order to formulate and implement appropriate remediation plans. External investigations and inquiries have been, or are in the process of being, undertaken and KPMG South Africa remains committed to co-operating fully with these inquiries. While we have already taken extensive steps to address issues concerning the firm, we are committed to making further changes should these inquiries identify matters that have not already been addressed.



The following [supplementary click-down document](#) provides some perspective on the issues that KPMG South Africa has encountered with regard to the Gupta entities, the SARS work and the VBS Mutual Bank situation. We have provided a summary of the key findings of our investigations, lessons learnt, and actions taken on the:

- KPMG International investigation and findings – Gupta entities & SARS work; and
- VBS Mutual Bank.

“Past events have required us to step back and examine our business and practices.”

DRAWING A LINE

Following the VBS Mutual Bank matter, it became evident that we needed to draw a line to establish a legacy period; in order to undertake a primary cause analysis, investigate all the issues identified fully and formulate an appropriate response plan. Once this had taken place, a period of accountability and governance under renewed structures and quality and risk management processes should endure.

The steps taken in April 2018, set out overleaf, have helped us to assess the extent of our legacy issues and to ensure that we have addressed all material issues facing the firm. It should be noted that such reviews and checks were undertaken during a period of change within the firm and assess, in a large part, historical work that was performed prior to the significant changes undertaken since September 2017. A short report back on those steps follows:

Initiative	Outcome
<p>Audit file reviews — A programme of extensive quality reviews of audit files, across all audit partners, to assess the commitment to quality and professionalism of our engagement teams.</p>	<p>The file reviews identified a number of deficiencies that required remediation and action, summarised as follows:</p> <ul style="list-style-type: none"> • Deficiencies were classified into thematic areas on which to focus to improve audit quality across the firm and significant actions have been implemented to address these issues; and • Certain audit partners were identified as requiring some intervention or disciplinary action.
<p>Whistle-blowing — Implementation of a ‘Speak Up’ programme to raise awareness and run alongside normal whistle-blowing policies, facilitated by a law firm independent of KPMG South Africa.</p>	<p>Given the challenges that the firm faced in the preceding year, the number of matters reported as part of the ‘Speak Up’ programme was relatively low. KPMG International did not find any matters of significant concern or matters that would result in the need to take disciplinary action. Processes are in place to encourage and promote a culture of “safe to speak up without any fear of reprisal”.</p>
<p>Integrity and compliance checks — Extensive integrity checks of all partners (and their spouses/ partners) introduced, in addition to existing annual declaration processes, facilitated by a law firm independent of KPMG South Africa.</p>	<p>Key findings and areas of concern can be described as follows:</p> <ul style="list-style-type: none"> • Certain partners demonstrated a lack of discipline towards personal compliance requirements; and • There was a lack of diligence by some partners in maintaining an accurate and up to date KPMG Independence Compliance System records or close monitoring of independence aspects of partner financial affairs and those of the partners’ spouses or spousal equivalents. <p>Immediate remedial actions included disciplinary actions and sanctions, together with developing programmes to improve knowledge of, and compliance with, policies.</p>

ACTIONS TAKEN TO ADDRESS IDENTIFIED ISSUES AND SET FUTURE DIRECTION

Based on the findings of the extensive internal and external investigations conducted, together with a deep primary cause analysis, extensive engagement with our stakeholders and rigorous self-reflection by the new leadership of the firm, a number of key actions and steps have been taken — or are in the process of implementation — to decisively address the issues that were identified. These developments will enable us to deliver on our commitment to become a truly transformed professional services firm, with unwavering integrity, focused on delivering services of the highest quality and, ultimately, serving the public interest in everything that we do.

We recognise that it will take time to rebuild trust and achieve this ambition, but we are committed to moving towards this goal decisively and swiftly. This report aims to provide our stakeholders with the context and progress of our actions towards this goal and to document the changes made by the new KPMG South Africa in rebuilding our firm to meet and, in time, exceed the expectations of our stakeholders.

The summary table on pages 12 to 16 provides:

- an overview of actions taken or in progress;
- a status update on each action area; and
- references to where each issue is discussed in more detail in the report.

The actions are arranged into the following focus areas:

- Understanding the issues at hand fully and drawing a line under the legacy period;
- Establishing the right governance, leadership capabilities and structure to provide direction and accountability;
- Engaging with our stakeholders to understand their expectations and rebuild trust;
- Implementing processes and checks to ensure the highest quality and ethics in everything we do; and
- Setting a convincing future strategic direction for the firm that reflects our values and culture.

Action	Detail	Status	References
Understanding the issues at hand and drawing a line under the legacy period			
Investigations, Primary Cause Analysis and Remedial Plans	<ul style="list-style-type: none"> • Thorough investigations assisted by external advisers into work done for Gupta entities, SARS and VBS Mutual Bank. 	Complete	Acknowledging and addressing our past issues
	<ul style="list-style-type: none"> • Full co-operation with external investigations and inquiry processes, including Ntsebeza Inquiry, SARB forensic investigation into VBS Mutual Bank and IRBA investigations. 	Complete and continuing	Acknowledging and addressing our past issues
Establish Full Extent of Legacy Issues	<ul style="list-style-type: none"> • Ending our relationship with certain clients and engagements following the review of our entire client portfolio. 	Complete	Message from our Executive Chairman
	<ul style="list-style-type: none"> • Extensive review of audit files to ascertain the commitment of our audit partners to audit quality and professionalism. 	Complete	Acknowledging and addressing our past issues
	<ul style="list-style-type: none"> • 'Speak Up' campaign that ran for a specific period in addition to the normal safe reporting channels of the firm. 	Complete	Acknowledging and addressing our past issues
	<ul style="list-style-type: none"> • Extensive integrity and compliance checks of all partners. 	Complete	Acknowledging and addressing our past issues
Return and Donation of Fees	<ul style="list-style-type: none"> • Return to SARS the R23 million fee for the report KPMG South Africa produced. 	Complete	Baseline Report
	<ul style="list-style-type: none"> • Implement a process and identify beneficiaries to whom to donate the R47.8 million in fees KPMG South Africa received from work on Gupta-related entities, to NGOs mainly involved in education and anti-corruption initiatives. 	In progress	KPMG South Africa Overview

Action	Detail	Status	References
Establishing the right governance, leadership capabilities and structure to provide direction and accountability			
Leadership Reforms	<ul style="list-style-type: none"> Those responsible (either directly or as a result of their leadership position) for the shortcomings identified by KPMG International in connection with the Gupta and SARS matters have left KPMG South Africa. Appointment of Nhlamulo Dlomu, the new CEO, in September 2017, and a new leadership team through the remedial and stabilisation phase. Embedding additional senior resources from the global KPMG network to strengthen leadership capacity. Nomination of external CEO designate, Ignatius Sehoole, scheduled for May 2019, to lead the firm through the next phase of rebuilding. 	<p>Complete</p> <p>Complete</p> <p>Complete</p> <p>Complete</p>	<p>Acknowledging and addressing our past issues</p> <p>Our governance model</p> <p>Our governance model</p> <p>Our governance model</p>
Governance Reforms	<ul style="list-style-type: none"> Election of a new Policy Board and strengthening sub-committee structures with terms of reference. Separation of the Executive Committee (Exco) from the Policy Board. Appointment of an independent non-executive Chairman and an independent non-executive director on the Policy Board. Establish Policy Board sub-committees to focus on oversight of public interest & ethics (PISE) and audit quality & compliance (RQC) Appointment of additional independent non-executive directors and an independent chair of the Risk, Quality and Compliance committee. 	<p>Complete</p> <p>Complete</p> <p>Complete</p> <p>Complete</p> <p>In progress & complete</p>	<p>Our governance model</p>
Review Structure And Business Plan	<ul style="list-style-type: none"> Business reshape exercise to ensure alignment to current conditions and the sustainability of our business. 5-year business and sustainability plan in place. 	<p>Complete</p> <p>Complete</p>	<p>Our purpose, strategy and culture</p> <p>Our purpose, strategy and culture</p>

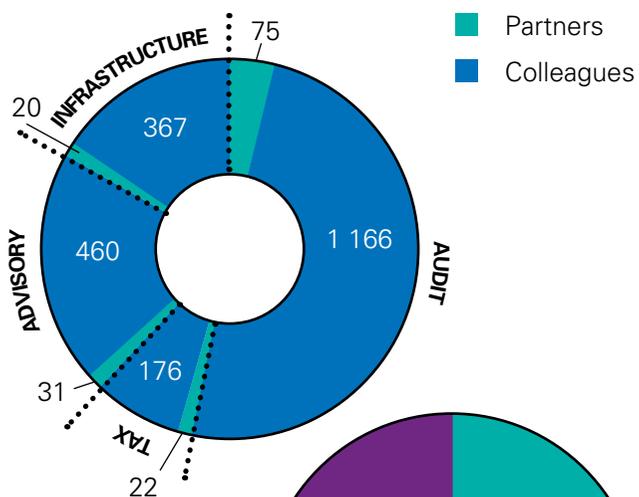
Action	Detail	Status	References
Engaging with our stakeholders to understand their expectations and rebuild trust			
Comprehensive Stakeholder Engagement Programme	<ul style="list-style-type: none"> • Extensive and ongoing engagement with regulators, business associations, clients and people. 	Ongoing	Stakeholder engagement
	<ul style="list-style-type: none"> • Improved dialogue and interactions with civil society leaders. 	Ongoing	Stakeholder engagement
	<ul style="list-style-type: none"> • Public reporting programme through integrated and audit quality transparency reports. 	Ongoing and in progress	Integrated reporting at KPMG South Africa
Implementing processes and checks to ensure the highest quality and ethics in everything we do			
Quality and Risk Management Reforms	<ul style="list-style-type: none"> • Elevated and separated role of the Risk Management Leader, and significant further resources devoted to the risk management function. 	Embedded	Our performance and outlook
	<ul style="list-style-type: none"> • More rigorous system for client and engagement acceptance and continuance with centralised escalation of approvals. 	Embedded	Our performance and outlook
	<ul style="list-style-type: none"> • Comprehensive review of services the firm provides. 	Complete	Our performance and outlook
	<ul style="list-style-type: none"> • Enhanced Engagement Quality Control Review policies. 	Embedded	Our performance and outlook
	<ul style="list-style-type: none"> • Stricter rules regarding the accepting and providing of hospitality. 	Embedded	Our performance and outlook
	<ul style="list-style-type: none"> • Extensive training and monitoring of compliance with firm policies, with enhanced sanction processes being enforced. 	Embedded	Our performance and outlook

Action	Detail	Status	References
Implementing processes and checks to ensure the highest quality and ethics in everything we do (continued)			
Audit Quality Focus	<ul style="list-style-type: none"> Strengthening of the Audit & Assurance Quality Control Council functionality and audit quality indicator monitoring. 	Complete and ongoing	Our performance and outlook
	<ul style="list-style-type: none"> Extensive additional training and guidance on areas identified with shortcomings. 	Complete and ongoing	Our performance and outlook
	<ul style="list-style-type: none"> Reinforcement of the role of Engagement Quality Control Review (EQCR) partner. 	Embedded	Our performance and outlook
	<ul style="list-style-type: none"> Introduction of audit quality in-flight review programme and enhanced pre-issuance review programme. 	In progress	Our performance and outlook
	<ul style="list-style-type: none"> Strengthened Department of Professional Practice resources and capability. 	Embedded	Our performance and outlook
Strengthened Ethics Programme	<ul style="list-style-type: none"> Appointed Chief Ethics Officer so that there is dedicated promotion and oversight of ethics in the firm. 	Embedded	Our governance model
	<ul style="list-style-type: none"> A renewed global code of conduct has been issued with strong emphasis on alignment with public interest. 	Ongoing	Our governance model
	<ul style="list-style-type: none"> Ethics training, engagement and awareness programmes launched. 	Ongoing	Our governance model
	<ul style="list-style-type: none"> Ethics Helpdesk (Advice Line) established and available to colleagues at all levels. 	Ongoing	Our governance model
	<ul style="list-style-type: none"> 'Safe to Speak Up' programme to encourage a culture of challenge and speaking up as part of the normal course of business. 	Ongoing	Our governance model

Action	Detail	Status	References
Setting a convincing future strategic direction for the firm that reflects our values and culture			
Culture and People Programmes	<ul style="list-style-type: none"> Comprehensive culture and ethics assessments, and engagement with appropriate change programmes to address results of the assessments. 	Ongoing	Our purpose, strategy and culture
	<ul style="list-style-type: none"> 'Professional to our core' tone at the top — focused on public interest, ethics and quality, reinforced by remuneration and sanctions policies. 	Ongoing	Our purpose, strategy and culture
	<ul style="list-style-type: none"> Remuneration incentive programmes better aligned with quality and values-based behaviours. 	Complete	Our remuneration model
Strategy Development and Implementation	<ul style="list-style-type: none"> Revitalised and focused strategy — aligned with public interest, quality and growth. 	Complete	Our purpose, strategy and culture
	<ul style="list-style-type: none"> Enhance key performance indicator reporting against strategy to incentivise and create accountability and transparency for serving the values of the firm and the public interest, as well as financial performance.. 	In progress	Our performance and outlook

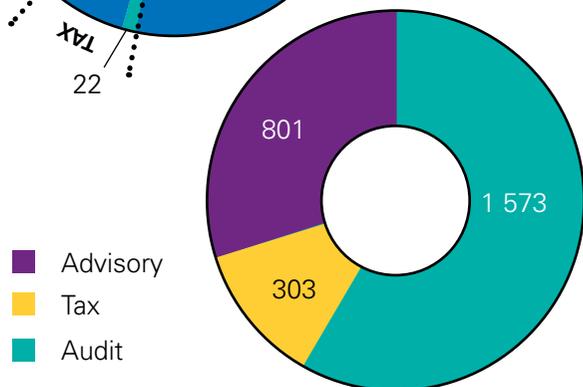
KPMG South Africa Overview

Number of People per Division



Revenue* Generated per Division (R millions)

* Extracted from financial records



OUR HISTORY

The origins of KPMG South Africa go back to 1895 and through organic growth and strategic mergers, we have grown into one of the largest Audit, Tax and Advisory firms in the region, offering a wide range of services to clients in the private and public sectors.

Serving the South African market for over

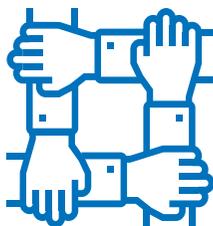
120 years



OUR PEOPLE

148 partners and 2 169 colleagues supported by an international network that comprises more than 207 000 people.

In a people-to-people business like KPMG South Africa, our partners and staff are our most valuable assets and need to be nurtured and developed in a high-performance environment. We are working hard to develop an inclusive culture for our people where they feel they are making a difference and are connected to a strong sense of purpose. In the face of all the pressures brought to bear by our recent past issues, our exceptional people have embraced the challenges and stood together to rebuild our firm to be a business that, ultimately, serves the public interest and of which they are proud to be a part.



148
partners

2 169
employees

Global network

152
countries



African footprint

30
practices

servicing 54 countries



OUR FOOTPRINT

- **A global network of firms that operate in 152 countries.**
- **An African footprint of 30 practices servicing 54 countries.**
- **A South African operating model with four regional hubs.**

Across the globe, the KPMG network of firms operate in the same geographies as our clients and we have people who understand the local marketplace wherever they are in the world. Our global network of member firms operating in 152 countries enhances the mobility of skills and knowledge we offer. Our African footprint has 30 practices servicing 54 countries. The South African business operates out of four hubs in Johannesburg, Cape Town, Durban and Port Elizabeth.

10 000+
KPMG alumni

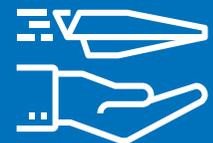
There are over 10 000 KPMG South Africa alumni who are business leaders in all sectors of the South African economy.

OUR TRANSFORMATION JOURNEY

We are proud to retain our BBBEE Level 1 Empowered Supplier status as per the Amended Codes of Good Practice, but recognise that there is still a way to go on our journey to becoming a fully transformed firm that is representative of the demographics of South Africa. We have set a good foundation and are committed to working hard to build an inclusive and diverse firm that can compete with greater success in the market.

Our focus remains on developing our black colleagues from a management control, professional expertise and ownership perspective, while also placing emphasis on procurement from black-owned businesses, particularly SMEs, aligned skills development and a commitment to enterprise and supplier development initiatives that lead to job creation.

BBBEE Level 1
Empowered Supplier
status, but aware that there
is still further to go on our
transformation journey.



Our clients expect KPMG to bring deep industry expertise to their issues, combining integrity with innovation and a determination to deliver results that matter.



OUR CLIENTS AND SERVICES

KPMG South Africa works with an incredible breadth of clients across different industry sectors, from new entrants to established businesses and across listed, private equity and public sector organisations. We recognise that no two clients and their challenges are ever exactly the same and that each client expects KPMG to bring deep industry expertise to their issues, combining integrity with innovation and a determination to deliver results that matter.

It starts with the exceptional people that we recruit and develop, and the focus we maintain on building their industry expertise, as well as their professional skills.

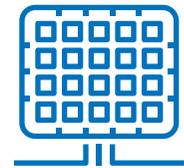
Our specialised sectoral approach to the market is critical to ensure a deep understanding of our clients' issues and to be relevant in the services that we provide. With each sector, supported on a global basis, we are able to provide thought leadership and experience on global industry issues that are increasingly agnostic of national boundaries. Furthermore, as technological disruption and convergence continue to blur traditional sector boundaries, we are able to derive significant insights from sharing what is happening with clients across different sectors.

We are delighted and proud when our clients tell us how highly they value the quality of our services and the insight their KPMG South Africa team brings.

OUR ENVIRONMENTAL MANAGEMENT INITIATIVES

In line with our Global Green Initiatives, KPMG South Africa maintains momentum in its environmental stewardship through new initiatives and constantly updated targets for renewable water and energy consumption.

5 154 sqm
of solar panels installed

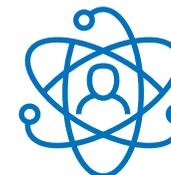


Water

Within our office buildings we currently recycle grey water, as well as rain water, which is used to flush rest-rooms and for the car-wash service offered to colleagues. We also make use of this recycled water and borehole water to irrigate the KPMG gardens.

Solar Energy

KPMG took the initiative in 2014 by installing solar panels on the roofs of our buildings. Currently there are 5 154 sqm of solar panels.



Over the last ten years, we have recruited and trained **over 2 500** chartered accountants, many of whom have received scholarships and bursaries.

IMPACTFUL SOCIAL INVESTMENT

Caring about, and contributing to, the communities in which we live and work is core to our commitment to serving the public interest — beyond delivering work to the highest ethical, professional and societal standards and expectations. We recognise that our own success is intertwined with operating within a sustainable environment and, therefore, seek to contribute to transforming our societies in a sustainable way by responsibly leveraging the social investments and resources of the firm, including skills, talents, infrastructure and networks. The **R47.8 million** Public Interest Funding allocated to Education and Anti-corruption initiatives, following our undertaking to donate the R47.8 million in fees KPMG South Africa received from work on Gupta-related entities, has provided us insights that will help shape our revised social investment focus as part of the long-term corporate citizenship strategy of the firm. Activities that leverage our skills and strengths as a business, such as *Pro Bono Services* and *Employee Volunteerism*, will continue to be our focus. The following table highlights some of the current initiatives through which KPMG South Africa makes a difference.

R47.8 million Public Interest Funding allocated to Education and Anti-corruption initiatives.

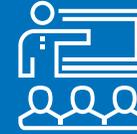
ANTI-CORRUPTION INITIATIVES

Funding was allocated to the following organisations promoting ethical leadership and accountable governance:



Democracy Works Foundation (DWF)

supporting its Democracy Works Academy, a youth leadership, civic education and dialogue programme to inspire, empower and connect a new generation of civic actors.



National Business Initiative (NBI)

will be conducting evidence-based ethical leadership training and capacity building for business.



The Social Justice Initiative (SJI)

will further distribute the funding to initiatives promoting accountable governance and fighting corruption.

EDUCATION INITIATIVES

A total of 51 organisations were selected for funding working in the following areas:

Early childhood development



Literacy



Cradle-to-career initiatives



Programmes tackling **systemic challenges** in the education ecosystem, and those that seek to enhance the **well-being** of the learner

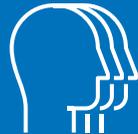


GENERAL CITIZENSHIP INITIATIVES

Each division within KPMG carries out specific Corporate Social Investment activities based on their identified strategies and priorities.



Employee Volunteering Policy



Supporting Inclusion and Diversity



Christmas Tree Drive



Caring for Girls



Disaster Relief Programmes



KPMG Winter Drive



Nelson Mandela Foundation

11 078 hours
R23.2 million cash / cash equivalent

LIFELONG LEARNING INITIATIVES

KPMG South Africa supports a number of lifelong learning initiatives in the education sector.



Young Managers Foundation

A foundation that conducts leadership programmes for youth from disadvantaged backgrounds.



Enactus

Brings together a community of students, academics and business leaders committed to transform lives and shape a better, more sustainable world.



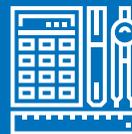
KPMG Family of Literacy

The collection and distribution of books to learners in the foundation phase (grades 2-3)



KPMG Spring School (annual initiative)

Providing relevant soft skills training to school teachers to enhance their teaching abilities.



Back to School

Donated stationary packs and non-perishable food items to around 400 learners

PRO BONO AUDITS AND SERVICES

Putting our skills to work through staff volunteerism and hours of *pro bono* professional engagement time and applying these to the communities around us, to help make positive changes in our societies.

Our Governance Model

In response to past events, governance at KPMG South Africa has evolved significantly. We have progressed from the traditional, self-governed partnership model for professional services firms to a corporatised model that embraces the principles of the King IV™ Report on Corporate Governance for South Africa 2016 (King IV™). We are still focused on our most pressing issues, including rebuilding trust and enhancing our focus on quality, sustainability and public interest, but we are committed to the principles enshrined in King IV™, and a robust application of King IV™ as a benchmark will be implemented and matured over time.

As noted in our Governance Report, our governance structures are aligned with key functional areas and issues, such as the formation of the Public Interest, Social & Ethics Committee and the Risk, Quality & Compliance Committee.

Our leadership has also been significantly enhanced in response to the events of the recent past. The appointment of an independent non-executive Chairman and director to the leadership team provided greater objectivity and fresh thinking. The appointment of a number of experienced KPMG partners from outside South Africa has enhanced the experience, knowledge and expertise of the KPMG SA leadership team. The appointment of an external candidate to perform the role of Chief Executive Officer reflects further investment in leadership talent at the firm.

While there is much more to be done in terms of dealing with past issues and implementing our new strategy and culture, we are satisfied with the good progress that has been made in a comparatively short space of time, and the foundation of robust governance structures and processes that are now in place to drive the future direction and accountability of the firm.

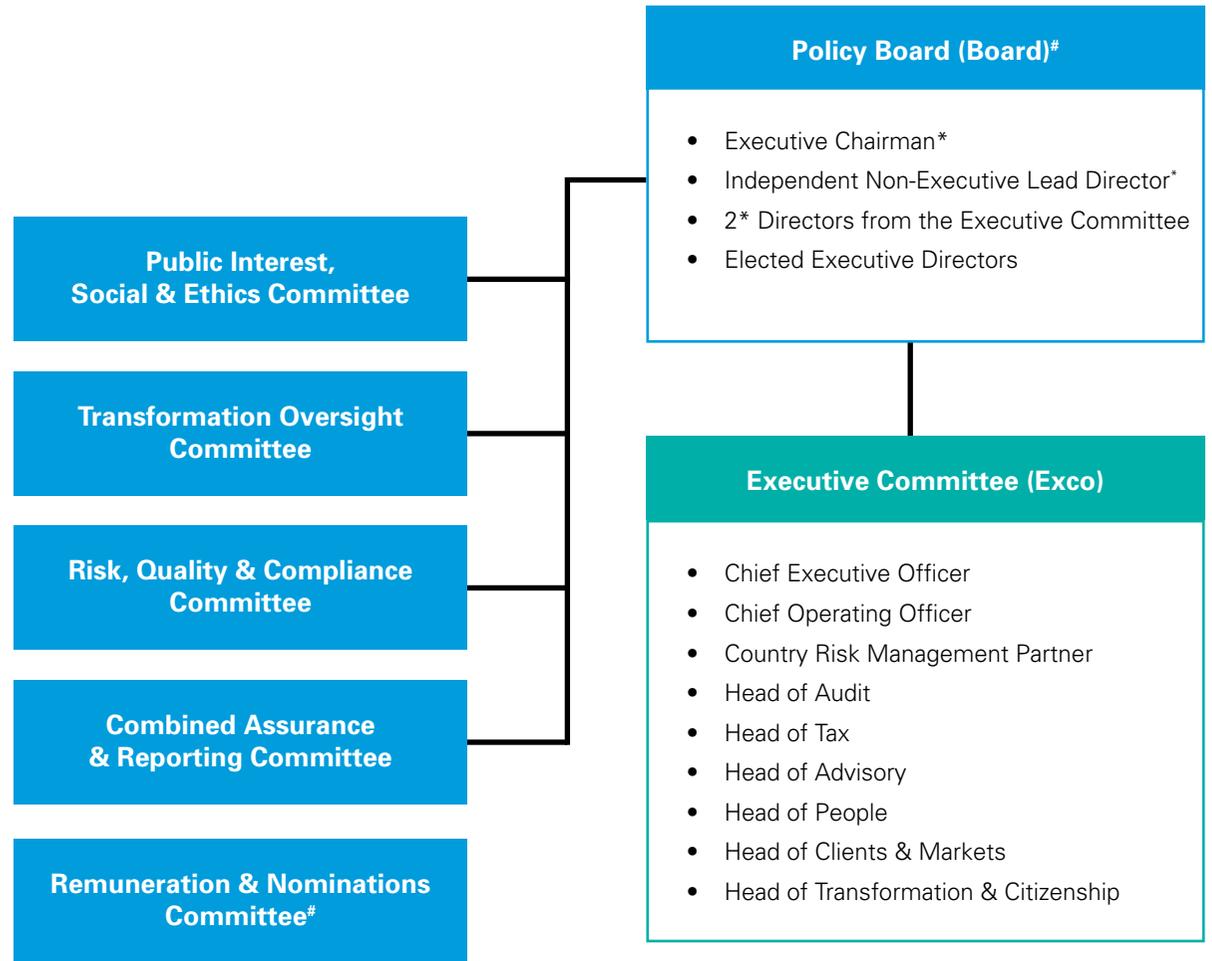


We have prepared a detailed [Governance Report](#) to provide our stakeholders with insight into our governance principles, structures, practices and outcomes. It forms part of this Annual Integrated Report and has been prepared in line with the disclosure requirements of King IV™, including the following topics:

- Ethical culture
- Responsible corporate citizenship
- Value creation and reporting
- Policy Board composition, structure and report back
- Governance functional areas including:
 - Risk management and opportunities
 - Technology and information
 - Regulatory compliance
 - Assurance
 - Stakeholder engagement and relationship management

KPMG South Africa operates through two entities: KPMG Incorporated out of which we deliver our audit services, and KPMG Services Proprietary Limited out of which we deliver our advisory and tax services. Both entities are incorporated under the South African Companies Act, 2008 and are owned by their shareholders, who are all the directors. Each director of KPMG Inc. is also a director of KPMG Services but only Registered Auditors are directors of KPMG Inc.

KPMG Incorporated and KPMG Services Proprietary Limited each has a Policy Board constituted in terms of their Memoranda of Incorporation. The Policy Board is a committee of the Board of Directors and all authority of the Board of Directors has been delegated, without abdicating responsibility, to the Policy Board. The Policy Board of both entities sits co-timeously as they comprise the same members and consider issues common to both entities. When matters arise that are specific to one entity, then the respective Policy Board of that entity will deliberate and decide on its particular matter and only the Policy Board members who are directors in respect of such entity will vote in respect of such matter. For ease of understanding, references to Board or Policy Board refer to the Policy Board of both entities.



The duties of the Remuneration & Nominations Committee were previously fulfilled by the entire Policy Board and will revert to a sub-committee in 2019

* Following the temporary designation of our Chairman to an executive position, we have appointed a Lead Independent Director, and only one other director from the Executive Committee sits on the Policy Board whilst we await the incoming CEO designate.

Our Remuneration Model

REMUNERATION PHILOSOPHY AND POLICY

During the year, we revisited our remuneration policies and models to align with global best practices, drive implementation of our strategy and, more importantly, to ensure that we adequately incentivise and create accountability around our public interest focus on quality, ethical behaviour and living our values.

Informed by our strategy and values, the remuneration model rewards performance that reflects an individual's contribution to medium and long-term value creation, as well as short-term or current year performance against his or her goals. We aim to pay market leading total reward when an individual's performance, along with the firm's performance, exceeds expectations.

Our partner remuneration model will comprise the following three elements:

Base pay	A fixed percentage, typically, 64% of total remuneration is a base salary.
Discretionary one-firm profit share award	A set percentage of total remuneration is dependent on the firm achieving its goals.
Discretionary individual performance award	An allocated percentage of total remuneration, based on relative in-year performance against balanced scorecard goals.

Total remuneration is determined individually, taking into account roles and responsibilities, experience, technical and specialist skills and leadership qualities against market values for such attributes.

Balanced scorecard goals are set against the following areas:



**Quality,
compliance and
public trust**



People



Clients



**Financial
performance**

A similar approach is applied to the management of colleague remuneration, including a one-firm-bonus element and an individual performance-related bonus, based on a balanced scorecard.

A performance management process ensures that goals and development plans are set each year, which include specific key performance indicators and targets. Partners and colleagues are allocated a performance manager to facilitate the quality completion of goal setting, and support through counselling and mentoring which is facilitated through our performance management system.

AVERAGE PARTNER EARNINGS

Average total earnings (before tax) for those partners in office at 30 September 2018 amounted to R3.7 million per annum. Average partner earnings for executive management as defined in King IV™ (Policy Board and Executive Committee members), excluding our independent non-executive lead director, Chairman and KPMG partners from outside South Africa, amounted to R4.3 million per annum. The differential pertains to the relative leadership attributes, responsibilities and experience of the executive management team.

GENDER AND RACE PARITY

Diversity is a critical component of our people value proposition, although we refrain from differentiating remuneration of individuals based on their gender or race.

We are passionate about creating an inclusive and collaborative culture where everyone is supported to reach their full potential and ensuring that they are appropriately rewarded for the contribution that they make. Our approach to promotion and progression focuses on ensuring that a diverse group of talent progresses through the firm; however, we recognise that the full impact of our approach will take time to show in our data. We have robust processes and monitoring in place to ensure that our people are treated and paid fairly, meeting both our legal and moral obligations. Our gender pay gap differentials across the categories we monitor are all 10% or less in favour of males or females. Our ethnicity pay gap differentials across 75% of the categories we monitor are 10% or less. The remaining 25% is within 10 to 14% and is the area of focus for our current remuneration review.

TERMINATION BENEFITS

There are no fixed term contracts or contractual termination benefits for partners who are required to serve a three-month notice period upon resignation. As part of our reshaping process during the year, regrettably, we had to retrench certain partners and colleagues. Retrenchment packages were paid in accordance with regulations, supplemented by an *ex-gratia* payment.

INDEPENDENT NON-EXECUTIVES

Our independent non-executive directors, including our interim executive Chairman, are paid a fixed director fee, based on their relative roles and responsibilities as directors, as determined by the Policy Board, taking market values into consideration.

Stakeholder Engagement

Effective engagement with our key stakeholders is essential to understand fully their expectations and concerns regarding us as a firm, specifically, as well as the accountancy profession in general. We need this understanding in order to establish credible trust levels, generate true shared value and remain relevant to those to whom we owe our existence.

While effective stakeholder engagement is important in the ordinary course of business, there is little doubt that our stakeholder engagement programme is now a critical aspect of our business. Historically, our stakeholder engagement approach has been largely focused on our clients and our people. Yet recent events have shown that we need to expand our approach and engage on an ongoing basis with a much wider community of stakeholders, including government, regulators, business associations and, most importantly, civil society, which lies at the heart of our public interest focus. Our social and operating licence depends on this.

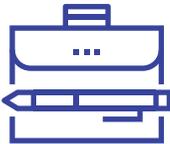
Regaining public trust will take time and continued significant effort. We need to continue to engage, reflect and take decisive action as a firm and a profession, if we are to live up to the expectations of society. The need to re-establish the role of the auditing and professional services sector is evident globally, while locally, the extent of corruption amidst a poor economy has inflamed public anger and frustration to unprecedented levels. The need for us to return to our core of professionalism and serving the public interest has never been more evident.

We have been through a painful time as a firm, and are acutely aware of the need to re-establish our reputation as an ethical professional services organisation that works with business, government and civil society to generate and sustain economic, environmental and societal shared value for all. This is an ambition to which we are fully committed.

We group our broad community of stakeholders into three principle categories: the business sector, our people and the public. The following table provides a concise overview of the expectations and issues raised by each of these groups during the year, together with our responses to their concerns.

Stakeholder Group	Stakeholder Profile	Methods of Engagement	Key Concerns and Expectations	Our Response
<p>Clients</p> 	<ul style="list-style-type: none"> • Current, previous & future • Audit, tax and advisory • Listed, private equity, multi-national and public sector 	<ul style="list-style-type: none"> • One-on-one meetings and engagement • Audit committee meetings and formal presentations • Update letters and external reports 	<ul style="list-style-type: none"> • Have we responded in a decisive manner to recent shortcomings? • Is there more bad news to come? • Have we implemented consequence management against transgressors? • Have we got the resources and a sustainable business model to continue servicing our clients in the short term? • Are we able to provide superior audit services and innovative advisory solutions to meet client needs? • How to manage association risk of continued relationship with KPMG South Africa? • Ability of KPMG South Africa to regain public and regulatory trust? 	<ul style="list-style-type: none"> • Intensive engagement programme, including direct engagement, regular updates and external reporting process (baseline report, integrated and transparency reports) • Intensive firm-appointed investigations and co-operation with external investigations to establish primary causes and commit to extensive remedial plans • Extensive, wider stakeholder engagement process to understand key stakeholder concerns and expectations fully and respond appropriately • Establish a robust business plan and strategy to ensure a sustainable and high-quality delivery platform • Cross-functional collaboration to provide superior solutions within regulatory frameworks • Technological innovation and sector expertise through global connectivity
<p>People</p> 	<ul style="list-style-type: none"> • Partners • Colleagues • Alumni • Graduates • Universities 	<ul style="list-style-type: none"> • Townhall meetings, people communications (e-mails, on-screen-pop-up messaging), business unit meetings • Culture, ethics and support workshops • Annual Global People Survey (GPS) • Counselling and career development/performance management programmes 	<ul style="list-style-type: none"> • Need for transparency and speed at which information is cascaded to employees • Assurance that issues have been dealt with fully and no more surprises • Job security, promising future and career plans • Strong leadership and clear strategy, with accountability, and aligned culture • Public interest and values-driven organisation • Remuneration and incentives/accountability aligned with market and strategic key performance indicators 	<ul style="list-style-type: none"> • More intensive culture, ethics and legacy issue workshops and engagements • Comprehensive remedial plans, together with culture alignment programmes • Establishment of a robust business plan and strategy to position for the future • Revitalised remuneration and incentive programme

Stakeholder Group	Stakeholder Profile	Methods of Engagement	Key Concerns and Expectations	Our Response
	<ul style="list-style-type: none"> Independent Regulatory Board for Auditors (IRBA) Institute of Internal Auditors (IIA SA) Johannesburg Stock Exchange (JSE) South African Institute of Chartered Accountants (SAICA) South African Reserve Bank (SARB) 	<ul style="list-style-type: none"> Formal investigations and inquiries Formal inspections and findings reports Enquiries and reporting Update letters and reports Meetings and presentations External reports 	<ul style="list-style-type: none"> Ability to deliver constantly high-quality audits, compliant with standards and regulations Upholding of professional standards, including independence and ethical behaviour Compliance with regulatory requirements (e.g. Banks Act on appointment of auditors for banks, accreditation of JSE-listed auditors) Market concentration within the auditing and auxiliary professional services sector Advancing transformation within South African context 	<ul style="list-style-type: none"> Participation and co-operation with investigations, inquiries and inspections Thorough investigations, primary cause analysis and remedial strategies & plans Leadership and governance reforms, together with quality and risk management reforms Strengthened ethics, culture and people programmes Transformation and diversity programmes Commitment to transparency and accountability in external reporting
	<ul style="list-style-type: none"> Auditor General of South Africa (AGSA) Ministry of Finance Ministry of Public Enterprises South African Revenue Services (SARS) Parliament 	<ul style="list-style-type: none"> Standing Committee On Public Accounts (SCOPA) appearances Meetings and presentations 	<ul style="list-style-type: none"> Concerns regarding upholding of professional standards and ethics in nature and quality of work undertaken for Guptas, SARS and VBS Mutual Bank Determining if there was a lapse in risk management and practice disciplines, bringing into question quality of audit performed on behalf of Auditor General's office Achieving transformation targets 	

Stakeholder Group	Stakeholder Profile	Methods of Engagement	Key Concerns and Expectations	Our Response
 <p>Business Associations</p>	<ul style="list-style-type: none"> • Business Unity South Africa (BUSA) • Business Leadership South Africa (BLSA) • Black Management Forum (BMF) • Banking Association South Africa (BASA) • Association for the Advancement of Black Accountants of Southern Africa (ABASA) • African Woman Chartered Accountants (AWCA) • Institute of Directors SA (IoDSA) • Institutional investors 	<ul style="list-style-type: none"> • Meetings and presentations • Update letters and reports • External reporting 	<ul style="list-style-type: none"> • Is KPMG adopting a zero tolerance approach to corruption? • Ability to deliver constantly high-quality audits, compliant with standards and regulations • Upholding of professional standards, including independence and ethical behaviour • Advancing transformation within South African context • Commitment to true ethical reform • Sharing lessons learnt with wider business community 	<ul style="list-style-type: none"> • Leadership and governance reforms, together with quality and risk management reforms • Strengthened ethics, culture and people programmes • Transformation and diversity programmes • Commitment to transparency and accountability in external reporting
 <p>Civil Society</p>	<ul style="list-style-type: none"> • Social justice • Anti-corruption • Education • Faith-based communities • Political analysts • Media • General public 	<ul style="list-style-type: none"> • Civil Society Breakfast dialogue session • Direct engagement with interested organisations • Press releases • Interviews • External communications 	<ul style="list-style-type: none"> • Recognise our public interest responsibilities with regards to South African society • Tangible cultural shift is required at every level of the organisation • Commitment to true ethical reform 	<ul style="list-style-type: none"> • Expanded engagement programme with civil society organisations and leaders • Strategy aligned with serving in the public interest, ethics and quality focus • Corporate citizenship programmes aligned with critical needs of society in anti-corruption and educational initiatives • Commitment to transparency and accountability in external reporting


 The governance oversight and processes around stakeholder engagement is set out in our [Governance Report](#) – Stakeholder engagement and relationship management (refer to page xvii).

Our Material Risks and Opportunities

MATERIAL MATTERS DETERMINATION PROCESS

The environment in which we operate is dynamic and constantly changing. Global and local conditions have been incredibly volatile over the last decade. Technological disruption and radical geopolitical, social and economic shifts have combined to create a volatile, risky, but opportunistic operating environment for all. Our adaptive strategy reflects this reality.

Being ‘plugged in’, both globally and locally, is vital to our ability to anticipate trends that present risks and opportunities to us as a firm and a profession. In order to stay ‘plugged in’, we need to devote time and attention to planning scenarios and monitoring the global and local landscapes, engaging with and understanding our stakeholder perspectives, and appreciating the impact of the risk and opportunity landscape on our operations.

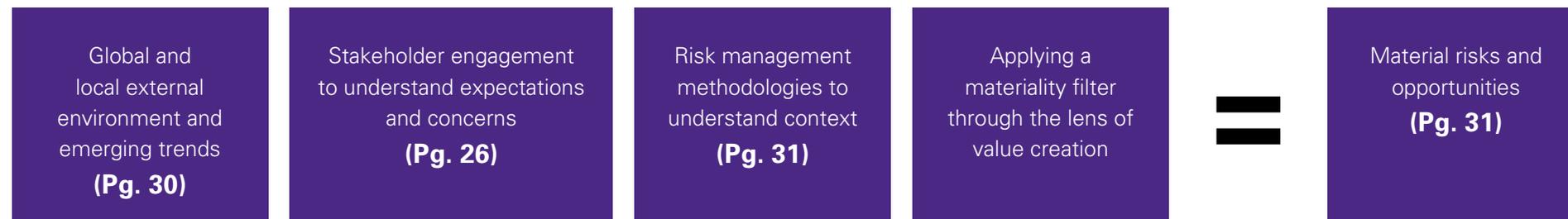
All of these activities need to be appreciated in our current context. We have never been more acutely aware of the need to restore public trust and be seen as an organisation that truly serves the public interest — a firm that is committed to generating shared societal value for all of our stakeholders and the environment.

We define our material risks and opportunities as matters that can substantively affect the ability of our firm to create value over the short, medium and long term. Our material issues determination process is summarised as follows:



We have profiled the six key trends (listed below) that are particularly relevant to our context and the way we conduct our business in the supplemental section, ‘Our Operating Environment and Key Emerging Trends’. [Click here](#) to open the supplement and read our discussion of the trends and developments in these six key areas:

- Trust
- Technology
- Talent Management
- Regulatory
- Geopolitical
- Social



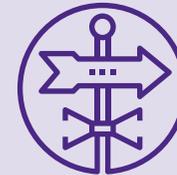
OUR MOST MATERIAL RISKS AND OPPORTUNITIES LINKED TO STRATEGIC RESPONSE

Following consideration of our operating environment, our current operating context, stakeholder engagement and our risk management processes, we undertook a series of workshops in the current period to achieve a consensus view on our most material matters.

The following table outlines the top ten strategic business risks and opportunities we face currently, our ongoing goals in relation to mitigating the risks or capitalising on opportunities, together with our strategic response to each, which is further explained in our purpose, strategy and culture section on page 35 of this report.

Our enterprise risk management process (refer to [Governance Report](#) page xv) has assessed the inherent and residual risk pertaining to each material matter, taking into account the mitigating actions that are in place. In many instances, the management of certain residual risks to within acceptable tolerance levels will take sustained effort and time.

Our Strategic Responses



Leadership and Governance



Culture and Transformation



Benchmark for Integrity and Quality



Retain and Grow our Client Base



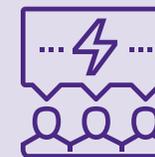
Engage and Empower our People



Get Operational Basics Right



Leverage Global Innovation and Investment



Work Collaboratively to Integrate Southern Africa

Our strategic responses are set out and explained on page 35 and have been presented graphically above to demonstrate the linkage between our strategy and the material risks and opportunities that follow.

Risk/opportunity	Risk mitigation and opportunity management	Link to our strategic response <i>(refer page 35 for further explanation)</i>
<p>Public trust, reputation & social license to operate</p>	<ul style="list-style-type: none"> Ensuring that our behaviour fully acknowledges the public interest nature of our work and rebuilds public trust. Understanding the social and political context in which we operate so as not to be perceived as naïve, detached or arrogant. Ensuring that we have, and are seen to have, the right governance and accountability models in place. Contributing to restoring the reputation of the Chartered Accountancy and Auditing profession as guardians of ethics, transparency and accountability. 	<p>Leadership and Governance Culture and Transformation Be the benchmark for quality and integrity</p>
<p>Transformation</p>	<ul style="list-style-type: none"> Continuing to contribute to the transformation of the accounting, advisory, tax and auditing profession in South Africa, in terms of qualified professionals, management control and ownership of KPMG South Africa and professional firms. Playing a meaningful and impactful role in the transformation of the South African social and economic universe. 	<p>Culture and Transformation Engage and empower our people</p>
<p>Audit failures, litigation and/or regulatory investigation</p>	<ul style="list-style-type: none"> Performing audits of high quality and in accordance with applicable standards. Effectively managing litigation, regulatory investigations and any other matters which could impact the reputation and stability of the firm. Creating an environment which promotes and supports quality audits, including board and sub-committee level oversight with robust quality control processes and structures aligned with global standards. 	<p>Culture and Transformation Be the benchmark for quality and integrity</p>
<p>Ability to attract and retain required skills and align culture and behaviours with our values</p>	<ul style="list-style-type: none"> Ensuring that our remuneration remains competitive and that we continue to provide clear career development opportunities and job security. Maintaining a sense of belonging during the challenges the firm currently faces. Replenishing the morale and motivation of our people beyond the current challenges the firm faces and enabling a culture centred around public interest and quality in everything we do. 	<p>Leadership and Governance Culture and Transformation Engage and empower our people</p>

Risk/opportunity	Risk mitigation and opportunity management	Link to our strategic response <i>(refer page 35 for further explanation)</i>
Embracing and responding to new trends and technologies	<ul style="list-style-type: none"> Being able to anticipate, respond to, and capitalise on disruptive and innovative technologies for ourselves and our clients across all sectors (e.g. robotics, internet of things, data & analytics, artificial intelligence, block chain, automation and social media enablement). Matching skills and solutions quickly and effectively to growth areas. 	 <p>Retain and grow our client base Get operational basics right Leverage global innovation and investment</p>
Proactive regulatory engagement	<ul style="list-style-type: none"> Managing, and remaining responsive to, the regulations that impact our business model, including mandatory audit firm rotation, restrictions on non-audit services and independence regulations. Ensuring sound relationships and constructive engagement with audit and other regulators, and responding actively and appropriately to regulatory input. 	 <p>Leadership and Governance Be the benchmark for quality and integrity</p>
Appropriate clients and services	<ul style="list-style-type: none"> Accepting and retaining only those clients that are consistent with our brand values. Delivering services that are, and are perceived to be, legal, ethical and in compliance with professional standards and our core competencies. Being aware of the socio-political landscape when undertaking work in the public and private sectors to ensure that the public interest is always being served. 	 <p>Culture and Transformation Be the benchmark for quality and integrity Retain and grow our client base</p>
Data protection	<ul style="list-style-type: none"> Protecting client confidential and/or personal data from cyber-attack or failures of internal controls. 	 <p>Be the benchmark for quality and integrity Get operational basics right</p>

Risk/opportunity	Risk mitigation and opportunity management	Link to our strategic response <i>(refer page 35 for further explanation)</i>
Economic growth and stable government	<ul style="list-style-type: none"> • Growing professional leaders who can contribute to the economy and society of our country through the provision of education, employment, service delivery, poverty eradication, reduction in crime and corruption, leadership, governance and the upliftment of human dignity. • Focusing the firm on serving business and society and playing a key role in helping to create a positive future for South Africa and the accounting profession. 	 <p>Leadership and Governance Culture and Transformation</p>
Focused execution and change management	<ul style="list-style-type: none"> • Having a business model that is agile enough to adapt to external and internal influences. • Executing our strategy against our business plan and objectives in a period of rapid change. • Ensuring sufficient resources for strategy execution and effective change management. • Communicating and engaging with relevant stakeholders regarding our strategic plan. 	 <p>Leadership and Governance Get operational basics right</p>

 The governance oversight and processes around risk management are set out in our [Governance Report](#) – Risk management and opportunities, Regulatory compliance & Assurance (refer to pages xv - xvii).

Our Purpose, Strategy and Culture

STRATEGY DEVELOPMENT

Given recent events impacting the firm, there was considerable focus on managing a number of 'business unusual' activities to stabilise the firm. These included appointing a new leadership team, revitalising governance structures, performing intensive investigations and primary cause analyses, devising remedial plans and reshaping the organisation.

We acknowledge that regaining public trust will take time and we are committed to continued, intensive efforts. With the initial stabilisation of the firm achieved, and having drawn a line under the legacy period, the need to develop a compelling strategy and business plan to take the new KPMG South Africa into the future arose. This led to the development of our 'Vision 2023' strategy, which is described in further detail in the following section, together with the business plan that will provide the resources to deliver and execute the strategy.

'Vision 2023' describes KPMG South Africa as a firm that has public interest at its centre and seeks to achieve four primary objectives:

- Demonstrating the highest level of integrity;
- Achieving the highest level of quality;
- Becoming a genuinely transformed South African firm; and
- Being relevant to our market (delivering dynamic solutions as a fully integrated and agile multi-disciplinary firm).

The need to rebuild a new KPMG South Africa as a sustainable and realistically sized business (relative to current levels of demand for our services) made it necessary to reshape the firm. Regrettably, this required closing our smaller regional offices, refocusing our advisory business, scaling down our internal business support and, ultimately reducing our team by approximately 400 people. Whilst this was clearly a difficult decision, it has rendered a leaner, yet stronger and more focused business and provided a solid foundation for future growth.

Similarly, there was a need to revitalise and invigorate our leadership through the introduction of independent non-executive directors, the recent nomination of our new CEO designate from outside the firm and a number of appointments of KPMG partners from elsewhere in the network.

The sustainability of the firm has also been established through the development of a detailed, business plan that ensures we have the resources to deliver on our strategy, including the utilisation of specialist resources from our global network where necessary.

The outcomes of the stabilisation and reshaping phase, together with our 'Vision 2023' plan, are:

- A firm that is acutely sensitive to the issues facing the profession and fully committed to acting in the public interest, with integrity and quality at the heart of everything it does.
- A locally aware firm that is committed to playing a key role in delivering a positive future for South Africa.
- A smaller, more agile firm that is focused on growing in our core competencies.
- A more globally connected firm, with international specialist resources in-country.
- A revitalised and focused leadership, with independent oversight and specialist skills.
- A firm that is a great place to build a career.
- A firm that is positioned for growth and aiming to become the benchmark for professionalism in our industry.

OUR STRATEGY

Our strategy sets out what we are aiming to achieve and how we are working to achieve our purpose, vision and goals.

Our Global Purpose
Inspire Confidence and Empower Change

Our Global Vision
Be the Clear Choice

Our Global Strategic Pillars



OUR CULTURE AND VALUES

Recognising that the right culture is key to the successful implementation of our strategy, we initiated an intensive culture change programme during the year. A number of remediation actions have been taken to ensure that the mistakes from the past are not repeated; however, the key enabler of long-lasting, sustainable change will be the way that each of us behaves every day. During the second half of 2018, 700 of our colleagues attended 36 culture engagement sessions where we discussed what it is like to work at KPMG now and how we would like this to evolve in the future. The engagement sessions were designed to identify barriers to, and enablers of, our desired ethical culture — a culture centered around public interest and quality in everything we do. It is anticipated that much of the culture change required will be driven by the ‘tone at the top’, more transparent communication, a strategic focus on integrity, trust and quality, aligned reward and sanction programmes, and by creating an environment in which people are encouraged to speak up. The focus in 2019 will be on moving to inculcate our desired culture and behaviours throughout the organisation decisively.



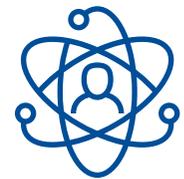
Seek the facts and provide insight



Lead by example



Communicate openly and honestly



Respect the individual



Committed to our communities



Act with integrity



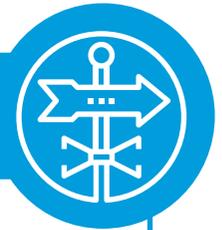
Work together

Our Performance and Outlook

We have identified eight strategic focus areas. Each has a set of clear priorities and key performance indicators (KPIs).

As our strategy has only recently been revitalised and aligned, the performance analysis that follows is limited to describing current performance metrics, progress and challenges during the reporting period and priorities going forward. We intend to report on more extensive KPIs and trends in performance over time in future reports.

LEADERSHIP AND GOVERNANCE



OBJECTIVE

- 'Fit for purpose' governance and leadership structures and resources.
- Strong, appropriate 'tone at the top', with focus on execution of strategy and accountability.

CURRENT YEAR ACHIEVEMENTS & MILESTONES

- Substantially aligned governance structures and processes with King IV™ recommendations.
- Nominated external CEO and strengthened leadership team with external appointments.
- Appointed independent non-executive directors.

(Refer to Governance Report)



LOOKING FORWARD

- Continued development of governance model and processes.
- Focus on 'tone at the top' and strategy execution accountability through KPI management.
- Enhanced communication processes and brand rebuilding.

CULTURE AND TRANSFORMATION



OBJECTIVE

- Culture of accountability in terms of quality, ethics and serving the public interest.
- Inclusive and transformed firm that reflects the demographics and diversity of South Africa.

CURRENT YEAR ACHIEVEMENTS & MILESTONES

- BBBEE Level 1 maintained in latest rating ([refer to Governance Report - Transformation oversight committee](#)).
- Culture assessment and engagement programmes ([refer to Our Culture and Values](#)).
- ‘Tone at the top’ and alignment of partner remuneration incentives to quality and behaviours ([refer to Our Remuneration Model](#)).



LOOKING FORWARD

- Implement transformation and inclusion strategy.
- Implementation of recommendations resulting from culture engagement workshops programme.
- Revitalised communication strategy including the establishment of a Colleague Forum to encourage more open two way communication across the firm.

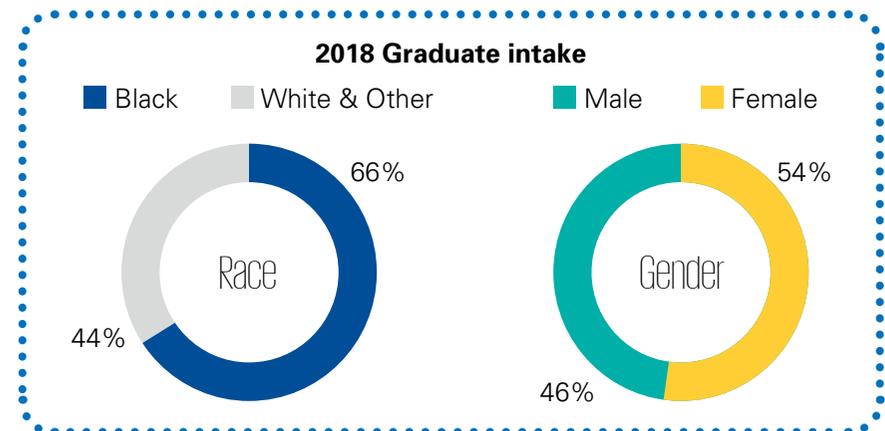
Transformation scorecard

Elements	Target score	KPMG	*Peer avg. score
Ownership	25	25	24.6
Black Ownership Percentage	51%	32.6%	34.8%
Management Control	19	14.8	12.2
Skills Development	20	23.2	19.2
Enterprise and Supplier Development	40	36.2	39.9
Socio-Economic Development	5	5	5
Total	109	104.1	101.0
B-BBEE Level	1	1	1*

* Deloitte, EY and PWC as at 25 February 2019

People Demographics

	Black	White	Other	Male	Female
Partners	42	101	5	101	47
Colleagues	1 293	816	60	886	1 283
Total	1 335	917	65	987	1 330



TO BE THE BENCHMARK FOR QUALITY AND INTEGRITY



OBJECTIVE

- Set the standard for the profession in terms of integrity and quality.
- Embed ethical decision making and behaviours.
- Close co-operation and continuous engagement with regulators.

CURRENT YEAR ACHIEVEMENTS & MILESTONES

- Formation of Audit & Assurance Quality Council and independently chaired Risk, Quality and Compliance committee to focus on audit quality initiatives (refer Audit Quality report back)
- Implementation of risk and quality interventions and developments (refer to Audit Quality report back, Advisory Quality report back, Tax Quality report back & [Acknowledging and Addressing our past issues](#)).
- Audit quality interventions and process enhancements (refer to Audit Quality report back & [Acknowledging and Addressing our Past Issues](#)).
- Establishing Ethics Office and processes ([refer to Governance Report – Ethical culture](#)).



LOOKING FORWARD

- Continued co-operation with ongoing investigations and inquiries.
- Complete implementation of remedial and turnaround actions.
- Readmission by key stakeholders.
- Improved professional relationship with regulators.



Audit Quality report back

The following supplementary click-down document provides some insight into the Audit quality initiatives and processes in place at the firm



Advisory Quality report back

The following supplementary click-down document provides some insight into the Advisory quality initiatives and processes in place at the firm



Tax and Legal Quality report back

The following supplementary click-down document provides some insight into the Tax and Legal quality initiatives and processes in place at the firm

TO RETAIN AND GROW OUR CLIENT BASE



OBJECTIVE

- Client-centricity, with a 'public interest' lens.
- Multi-disciplinary collaboration within regulatory frameworks.
- Technological innovation and sector expertise through global connectivity.
- Growth of clients in Mandatory Audit Firm Rotation environment.

CURRENT YEAR ACHIEVEMENTS & MILESTONES

- Intensive engagement programmes with clients.
- Retention of majority of client base and key client re-appointments.
- Revitalised role of client services team.

LOOKING FORWARD

- Client and market communication, engagement and branding programmes.
- Drive lead partner, priority account and sector programmes.
- Enhanced pursuits capability.

TO ENGAGE AND EMPOWER OUR PEOPLE



OBJECTIVE

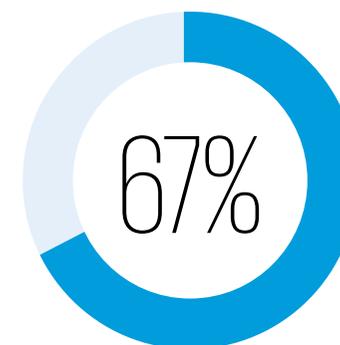
- Attract, motivate and retain key talent.
- Develop pipeline of inclusive leaders who will contribute to our public interest objectives.
- Embrace diversity, transformation and inclusion.

CURRENT YEAR ACHIEVEMENTS & MILESTONES

- Intensive engagement with colleagues (refer to [Our Culture and Values](#)).
- Introduction of new remuneration philosophy and improved alignment of salaries to market norms (refer to [Our Remuneration Model](#)).
- Redesigned performance development process (refer to [Our Remuneration Model](#)).

'Employee engagement' describes the extent to which our people are motivated to contribute to organisational success and are willing to apply the discretionary effort needed to achieve our goals. To measure employee engagement we administer an annual Global People Survey (GPS). The GPS measures 16 categories and each category comprises a series of items which our colleagues respond to on a 5-point rating scale. The employee engagement index is one of these categories.

2018 Global People Survey employee engagement index for KPMG SA:



To Engage and Empower Our People cont.

In 2018, we updated our engagement index to include a broader set of metrics that better reflect what our people find important in today’s world of work. Our new engagement index now includes energy and enablement related items to ensure a more robust predictor of business performance (see below). Our engagement index is a percentage score made up of a combination of items covering a broader view of engagement. These items fit within the following domains:

- **Engaged** - Rational, emotional and behavioural attachment to the company
- **Enabled** - A local work environment that supports productivity and performance
- **Energised** - Individual physical, interpersonal and emotional well-being at work

The questions across the evolved engagement index are more relevant to our Global Talent Strategy and People agenda enabling better monitoring and measurement of success. More specifically, the evolved index is better aligned to People Experience through incorporating the measurement of ‘Enablement’. In addition to our engagement index, we will track and report on a number of specific items in the following strategic areas in future people surveys. Our targets in these areas have been set using a global methodology that is used across the network:

- Leadership and governance
- Culture and transformation
- Quality and integrity

Retention

Over the year, the headcount of the firm has reduced from 3 298 to 2 317. This has been a result of generally higher levels of attrition, given the events of the last year, but also the deliberate action taken by the firm, and announced publicly last June, to reshape our business in line with current levels of market permission. During the year, the firm has also recruited almost 500 new professionals to ensure we are appropriately resourced with the necessary specialist skills to serve our clients.

Development

	2018 (Training hours)	2017 (Training hours)
Partners	9 137	7 677
Professional colleagues	175 598	130 121
Support colleagues	1 607	491
Infrastructure colleagues	4 994	5 162

2018 SAICA Pass Rate



LOOKING FORWARD

- People engagement strategy enhancement, including introduction of quarterly pulse surveys to assess levels of engagement more regularly (currently annual).
- Launch of new top talent strategy.
- Implement revised remuneration incentive and benefits programme.
- Introduction of People Leader model to strengthen line management capability across the firm.

TO GET THE OPERATIONAL BASICS RIGHT



OBJECTIVE

- Implement a world-class infrastructure and support operation.
- Sustainable, profitable growth and financial performance.

CURRENT YEAR ACHIEVEMENTS & MILESTONES

- Firm reshaping implemented and 5-year business plan in place.
- Implemented ERP systems integration upgrade (Refer to Governance Report - Technology and information).
- Further centralisation and streamlining of support services.



LOOKING FORWARD

- Improved reporting and monitoring, core operational systems and procurement.
- Increase profit per partner and working capital ratios.
- Right-size infrastructure to operations.

TO WORK COLLABORATIVELY TO INTEGRATE SOUTHERN AFRICA



OBJECTIVE

- An integrated Southern Africa practice.

CURRENT YEAR ACHIEVEMENTS & MILESTONES

- Regional support and co-ordinated market activities.

KPMG Southern Africa comprises eight countries, including separate practices in South Africa, Namibia, Botswana, Zambia and Swaziland that are managed in aggregate, and independent practices under licence to South Africa in Zimbabwe, Mozambique and Mauritius.

We are progressively moving towards integration of the Southern Africa region towards centralised strategic leadership, go to market initiatives, mobility of resources and shared services.

LOOKING FORWARD

- Design an integrated legal and governance structure for all the Southern Africa practices.
- Develop centralised strategic leadership, go to market initiatives, mobility of resources and shared services.



TO LEVERAGE GLOBAL INNOVATION AND INVESTMENT

OBJECTIVE

- Support and provide solutions for our clients’ digital and technology transformation journeys.
- Leverage innovative and relevant technology in our solutions.

CURRENT YEAR ACHIEVEMENTS & MILESTONES

- KPMG Global business and technology-based solutions research and development¹.
- Continued data and analytics drive and cyber capability development.
- Audit automation and collaboration tools roll out.
- KPMG Clara is being piloted during 2019 and rolled out in 2020².

(Refer to Governance Report – Technology and information)



LOOKING FORWARD

- Leverage global investment in solutions and access to specialists.
- Deploy innovative business and technology-based solutions and support services into Southern African market.

¹ KPMG is helping clients respond and digitally transform their businesses to navigate the relentless waves of change, to create more future-ready business and operating models. Our teams bring deep insights across critical sector, functional and regulatory areas, combined with leading-edge innovation to deliver trusted solutions that provide greater value to our clients.

This focus is underpinned by the largest investment programme in our history. In the coming years the KPMG network of firms globally will invest more than US\$4 billion to develop and build new business and technology-based solutions, to hire new tech talent and to radically change our delivery networks in order to provide higher-value insight and solutions to our clients. These interventions will be designed to help our clients connect, power and protect their business for the future. Working with clients on their digital transformation journey goes beyond technology; proven methods and experience as well as industry expertise and a global mindset are equally important to drive change that delivers true value.

² Our KPMG Clara smart audit platform is being deployed globally to enable enhanced client engagement, real-time communication, advanced insights through faster access to data and greater transparency into the audit process. KPMG Clara enables us to incorporate new technologies, such as artificial intelligence, predictive analytics, machine learning and cognitive technologies - as they emerge and mature.

2018 KPMG Global Review

OUTLOOK AND WHEN WE REPORT AGAIN

Our focus going forward is to continue relentlessly with the stabilisation and renewal process we have started in order to provide a solid foundation upon which to rebuild and grow the firm. Much work remains in continuing to participate and co-operate in all inquiries and investigations and, most importantly, complete and embed all remediation initiatives to be able to demonstrate clearly improvements and change.

We will continue to engage intensively with all of our stakeholders to rebuild trust and demonstrate our commitment to working in the public interest through our quality and integrity focus. Part of this is our continued commitment to transparency through our public reporting and communications to enable our stakeholders to assess whether we remain accountable and on track.

Most importantly, we need to execute and deliver against our strategy and be able to demonstrate that we are implementing the changes to which we have committed and that we are moving towards becoming a firm that truly has public interest and professionalism at the heart of everything it does. As we rebuild the firm, we will seize the opportunity to differentiate ourselves through transformation and agility to market developments and needs. We, ultimately, want to grow the firm and play a key role in helping to create a positive future for South Africa and the accounting profession, with public interest, quality and integrity at the centre of everything we do. In doing this, we will continue to develop our leadership and governance capability and processes to meet the demands of a professional services firm and inculcate a culture that drives this.

When we report again, we are confident that we will be able to demonstrate the outcomes and improvements brought about by the changes we have made in the firm. As we develop our reporting and monitoring processes, we will supplement our Integrated Report with an Audit Quality Transparency Report that will focus on our audit quality initiatives and performance.

FEEDBACK AND SUGGESTIONS

Your feedback, comments and suggestions are important to us in order to ensure that we are meeting your reporting and disclosure expectations. This is our first Integrated Report and we welcome your feedback. Your suggestions will help us to improve our future reports. Please contact me directly on +27 (0) 11 647 7111 or at mark.hoffman@kpmg.co.za



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