



Our relentless focus on quality

KPMG South Africa Transparency Report

1 October 2019 – 30 September 2020

Issued 8 March 2021

KPMG Values

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

Our Values are:

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

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

Quality remains our top priority

We are delighted to share our second KPMG South Africa (KPMG SA) Transparency Report for our financial year ended 30 September 2020. As a firm we were humbled by the reaction to our first report published in January 2020, which received acknowledgement from regulatory bodies including SAICA who also hailed it as a significant step towards regaining trust in the auditing profession.

We are still on our journey of rebuilding trust and continue to position the public interest at the core of our business. The firm continues to roll out its 'Welcome to Tomorrow' strategy and is closely monitoring the scorecard that covers four priority areas with public trust still at the top, followed by clients, people and financial. All these have recorded significant highlights for this financial year.

This report specifically focuses on audit quality and is intended to be read in conjunction with our Integrated Report, which provides further detail on KPMG SA overall and will be released in March 2021.

This report provides details of our Audit Quality Plan initiatives. We are also proud of our involvement in the South African Audit Profession Trust Initiative (SAAPTI) where we proactively share our experiences and thoughts on the improvements required across the audit profession.

During this year, as a firm we have had to adapt to a new and changing world because of the impact of COVID-19. Our response to the pandemic

was to prioritise the safety of our people and clients, while ensuring that we continue to relentlessly drive the standard of audit quality when performing audits under remote working conditions for us and our clients. The pandemic required that we achieve our audit quality objectives in different ways and we are humbled by the passion, innovation and sense of purpose that our people brought to the performance of our audits to ensure that the audit quality remained a priority while meeting the rigorous demands of the capital markets. We worked closely with the profession, regulators and industry bodies to build the COVID-19 response guidance required by all stakeholders in the financial reporting value chain. The production of this guidance in record time is to be commended as a valuable example of how the profession in South Africa works together to get the right things done.

As we strive to become the most Trusted and Trustworthy professional services firm, this report forms part of our commitment to transparency and shares key information on our audit practice and our audit quality initiatives and outcomes.

We are proud of the market first policy position that we announced where we will cease to provide non-audit-related services to our listed audit clients. The provision of non-audit-related services to our audit clients, while technically permissible under current laws, regulations and International Federation of Accountants (IFAC) principles, understandably creates challenges in the public perception of auditor independence. The objective

of such a move is to help restore trust in the profession, as it removes any perception of conflicts of interest with our audit work for listed entities. As a business that has reimagined the future of what good corporate governance for an audit firm should be, KPMG SA is the first firm in the country to take this voluntary step forward .

We would also like to take this opportunity to thank Duncan McLennan, The Chair of Audit, (a partner from another KPMG member firm), who jointly managed the Audit Function with the Audit Chief Operating Officer (COO) and the Head of Audit Quality until a new Head of Audit, Devon Duffield was appointed with effect from 1 October 2020.



Ignatius Schoole
*Chief Executive Officer
KPMG South Africa*



Devon Duffield
*Head of Audit
KPMG South Africa*

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

We define “audit quality” as the outcome when audits are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls.

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

Introduction

Audit is the cornerstone of the KPMG brand – it is who we have always been – and it is our business of highest calling in serving the public interest and capital markets alike.

At KPMG SA, we truly understand the privilege and responsibility entrusted to us in serving the markets as auditors.

A clear ambition, values and priorities

KPMG has set a clear ambition of being the most Trusted and Trustworthy professional services firm in the market. Everything we do and everything we are is shaped by that ambition, and executed by every single professional through our values, priorities and a mantra of “I OWN IT”.

Audit Priorities



1 Ambition

To be the most Trusted and Trustworthy



4 Priorities

*Quality
Operational Excellence
Trust
Growth*



5 Values

*Integrity
Excellence
Courage
Together
For Better*

1

+

4

+

5

=

I own it!

Put simply, audit has 1 ambition, 4 priorities, 5 values – and the equation only works if every single person owns the embodiment and execution of each these elements of who we are and what we do.

Trust – the oxygen that gives life to our economy

The audit profession exists to serve all those stakeholders who rely upon the work we do. But the audit profession can ONLY serve well if it earns and retains the public trust in our ability to do that work with integrity and to the highest quality. We have lived the experience of having the public question whether we are Trustworthy – and we are doing and will continue to do everything necessary to never be in that position again.

In short – the audit profession plays a critical role in whether or not there is trust in our economic and market system and in our country. As a firm, we invest heavily in driving and living this message – from the top, in our conversations and in everything we do. We have been so humbled to see the way in which our clients, the market, our people and even future generations of auditors have responded to what the firm has done to formally recognise and honour this higher calling. This makes KPMG SA a special place to be for our current and future generations of auditors – a place with clear purpose and ambition – and a clear set of refreshed values to guide our behaviour and decisions. Integrity. Excellence. Courage. Together. For Better. This is who we are, and what you can expect from us.

Audit Quality – the fuel that drives Trust in the audit profession

For the audit business, the single most important driver in earning and maintaining Public Trust is Audit Quality. Audit Quality is the ultimate measure of whether the firm is delivering audits that fully meet the standards of auditing set for the audit profession. Audit regulators around the world, including the Independent Regulatory Board for Auditors (IRBA), have been calling on the audit profession to make a marked difference in achieving Audit Quality – and at KPMG SA – we acknowledge and accept this challenge!

Driving audit quality has been a key area of focus over the last three years. Since 2018, the firm has dealt with this with a focus that is unprecedented in our history.

Our previous Integrated and Transparency Reports have set out the details of our Audit Quality Plan, and we provide a full update on our Audit Quality initiatives in the chapters to follow.

The firm has also been through unprecedented levels of quality checking, performed to the highest levels, with internal audit quality checking performed by entirely independent international reviewers.

While the commitment to Audit Quality is a continuous journey with ever increasing external standards, regulations and expectations, we are so pleased to see the steady improvement in our quality outcomes over the last three years, both on our internal and external regulatory reviews.

Through our comprehensive Audit Quality Plan, the firm has implemented a number of ground-breaking and marketing leading changes – including market first initiatives such as:

- Fully independent non-executive leadership of the KPMG SA Policy Board, with Prof Wiseman Nkuhlu as our independent chairman, and three other fully independent non-executive directors leading all our Policy Board committees.
- A dedicated Audit Quality Committee of the Policy Board chaired by Prof Ben Marx, that monitors the implementation of every aspect of our Audit Quality Plan as this evolves to incorporate all findings from internal and regulatory quality reviews of the firm, and the implementation of the new International Standards on Quality Management (ISQM 1 and ISQM 2) which are effective by 15 December 2022.
- A dedicated second line of defence program performing proactive pre-issuance reviews of a selection of the audits of public interest audits performed by the firm.

Growth – the outcome not the goal!

KPMG SA has started to see the fruits of the hard work done by every one of our people over the last three years – not only in our quality outcomes, and in our relationships with our regulators, but also in the market recognition of our efforts. We have noted with gratitude the recognition given to the firm by Industry bodies such as Business Leadership South Africa, and the Institute of Directors – for the changes the firm had made since 2017.

This year, it is truly humbling to be able to report on the recognition given to the firm by giants in the South African economy such as Sanlam, Absa, Coronation and KAP – as they elected to appoint KPMG SA as their next external auditors under the Mandatory Audit Firm Rotation (MAFR) rules. The continued recognition from our significant existing audit clients such as Standard Bank, Investec, Old Mutual and Sappi, is a constant reminder to us of the ambition we have set and our responsibility towards being the most Trusted and Trustworthy professional services firm. We are equally pleased with the increasing number of external audit tenders to which the firm has been invited.

For us, growth is not the goal but the outcome of earning trust through audit quality, and the way our exceptional people deliver on our promises in everything that we do. But growth is vital if we are to attract and retain the incredible talent we need to serve the market with distinction. The growth we are now seeing stands us in good stead to create exciting, purposeful careers for our people – and to create increased opportunities to improve the transformation of the firm, as we move towards being more representative of the demographics of the profession and the country.

The firm has carefully managed its retention of and the upfront investment in the capacity and capabilities needed to serve the South African market throughout the MAFR cycle. The continued support of KPMG Global has been instrumental in our ability to retain and attract the best talent in South Africa now and into the future.

Operational excellence – an exciting imperative

Achieving a globally consistent audit experience, ensuring quality, enabling growth and effectively managing costs of delivery – is imperative for us to be able to provide our clients with the type of audit they need, today and into the future.

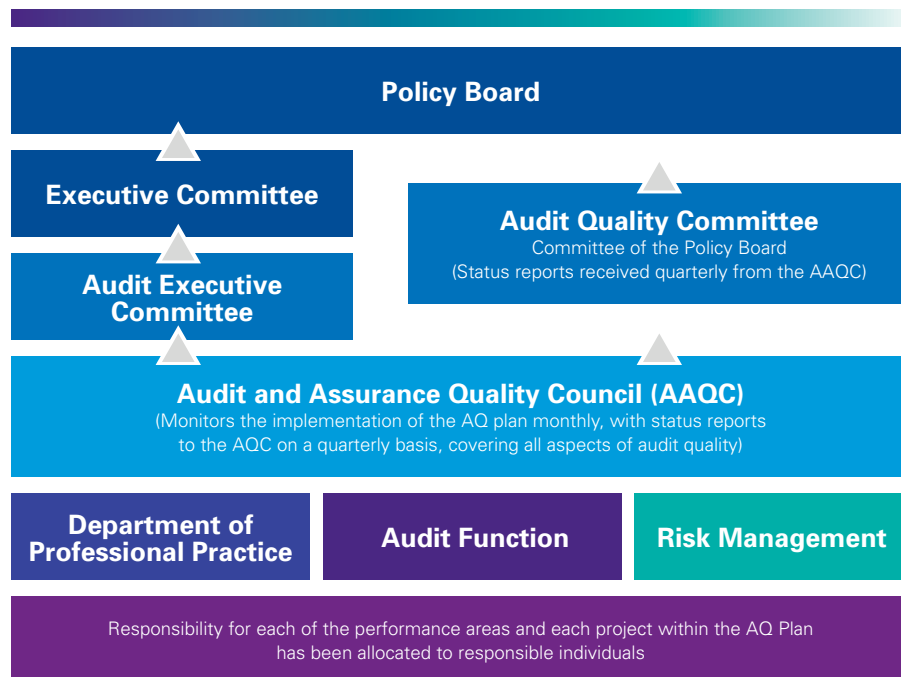
The development and utilisation of market leading technology in how we deliver audits, and how we produce valuable insights for our clients in our key markets. KPMG SA is currently implementing KPMG Clara, our latest cloud-based audit methodology and technology tool. KPMG Global is investing over \$5bn in building the latest of the solutions from the Big 4 audit firms. KPMG Clara provides the most up to date means of planning, executing and monitoring that every audit team delivers their audits in full compliance with the auditing standards. KPMG Clara also provides a platform for sharing the latest technology enabled data analytics, artificial intelligence and robotic process automation in audit routines specific to our clients' industries. In short, it is a complete revolution in how we drive and deliver on audit quality, innovation and efficiency – driving real insights for our clients!

Governance and leadership

While everyone at KPMG is ultimately responsible for audit quality, this section describes our governance and leadership structures, together with the individuals and groups with primary responsibility to drive and monitor audit quality in the firm.

Governance structure

Leadership plays a critical role in demonstrating our commitment to quality, ethics and integrity — by setting the right tone and leading by example — and in communicating this focus on quality to clients, stakeholders and society.



The Policy Board

The Policy Board is the governance and oversight body of KPMG SA. Key responsibilities of the Policy Board include independent oversight of strategy execution, protecting and enhancing the KPMG brand and overseeing the management of the firm. The Policy Board comprises four Independent Non-Executive Directors, two Directors from the Executive Committee and eight Directors elected by the partnership body from their own number. The Policy Board is supported by a number of committees that are focused on specific functional governance areas of the business.



The Executive Committee (Exco) reports into the Policy Board through the two directors that serve on the Policy Board. The Policy Board often includes a number of invitees, to ensure sufficient engagement and diverse input at a Policy Board level.

Leadership responsibilities for audit quality and governance of the Audit Quality Plan



Our Chief Executive Officer (CEO), Ignatius Sehoole, has ultimate responsibility for the system of quality control and performance at KPMG SA and is accountable to the Policy Board in this regard. He attends the AQC meetings as a standing invitee.

The Audit Quality Committee

The Audit Quality Committee (AQC) of the Policy Board was established in February 2019 and has Prof Ben Marx as its independent chair. Its principal role is to provide oversight on matters related to audit quality. As part of its role, the committee is responsible for ensuring that a culture of quality and integrity is maintained within the firm and providing direction to the Audit and Assurance Quality Council (AAQC) and monitoring its output. The committee also considers the impact of the key findings from our internal or external compliance quality monitoring programmes and the adequacy of proposed remedial actions.

During the period under review, the AQC consisted of five members: Prof Ben Marx, an Independent Non-executive Director who chairs the committee, Professor Wiseman Nkuhlu (Independent Non-executive Chairperson of the Policy Board), Imogen Mkhize (Independent Non-executive director), Ansie Ramalho (Independent Non-executive director) and Devon Duffield (elected director). The AQC meets every quarter and three additional meetings were also held during the year. With effect from 1 October 2020, Devon Duffield has been appointed as the Head of Audit for KPMG SA and has consequently stepped down as elected director and is now a standing invitee of the Policy Board AQC.

Executive and Audit Executive Committees

The Exco is responsible for management of the day-to-day activities of the firm, recommending policy to the Policy Board and developing the business plan of the firm and ensuring its subsequent implementation. The Exco deals with operational matters affecting the firm, including monitoring operating and financial performance, budgets, new business proposals, marketing, technology development, recruitment



and retention, general remuneration, the prioritisation and allocation of resources, investment and managing the risk profile of the firm.

The Exco has delegated the day-to-day activities as they relate to the management of the audit function, to the Audit Executive Committee (Audit Exco) which includes the implementation of the Audit Quality Plan.

The Audit and Assurance Quality Council

Our Audit and Assurance Quality Council (AAQC) is a council of senior partners which includes the Head of Audit, Head of the Department of Professional Practice (DPP), Head of DPP Audit and Assurance, Head of Audit Risk Management and Head of Audit Quality. The AAQC oversees all aspects of quality relating to the audit practice of the firm, including development and execution of the AQ Plan. In the execution of its duties, the AAQC considers any audit quality matters identified and whether these require further actions, including changes to policies and procedures.

The AAQC has dual reporting lines. It reports to the Exco through the Audit Exco and to the AQC of the Policy Board. The AAQC also serves as the coordinating body for relationships with relevant regulators and professional bodies.

During the period under review, the AAQC met 11 times.

Department of Professional Practice

The Department of Professional Practice (DPP) is the custodian of the accounting and audit technical knowledge, expertise and related tools within KPMG SA. DPP has a deep understanding of accounting and auditing standards and plays a critical role in delivering on the AQ Plan.



DPP assists our audit teams with the application of accounting, auditing and related standards. It provides updates on new or upcoming standards; the tools and guidance needed to correctly apply the standards and responds to technical queries and consultations. It also performs pre-issuance reviews of financial statements and audit reports and participates in second line of defence (2LoD) reviews. DPP participates in global and local networks and working groups to ensure that it has the most up to date information and communications and can apply the most relevant and appropriate information to the benefit of our audit teams.

DPP has access to technical auditing and accounting support through various formal global groups, as follows:

- Global Audit Methodology Group – responsible for development and maintenance of KPMG’s audit methodology in line with the applicable auditing standards
- KPMG Global Solutions Group – providing support through collaboration, innovation and technology
- International Standards Group – focused on the interpretation of International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) to promote consistency in application
- PCAOB Standards Group – promote consistency of interpretation of PCAOB auditing standards, including the provision of training to auditors who work on PCAOB engagements.

Audit Function

The Chair of Audit (a partner from another KPMG member firm), the Audit Chief Operating Officer (COO) and the Head of Audit Quality jointly managed the Audit Function during the period ended 30 September 2020. (Devon Duffield has been appointed as the new Head



of Audit effective 1 October 2020 and the Chair of Audit role will now fall away). Together, they were responsible for leading a sustainable, high-quality auditing practice. This responsibility includes:

- setting the right ‘tone at the top’ by demonstrating an unwavering commitment to the highest standards of professional excellence, including professional scepticism, objectivity and independence;
- developing and implementing strategies to monitor and maintain the knowledge and skills required of partners and colleagues to fulfil their professional responsibilities;
- developing and implementing parts of the AQ Plan; and
- working with the Head of Audit Risk Management to monitor and address audit quality and risk matters, as these relate to the audit practice, including an annual evaluation of activities considered to be key to audit quality.

Risk Management

Operational responsibility for our system of quality control, risk management and compliance has been delegated to the Country RMP. They are responsible for setting overall professional risk management and quality control policies for the firm, and monitoring compliance. This is a full-time role. The Country RMP is on the Exco and reports directly to the Chief Executive Officer.

The roles of Head of Audit, Head of Audit Quality and Head of Audit Risk Management were separated in 2017 to ensure that the Head of Audit Risk Management can give enough focus to risk management matters in the audit function

The Head of Audit Risk Management reports directly to the Country RMP rather than to the Country Head of Audit.



Driving the quality agenda

This section provides an update on our global approach to delivering audit quality as implemented in South Africa.

Our global audit quality program

We are making significant investments to drive consistency and quality across our global organisation. We are building on our sound audit quality foundations, in terms of how KPMG firms are managed and how they execute their audit engagements.



This means ongoing investment in our system of quality management, global monitoring of audit quality, enhanced support, and providing best-in-class technology and tools for engagement teams.

Our global audit quality program is being implemented through our Audit Quality Plan in South Africa and supports consistent deployment of investments by firms to enhance and drive a common approach.

Building consistency through a global approach

At its core, KPMG is an audit organisation, and continuously improving audit quality is central to who we are.



At KPMG, audit quality is about consistent execution across all audits in line with the requirements and intent of professional standards, and within a strong system of quality controls. All our related activities are undertaken in an environment of objectivity, independence, ethics and integrity. That's what we stand for; that's how we measure our people and our practices.

Everyone is accountable for audit quality. Responsibility for consistently delivering quality starts at the very top of our organisation and requires accountability across leadership and all KPMG partners and employees.

Executing audits consistently within a strong system of quality controls is fundamental to audit quality. We already have a clear framework for delivering audit quality that's supported by a strong system of quality control. But we know that to continue to deliver quality audits in an ever-changing world, we need to continuously improve.

Sound practice management plays a significant part — in terms of real-time support for engagement teams, and strong support functions to help them carry out their tasks.

Audit quality is closely monitored across all KPMG firms. We have a Global Audit Quality Monitoring Group — that is growing in size and scope — that inspects audits around the world, and a Global Compliance Review Program that provides independent review of member firms' commitment to quality and compliance with policies.

We are further standardising the way we conduct audits at KPMG and building more global consistency into our processes and technology, to be more effective at meeting the high standards we've set for ourselves for audit quality. It provides the framework for success.

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

The COVID-19 pandemic has forced us all to think differently, and we continue to respond to and embrace the various challenges this poses. Most organisations have been impacted by the COVID-19 pandemic, either directly or indirectly, and the increased economic uncertainty and risk is likely to have had significant financial reporting implications. Issues including going concern, asset impairments and valuations will require careful judgment as organisations deal with a high degree of uncertainty and market volatility. Our role as auditors is to carefully evaluate these judgments in line with the auditing standards while needing to innovate around the ability to audit in a remote working environment for the safety of our people and our clients.

Since the start of the pandemic we have maintained an online [COVID-19 | Financial reporting resource centre](#) to assist companies and other stakeholders in understanding potential accounting and disclosure implications.

We have issued extensive guidance and held regular COVID-19 update calls to assist our audit teams and our clients in addressing the various accounting, financial reporting and audit

related matters arising from the impacts of the COVID-19 pandemic including going concern, asset impairments, valuations and related disclosures, materiality, risk assessment, group audits, inventory, subsequent events, audit evidence, communications with Those Charged with Governance, and considerations for remote working environments.

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

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

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

Valuing feedback and dialogue



We recognise that another important contributor to upholding audit quality is to obtain and act upon feedback from key stakeholders.

Regulators

KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR), principally through its Global Audit Quality Working Group (GAQ WG), to discuss audit quality findings and the actions we have taken to address them. We value the open, honest and transparent dialogue that IFIAR facilitates on global audit quality issues and share this feedback with all KPMG firms.

KPMG SA has professional and respectful relationships with our regulators, including proactively engaging, responding to questions in a timely manner and taking appropriate remedial actions.

Client feedback

Client feedback is also important, and we proactively seek feedback from clients through direct conversations and third-party surveys.

We conducted a Client Insights Survey in relation to work performed during the year to evaluate our clients view of our teams, expertise and their experience of our quality and delivery. Clients views were surveyed with 93% of respondents indicating their overall satisfaction or extreme satisfaction with us. This provides ongoing assurance to us that we are doing the right things.

We will endeavour to be responsive to the feedback on where we can improve, while respecting our commitment to the standards.

93% Clients indicating their overall satisfaction or extreme satisfaction with us.

Listening to our people — Global People Survey (GPS)

Only with engaged, talented people can KPMG deliver audits in line with our audit quality expectations. Our goal is to entrench a culture within which achieving the highest standards of quality is an expectation, rather than an achievement. We recognise that our culture does more than support audit quality — it drives it.

The importance of culture is also highlighted by non-firm specific observations made by SAAPTI and the IRBA:

SAAPTI:

“As part of the monitoring of the firm’s quality management system, the firm should include a culture audit to determine to what extent audit staff and partners appreciate their responsibilities to the public interest and that a good audit is in the public interest.”

The IRBA notes the following in their annual Public Inspections Report on Audit Quality issued on 1 February 2021:

“Our experience has shown that there is a strong correlation between leadership’s tone-at-the-top and culture vs the level of audit quality within the firm.”

During the last two years, we have seen a positive change in our culture, reflected in an increased focus on quality and public responsibility.

Annually, all KPMG personnel, across all functions, are invited to participate in KPMG’s global people/engagement survey to share their perception about their experience of working for KPMG.

The positive change in culture is supported by the results of the South African 2020 GPS which included a specific section around audit quality:

- The overall score for audit quality increased by 7% to 90% from 2019
- “KPMG’s commitment to quality is apparent in what we do on a day-to-day basis” increased by 9% to 93% from 2019
- “The culture and tone set by leadership promote the importance of audit quality” increased by 4% to 95% from 2019
- “I understand my role as an auditor in providing independent assurance, supporting the capital markets and protecting the public interest” increased by 3% to 98% from 2019.

The firm will continue to further embed the culture of audit quality among our professionals to ensure we do not become complacent following the positive 2020 GPS results.

South African 2020 GPS Results

▲ 7%

90%

Overall score for audit quality

▲ 9%

93%

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

▲ 4%

95%

Culture & tone set by leadership promote the importance of quality

▲ 3%

98%

I understand my role as an auditor in providing independent assurance

Our audit quality foundations

This section provides details on our overall system of quality control.

Leading through tone at the top

Our leadership plays a critical role in establishing our commitment to quality and the highest standards of professional excellence. A culture based on quality, integrity and ethics is essential in an organisation that carries out audits and other services on which stakeholders rely. As detailed in last year's Transparency Report and covered in the "Governance and Leadership" chapter of this report, we have taken steps to strengthen our governance, with a focus on accountability for quality.

KPMG SA's leadership drives an awareness, which is clearly shown by the 95% score for "The culture and tone set by leadership promote the importance of audit quality" in the GPS, that everyone across the organisation who is involved in performing an audit, or any client engagement across tax and advisory, has a responsibility and a part to play.

This is one of the key factors that connects everyone at KPMG.



Clear Values and a strong Code of Conduct

We have adopted the KPMG International Global Code of Conduct, with relevant South African additions, which builds on our KPMG Values. Our [Code of Conduct](#) provides a benchmark against which expected levels of performance and behaviour are considered. Our Code of Conduct commits KPMG SA and each of its people to acting lawfully, ethically and in the public interest.

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

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



Everyone at KPMG is required to comply with the Code of Conduct and annually confirm their compliance with the Code. Everyone at KPMG is also required to take regular training covering the Code. We are committed to holding ourselves accountable for behaving in a way that is consistent with the Code. Individuals are encouraged to speak up if they see something that makes them uncomfortable or that is inconsistent with our Values.

Moreover, everyone at KPMG is responsible for reporting — and is required to report — any activity that could potentially be illegal or in violation of our Values, KPMG policies, applicable laws, regulations, or professional standards.

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

At KPMG SA we do not retaliate against individuals who have the courage to speak up in good faith. Retaliation is a serious violation of the Code, and any person who takes retaliatory action will be subject to the firm's disciplinary policy.

Driving standards through a system of quality control

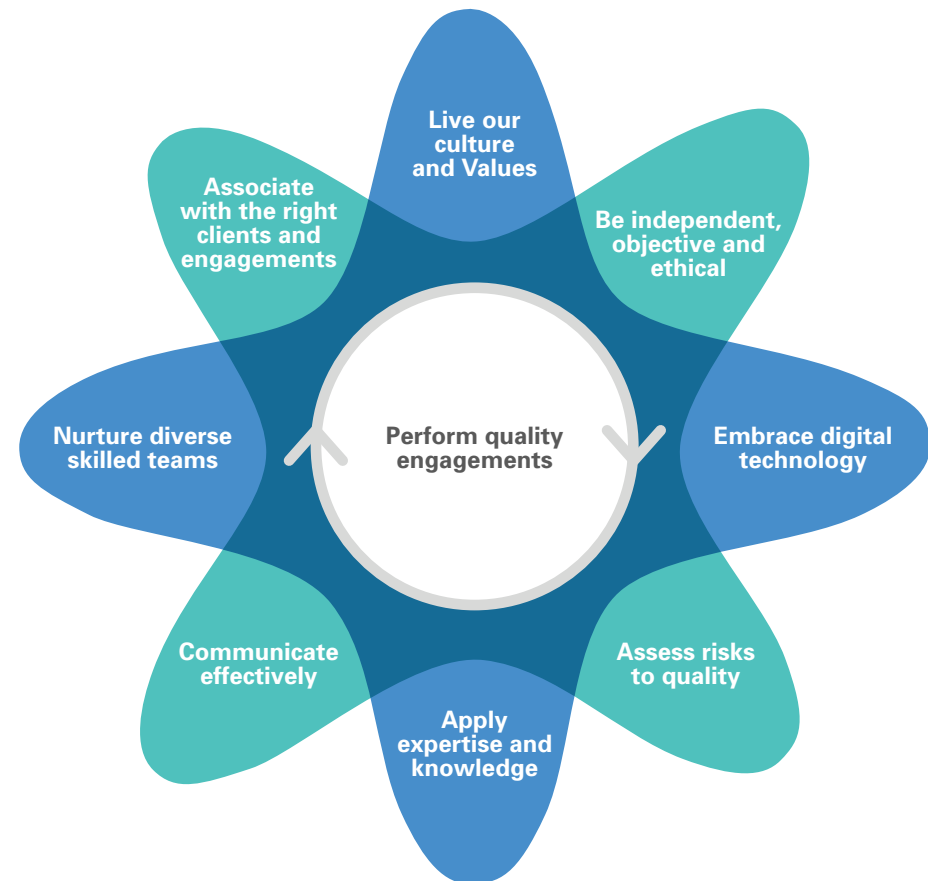


Our commitment to integrity and quality lie at the heart of the way we do things at KPMG.

Our system of quality control ensures our performance meets the highest professional standards.

To help all audit professionals concentrate on the fundamental skills and behaviours required to deliver a quality audit, KPMG have developed the

Audit Quality Framework, based on International Standards on Quality Control (ISQC 1), issued by the International Auditing and Assurance Standards Board (IAASB), on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and the IRBA Code of Professional Conduct for Registered Auditors.



We are building on our sound quality foundations to further strengthen the robustness and consistency of our system of quality controls, enabling our firm to comply with the new quality management standard (ISQM 1). Approved by the IAASB in September 2020, the new standard is effective by 15 December 2022. ISQM 1 requires KPMG to design, implement and operate a system of quality management to consistently deliver quality audits, and to evaluate the effectiveness of the system annually.

We have advanced well with our preparations for ISQM 1 and are refreshing our current Audit Quality Framework to a new Global Quality Framework to better outline how we deliver quality at KPMG, and how everyone at KPMG contributes to its delivery. 'Perform quality engagements' sits at the core along with our commitment to continually monitor and remediate our processes as necessary.

Our quality drivers give clear direction to encourage the right behaviours in delivering audit quality.

While this Transparency Report summarises KPMG SA's approach to audit quality, it also applies across our organisation, as many quality control procedures and processes apply to all services offered.

Consistent quality and risk management policies



A robust and consistent system of quality control is essential to delivering quality services.

Accordingly, KPMG has quality control policies that are included in KPMG's Global Quality & Risk Management Manual (GQ&RM Manual), which is available to, and applies to, all KPMG personnel.

These policies and associated procedures are designed to assist member firms in complying with relevant professional standards, and regulatory and legal requirements.

KPMG SA has implemented the KPMG International policies and procedures and adopted additional local policies and procedures that are designed to address rules and standards applicable to the IRBA as well as applicable local legal and regulatory requirements.

Our leadership takes responsibility for audit quality



Our leadership plays a critical role in driving the quality agenda for the organisation. In respect of audit quality, our Head of Audit Quality provides reports to the Audit Quality Committee of the Policy Board and has responsibility for oversight of audit quality. The execution of the quality strategy focuses on:

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

The overall governance structure of KPMG SA and further detail on leadership groups is provided in the '[Governance and leadership](#)' section of this report.

Associating with the right clients



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

KPMG's client and engagement acceptance and continuance policies and processes are designed to identify and evaluate any potential risks prior to accepting or continuing a client relationship or performing a specific engagement.

We evaluate whether to accept or continue a client relationship or perform a specific engagement. Where client/engagement acceptance (or continuance) decisions pose significant risks, additional approvals are required and may even be elevated for EMA Regional Risk approvals.

Client acceptance process

We understand the importance of our client acceptance processes and undertake an evaluation of every prospective client. This involves obtaining enough information about the prospective client and its key management and significant beneficial owners, and then properly analysing the information to be able to

make an informed acceptance decision. This evaluation includes completion of a questionnaire to assess the client's risk profile and obtaining background information on the client and its key management, directors and owners. In the current South African environment, clients often do not pass our acceptance procedures as we place reputational risk above any short-term commercial opportunities.

Engagement acceptance process

Each prospective engagement is required to be evaluated to identify potential risks. A range of factors are considered as part of this, including potential independence and conflict of interest issues (using KPMG's web-based global conflicts and independence checking system — Sentinel™); the intended purpose and use of engagement deliverables; public perception; and factors specific to the type of engagement. For audit services, these include the competence of the client's financial management team and the skills and experience of individuals assigned to staff the engagement.

The consequences of the COVID-19 pandemic on financial statement reporting and audit engagements are complex and can result in challenges for management, those charged

with governance and auditors. There is an unprecedented level of uncertainty about the economy, future earnings and many other inputs that represent fundamental elements of financial reporting. There are possibly substantial and multiple financial reporting implications to be considered by the preparers and auditors of the financial statements for the purposes of reporting in the short and potentially medium term.

The uncertainty arising from the current environment increases the challenge in obtaining the sufficient appropriate audit evidence needed to form our opinions about the reasonableness of management's estimates and judgments. For a number of entities, it is possible that issues, for example, impairments or going concern uncertainties, that have not been previously been encountered may now need to be considered.

Restrictions on travel and requirements to stay at home, may also have present practical challenges to the audit engagement. These factors needed to be considered when accepting on continuing engagements in the current year.

Continuance process

An annual re-evaluation of all audit clients is required to be undertaken and recurring or long-running non-audit engagements are also subject to periodic re-evaluation. In addition, clients are required to be re-evaluated if there is an indication that there may be a change in their risk profile (e.g. in instances where there is information casting doubt on the perceived integrity of current senior management, other key client personnel or principal owner).

Withdrawal process

If we come to a preliminary conclusion that indicates we should withdraw from an engagement or client relationship, we consult internally and identify any required legal, professional and regulatory responsibilities. We also communicate as necessary with those charged with governance and any other appropriate authority.

Insisting on the highest standards of independence and ethics



'Independent' is the first word of an audit report, which is why ensuring that we are independent, and perceived to be independent, is fundamental to delivering high-quality audits.

Auditor independence and strong ethical conduct are cornerstones of international professional standards and regulatory requirements.

Our detailed independence policies and procedures, which incorporate the IESBA Code of Ethics requirements, are set out in the GQ&RM Manual. Automated tools, which are required to be used for every prospective engagement to identify potential independence and conflict of interest issues, facilitate compliance. Additional policies and procedures are included to address the IRBA Code of Professional Conduct for Registered Auditors and the Companies Act of South Africa independence requirements.

Our Country Risk Management Partner is the designated Ethics & Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence (E&I) policies and procedures. The EIP is supported by a full time Chief Ethics Officer managing a dedicated Ethics Function within the firm. The Ethics Officer's mission includes ensuring and sustaining an ethical organisational culture, through a comprehensive ethics programme that emphasises our purpose of serving the public interest through quality and integrity.

Our personnel are required to consult with the EIP on certain specific independence matters as defined in the GQ&RM Manual. Guidance and tools are available to facilitate documenting these consultations and the independence policies and procedures are clearly communicated to our partners and staff.

Annual independence confirmations are received from all personnel and compliance audits conducted by KPMG SA, as well as through the network's wider monitoring programs described in the '[Audit quality monitoring and remediation](#)' section of this report.

E&I — Training and confirmations

All KPMG partners and client service professionals, as well as certain other individuals, complete independence training that is appropriate to their grade and function upon joining the firm and on an annual basis thereafter.

Upon acceptance of employment and joining our firm, all KPMG partners and employees participate in a comprehensive induction programme, which includes technical and ethics and independence training, as well as confirmation of compliance with firm independence policies.

Thereafter, all KPMG individuals sign an annual confirmation stating that they have remained in compliance with applicable E&I and other key policies throughout the year.

KPMG's E&I policies and procedures in key areas are described in more detail below.

Personal financial independence

KPMG partners and employees are required to be free from prohibited financial interests in, and prohibited financial relationships with, assurance and audit clients (by definition, 'audit client' includes its related entities or affiliates), their management, directors and, where required, significant owners. All partners — irrespective of their function — are prohibited from owning securities of any audit client of any KPMG firm.

A web-based independence compliance system (KICS), which contains an inventory of publicly available investments, assists professionals in complying with personal independence investment policies.

All partners and manager-grade or above client-facing employees are required to use the KICS system prior to entering an investment to identify whether they are permitted to do so. They are required to also maintain an up-to-date record of

all of their investments in publicly traded entities in KICS, which automatically notifies them if any investment subsequently becomes restricted. Newly restricted investments are required to be disposed of within 5 business days of the notification.

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

Employment relationships

Any KPMG professional providing services to an audit client is required to notify the member firm's EIP if he or she intends to enter employment negotiations with that audit client. For partners, this requirement extends to any audit client of any KPMG firm that is a public interest entity.

Former members of the audit team or former partners of a KPMG firm are prohibited from joining an audit client in certain roles unless they have disengaged from all significant connections to the KPMG firm, including payments which are not fixed and predetermined and/or would be material to the member firm, and have

ceased participating in the firm's business and professional activities.

Any former partner who has a financial relationship with a KPMG firm is required to notify the EIP if they intend to enter employment negotiations with any listed audit client of any KPMG firm.

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

Firm financial independence

KPMG is required to also be free from prohibited interests in, and prohibited relationships with, audit clients and their management, directors and, where required, significant owners. KICS is used to record KPMG SA's direct and material indirect investments in listed entities and funds (or similar investment vehicles) as well as in non-listed entities or funds. This includes investments held in associated pension and employee benefit plans.

Additionally, KPMG SA records in KICS all borrowing and financing relationships, as well as custodial, trust and brokerage accounts that hold firm assets.

Business relationships/suppliers

KPMG has policies and procedures in place that are designed to ensure its business relationships with audit clients are maintained in accordance with the IESBA Code of Ethics and other applicable independence requirements, including the IRBA Code of Professional Conduct for Registered Auditors.

Non-audit services

As a minimum, we comply with the IESBA Code of Ethics, IRBA Code of Professional Conduct for Registered Auditors and applicable laws and regulations related to the scope of services that can be provided to audit clients.

From 31 March 2021, KPMG SA will adopt a market first policy position where we will cease to provide non-audit-related services to our listed audit clients. The firm has taken this step following an intensive review process with the primary aim to improve the perception of the role of auditors in creating independence and protecting the interests of the public.

The provision of non-audit-related services to our audit clients, while technically permissible under current laws, regulations and International Federation of Accountants (IFAC) principles, understandably creates challenges in the public perception of auditor independence. As a business that has reimagined the future of what good corporate governance for an audit firm should be, KPMG SA is the first firm in the country to take this voluntary step forward.

While this is an area that is typically already very well managed by audit committees, (particularly those of listed audit clients), the objective of this decision is to help restore trust in the profession, as it removes any perception of conflicts of interest with our audit work for listed entities.

We use Sentinel™, which is a web-based application, to facilitate compliance with auditor independence requirements and identifies potential conflicts of interest for prospective engagements.

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

Lead Audit Engagement Partners (LAEPs) are required to maintain group structures for their publicly traded and certain other audit clients, including their related entities or affiliates, in Sentinel™. They are also responsible for identifying and evaluating any independence threats that may arise from the provision of a proposed non-audit service and the safeguards available to address them.

For entities for which group structures are maintained, Sentinel™ enables LAEPs to review and request revision, approve, or deny, any proposed service for those entities worldwide. We will use Sentinel™ to manage the implementation of our new non-audit services policy.

For approved proposed services, Sentinel™ designates a timeframe during which the approval remains valid. Upon expiration of the established timeframe, the services are required to be complete or be re-evaluated for permissibility; otherwise, the services are required to be exited.

KPMG Global independence policies which have been adopted by KPMG SA prohibit member firm audit partners from being evaluated on, or compensated based on, their success in selling non-assurance services to their audit clients.

Fee dependency

Self-interest or intimidation threats at a firm-wide level may arise when the total fees from an audit client represent a large proportion of the total fees of the firm. In the event that the total fees from a public interest entity audit client and its related entities represent more than 10 percent of the total fees received by the firm for 2 consecutive years:

- disclosure is required to those charged with governance at the audit client; and
- a partner from another member firm is appointed as the engagement quality control (EQC) reviewer.

For the year ended 30 September 2020, we have no clients that individually represent more than 10 percent of total fees in KPMG SA.

Avoiding conflicts of interest

All KPMG professionals are responsible for identifying and managing conflicts of interest, which are circumstances or situations that may

reasonably be expected to have an impact on the firm's ability to be objective or act without bias.

KPMG engagement teams are required to use Sentinel™ to identify potential conflicts so that these can be addressed in accordance with legal and professional requirements.

Personal conflicts

Conflicts of interest can arise in situations where KPMG partners or employees have a personal relationship or association with the client which may interfere, or be perceived to interfere, with their ability to remain objective, or where they are personally, in possession of confidential information relating to another party to a transaction.

Consultation with the member firm's Risk Management Partner (RMP) or the EIP is required in these situations.

Policies are also in place to prohibit KPMG partners and employees from offering or accepting inducements, including gifts and hospitality, to or from audit clients, unless the value is trivial and inconsequential, is not prohibited by relevant law or regulation, and is not deemed to have been offered with the intent to improperly influence the behaviour of the recipient.

Resolving conflicts of interest

The risk management business unit is responsible for reviewing identified potential conflicts and working with the affected engagement team to resolve the conflict, the outcome of which is required to be documented.

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

Independence breaches

Partners and employees are required to report an independence breach to the EIP as soon as they become aware of it and when required, these are reported to those charged with governance at the audit client. Our firm has a documented and communicated disciplinary policy in relation to independence breaches that incorporates incremental sanctions reflecting the severity of any breach. In the event of non-compliance with KPMG's independence policies, irrespective of how that non-compliance is identified, KPMG professionals are subject to the disciplinary policy.

Partner rotation

KPMG partner rotation policies are consistent with the requirements of the Companies Act of South Africa, the IESBA Code of Ethics, IRBA Code of Professional Conduct for Registered Auditors and any other potential stricter rotation requirements. These requirements place limits on the number of consecutive years that partners in certain roles may provide audit services to a client, followed by a 'cooling-off' period during which these partners may not participate in the audit or in any way influence the outcome of it. During the cooling off period, partners may not participate in the audit, in any way influence the outcome of the audit, lead or coordinate other professional services delivered to the client, oversee the relationship of the firm with the client, or have any other significant or frequent interaction with senior management or those charged with governance. We have implemented the Global Partner Rotation System (PRS) to monitor the rotation of audit engagement leaders (and any other key roles where there is a rotation requirement) and develop related transition plans which are critical as we now also incorporate firm rotation.

Firm rotation

The IRBA issued a rule, in June 2017, prescribing that auditors of public interest entities (PIE's) in South Africa must comply with MAFR for financial years commencing on or after 1 April 2023. Therefore, if the audit firm has served as the appointed auditor of a public interest entity for 10 or more consecutive financial years before the financial year commencing on or after 1 April 2023, then the audit firm shall not accept re-appointment and will be required to rotate.

Thereafter, the audit firm will only be eligible for reappointment as the auditor after the expiry of at least five financial years.

Currently, a number of PIE's are rotating auditors in preparation for the effective date of this rule. We are humbled with both the number of clients that have appointed us as their new auditors and the number of invitations we have received to participate in the MAFR tender process.

Zero-tolerance approach to bribery and corruption

KPMG Global policy prohibits involvement in any type of bribery — even if such conduct is legal or permitted under applicable law or local practice. We also do not tolerate bribery by third parties, including by KPMG firm clients, suppliers or public officials. KPMG International requires KPMG firms to have appropriate internal controls in place to mitigate the risk of involvement in bribery by the firm and its partners and employees.

All partners and employees take training covering compliance with laws, regulations and professional standards relating to anti-bribery and corruption, including the reporting of suspected or actual non-compliance.

More about KPMG International's position on bribery and corruption is available [here](#).

Delivering audit quality on the ground

In this section, we set out the ways in which KPMG implements policies and procedures to ensure quality and integrity.

Taking responsibility for audit quality

Leadership plays a critical role in demonstrating our commitment to quality, ethics and integrity — by setting the right tone and leading by example — and in communicating this focus on quality to our professionals, clients, stakeholders and society.



While everyone at KPMG is ultimately responsible for audit quality, this section describes how it is delivered on the ground.

The Head of Audit has primary responsibility for audit quality and is supported by the Head of Audit Quality and the Audit RMP in maintaining a system of quality control. Refer to the Governance and leadership chapter which describes our governance bodies, together with the individuals and groups with primary responsibility to drive and monitor audit quality in the firm.

Partner assignments

We have procedures in place to assign the appropriate engagement partners and other professionals to an audit engagement on the basis of their skill sets, relevant professional and industry experience, and the nature of the engagement.

The Head of Audit is responsible for the partner assignment process, which includes consideration of key factors relating to competence, workload and experience, including quality and compliance incidents.

Partners are required to have appropriate experience, training and capacity based on an annual partner portfolio review considering the size, complexity and risk profile of the engagement, and the type of support and specialist input to be provided (i.e. the engagement team composition and specialist involvement).

Engagement teams

Audit engagement partners are required to allocate sufficient professionals to their engagement teams who have appropriate competencies, capabilities and capacity, and to determine whether they require the use of specialists to perform the audit engagement in accordance with professional standards, KPMG's audit methodology, and applicable legal and regulatory requirements.

If the right resources are not available within KPMG SA, we have access to a network of highly skilled KPMG professionals in other member firms.

Embedding ongoing mentoring, supervision and review

To invest in building the skills and capabilities of KPMG professionals, we promote a continuous learning environment and support a coaching culture.

Ongoing mentoring, coaching and supervision during an audit involves:

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

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

Engagement quality control (EQC) reviews

The EQC review is an important part of KPMG's framework for quality. All listed, high-risk and high public profile entity audits require an engagement quality control reviewer and other engagements as designated by the Audit RMP or country Head of Audit.

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

EQC reviewers are required to meet training and experience qualifications to perform a quality control review for a particular engagement. Reviewers are independent of the engagement team and audit client and have the appropriate experience and knowledge to perform an objective review of the more critical decisions and judgments made by the engagement team and the appropriateness of the financial statements.

The audit is completed only when the EQC reviewer is satisfied that all significant questions raised have been resolved, though the engagement partner is ultimately responsible for the resolution of accounting and auditing matters.

We continually seek to strengthen and improve the role that the EQC review plays and have taken a number of actions to reinforce this, including incorporating specific review requirements into our audit workflow.

Second line of defence (2LoD)

We implemented the 2LoD program for KPMG SA for all engagement periods ended on or after 31 December 2018 and for the rest of our Southern Africa member firms for all engagement periods ended on or after 31 December 2019.

The objective of the 2LoD program is to enhance audit quality, by conducting independent reviews of areas of focus on audit engagements and providing direct real time support and coaching to engagement teams before the audit opinion is signed, with the goal of helping the audit team deliver an audit that complies with the relevant professional standards.

Engagements are selected for 2LoD review based on approved selection criteria with the focus being on listed and high-risk engagements.

A 2LoD review program is used for each review and contains key areas of focus which considers the findings from our most recent internal quality reviews and regulatory reviews. Each review covers the planning, testing and completion phases of the audit. Our review programme is updated periodically to ensure that we focus on emerging risk areas and themes identified in monitoring activities.

We completed 97 2LoD reviews for the year ended 30 September 2020. These consisted of 70 engagements for South Africa and 27 engagement for our other Southern Africa member firms.

Engagement documentation

Audit documentation records the audit procedures performed, the evidence obtained, and the conclusions reached on each audit engagement. We have implemented administrative, technical and physical safeguards to protect the confidentiality and integrity of client and firm information. From 1 January 2021 we have adopted policies to reduce the time period to assemble audit documentation, which is significantly less than that required by the applicable auditing standards.

Accreditation and licensing

We are responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge and experience. We require our audit professionals to invest in continuous professional development (CPD) and to comply with applicable professional body rules, such as those required by the IRBA and SAICA. Policies, procedures and monitoring of attendance is in place. In addition, we have specific accreditation requirements for partners and managers working on engagements requiring knowledge and experience in US accounting and auditing standards. These engagements require that the partner, manager, auditor-in-charge and EQC reviewers have completed relevant training and that the engagement team, collectively, has the appropriate experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls. We have specific accreditation requirements for partners working on JSE listed entities. These partners are required to complete specific JSE training and are required to have demonstrated that they have the necessary experience to audit listed entities.

Access to specialist networks

Engagement partners are responsible for ensuring that their engagement teams have the appropriate resources and skills. Our engagement teams have access to a network of local KPMG specialists, as well as specialists in other KPMG member firms.

The need for specialists (e.g. IT Audit, Data and Analytics, Tax, Treasury, Actuarial, Forensic, Valuation) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process and in some instances mandated. Specialists who are members of an audit team are required to complete specific training on audit concepts.

Encouraging a culture of consultation

Our teams are encouraged and, in certain cases, required to 'consult, if in doubt'. To assist our audit professionals in addressing difficult or contentious matters, we have established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues.

Appropriate consultation support is provided to audit engagement professionals through professional practice resources that include our Department of Professional Practice (DPP) and Quality and Risk Management Department (QRM).

The South African DPP has representation on a number of local profession and global KPMG bodies.

Some of our local roles and involvement include:

- Past Chairperson of the IRBA committee for auditing standards (CFAS) and membership on CFAS Regulated Industries and Reports Standing Committee, Public sector and Sustainability committees.
- SAICA Accounting Practices Committee and SAICA Audit Guidance Committee;
- Various task groups of the IRBA and SAICA focusing on specific topics for example IFRS 15 and joint audits.
- JSE accredited reporting accounting specialists, JSE accredited IFRS advisers, and member of the Financial Reporting Investigations Panel (FRIP); and
- South African Auditing Profession Trust Initiative (SAAPTI) technical committee.

We have representation on the KPMG Global IFRS Panel, KPMG Global ISA Panel and membership on seven out of nine Global IFRS Topic Teams.

Recognising the importance of communication

Honest and candid communication with clients, including management and those charged with governance, is a key aspect of our reporting and quality service delivery. As described later in this report (see '[Innovating and evolving our audit approach](#)' chapter), our smart



audit platform, KPMG Clara, includes a client collaboration portal, allowing clients real-time monitoring of the status of the audit as well as seamless communication with the audit engagement team.

Communications with those charged with governance

We stress the importance of keeping clients informed of issues arising throughout the audit. KPMG firms and professionals achieve this through a combination of reports and presentations, attendance at audit committee or board meetings, and, when appropriate, ongoing discussions with management and members of the audit committee.

The role of audit committees is key in supporting better quality auditing by overseeing the relationship between company and auditor and challenging what auditors do and how they do it.

Audit Committee Forum in South Africa

The Audit Committee Forum is an important initiative of the Institute of Directors in Southern Africa (IoDSA). In recognition of the important role that Audit Committees play in driving the quality of financial reporting and governance in South Africa, KPMG SA is the proud sponsor and provider of technical support to the Audit Committee Forum.

IFRS Institute

Similarly, KPMG's Global IFRS Institute provides information and resources to help board and audit committee members, executives, management, stakeholders and government representatives gain insight and access thought leadership about the evolving global financial reporting framework.

Innovating and evolving the KPMG audit approach

In this section, we detail how we are innovating in the delivery of the audit itself and leveraging new technologies and platforms.

Delivering through our current audit workflow

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



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

Investing for the future

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

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

Audit solutions for today's world

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



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

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

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

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

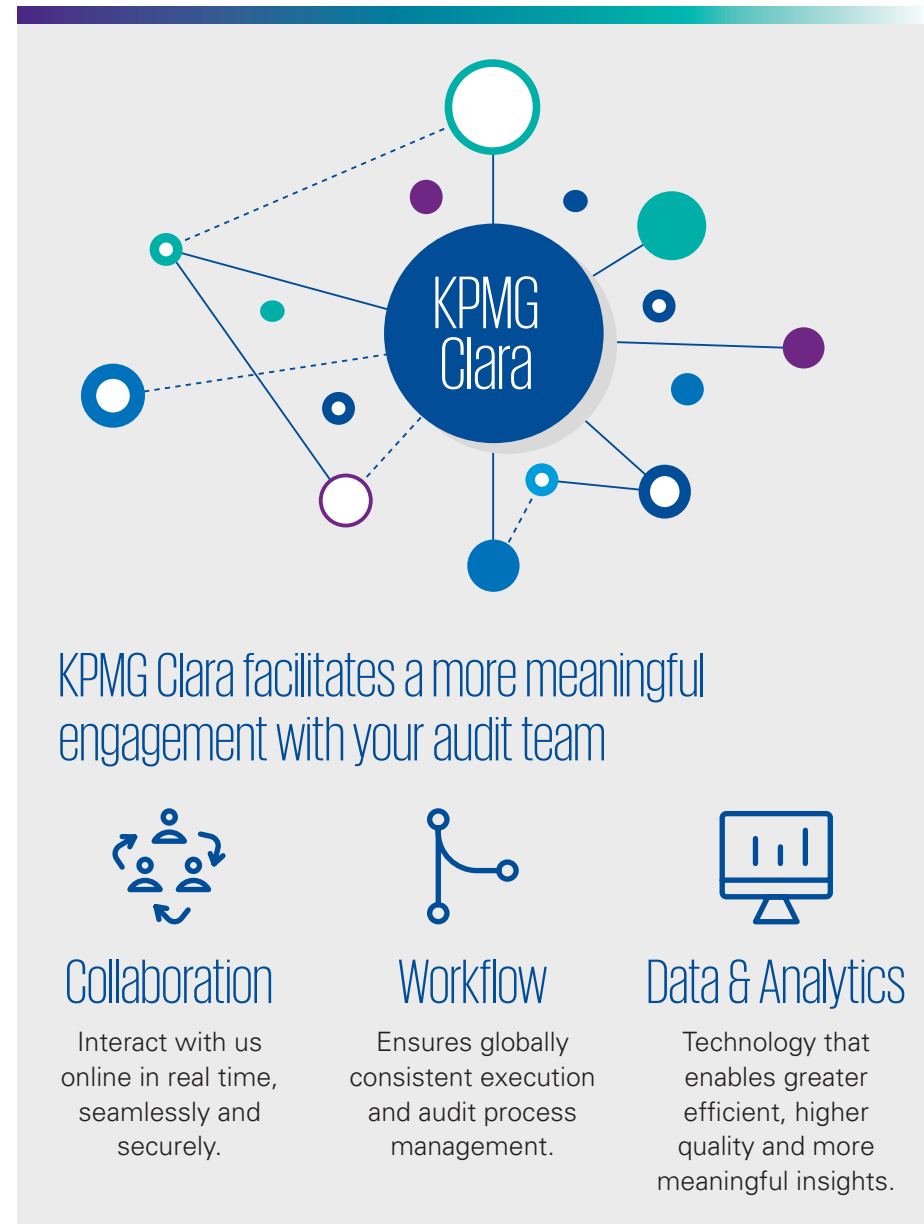
Bringing consistency through our methodology

The KPMG audit methodology, tools and guidance are:

- globally consistent and fully compliant with the applicable standards, including International Standards on Auditing (ISAs), Public Company Accounting Oversight Board (PCAOB) and the American Institute of CPAs (AICPA) and are supplemented to comply with South African regulatory or statutory requirements.
- inclusive of KPMG methodology interpretations that drive consistency in areas where the applicable standards are not prescriptive in the approach to be followed
- centered on identifying risk and focusing on risks of material misstatements and the necessary audit response
- made available to all KPMG audit professionals and required to be used, where necessary

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

Enhancements to the audit methodology, guidance and tools are made regularly to maintain compliance with standards, and address emerging auditing areas of focus and audit quality results (internal and external). For example, as a result of the COVID-19 pandemic, many companies are experiencing significant financial uncertainty. We have issued guidance to our teams on conducting audit procedures in a remote working environment, raising awareness of key audit risks such as going concern and impairments, and provided reminders of the importance of exercising professional scepticism and taking appropriate actions if information is identified that is unexpected or unusual and may be indicative of potential management bias, or a fraud risk.



Bringing it all together in KPMG Clara

The KPMG Clara smart audit platform brings together KPMG's digital audit capabilities, innovative new technologies, collaboration capabilities and our new KPMG Clara workflow. This helps deliver our ambition to:



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

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

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

The KPMG Clara platform is built to be scalable. We will enrich it over time as technologies continue to emerge and transform the audit, with areas like predictive technology being channelled through KPMG Clara to deliver

even greater capabilities. Through alliances with some of the world's most advanced technology companies, we are building the future of audit, aligning with technology leaders to bring new insights faster and, with growing capabilities, deliver even more value. KPMG's investment strategy also includes working with universities on important applied audit research and leveraging the development activities of our member firms.

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

Strategically embedding the use of data through digital audit capabilities



KPMG Clara also allows us to more seamlessly build digital audit capabilities into our audits.

Digital audit routines are capable of interrogating and analysing vast quantities of data.

KPMG's audit is designed to:

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

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

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

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

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



Delivering a skilled and supported workforce

In this section we set out how we equip our people to deliver quality audits.

Our people strategy and processes promote audit quality

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

Recruitment

Attracting the right talent remains a key priority for us and we are very encouraged that the firm continued to attract its fair share of talent from across the countries' universities. Our experience is that the way the firm has responded to the challenges of our recent past, has in fact been a key element in why students are actively choosing to be with KPMG.

An important indicator of the quality of the people that we attract is the number of students who have signed with KPMG and are selected by the Universities to stay on and complete their first year as academic articles at the country's top universities. We had 23 of our people in 2019/2020 selected for this programme, and 22 in 2020/21.



But it is not only graduate talent that the firm relies upon. Recently we have been very pleased to see the increasing number of senior audit professionals outside of the firm, who are committed to being in the audit profession, and are actively approaching KPMG to be part of our future. The consistency in their messaging is very encouraging - they see that the firm is acting on its promise to do the right thing – and our clear ambition of being the most Trusted and Trustworthy firm talks directly to their desire to continue serving the public interest through a career in the audit profession.

Development

Our approach to performance development, 'Open Performance Development', is built around the Everyone a Leader performance principle, and includes:

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

Open Performance Development is linked to our Values and designed to articulate what is required for success — both individually and collectively. We know that by being clear and consistent about the behaviours we're looking for, and rewarding those who demonstrate them, we will continue to drive a relentless focus on audit quality.

At the same time, we are driving a shift in our performance-driven culture, supported by and enacted through leading technology that allows us to embed audit quality data into the assessment of performance and decisions around reward as well as drive consistency across the organisation.

Partners are evaluated on key quality and compliance metrics. We monitor quality and compliance incidents and maintain quality and compliance metrics for the purpose of assessing the overall evaluation, promotions and remuneration of partners.

Developing future talent

KPMG contributes to the development of future leaders in the auditing profession by attracting and developing talented individuals and through participating in the South African Institute of Chartered Accountants (SAICA) training programme and the audit development programme of the IRBA.

The following table compares the KPMG and national pass rates in the SAICA Assessment of Professional Competence (APC) and Initial Test of Competence (ITC) examinations:

Exam	KPMG pass rate	National pass rate
November 2019 APC	61%	57%
January 2020 ITC	70%	59%

We are proud of a KPMG candidate who was included in the November 2019 APC honours roll.

Reward and promotion

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

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

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

The extent to which our people feel their performance has been reflected in their reward is measured through the GPS, with action plans developed accordingly.

Director/ Partner admissions

Although we were historically, and are still often referred to as, a 'Partnership', KPMG SA is an Incorporated company (Inc.), a separate legal entity from the people forming it. Colloquially, we may still refer to 'Partners' in our business, but, legally, we have directors who purchase shares in the business and hold responsibility for its operation.

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

The first virtual Partner Assessment Centre ran in August 2020, and this provided candidates with a rigorous yet differentiated experience as they embraced a new way of working, meeting and interacting.

We wish to congratulate the audit partner admitted during the 2020 financial year (2019: five) and a further partner appointed during the year who began in early 2021.

Partner remuneration

Heads of Business Units and members of the Exco may propose certain discretionary awards for exceptional performance. Any such proposals are reviewed by the Exco and recommended to the Policy Board for its consideration and approval. Audit partners are not evaluated on, or compensated based on, their success in selling non-assurance services to their audit clients.

In addition, all partners have performance objectives agreed each year which include quality and compliance objectives and partners who do not achieve their objectives for the year have their final remuneration adjusted to reflect their performance.

Sanctions are imposed where the monitoring processes reveal work of a less-than-desirable standard and these are determined based on severity of the matter. A Partner Quality and

Compliance Matrix (Matrix) tracks compliance with risk management, training, CPD, quality incidents and performance management. The Matrix is evaluated annually, and sanctions are determined and applied by a sanctions committee. During 2020, 17 (2019: seven partners and 2018: 27 partners) were subjected to sanctions totalling R1 233 468 (2019: R788 990 and 2018: R2 026 485).

Average partner earnings (before tax) for the 2020 financial year was R4.0 million (2019: R3.8 million).

Lifetime learning strategy

Annual training priorities for development and delivery are identified by audit learning and development steering groups at the global, regional and at the South African member firm level. Training is delivered using a blend of learning approaches which, since lockdown, is heavily weighted to various online learning platforms.

Ongoing mentoring and on-the-job coaching

Learning is not confined to a single approach — rich learning experiences are available when needed through coaching and just-in-time learning, available at the click of a mouse, and aligned with job-specific role profiles and learning paths.

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

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

Continuing professional development (CPD)

All audit partners and employees are required to maintain CPD in accordance with SAICA and IRBA and compliance is tested as part of firms' annual monitoring programs.

We monitor the industry trends and challenges that audit teams experience and assess the findings of our internal and external engagement file reviews in order to develop targeted training. We leverage off global and local resources to ensure that the training is relevant and focused on addressing audit quality concerns.

During FY2020, KPMG SA increased digital learning solutions in an unprecedented manner. From the start of the national lockdown on

27 March 2020, all training has been digitised and converted to online modules. We made use of a variety of modalities, including eLearning, virtual classrooms, podcasting, microlearning videos, iPDFs and other typical video conferencing software. This resulted in a rich, multimodal online experience for our colleagues and made use of the many affordances that technology provides.

We provided all colleagues with access to the Coursera for Employee Resilience program (from Coursera), and piloted an online offering from Go1 for our Infrastructure colleagues. Making use of third-party offerings is becoming a bigger part of our approach to upskilling colleagues and ensuring they are developed and relevant for both their internal and external clients. Further, an in-house offering named 'Learning Unlocked' was made available during Level 5 and Level 4 of the lockdown.

Five KPMG Clara virtual workshops of five days each were run this year: one for colleagues in Technology Assurance and the remaining four for Audit colleagues.

As the firm, our country and indeed, the world continues to battle the COVID-19 pandemic, we look to both technology and the creativity of our people as we provide necessary training and development opportunities in an uncertain future.

During the last year, KPMG professionals have attended the following hours of training clearly highlighting the shift to technology-based learning during lockdown:

Classroom training hours

	FY20	FY19
Audit	39 784	69 368
Tax	11 382	6 732
Advisory	13 781	28 041
Infrastructure	1 591	4 890
TOTAL	66 537	109 032

Technology based training hours

	FY20	FY19
Audit	75 012	40 673
Tax	3 239	2 216
Advisory	20 466	9 631
Infrastructure	3 074	3 997
TOTAL	101 791	56 517

Coursera for Employee Resilience hours

	FY20
Audit	267
Tax	85
Advisory	1 239
Infrastructure	301
TOTAL	1 892

Audit quality monitoring and remediation

We expect all engagement teams to continually improve the quality, consistency and efficiency of their audits. We have a number of quality monitoring and compliance programs that enable us to identify quality issues, perform root cause analysis and develop remedial action plans, both for individual audits and for their overall systems of quality control.

Rigorous quality and compliance programs

Our quality monitoring and compliance programs are created globally, with KPMG SA being required to implement, test and report them consistently to KPMG Global. The programs evaluate both:



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

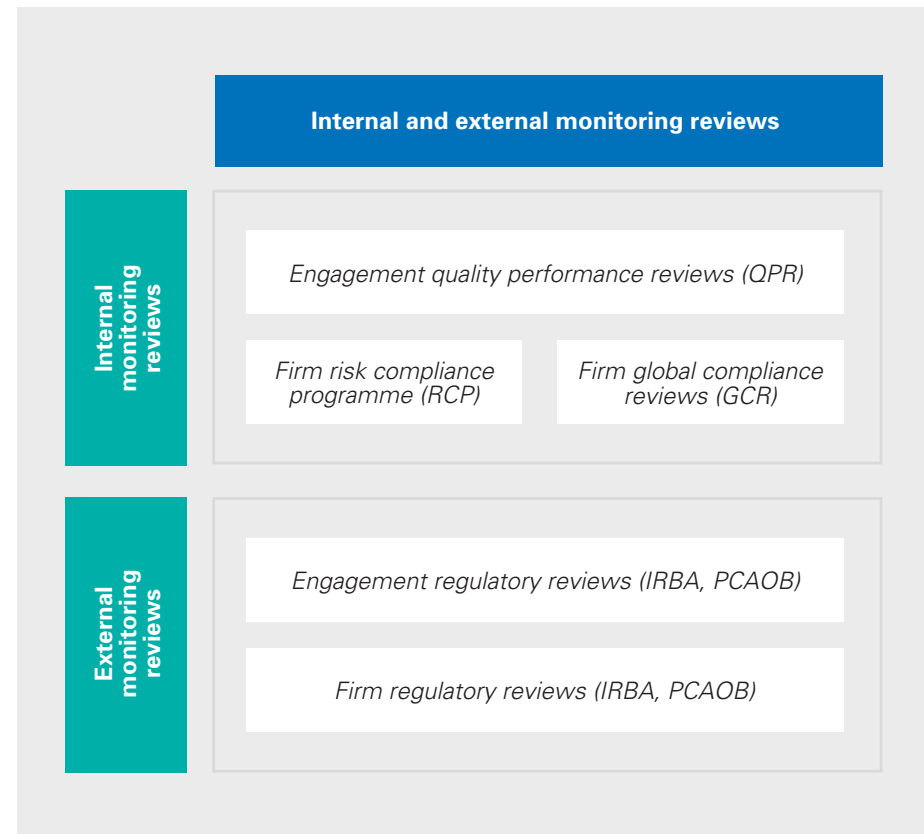
Our internal monitoring programs include:

- Quality Performance Reviews (QPR) and Risk Compliance Programs (RCP), which are conducted annually across Audit, Tax and Advisory functions
- a cross-functional Global Compliance Review (GCR) program.

Participation in QPR, RCP and GCR programs is mandatory for all KPMG firms.

We communicate the results of the programs internally and take action to make improvements where needed.

We give more detail on these programs and how they work in the following sections.



Global Audit Quality Monitoring Group (GAQMG)

The GAQMG comprises a team of partners, associate directors and senior managers experienced in performing program reviews of listed and related entity (LRE) audit engagements. The team also includes partners and professionals with experience in auditing general information technology controls and application controls.

For the last three years, the South African QPR have been conducted exclusively by individuals from this group and other experienced reviewers independent of KPMG Africa.

Audit Quality Performance Reviews (QPR)

The QPR program assesses audit engagement performance and identifies opportunities to improve quality. Each audit engagement partner is reviewed at least once in a 3-year cycle as part of QPR.

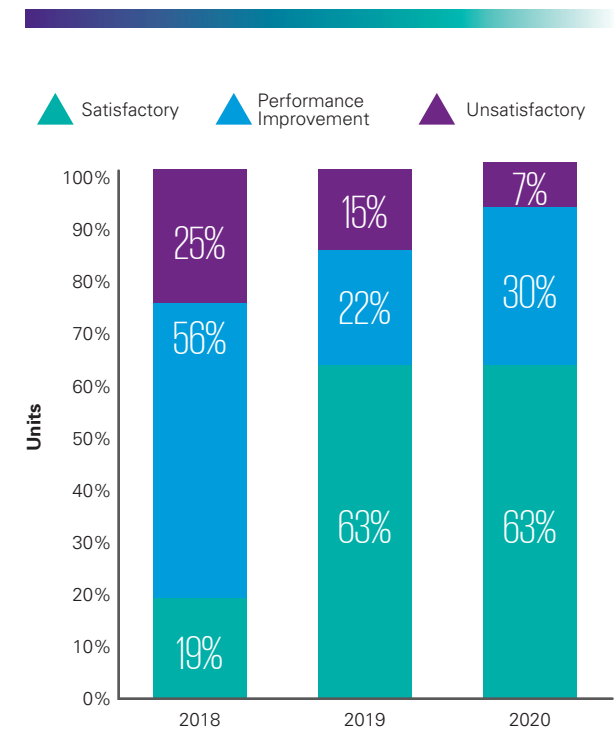
KPMG International helps ensure that our QPR is fair and objective. Our review is overseen by an independent experienced lead reviewer who is from a different KPMG firm and is part of the GAQMG.

Our reviews need to be as rigorous as regulatory reviewers and focus on topics of concern identified by previous quality reviews or the IRBA.

KPMG International helps ensure that consistent criteria are used to award engagement ratings and audit practice evaluations, so that we can truly measure improvements in the future.

Our objective is to achieve the highest standard of audit quality and to be the most trusted and trustworthy audit firm in South Africa. To achieve this audit quality objective, we aim to reduce the number of audits with findings, especially on the audits of listed public interest entities.

One of the tangible measures of whether our audit quality has improved are the results of our internal QPR.



Our 2020 QPR results showed that 93% of the engagements reviewed were either satisfactory or required only some level of performance improvement (2019: 85%; 2018: 75%). None of the unsatisfactory ratings were for audits of listed or other public interest entities.

Audit QPR ratings

There is no standard description or objective grading scale for quality reviews amongst regulators and professional auditing firms. Within the KPMG network consistent criteria are used to determine engagement ratings as follows:

Satisfactory

When both:

the audit work performed, the evidence obtained, and documentation fully comply with internal policies, auditing standards and legal and regulatory requirements;

and key judgements concerning significant matters in the audit and audit opinion are appropriate.

Performance Improvement Needed (PIN)

When the auditor's report is supported by evidence, but the independent reviewer required additional information to reach the same conclusion as the auditor; or where supplementary information obtained as part of the audit but not sufficiently documented in the audit or where specific requirements of our audit methodology were not embedded.

A 'PIN' rated engagement does not indicate concerns about the appropriateness of the audit opinion issued or the financial statements to which the opinion referred.

Unsatisfactory

When the auditor did not perform the engagement in line with KPMG's professional standards and policies in a more significant area, or where there are deficiencies in the related financial statements.

Specific accountabilities for remediation, where relevant, are identified and detailed action plans are drawn up.

Our sanctions system incorporates the results of the QPR results where engagement leaders receive 'Unsatisfactory' QPR ratings.

QPR findings

Findings from the QPR programme are shared with our professionals through written communications, internal training, and periodic partner and colleague meetings. These areas are also emphasised in subsequent monitoring and inspection programmes to gauge the extent of continuous improvement being achieved. We train our professional colleagues in audit quality areas, which include areas identified during recent QPR, to improve the quality, consistency and efficiency of our audits.

Risk Compliance Program (RCP)

During the annual RCP, member firms perform a robust assessment program that includes documenting quality controls and procedures, related compliance testing, reporting of exceptions, action plans and conclusions. The objectives of the RCP are to:

- document, assess and monitor the extent to which the KPMG firm's system of quality control complies with Global Quality & Risk Management policies, as well as key legal and regulatory requirements; and
- help KPMG firms evaluate their compliance with relevant professional standards and applicable legal and regulatory requirements.

If shortcomings are identified, the KPMG firm is required to develop appropriate action plans to address them.

The 2020 RCP indicated substantial compliance (2019 – Substantial compliance) with KPMG International GQM policies.

The firm is substantially in compliance with KPMG International GORM policies.

There may be several instances of matters requiring immediate attention, but these matters are not pervasive and do not indicate serious deficiencies within the system of quality control of the member firm.

The identified causes of issues indicate that specific controls need to be strengthened.

The exceptions noted are minor in nature, and not material to the operations of the firm.

The firm is in compliance with the training policies covering compliance with laws, regulations and professional standards, as well as prohibitions on bribery.

Global Compliance Review (GCR)

A GCR is carried out by KPMG's GCR team at every KPMG firm with each firm selected for review at various intervals based on identified risk criteria. The GCR team, which is independent of the member firm under review, looks in detail at:

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

The KPMG International Global Compliance team performed a follow-up review of the 2019 GCR findings of KPMG SA during 2020. The review concluded that KPMG SA is substantially in compliance with the KPMG International GORM policies, reconfirming our RCP conclusion.

We have developed action plans to respond to all the findings of the GCR and have agreed these with the GCR team. Our progress on action plans is monitored by a Global GCR Central Team. Results are reported to the KPMG GORM Steering Group (GQRMSG) and, where necessary, to appropriate KPMG International and regional leadership to ensure timely remedial actions.

Conducting root cause analysis

Root cause analysis is important in order to identify and address audit quality issues and prevent them from recurring in the future. We expect all firms to carry out such analysis.



All KPMG firm Heads of Audit are responsible for the development and implementation of action plans including appointing remediation owners. Risk Management Partners are required to monitor their implementation.

At a global level, we continue to strengthen our root cause analysis process and drive consistency across the organisation by delivering face-to-face training and workshops for individuals in KPMG firms who will be performing or overseeing root cause analysis.

Taking effective remedial actions

As well as considering our local findings and responding to them with specific actions, the Global Audit Quality Council and the GQRMSG, KPMG International reviews the results of the quality monitoring programs, reviews root causes and planned remedial actions, and develops additional global remediation actions as required.

Remediation actions are implemented with the support of global training, tools and guidance to drive consistency.

This helps ensure the fundamentals are right and that leading practices are shared across the global organisation.



External monitoring and dialogue

Regulators

The IRBA has been carrying out independent firm and individual auditor inspections for a number of years and is one of 55 members of the International Forum of Audit Regulators (IFIAR).

Our firm is also registered with the Public Company Accounting Oversight Board (PCAOB), Financial Reporting Council (FRC) and the Canadian Public Accountability Board (CPAB), which also carry out inspections on the firm and engagements performed in South Africa.



IRBA inspections

For its seventh inspection cycle (2018/2019), the IRBA has adopted the Core Principles issued by IFIAR, which state that audit regulators should ensure that a risk-based inspections programme is implemented. This programme includes both firm-wide and engagement-level inspections.

The objective of an IRBA firm-wide inspection is to inspect the design and implementation of the quality control system of a firm, in accordance with the ISQC 1, and to prompt remedial action on any identified deficiencies.

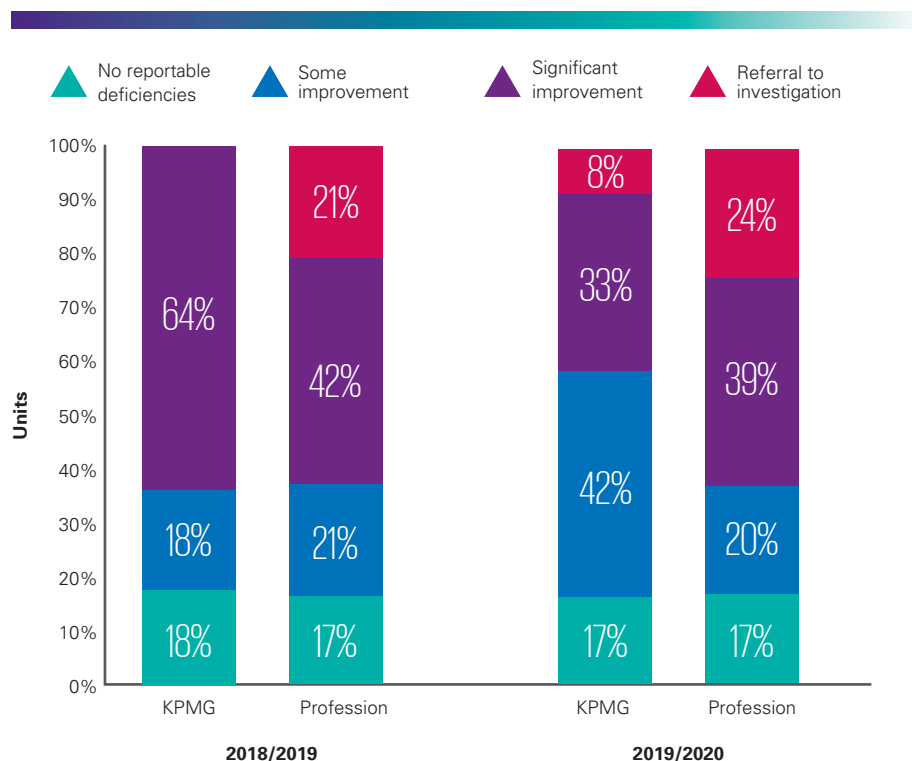
Depending on the size of the firm, various elements of ISQC 1 are monitored during a firm-wide inspection. A 'full scope' inspection is performed for larger network firms and all elements of ISQC 1 are inspected.

Firm-wide inspection findings

As part of its seventh inspection cycle, the IRBA performed its most recent firm-wide inspection during September and October 2018 and issued the report on KPMG SA on 5 March 2019. Details of this review were included in our KPMG SA Transparency Report 2019. Our eighth-inspection cycle firm-wide review is planned for 2021.

Individual engagement inspections

The results of the IRBA individual audit engagement file inspections during 2019/ 2020 and 2018/ 2019 with a comparison to the profession results were as follows:



Having analysed our results, we note that we were in line with the profession results in 2019. Our 2020 audit quality results, when compared to the profession at large, shows significant improvement.

The IRBA overall engagement file inspection results per their Public Inspections Report on Audit Quality for the 2019/2020 financial year (March year-end) highlights that for the profession, only 37% of files were rated as “No further action required” or “Some improvement required” vs 59% of the KPMG files that were subject to IRBA inspection. Additionally, the profession had 24% of reviewed files referred to “Investigation” with one (2018/ 2019 – zero) relating to the KPMG IRBA file reviews.

We have assessed the reportable findings resulting from each engagement-level inspection and are satisfied that the audit opinions issued in respect of the inspected engagements were appropriate and that the related financial statements were not materially misstated.

We have seen a reduction in both the number and severity of the individual findings, however the number of engagements with reportable findings remain higher than we would like, and our goal is to significantly reduce these.

Our 2LoD reviews confirm that the quality initiatives implemented as part of the Audit Quality Plan since January 2019 are having a positive impact on audit quality.

We are confident that our Audit Quality Plan is having a positive impact and we are on the right path to achieving our objective of the highest standard of audit quality and to be the most trusted and trustworthy audit firm in South Africa.

Since the end of the reporting period of this Transparency Report, the IRBA began their engagement reviews for 2020/21. The outcome is only expected in March 2021.

Public Company Accounting Oversight Board inspections

The PCAOB performed its regulatory inspections during 2008, 2011, 2014, 2017 and 2020. The public portions of the 2008, 2011, 2014 and 2017 inspection reports on KPMG Inc. are available on the PCAOB website at <http://pcaobus.org/Inspections/Reports/Pages/default.aspx>.

We currently await the 2020 PCAOB inspection report following their inspection during January/February 2020.

Statement by the Policy Board

Effectiveness of system of quality controls

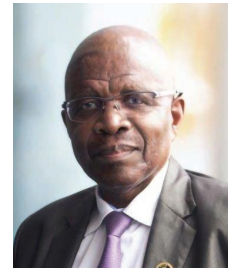
The measures and procedures that serve as the basis for the system of quality control for KPMG SA outlined in this report aim to provide a reasonable degree of assurance that the statutory audits carried out by our firm comply with the applicable laws and regulations. Like any system, the system of quality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

The Policy Board of KPMG SA has considered:

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

Taking all this evidence together, the Policy Board of KPMG SA confirms, with a reasonable level of assurance, that the systems of quality control within our firm have operated effectively in the year to 30 September 2020.

Prof Wiseman Nkuhlu



Chairperson of the Policy Board

5 March 2021

Prof Ben Marx



Chairperson of the Audit Quality Committee

5 March 2021

Ignatius Sehoole



Chief Executive Officer

5 March 2021

Appendix

KPMG International structure and governance



KPMG International

KPMG is a global organisation of professional services firms providing Audit, Tax and Advisory services. KPMG is the brand under which the member firms of KPMG International Limited (“KPMG International”) operate and provide professional services. Each firm is a separate legal entity and together they form the KPMG global organisation. “KPMG” is used to refer to individual member firms within the KPMG organisation or to one or more member firms collectively.

In many parts of the world, regulated businesses (such as audit and legal firms) are required by law to be locally owned and independent. KPMG member firms do not, and cannot, operate as a corporate multinational. KPMG member firms are generally locally owned and managed. Each KPMG member firm is responsible for its own obligations and liabilities.

KPMG International — Governance

KPMG International acts as the coordinating entity for the overall benefit of the KPMG organisation. It facilitates audit quality across the organisation by establishing common policies, processes and standards to be applied across member firms.

KPMG International’s governance bodies are comprised of the Global Council, the Global Board (including its Committees), the Global Management Team and the Global Steering Groups. Further detail on each of these is set out below.

KPMG International structure and governance



KPMG member firms — legal structure and relationship with KPMG International

Member firms in the KPMG organisation are members in, or have other legal connections to, KPMG International, an English private company limited by guarantee. KPMG International acts as the coordinating entity for the overall benefit of the KPMG member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

Our structure is designed to support consistency of service quality and adherence to agreed values wherever in the world KPMG member firms operate. KPMG member firms commit to conduct their operations in compliance with a common set of values, standards and service quality expectations. Partners and employees within those firms always commit to act with integrity.

Under their membership and associated agreements with KPMG International, member firms are required to comply with KPMG International's policies including quality standards governing how they operate and how they provide services to clients. This includes being professionally and financially stable, having an ownership, governance and management structure that ensures continuity, stability and long-term success, and being able to comply with policies issued by KPMG International, adopt global strategies, share resources (incoming and outgoing), service multinational clients, manage risk, and deploy global methodologies and tools. Member firm Heads of Audit have direct responsibility for audit quality.

Individual member firms may consist of more than one separate legal entity. If this is the case, each separate legal entity will be responsible only for its

own obligations and liabilities, unless it has expressly agreed otherwise.

A firm's status as a KPMG member firm and its participation in the global organisation may be terminated if, among other things, it has not complied with the policies set by KPMG International or any of its other obligations owed to it.

KPMG International and the member firms are not a global partnership, single firm, multinational corporation, joint venture, or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International, any of its related entities or any other member firm vis-à-vis third parties, nor does KPMG International or any of its related entities have any such authority to obligate or bind any member firm.

Unless otherwise indicated, references in this document to a 'firm', 'KPMG firm', 'member firm' or 'member firms' are references to member firms of KPMG International.

KPMG International governance bodies

As set out above, as at 1 October 2020, the KPMG International Governance Bodies and their functions are as follows:



Global Council

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

The Global Council elects the Global Chairman and approves the appointment of Global Board members. It includes representation from 56 KPMG firms.

Global Board

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include approving global strategy, protecting and enhancing the KPMG brand and reputation, overseeing the Global Management Team, and approving policies with which KPMG firms are required to comply. It also approves the admittance or termination of KPMG firms to/from the global organisation.

It is led by the Global Chairman, Bill Thomas, and includes the Chairman of each of the regions and a number of members who are also member firm Senior Partners.

The list of Global Board members, as at 1 October 2020, is set out on the [Leadership page](#) of our website.

Global Board committees

The Global Board is supported in its oversight and governance responsibilities by several committees, including:

- Executive Committee;
- Governance Committee;
- Global Quality, Risk & Reputation Committee; and
- Global Audit Quality Committee.

The overarching responsibility of the Global Audit Quality Committee is to strive for globally consistent audit quality across all firms and to oversee those KPMG International activities which relate to improving and maintaining the consistency and quality of audits provided by KPMG firms.

Global Management Team

The Global Board has delegated certain responsibilities to the Global Management Team.

These responsibilities include developing the global strategy by working together with the Executive Committee, and jointly recommending the global strategy to the Global Board for its approval. The Global Management Team also supports KPMG firms in their execution of the global strategy and KPMG International decisions and policies by member firms, including holding them accountable against their commitments.

The list of Global Management Team members is available on the [leadership section](#) of our website.

Global Head of Quality, Risk and Regulatory

The Global Head of Quality, Risk & Regulatory, Ed Cannizzaro, is a member of the Global Management Team and has responsibility for KPMG's system of quality controls, risk management, and ethics and compliance programs for KPMG International.

Global Steering Groups

There is a Global Steering Group for each key function and infrastructure area, chaired by the relevant member of the Global Management Team and, together, they assist the Global Management Team in discharging its responsibilities. They act under delegated authority from the Global Board and oversight by the Global Management Team (GMT). Under the oversight of the GMT, they promote the execution of the global strategy and compliance with KPMG International decisions and policies



by member firms. In particular, the Global Audit Steering Group (GASG), and Global Quality & Risk Management Steering Group, work closely with regional and member firm leadership to:

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

Global Audit Steering Group (GASG)

The GASG is responsible for driving the member firms' implementation of KPMG's audit strategy, including standards of audit quality. The GASG works closely with the GQRMSG in relation to quality and risk matters related to audit.

The GASG is chaired by the Global Head of Audit, and its other members are the Heads of Audit from the 8 largest KPMG firms which also encompasses the Heads of Audit for each of KPMG's three regions (the Americas, EMA and ASPAC). Senior individuals with direct reporting responsibilities to the Global Head of Audit also regularly attend and provide reports to the GASG.

Global Audit Quality Council (GAQC)

The Global Audit Quality Council (GAQC) is chaired by the Global Head of Audit Quality and includes: the Global Head of Audit, Global Head of Quality, Risk & Regulatory, Regional Audit Quality Leaders, country Heads of Audit Quality from 10 of the largest KPMG firms, and the Head of the Global Audit Methodology Group.

The GAQC is responsible for:

- monitoring and driving progress in global audit quality initiatives to improve the consistency and quality of audit execution throughout the organisation, including the system of quality control including the implementation of ISQM 1;
- considering audit quality matters on an organisation-wide basis (including issues arising through quality performance and regulatory reviews as well as root cause analysis), with a specific focus on those issues arising from the largest member firms;
- assessing and monitoring progress across the organisation on how audit quality issues are being addressed by member firms and the organisation as a whole; and
- making recommendations to the GASG on policy changes related to audit quality issues.

Global Quality & Risk Management Steering Group (GQRMSG)

The GQRMSG is chaired by the Global Head of Quality, Risk & Regulatory and its other members are the Risk Management Partners from the 8 largest KPMG firms and the Risk Management Partners for each of the three regions. The Global Head of Audit and the Global Head of Risk Management, Audit are regular attendees.

The GQRMSG is responsible for setting quality and risk management policies and procedures for the global organisation and for providing associated guidance. These are documented in the Global Quality & Risk Management Manual (GQ&RM Manual) available to all member firms and their personnel on a web-based platform. When exercising its responsibilities, the GQRMSG considers, through the QPR, the Risk Compliance Program (RCP), Global Compliance Reviews (GCR), and Area Quality & Risk Management Leaders (ARLs):

- firm compliance with GQ&RM policies, processes and systems;
- proactive identification and mitigation of significant risks faced by member firms; and
- performance of member firm professional services to drive and help ensure consistent high-quality work globally.

Area Quality & Risk Management Leaders (ARLs)

The Global Head of Quality, Risk & Regulatory appoints ARLs, who serve a regular and ongoing monitoring and consultation function to assess the effectiveness of a member firm's efforts and processes to identify, manage and report significant risks that have the potential to damage the KPMG brand.

Significant activities of the ARL, including member firm issues identified and related member firm response/ remediation, are reported to GQ&RM leadership.

The objectives of the ARL role are to:

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



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Throughout this document, “KPMG”, “we”, “our” and “us” refers to the global organization or to one or more of the member firms of KPMG International Limited, each of which is a separate legal entity. KPMG International Limited does not provide services to clients. No member firm has any authority to obligate or bind KPMG International Limited or any other member firm vis-à-vis third parties, nor does KPMG International Limited have any such authority to obligate or bind any member firm.

Throughout this document, references to “Firm”, “KPMG firm”, “member firm” and “KPMG member firm” refer to firms which are either: members of KPMG International Limited; sublicensee firms of KPMG International Limited; or entities that are wholly or dominantly owned and controlled by an entity that is a member or a sublicensee. The overall governance structure of KPMG International and its associated entities is provided in the ‘Governance and leadership’ section of the 2020 KPMG International Transparency Report.

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



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