Driving audit quality in South Africa

KPMG South Africa Transparency Report

1 October 2018 – 30 September 2019

Issued 27 January 2020

Our Values

Our Values are our core beliefs, guiding our actions and behaviours. They are important because it's not just what we do that matters, but also how we do it. Our Values are at the heart of what it means to work for, and with, KPMG, shaping our decisions and defining our culture.

Our Values are:

- We **lead by example** at all levels in a way that exemplifies what we expect of each other and member firms' clients.
- We **work together** to bring out the best in each other and create strong and successful working relationships
- We **respect the individual** for who they are and for their knowledge, skills and experience as individuals and team members.
- We **seek the facts and provide insight** by challenging assumptions and pursuing facts to strengthen our reputation as trusted and objective business advisors.
- We **are open and honest** in our communication and share information, insight and advice frequently, and constructively manage tough situations with courage and candor.
- We **are committed to our communities** to act as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities.
- Integrity is a critical characteristic that stakeholders expect and rely on. Therefore, above all, we **act with integrity** and are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.

Our Values remain as important and relevant today as they were when we created them and we continue to make efforts to ensure they are top of mind to all our people – from new recruits to our longest serving colleagues. We monitor the extent to which our people feel we live Our Values regularly through our Global People Survey.

Contents

Key activities of 2019

Formalised the Audit Quality Plan in January 2019, with quarterly reporting on progress to the Audit Quality Committee and the IRBA.

Introduction of audit in-flight reviews (2LoD) for engagements with 31 December 2018 year-end and onwards. 174 reviews completed.

Began piloting KPMG Clara technology and methodology, extended our Data & Analytics (D&A) capabilities and established a centralised analytics team.

Significant year-on-year improvement in Quality Performance Review (QPR) results.

The 2019 Risk Compliance Programme (RCP) and Global Compliance Review (GCR) indicated substantial compliance with KPMG International Global Quality and Risk Management policies.

Creation of the Audit Quality Committee (AQC), a new sub-committee of the Policy Board.

Arrival of our new CEO, Ignatius Sehoole, in June 2019.

91 578 training hours attended by 1 012 audit professionals.

A KPMG candidate was placed first in the 2018 ITC examination.

The overall response rate to the Global People Survey (GPS) was 80 per cent and our overall employee engagement score improved 9 points to 76 per cent.

Our staff turnover levels have normalised across every area of our business.

Johannesburg Stock Exchange (JSE) audit firm and partner accreditation was renewed.

Three KPMG candidates in the November 2018 APC honours roll — KPMG had more South African-based candidates on the honours roll for the November 2018 APC honours roll than any other firm.

Financial accreditations with the South African Reserve Bank (SARB) were confirmed.

Foreword

Message from the Chief Executive Officer

It is my pleasure to present the first KPMG South Africa Transparency Report for our financial year ended 30 September 2019. 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 South Africa overall and will be released soon.

As part of our journey to rebuild the public's trust, we would like to use this report to share more information regarding what we do in our audit practice, how we do it, and the actions we have taken to ensure that we deliver audits of the highest quality.

Internally, we rolled out our 'Welcome to Tomorrow' strategy this year. The strategy positions KPMG South Africa as a firm that intends to become the most trusted and trustworthy audit firm in South Africa, with public interest at its centre, and the following four primary objectives:

- demonstrate utmost integrity;
- achieve the highest level of quality;
- become a genuinely transformed South African firm representative of the demographics of South Africa; and
- be relevant to market requirements by delivering dynamic solutions as a fully integrated and agile multi-disciplinary firm.

As we strive to achieve our ambitions, we remain committed to serving both the best interests of the markets and the public when performing our audits.

> *"The strategy positions KPMG South Africa as a firm that intends to become the most trusted and trustworthy audit firm in South Africa."*

During the last year, we finalised our audit quality plan and undertook a number of related initiatives. Our goal is to entrench a culture within which achieving the highest standards of quality is an expectation, rather than an achievement.

We have already begun to see a corresponding change in our culture, reflected in an increased focus on quality, public responsibility and continuous improvement. None of this would be achievable without the resilience of our partners and colleagues and their commitment.

Although these changes are gratifying, we recognise that we are on a continuous journey and that ultimately these initiatives should become 'business as usual'.

Ignatius Sehoole
Chief Executive Officer
KPMG South Africa

Message from the Chairperson of the Audit Quality Committee and the Head of Audit Quality

Our objective is to achieve the highest standard of audit quality and to be the most trusted and trustworthy audit firm in South Africa. In January 2019, we formalised our comprehensive Audit Quality Plan (AQ Plan) and concentrated on executing and monitoring our progress against this plan during the year. This included quarterly updates to the Independent Regulatory Board for Auditors (IRBA).

Culture and Ethics

We recognise that our culture does more than support audit quality — it drives it. As in any organisation, our culture is dynamic and requires continual monitoring and nourishing. The AQ Plan not only specified the establishment of an ethics function, it also included initiatives related to recruiting and hiring, ongoing training and individual performance evaluations, equipping our teams to make the right decisions when confronted with difficult circumstances and challenges. Our objective is to ensure that our purpose and values are fully aligned with our professional goals and compensation model, as well as nurturing the growth of our people.

Leadership and governance

While significant changes had already been made in terms of leadership and governance in the prior year, there were two notable events during the period under review. The first was the creation of the Audit Quality Committee (AQC), a new sub-committee of the Policy Board. The AQC is independently chaired and was created to focus purely on audit quality.

The second event was the arrival of our new Chief Executive Officer (CEO), Ignatius Sehoole, in June 2019. Mr. Sehoole is a Chartered Accountant by profession, a registered auditor and the former executive president of the South African Institute of Chartered Accountants (SAICA).

Audit in-flight reviews

During the year, we implemented an extensive programme of audit in-flight reviews for engagements with 31 December 2018 year-ends and onwards, with a focus on high-risk public interest entities (PIEs). This initiative provides support to our professionals prior to the signing of an audit opinion. This pro-active initiative will continue in the next financial period and be renamed 'Second Line of Defense' (2LoD) to be consistent with KPMG Global audit quality transformation initiatives.

Audit Quality Indicators

We have acknowledged, and support, the profession-wide initiatives of the IRBA to enhance the use, and reporting, of Audit Quality Indicators (AQIs). We are committed to developing AQIs and using these to enhance our monitoring of audit quality. We currently use a number of internal AQIs, such as QPR ratings and metrics relating to training, risk management, independence compliance and compliance with mandatory ethics training. We will seek to further enhance and automate our AQI monitoring processes in the near future.

Investing in the future of audit

Our KPMG Global audit quality transformation initiatives are focused on investing in the future of audit. As a result, our enhanced global audit methodology and new workflow, KPMG Clara, is being piloted this year, with full deployment planned for year-ends on and after 31 December 2021. KPMG Clara will enhance the alignment of our global audit methodology to

International Standards on Auditing (ISA) and with our simplification and standardisation objectives, assist us to achieve greater consistency.

Improved business metrics, which are technology-based monitoring controls across our electronic audit file population, were piloted during 2019. These new business metrics improve our oversight and central, real-time monitoring of compliance with applicable professional standards.

In South Africa and globally, we are also investing in fundamentally redesigning our approach to the system of quality management in anticipation of the adoption of the International Standard on Quality Management (ISQM) 1, the standard that will replace the current International Standard on Quality Control (ISQC) 1.

Business model and soundness

Since 2018, to help us provide greater centralised control over a smaller client and colleague base and free up resources to invest in audit quality, we have closed a number of our regional offices and consolidated our Gauteng audit practice.

Additionally, to further increase the audit quality focus on our existing client portfolio, we took the decision to refrain from accepting any new PIE audit clients with financial years that end on or before 31 December 2019, unless they are referred to KPMG South Africa from another KPMG member firm, or any new PIEs related to existing audit clients. We have participated in tenders for PIE audit clients with financial years that end after 1 January 2020. We are now in a position to accept new PIE clients and begin growing our business again.

Current auditing environment

Given the challenging economic environments within which our clients operate, going concern is often identified as a significant risk. As a result, our engagement teams challenge the client's analysis and assessment of the 'going concern' assumption, including projected cash flows and the appropriateness of support provided, especially from parent companies in subsidiary situations.

An area of increased focus is the identification of related parties, documenting the understanding of the substance of related party transactions and balances. There is focus on testing impairment of related party balances and the measurement and presentation of intercompany debt/loans in accordance with International Financial Reporting Standards (IFRS).

The robustness of journal entry testing is an aspect that remains an area of ongoing attention, given that it is intrinsically linked to the risk of misstatement due to fraud. It is also an area in which we are increasing the use of our Data & Analytics capabilities.

In line with the JSE amendment to the listing requirements for the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) to attest on corporate governance matters including internal financial controls (effective in 2020), we are encouraging our clients to improve their own documentation of controls and the evidence supporting their effective operation, which, in turn, will improve control identification and testing performed by our audit teams.

Looking ahead

Looking ahead, we will maintain our relentless focus on ensuring compliance with auditing standards, including addressing the specific areas for improvement arising from our monitoring reviews and regulatory inspections. KPMG has a long history and culture that demonstrates its commitment to excellence, deep expertise, exceptional talent and rigorous processes, which we will leverage as we strive to achieve the highest standards of audit quality and to be the most trusted and trustworthy audit firm in South Africa.

Professor Ben Marx
Chairperson of Audit Quality Committee
KPMG South Africa

Coenie Basson
Head of Audit Quality
KPMG South Africa

Who we are

Our history

The origins of KPMG South Africa stretch back to 1895 and through organic growth and strategic mergers, we have become one of the largest Audit, Tax and Advisory firms in South Africa, offering a wide range of services to clients across the private and public sector.

Our people

138 partners and 1 874 colleagues in South Africa supported by a network of more than 207 000 people globally.

Number of people per function

	Partners	Colleagues	Total
Audit	74	938	1 012
Tax	21	162	183
Advisory	31	400	431
Infrastructure	12	374	386
Total	**138**	**1 874**	**2 012**

Revenue generated per function (R millions)

	2019 (unaudited)	2018 (audited)
Audit	994	1 573
Tax	288	303
Advisory	502	801
Total	**1 784**	**2 677**

The firm has stabilised at two thirds of its former size and the colleague turnover rate has normalised.

We retained the vast majority of our audit clients during the 2019 cycle of Annual General Meetings (AGMs). In addition, we secured significant new engagements in the closing six months of our financial period. It is also encouraging that we are being invited to and responding to high value opportunities.

While smaller today, we are focused on the core products and services needed by our current and future clients, and more globally connected to our US $30 billion-strong global organisation than previously. Our global firm has clearly demonstrated its commitment to retaining a strong firm in South Africa and to working with our significant client base across the region. This renewed connectivity brings the best of KPMG global talent to our clients in South Africa. Examples of this reinvigorated connectedness include senior audit, financial risk management, cyber, IT and advisory colleagues from around the world serving clients in South Africa, either directly on specific engagements or on a secondment basis.

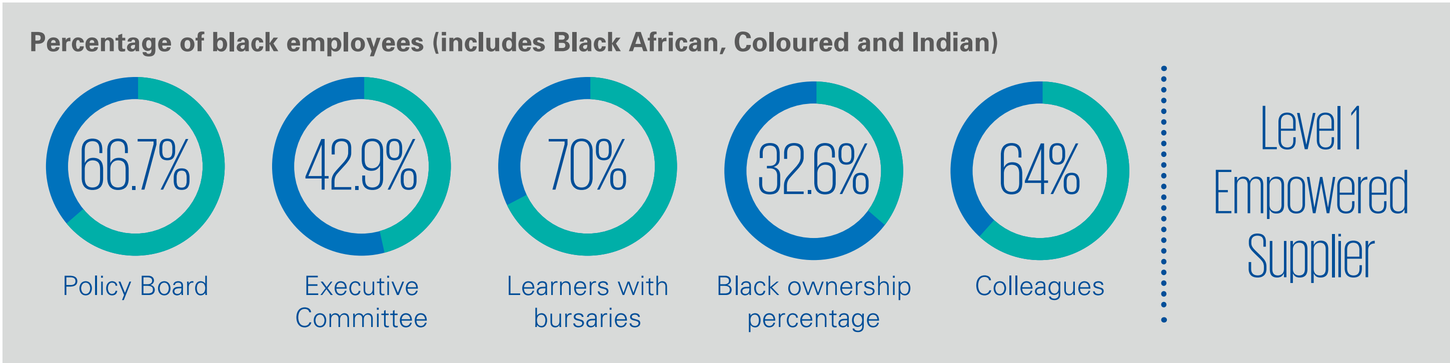
In a people-to-people business like KPMG South Africa, our partners and colleagues are our most valuable assets and need to be nurtured and developed in a high-performance environment. Our culture has an important role to play in this regard. We remain committed to fostering a more inclusive, encouraging culture within which our exceptional people feel connected to a strong sense of purpose and that their efforts are making a positive difference.

Our ambition is to be the most trusted and trustworthy audit firm in South Africa — a business that ultimately serves the public interest and a firm of which our people are proud to be a part.

Our footprint

Our global network of firms offers clients a combination of local knowledge and global reach. The KPMG network of firms operates in 152 countries and, through the network, we have people who understand the local marketplace wherever our clients are in the world. Our global network of member firms enhances the mobility of skills and knowledge that we offer. Our African footprint consists of 30 practices, servicing 54 countries across the continent. The South African business operates from four hubs in Johannesburg, Cape Town, Durban and Port Elizabeth.

Our transformation journey

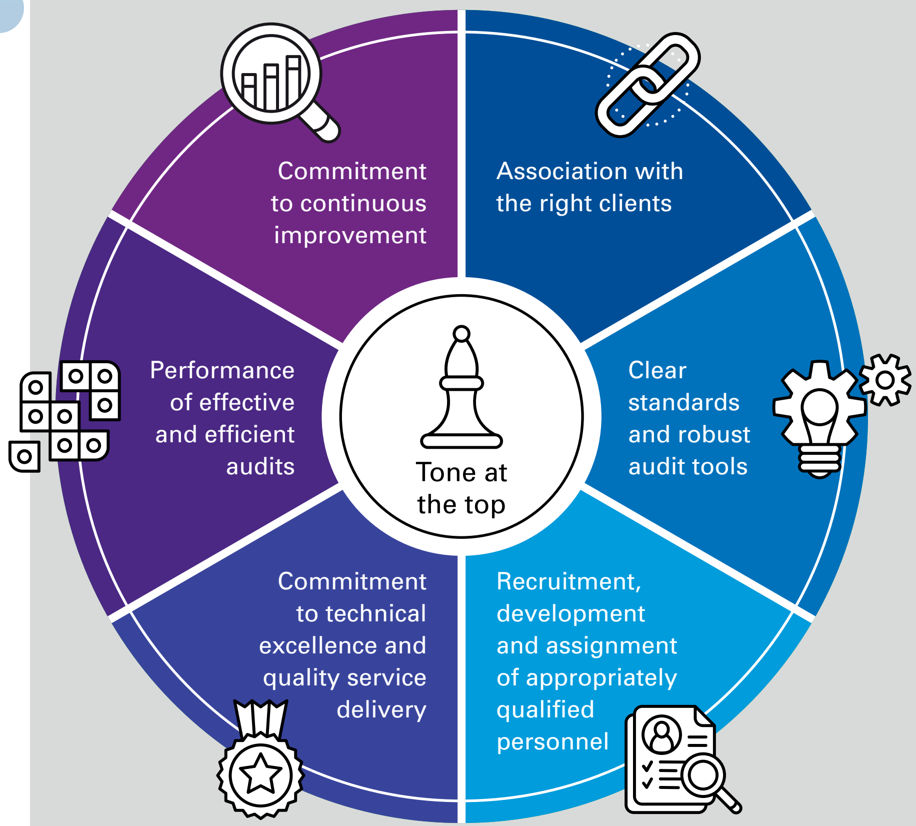


We are proud to have retained our B-BBEE Level 1 Empowered Supplier status as per the Amended Codes of Good Practice, but recognise that genuine transformation reflects more than achieving a great scorecard. Our strategy is to become a fully transformed firm that is representative of the demographics of South Africa. Our focus is on developing our black colleagues from a management control, professional expertise and ownership perspective, while also placing emphasis on procurement from black-owned businesses, particularly SMEs, aligned skills development and a commitment to enterprise and supplier development initiatives that lead to job creation.

System of quality control

The KPMG Audit Quality Framework©

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



We define 'audit quality' as being the outcome achieved when:

- audits are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls; and
- all of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

A quality, independent audit can only be delivered using a defined audit quality framework, which is underpinned by an explicit purpose and set of values, and that is supported by a culture of professionalism and ethics. Delivering audits of the highest quality, with integrity, is an indispensable part of our focus on restoring public trust — not just through our words, but through our actions.

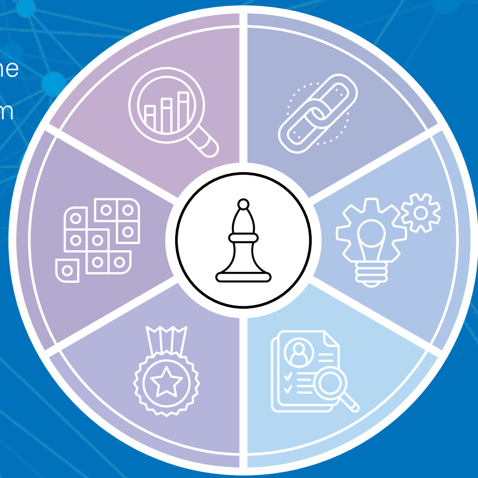
The KPMG Audit Quality Framework is based on the quality control policies and processes of KPMG International. It identifies seven drivers of audit quality. 'Tone at the top' sits at the core of the framework as it helps ensure that the right behaviours permeate across, not just the other six drivers of audit quality, but the entire firm. The other drivers of audit quality are presented within a virtuous circle because each driver is intended to reinforce the others. Each of the seven drivers is described in more detail in the following sections of this report.

Tone at the top

'Tone at the top' refers to the attitudes and conduct of the senior leadership of an organisation. The 'tone at the top' of any organisation drives its culture and accepted behaviours because employees will take their lead from the behaviour of their senior colleagues. At KPMG South Africa, we make it clear that audit quality is a critical part of our culture and values and, therefore, non-negotiable. An appropriate, unified 'tone at the top' is the embodiment of the right attitudes and behaviours expected throughout the firm. Accordingly, it is the core of our Audit Quality Framework.

Our leadership pro-actively promotes a culture in which consultation is encouraged and recognised as a strength; as is speaking up when there are concerns or challenges. Diversity of opinions are valued.

For KPMG South Africa, 'tone at the top' means that our leadership team demonstrates an unwavering commitment to quality, ethics and integrity, and communicate this commitment to colleagues, clients, relevant regulators, professional bodies, society and other stakeholders.



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.

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

The Policy Board

The Policy Board is the principal governance and oversight body of KPMG South Africa. 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. The Policy Board is supported by a number of sub-committees that are focused on specific functional governance areas of the business. The Audit Quality committee provides oversight on matters related to audit quality for the firm.

The Executive Committee (Exco) reports into the Policy Board through the two directors that sit 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.

The following diagram illustrates the governance bodies of KPMG South Africa:

Policy Board

- 4 Independent Non-Executive Directors*
- 2 Directors from the Executive Committee
- 8 Elected Directors

Committees:

- Audit Quality Committee
- Public Interest, Social & Ethics Committee
- Transformation Oversight Committee
- Risk, Quality & Compliance Committee
- Combined Assurance & Reporting Committee
- Remuneration & Nominations Committee

Executive Committee (Exco)

- Chief Executive Officer
- Chief Operating Officer
- Country Risk Management Partner
- Chair of Audit
- Head of Tax
- Head of Advisory
- Head of People
- Head of Clients & Markets including:
  - Priority Accounts
  - Financial Services
  - Energy
- Head of Transformation & Citizenship
- Regions:
  - Cape Town
  - Durban

* Two of the Independent Non-Executive Directors (NEDs) were appointed to the Policy Board in October 2019, increasing the total number of NEDs on the Policy Board to four.

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 South Africa and is accountable to the Policy Board in this regard. He was appointed as CEO on 4 June 2019 and attends the AQC meetings as a standing invitee.

The following committees have leadership and oversight responsibilities for audit quality at KPMG South Africa.

Executive Committee

Policy Board

Audit Executive Committee

Audit Quality Committee
Sub-committee of the Policy Board (Status reports received quarterly from the AAQC.)

Audit and Assurance Quality Council (AAQC)
(Monitors the implementation of the AQ plan monthly, with status reports to the AQC on a quarterly basis, covering all aspects of audit quality.)

Department of Professional Practice

Audit Function

Risk Management

Responsibility for each of the performance areas and each project within the AQ Plan has been allocated to responsible individuals.

The Audit Quality Committee

The Audit Quality Committee (AQC) of the Policy Board was established in February 2019 and has an 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 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 three members: Professor Ben Marx, who chairs the committee, Professor Wiseman Nkuhlu (Chairperson of the Policy Board) and Devon Duffield (elected director). The AQC meets every quarter and there were three meetings during the year.

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 AQ Plan.

The Audit and Assurance Quality Council

Our Audit and Assurance Quality Council (AAQC) is a council of senior partners which includes the Chair 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 South Africa. 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 Audit in-flight reviews. DPP participates in global and local networks and working groups to ensure that it has the most up-to-date information, and communicates and can apply the most relevant and appropriate information to the benefit of our audit teams.

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 manage the Audit Function (the active recruitment of a new Head of Audit is underway). Together, they are 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 Risk Management Partner. 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 Risk Management Partner is on the Exco, and reports directly to the Chief Executive Officer.

The roles of Head of Audit and Head of Audit Risk Management were separated in 2017 to ensure that the Head of Audit Risk Management is able to give sufficient focus to risk management matters in the audit function. The Head of Audit Risk Management reports directly to the Country Risk Management Partner.

The Head of Audit and the Head of Audit Risk Management determine the operation of the risk management, quality assurance and monitoring procedures for the audit function. These procedures make it clear that, at the engagement level, risk management and quality control are, ultimately, the responsibility of all professionals.

KPMG Code of Conduct

We have adopted the KPMG International Global Code of Conduct, 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 South Africa and each of its people to acting lawfully, ethically and in the public interest.

To reflect our increasing focus on serving the public while delivering high-quality services, the KPMG Code of Conduct was revised and re-launched globally in 2018. Our Code of Conduct emphasises the fact that our commitments extend beyond compliance with laws and regulations, and it includes a new section dedicated to public trust.

All personnel are trained on our Code of Conduct and ethical behaviour, on a biennial basis. New personnel are required to complete this training within three months of joining the firm. Our revised Code of Conduct was rolled out through a combination of online training modules (entitled 'Acting with Integrity') and open forums to facilitate discussions about what 'Acting with Integrity' means for professionals at KPMG.

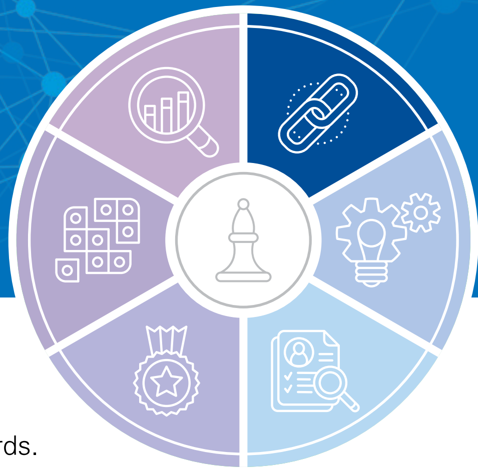
Global Code of Conduct

The Code of Conduct lays out the expectations of ethical behaviour for all the people of KPMG, built on the foundation of the KPMG Values.

https://home.kpmg/xx/en/home/about/who-we-are/governance/global-code-of-conduct.html

Association with the right clients

We understand that associating with clients that share similar values to us is fundamental to our ability to deliver high-quality audits. Consequently, understanding the challenges and risks associated with our clients' operations allows us to build audit responses to the identified risks. As a result, we have established rigorous policies and procedures for determining whether to accept or continue a client relationship or to perform a specific engagement.



Acceptance and continuance of clients and engagements

Rigorous client and engagement acceptance and continuance (CEAC) policies and processes are vital to our ability to provide high-quality professional services. Such policies and processes also help protect the reputation of the firm and support the KPMG brand. Accordingly, KPMG International has established policies and procedures that all member firms are required to implement in order to decide whether to accept or continue a client relationship or perform a specific engagement for a client.

During the last quarter of 2017 we re-evaluated our entire client portfolio, with specific focus on client reputation, political connections and management integrity. During this process, we identified clients that may potentially create association or other risks for the firm. We obtained an understanding of the work we were doing for them, and evaluated whether we should continue in these engagements. As a result, we identified some clients that we declined to work with further.

Furthermore, our monitoring processes indicated that smaller clients often did not have the level of controls, robust enough supporting documentation in place or depth of skills and experience, especially in areas of key judgement, to support the high-level of audit quality to which we aspire. As a result, we have exited some smaller clients during the year ended September 2019.

We are now well positioned to accept new clients that meet our rigorous client acceptance standards.

Prospective client and engagement evaluation process

Before accepting a client, KPMG South Africa undertakes an evaluation of a prospective client. This process involves an assessment of the principals of the prospective client, its business and other service-related matters. It also involves performing background checks on the key members of the management team and significant beneficial owners of the prospective client. A key focus is on the integrity of the management team. Among the factors considered during the evaluation are breaches of law and regulation and evidence of bribery, corruption or human rights violations.

Our CEAC processes and systems were updated in October 2017 to ensure that more robust consideration is applied to client acceptance and continuance. Additional approvals have been built into the process, with increasing levels of approval as risk levels increase. In some cases, Exco or the Europe, Middle-East and Africa (EMA) Head of Risk approvals are required.

We continue to enhance the way in which client background checks are conducted during the CEAC process; for example, the scope of background checks has been extended to include related parties of individual entities that comprise the client, including group companies, shareholders and directors.

In instances when audit services are to be provided for the first time, the prospective engagement team is required to perform additional independence evaluation procedures, including a review of any non-audit services previously provided to the client and other relevant relationships.

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

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

Once we have obtained information that indicates we should withdraw from an engagement or client relationship, we consult internally and identify any required legal and regulatory steps. We also communicate with those charged with governance at the client and with any other appropriate authority, as required.

Continuance process

We re-evaluate our audit clients annually. In addition, clients are re-evaluated if there is an indication that there may be a change in their risk profile.

This re-evaluation serves two purposes. Firstly, we will decline to continue to act for any client with which we consider it would not be appropriate to continue to be associated. Secondly, and more commonly, we use the re-evaluation process to consider whether or not any additional risk management or quality control procedures need to be put in place for the subsequent engagements that we perform for that client (this may include the assignment of additional professionals, such as an Engagement Quality Control Reviewer (EQCR) or other specialists).

Assigning client portfolios to audit partners

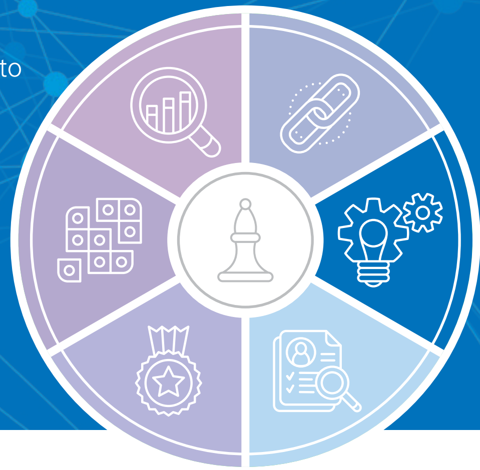
We review each audit partner's portfolio at least annually, taking into account other responsibilities the partner may have in the firm, such as EQCR responsibilities. These reviews consider the industry, nature and risk of the client portfolio of the partner as a whole, together with the competence, capabilities and capacity of the partner to deliver a quality audit for every client.

> *The scope of our background checks has been extended to include related parties of individual entities that comprise the client, including group companies, shareholders and directors.*

Clear standards and robust audit tools

Acting in the public interest is the responsibility of every KPMG partner and colleague. We expect our people to adhere to the clear standards we have set, and we provide a range of tools to support them in meeting these expectations.

Our policies and procedures for audit engagements incorporate the relevant requirements of the accounting, auditing, ethical and quality control standards, and other relevant laws and regulations, such as the Auditing Professions Act No. 26 of 2005, The Companies Act 71 of 2008 (Companies Act) and the Listing Requirements of the Johannesburg Stock Exchange (JSE).



Audit methodology and tools

The KPMG Global Solutions Group develops the audit methodology adopted by all KPMG member firms, based on the International Standards on Auditing (ISAs) and in compliance with the ISQC 1. Used by our audit professionals worldwide, our methodology is designed to be effective in all types of risk environments and economic circumstances. The methodology is set out in our global KPMG Audit Manual (KAM) and includes additional requirements that exceed those specified by the ISAs, which we believe enhance the quality of our audits.

Our audit delivery is enabled by eAudIT, the KPMG electronic audit tool. It integrates our methodology with the auditing standards and our industry knowledge to facilitate the conduct of an audit. The activity-based workflow of eAudIT is scalable and can be customised to suit the audit needs of all businesses, from small or medium enterprises to major multi-national groups.

KPMG Clara

We use technology to improve audit quality by driving better audit insights, ensuring better consistency in the performance of audits and strengthening the monitoring of engagements. We believe that audit quality is best achieved when the power of smart technology is matched with inquiring minds and professional scepticism. Globally we are updating our audit methodology and embedding it in our recently launched ‘smart’ audit platform, known as KPMG Clara.

KPMG Clara unites our data and analytics capabilities, innovative technologies and collaboration capabilities in a single sharing platform that enhances quality and efficiency by improving audit capabilities, workflow and data flows between the audit team and our client. KPMG Clara empowers our people through access to extensive libraries of standardised audit performance tools.

We are currently piloting KPMG Clara on a number of engagements, with an extended deployment planned to take place during 2020, and a target of full deployment for years ending on or after 31 December 2021.

Data & Analytics

Data & Analytics (D&A) refers to multiple processes and products. It is the collection, transformation, analysis and visualisation of large sets of data to discover patterns, trends, outliers and other relevant information. Our D&A capabilities leverage technology and statistical sciences, similar to sampling, to analyse data populations.

We use D&A capabilities to better understand the entities we audit, enhance our risk assessments and provide rich audit evidence. Our D&A routines provide valuable insights and additional confidence; for example, we use a tailored D&A routine to provide a profile of the entire population of journal entries of a client, allowing us to identify high-risk items for further, detailed testing.

During 2019, we have extended our D&A capabilities and established a centralised analytics team to support our KPMG Clara roll out and assist with audit quality monitoring.

Independence, integrity, ethics and objectivity

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

We have adopted the KPMG International Independence Policies, which are derived from the International Code of Ethics for Professional Accountants, created by the International Ethics Standards Board for Accountants (IESBA), and which incorporate the relevant requirements of the Securities and Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB) in the United States, and other applicable regulatory standards.

Our local processes supplement these policies to ensure compliance with the standards issued by the IRBA, such as the IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018), as well as the Auditing Professions Act No. 26 of 2005 and The Companies Act 71 of 2008.

These policies and processes cover areas such as firm independence, personal independence, post-employment relationships, partner rotation, and approval of audit and non-audit services. Partners and colleagues are also required to complete an annual independence declaration to confirm their compliance with the requirements.

Our Country Risk Management Partner is supported by a core team of specialists to help ensure that we apply robust and consistent independence policies, processes and tools. Ethics and independence policies are communicated through the issue of newsletters and email alerts and a mandatory annual training programme. If applicable, amendments to the ethics and independence policies during the course of the year are communicated using e-mail practice alerts and are incorporated in regular risk and quality communications.

In the event of failure to comply with relevant independence policies (whether identified in the rolling compliance review, self-declared or otherwise), professionals are subject to an independence disciplinary process and clients are advised if necessary. Matters arising from this process are factored into promotion and remuneration decisions and performance discussions. The disciplinary process is communicated to all professionals, applies to all breaches of independence rules and incorporates incremental sanctions that reflect the seriousness of any violations.

Our Chief Ethics Officer

We have 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. The Chief Ethics Officer reports to the Country Risk Management Partner and is tasked with reporting, on a quarterly basis, on key performance indicators to the Policy Board, the Exco and the Public Interest, Social and Ethics Committee (PISE), which is chaired by an independent non-executive director.

Comprehensive ethics training

All new hires receive ethics training during induction, which introduces them to our Values, our Code of Conduct and the tenets of ethical decision-making, as well as creating awareness of the various channels through which misconduct can be reported.

During 2019, we also facilitated 33 (2018: 25) ethics workshops for trainees, managers and partners across our businesses. The workshops focused on the 'higher purpose' of the accounting profession and the meaning of the term 'professional integrity'. In 2019, 1 181 (2018: 731) employees participated in these workshops.

> *All new hires receive ethics training during induction, which introduces them to our Values, our Code of Conduct and the tenets of ethical decision-making.*

Specialised training for leaders was also facilitated at 'Milestone Events' for new Managers, Senior Managers and Associate Directors. During these sessions, pressure-related scenarios were discussed, together with the role of a leader in terms of promoting ethics.

All candidates considered for promotion to partner or Associate Director are also subject to an ethics interview with the Chief Ethics Officer as part of their assessment for promotion.

Guidance and advice for all colleagues

An Ethics Helpdesk was launched during 2018 that provides a channel for employees to receive confidential advice on ethics-related matters. During the year, requests for advice have ranged from seeking clarity on what constitutes acceptable 'gifts and hospitality' to discussions relating to clients and 'association risk'.

In addition, the Chief Ethics Officer is working with 54 individuals who will become local points of contact in the various offices and business units, who can help extend the reach of the ethics programme, encouraging participation in the ethics programme in each business unit and throughout the region.

Our personnel are required to consult with the Chief Ethics Officer on certain matters, as defined in the Code of Conduct.

Sanctions

In order to reinforce the importance of audit quality enhancing policies and practices and to promote a culture of compliance, our comprehensive sanctions policy for partners was updated during 2018. The policy is facilitated through the application of a Partner Quality and Compliance Matrix (Matrix), which tracks compliance with risk management, training, continuous professional development (CPD), quality incidents and performance management. The Matrix is evaluated annually and sanctions are determined and applied by a sanctions committee. During 2019, seven partners (2018: 27 partners) were subjected to sanctions totalling R788 990 (2018: R2 026 485). The 2018 sanctions are significantly higher due to the significant additional monitoring in 2017/2018 aimed at resetting the audit quality and compliance bar. This included all partners being subject to external background and integrity checks and the extended audit quality monitoring.

A compliance matrix-based approach is now also included in staff evaluations through our annual performance management cycle.

Personal financial independence

To help ensure independence, our partners and colleagues assigned to each audit engagement must be free from prohibited financial interests in, and prohibited relationships with, our audit clients, their management teams, directors and significant owners, as prescribed by our policies and applicable regulations. Independence also extends to our contractors and subcontractors, using a process tailored to their circumstances.

Our people are responsible for making appropriate enquiries to ensure that they do not have, or enter into, any prohibited personal financial arrangements. Along with other member firms in the KPMG global network, we use an online independence compliance system, the KPMG Independence Compliance System (KICS), to assist our partners and management-level colleagues in complying with independence policies. This system contains a current inventory of publicly available investment products and specifically identifies restricted investments across our global network.

All partners and management-level colleagues are required to maintain a record of all of their investments in KICS and to check the status of a personal investment before taking up a financial opportunity. If an investment vehicle becomes restricted, the affected individuals receive automatic notification to take appropriate action, which may include prompt divestment. Partners and management-level colleagues at a minimum are required to confirm their investments in KICS annually, in a process that is tracked and monitored. We monitor partner and manager compliance with this requirement as part of our programme of independence compliance audits using a sample of professionals (see the 'Compliance reviews and background and integrity checks' part of this section for further detail).

"All partners and management-level colleagues are required to maintain a record of all of their investments in KICS and to check the status of a personal investment before taking up a financial opportunity."

Employment relationships

Any professional providing services to an audit client, irrespective of function, is required to notify our Country Risk Management Partner if he or she intends to enter into employment negotiations with that audit client. For partners, this requirement extends to any audit client of any member firm that is a PIE. Former members of the audit team or former partners of a member firm are prohibited from joining an audit client in certain roles unless they have disassociated from the firm financially and have ceased participating in our business or professional activities. Key audit partners and members of the chain of command for an audit client that is a PIE are subject to time restrictions (referred to as 'cooling-off' periods) that preclude them from joining that client in certain roles until a defined period of time has passed.

Firm financial independence

We also use KICS to record the investments of the firm in all entities, as well as direct and material indirect investments held in pension and employee benefit plans (including non-public interest entities and funds). On an annual basis, we confirm compliance with independence requirements as part of the Risk Compliance Programme (RCP).

Business relationships/suppliers

Our firm has policies and procedures in place that are designed to ensure that business relationships are maintained in accordance with the requirements of the IESBA Code of Ethics and IRBA Code of Professional Conduct. Compliance with these policies and procedures is reviewed periodically.

In addition, to ensure our independence and the perception of our independence is maintained, the policy on corporate hospitality, gifts, sponsorship and donations was updated and communicated to all partners and colleagues in November 2017, with further updates made during February 2018.

Independence clearance process

As described in the 'Association with the right clients' section, KPMG South Africa follows specific procedures to identify and evaluate threats to independence related to prospective audit clients that are PIEs. These procedures, also referred to as 'the independence clearance process', must be completed prior to accepting an audit engagement with such entities.

Independence training and compliance

KPMG provides all relevant personnel with mandatory independence training that is appropriate to their grade and function on an annual basis. Upon acceptance of employment and completing this annual training, all personnel are required to confirm that they are in compliance with, and will abide by, applicable ethics and independence rules and policies. In addition, all personnel are required to sign an annual declaration stating that they have remained in compliance with applicable ethics and independence policies throughout the year covered by the declaration.

Compliance reviews and background and integrity checks

A compliance review is performed to ensure that selected partners and colleagues report the relevant information to confirm their independence, and to identify any potential non-compliance with independence policies.

In 2019, 65 of our people were subject to these audits (this excludes the partners, who were all subject to background and integrity verification, as noted below).

In addition to the compliance reviews, all partners (including their spouses and dependents) in the firm were subject to extensive integrity and background verification by an external law firm, reporting to KPMG International, in October 2018. The verifications included:

- Tax compliance
- Financial interests
- Loans and bank accounts
- Criminal and disciplinary records
- Knowledge of breaches within the firm

In future, these background and integrity checks will cover all partners over a three-yearly basis as set out below:

Partners will now be covered by compliance reviews and background and integrity verification as follows:

2018	***All*** partners subject to external background and integrity verification	2019	50% of partners subject to internal compliance reviews	2020	50% of partners subject to internal compliance reviews	2021	***All*** partners subject to external background and integrity verification	2022

Non-audit services

We have clear standards that restrict the scope of services provided to audit clients. Providing certain non-audit services to our audit clients may create threats (actual or perceived) to our audit independence, particularly if we were put in a position of auditing our own work. Professional and ethical standards restrict certain non-audit services, and all other services need careful evaluation to ensure they do not create, or appear to create, an unacceptable independence threat.

The KPMG International proprietary system, Sentinel™, facilitates compliance with these policies on a global basis. The Sentinel™ system assists us in evaluating independence threats, as well as potential conflicts of interest, by analysing engagements and relationships reflected in the system.

Every engagement entered into by any member firm in our global network is required to be included in the system prior to starting work. The system then enables lead audit engagement partners of restricted entities to review and approve, or deny, any proposed service wherever in the world the service is proposed to be provided and wherever the member firm is based.

In accordance with applicable auditor independence rules, none of our audit partners are compensated for their success in selling non-audit services to any audit clients.

Fee dependency

Our policies recognise that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the member firm expressing the audit opinion. In particular, these policies require that, in the event that the total fees from a PIE audit client and its related entities were to represent more than 10 per cent of the total fees received by a particular member firm for two consecutive years, a senior partner from another member firm would be appointed as the EQCR. In addition, this would be disclosed to those charged with governance at the audit client.

For the year ended 30 September 2019, we have no clients that represent more than 10 per cent of total fees in KPMG South Africa.

Conflicts of interest

Conflicts of interest can arise in situations where personnel have a personal relationship with the client that 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 Country Risk Management Partner is required in these situations. In addition to managing non-audit services, Sentinel™ is the tool that all member firms use for potential conflict identification so that these can be addressed in accordance with legal and professional requirements. It may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise, or be perceived to arise, so that the confidentiality of the affairs of all clients is maintained. Such procedures may, for example, include establishing formal dividers between engagement teams serving different clients, and making arrangements to monitor the operation of such dividers. Escalation and dispute resolution procedures are in place.

Breaches of independence policy

All personnel are required to report an independence breach as soon as they become aware of it and when required these are reported to those charged with governance at the audit client. In the event of failure to comply with our independence policies, whether identified in the compliance review, self-declared or otherwise, professionals may be subject to an independence disciplinary process.

Our firm has a documented disciplinary process in relation to breaches of independence policies. The disciplinary process is communicated to all professionals and applies to all breaches of independence rules. The process incorporates incremental sanctions that reflect the seriousness of any violations. Any breaches of auditor independence regulations are reported to those charged with governance at the audit client.

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

Compliance with laws, regulations and standards is a key professional requirement for all our personnel. KPMG operates with zero tolerance for bribery and corruption.

We prohibit colleagues from involvement in any type of bribery, under any circumstances, even if such conduct is legal or permitted under applicable law or local custom. Equally, we do not tolerate bribery by third parties, including by our clients, suppliers or public officials.

Accordingly, training covering compliance with laws (including those relating to bribery and corruption), regulations, professional standards and the KPMG Code of Conduct is required to be completed by client-facing professionals at a minimum of once every two years, with new hires required to complete such training within three months of joining the firm. In addition, certain non-client-facing personnel who work in our finance, procurement or sales and marketing departments, and who are at the manager level and above, are also required to participate in anti-bribery training.

Further information on KPMG International anti-bribery and corruption policies can be found on the KPMG anti-bribery and corruption site: https://home.kpmg/xx/en/home/about/who-we-are/governance/anti-bribery-and-corruption.html

Partner and firm rotation

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

The firm has implemented a Global Partner Rotation System (PRS) to monitor and manage association of senior personnel on audits. This system is integrated with the online Global CEAC system and is populated through daily data interfaces with Global CEAC. The PRS tracks partner rotation against regulatory and KPMG rotation requirements, as well as the rotation requirements included in the Companies Act. The PRS has reporting capabilities that enable it to facilitate succession planning for effected clients, as well as enabling monitoring of compliance with partner rotation rules.

Recruitment, development and assignment of appropriately qualified personnel

One of the key drivers of quality is ensuring that KPMG professionals have the necessary skills and experience. This requires recruitment, promotion and retention of exceptional professionals, supported with robust capacity and resource management processes. The KPMG ‘global behaviours’, which build on our Values and refer to the skills and conduct to which every person at KPMG subscribes, are designed to help articulate what is required for success — both individually and collectively. These global behaviours include ‘delivering quality’, ‘exercising professional judgement’ and ‘striving for continual improvement’.

Recruitment and retention

Our recruitment processes include a variety of selection processes, such as applicant screening, competency-based interviews, psychometric testing and qualifications, references and criminal record background checks.

Upon joining our firm, new personnel are required to participate in a comprehensive induction programme, which includes technical and ethics training, as well as confirmation of compliance with firm independence policies.

Our turnover levels have reduced steadily over the last 12 months across every area of our business and are now back on target and reflect normal levels.

Personal development

Our professionals are engaging with people at our clients every day and it is important that they have the necessary business and leadership skills, in addition to technical skills, to be able to perform high-quality work.

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

(Further details regarding the technical training provided to our professionals is included in the ‘Commitment to technical excellence and quality service delivery’ section on page 27 of this report.)

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 2018 APC	74%	68%
January 2019 ITC	85%	71%
June 2019 ITC	69%	38%

We are proud to report that a KPMG candidate was placed first in the 2018 ITC examination and three KPMG candidates were included on the November 2018 APC honours roll.

Evaluation, compensation and promotion

Our policies require our professionals to set annual goals and undertake performance evaluations that include specific goals in terms of audit quality. Each professional is evaluated on their attainment of these agreed-upon goals, demonstration of the KPMG skills and behaviours for their level of seniority, adherence to our Values, and the quality of their work. The expectations of the firm, the daily responsibility requirements and the Key Performance Indicators (KPIs) for all audit professionals are robust and reviewed annually. For trainees working under a SAICA training contract, we monitor compliance with SAICA standards and competencies.

We monitor quality, risk, technical training and compliance incidents for the purposes of partner assignments and partner evaluation, promotion and remuneration.

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.

In addition, 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. (Refer to further detail on sanctions in 'Clear standards and robust tools' page 18 of this report.)

Average total partner earnings (before tax) for the 2019 financial year was R3.8 million (2018: R3.7 million).

Director/Partner admissions

Although we were historically, and are still often referred to as, a 'Partnership', KPMG South Africa 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. These criteria are aligned to the behavioural standards of KPMG and are based on consistent principles.

We wish to congratulate the five audit partners admitted during the year (2018: six).

Composition of the audit team

Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies, accreditation and capabilities, including time, to perform audit engagements in accordance with the KPMG Audit Manual (KAM), professional standards, and applicable legal and regulatory requirements. This may include involving specialists from our own firm or other KPMG member firms.

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

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

Specialist support

We understand that not all clients are the same or managed in the same way; hence, KPMG specialists will provide input on significant risks in an audit. Key areas of specialist involvement include information technology, data and analytics, tax, treasury, actuarial, forensic, and valuations.

In certain situations, specialist involvement is mandated. Otherwise, the audit partner and manager determine whether to use a specialist by considering the risks for the engagement, and the nature and complexity of the information, data, or calculations to be audited. We provide additional learning on audit concepts to our specialists who are members of an audit team.

Coaching

Members of the Global Audit Quality Monitoring Team and other senior international partners have been providing coaching to South African audit teams since September 2017. A key objective is to assist in developing the skills of audit engagement teams through on the job coaching. The coaching process involves obtaining an understanding of the client, the audit risks and the approach being adopted through discussion and a review of the eAudIT files. The coach provides the audit team with real-time feedback on the work carried out to date and planned.

Audit in-flight reviews

Audit in-flight reviews are independent, limited focus reviews of an audit that is at an advanced stage of completion. These reviews take place prior to signing the opinions and help identify matters that may require additional attention or further work. Findings and recommendations identified by an in-flight review are shared with the engagement team in order to be addressed during the audit, prior to signing the opinion. Further detail of these reviews is included in the 'Performance of effective and efficient audits' section of this report.

Employee engagement

Globally, KPMG invites partners and colleagues to participate in an independent Global People Survey (GPS), which measures our people's attitudes and provides an overall Employee Engagement Index (EEI) and Performance Excellence Index (PEI). The GPS also provides insights regarding what is driving engagement across different demographic groups and how we are faring in selected categories.

The results of the GPS provide leadership with information about employee/partner perceptions regarding audit quality, 'tone at the top', and employee engagement and motivation. The GPS helps leadership track progress against strategic priorities, as well as providing warning indicators of areas of concern.

KPMG South Africa participates in the GPS, monitors the results and takes appropriate actions to communicate and respond to the findings of the survey. This activity includes monitoring GPS results against agreed targets relevant to:

- audit quality and 'tone at the top', referred to in the GPS as 'leadership behaviour';
- employee engagement through the Employee Engagement Index (EEI).

The results of the GPS are presented to the Policy Board each year and appropriate follow-up actions are agreed upon. Some of the specific actions that we have taken following our 2018 GPS include:

- Launched our Welcome to Tomorrow strategy
- New approach to goal setting incorporating firm wide goals including specific quality goals, a balanced scorecard approach and tools, tips and guides to improve mentoring and feedback
- Improved communication regarding reward and recognition and a revised bonus scheme
- Enhanced benefits
- Improved communication with colleagues via roadshows, and establishment of a colleague business forum.

For the 2019 survey (which was completed in October 2019), the overall response rate was 80 per cent and our overall employee engagement score improved nine points to 76 per cent.

The overall score for audit quality was 83 per cent and 91 per cent for the item 'the culture and tone set by leadership promote the importance of audit quality'.

> *"Our overall employee engagement score improved nine points to 76 per cent."*

Commitment to technical excellence and quality service delivery

KPMG professionals are provided with the technical training and support they need. This includes access to networks of specialists and professional practice departments, which are made up of senior professionals with extensive experience in audit, reporting and risk management, either to provide resources to the engagement team or for consultation.

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

Our learning curriculum offers education programmes to hone technical expertise, business acumen and leadership skills. The DPP and Learning & Development business units deliver global, regional and local learning to ensure both global consistency and local applicability of training.

Professional training

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 the last year, KPMG audit professionals have attended the following hours of training, which included foundational methodology training for SAICA trainees:

	Audit and assurance	Ethics and independence	Other	Technical accounting	Total (Hours)
Partners	1 395	875	727	1 043	**4 040**
Associate Directors	383	628	453	318	**1 782**
Senior Managers	723	882	1 027	603	**3 234**
Managers	1 657	1 329	2 044	1 224	**6 255**
Supervisors	28 849	3 296	720	8 573	**41 438**
Team Members	29 654	1 951	996	2 228	**34 829**
Total (Hours)	**62 661**	**8 960**	**5 966**	**13 990**	**91 578**

Mentoring and on-the-job training

Learning is not confined to the classroom — a key element of learning is on the job training and coaching by more experienced team members. This provides all colleagues with the appropriate learning experiences as needed. Additional e-learning on specific topics is available as needed through our learner management system. These learnings are aligned with job-specific role profiles and learning paths.

> *Learning is not confined to the classroom.*

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 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, and EQCR have completed relevant training and that the engagement team, collectively, has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

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. Information Technology, 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.

> *Our engagement teams have access to a network of local KPMG specialists, as well as specialists in other KPMG member firms.*

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 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:

- 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 sub-committees of the IRBA and SAICA focusing on specific topics example IFRS15, 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).

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

Technical support teams	Headcount	
	30 September 2019	30 September 2018
DPP	57	46
QRM	51	36

“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.”

Performance of effective and efficient audits

We understand that the way in which we conduct an audit is as important as the final result. Our people are expected to demonstrate certain key behaviours and to follow certain policies and procedures in the performance of effective and efficient audits. We emphasise these behaviours though training sessions, coaching and via our review processes.

KPMG Audit process

Our audit workflow is enabled through eAudIT, the KPMG International activity-based workflow and electronic audit file. eAudIT integrates our audit methodology, guidance and industry knowledge with the tools needed to manage audits consistently. Our high-quality audit process includes the following principles:

Timely partner and manager involvement

Audit partners and managers are required to remain involved in all phases of the audit and perform timely reviews to ensure that robust risk assessment and planning leads to a well-supported audit approach. Timely involvement also allows the team to benefit from the knowledge and experience of the engagement leaders.

The engagement partner is responsible for the final audit opinion and reviews key audit documentation, in particular, documentation relating to significant matters arising during the audit and conclusions reached. The engagement manager assists the partner in meeting these responsibilities and in the day-to-day liaison with the client and team, building a deep business understanding that helps the partner and team deliver valued insights.

Critical assessment of audit evidence with emphasis on professional scepticism

Professional scepticism involves a questioning mind and alertness to contradictions or inconsistencies in audit evidence. KPMG promotes professional scepticism through our ongoing training sessions, as well as having guidance on applying judgement in our methodology.

Our professional judgement framework recognises the need to be aware of, and alert to, biases that may pose threats to good judgement.

Ongoing mentoring, supervision and review

To invest in the building of the skills and capabilities of our professionals, we promote a continuous learning environment and support a coaching culture. This includes adequate partner involvement throughout the audit, consideration of team understanding of expectations and audit approach, coaching and consulting where appropriate and considering team capacity to achieve the desired level of quality.

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.

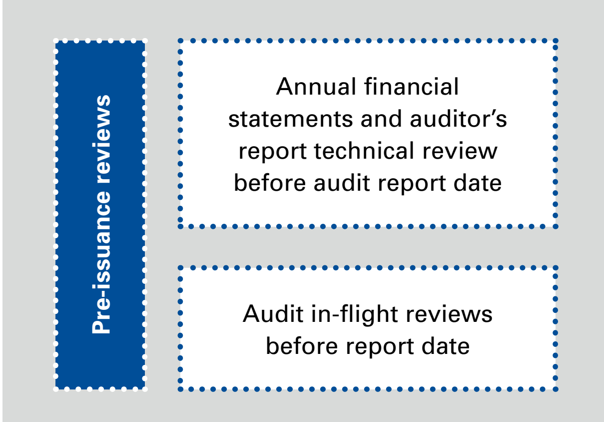
Appropriately supported and documented conclusions

The audit documentation records the audit procedures performed, the evidence obtained, and the conclusions reached on each audit engagement. It includes materials that are prepared by us, received from the client or received from relevant third parties. Our policies require a review of all working papers be conducted by a more experienced team member and that audit documentation relating to critical areas of judgements must be reviewed by the partner.

Appropriate involvement of the engagement quality control reviewer

All listed, high-risk and high public profile entity audits require an engagement quality control reviewer (EQCR). The EQCR is an independent audit partner assigned as an objective additional reviewer on significant and judgemental elements of the audit. EQCRs are experienced audit partners independent of the team, appointed by the business unit managing partners and approved by the Head of Audit Risk. EQCRs must have the same accreditations as the partner and be allocated sufficient time to carry out their review. The EQCR's review must be complete and all significant questions resolved before the issuance of the audit report.

Pre-issuance reviews



Reporting

Auditing standards and the Companies Act largely dictate the format and content of an auditors' report that includes an opinion on the fair presentation of the client's financial statements in all material respects. Experienced engagement leaders form all audit opinions based on the audit performed.

Our auditor's report is the key deliverable that communicates the results of the audit process. Investors and other financial statement users and stakeholders have asked for a more informative auditor's report. Enhanced auditor's reporting is critical to influencing the perceived value of the financial statement audit.

In forming their audit opinions and preparing audit reports, engagement leaders have access to extensive reporting guidance and technical support through consultations with DPP, especially where there are significant matters to be reported to users of the audit report (e.g. a modification to the opinion or through the communication of key audit matters).

DPP performs pre-issuance reviews of audit reports of PIE's and modified audit opinions. These reviews are performed by auditing specialists, to provide further comfort regarding compliance with ISA, as well as consistency of reporting of key audit matters and different modifications.

Regulator and public scrutiny of financial statements remain a feature of our profession. In an effort to drive and improve quality, regulators around the globe have implemented processes for pro-active review of reviewing the financial statements of PIE's on a regular basis.

DPP performs pre-issuance reviews of annual financial statements of PIE's listed entities and, where appropriate, their significant components. These reviews are performed by accounting specialists, to provide further comfort regarding compliance with IFRS, JSE Listing Requirements, the Companies Act and other local reporting pronouncements.

Audit in-flight reviews

The primary objective of Audit in-flight reviews (AFRs) — to be renamed the 'Second Line of Defense' (2LoD) — is to pro-actively improve the quality of audit execution and documentation during the course of the audit and before audit opinions are signed. A further objective is to provide coaching and feedback to engagement teams that will encourage improvement in the quality of reviewed audit files and the up-skilling of audit teams. Ultimate responsibility for the audit opinion, however, remains with the respective KPMG South Africa engagement partner.

The AFR does not replace the engagement quality control review, where such a review is required. The AFR is also in addition to, and does not replace, existing pre-issuance reviews of financial statements and auditor's reports by DPP.

During the year, we selected 174 engagements for AFR. These reviews were performed by both local and international reviewers.

Reviewers coach engagement teams on focus areas and areas where review observations have been identified. As reviews continue, common review observations are shared broadly with the audit practice through various forms of communication.

The AFR programme is one of the most significant audit quality initiatives implemented during 2019. One of the highlights of the current year is how we believe this mechanism to have contributed to our improved QPR results, as discussed later in this report (see 'Commitment to continuous improvement' page 35 of this report). Of the 17 engagements that went through AFR and were selected for QPR in 2019, 12 engagements (71%) received a 'satisfactory' (S) rating.

The results from the AFRs are analysed to identify thematic audit quality issues. These results inform the areas subjected to root cause analysis — in order to determine any remedial actions that need to be implemented by the firm. The results are also reported on a regular basis to the AAQC, as well as to the Audit Quality committee of the Policy Board, as part of its oversight and monitoring.

> *"The Audit in-flight review programme is one of the most significant audit quality initiatives implemented during 2019."*

Insightful, open, and honest two-way communication

Two-way communication with those charged with governance (usually the audit committee) is another key aspect of audit quality. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings and, when appropriate, ongoing informal discussions with management and members of the audit committee.

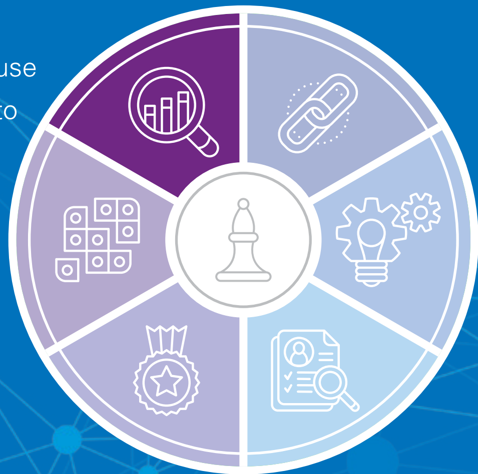
Client confidentiality, information security, and data privacy

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

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

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

Commitment to continuous improvement



We focus on ensuring our work continues to meet the needs of the capital markets. To achieve this goal, we use a broad range of mechanisms to continuously monitor our performance during and after an audit, responding to feedback and seeking opportunities for improvement.

The complexity and dynamic nature of the economic environment, our clients' businesses and the accounting and auditing frameworks are challenging. We always aim to optimise the inputs into the audit process, but opportunities to learn and improve arise. For this reason, continuous improvement is a specific driver of audit quality.

Internal and external monitoring reviews

Internal monitoring reviews

- Engagement quality performance reviews (QPR)
- Firm risk compliance programme (RCP)
- Firm global compliance reviews (GCR)

External monitoring reviews

- Engagement regulatory reviews (IRBA, PCAOB)
- Firm regulatory reviews (IRBA, PCAOB)

Integrated quality monitoring and compliance programmes enable us to identify quality deficiencies, to perform root cause analyses and to develop, implement and report remedial action plans, both in respect of individual audit engagements and the system of quality control of the firm. Our integrated quality and monitoring programmes include the annual Quality Performance Review (QPR) programme, the annual Risk Compliance Programme (RCP) and the triennial Global Compliance Review (GCR) programme.

The quality monitoring and compliance programmes are globally administered and consistent in their approach across member firms, including the nature and extent of testing and reporting. Participation in QPR, RCP and GCR is a condition of ongoing membership of the KPMG network.

We compare the results of internal monitoring programmes with the results of any external inspection programmes and take appropriate action.

During 2019, our key audit quality initiative was the AQ Plan, which was implemented during January 2019 and was based on:

(i) a comprehensive and robust identification of the areas where our quality improvement efforts were needed through a robust inspection process,

(ii) a careful analysis of the underlying causes of the issues and

(iii) a comprehensive remediation plan to drive sustainable improvement.

The results of internal and external monitoring programmes were incorporated into the AQ Plan.

> *"The results of internal and external monitoring programmes were incorporated into the Audit Quality Plan."*

Internal monitoring and compliance programmes

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.

Our monitoring programmes evaluate both:

- engagement performance in terms of compliance with applicable standards, applicable laws and regulation and KPMG International policies and procedures; and
- the compliance of KPMG South Africa with regards to KPMG International policies and procedures and the relevance, adequacy and effective operation of key quality control policies and procedures.

The results and lessons from the integrated monitoring programmes are communicated internally, and the overall results and lessons from the programmes are considered and appropriate action is taken at local, regional and global levels. Our internal monitoring programme also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively.

Quality Performance Reviews

Overview

The Quality Performance Review (QPR) programme assesses engagement level performance and identifies opportunities to improve engagement quality. Each engagement leader is reviewed at least once in a three-year cycle as part of QPR. A risk-based approach is used to select engagements. In addition to the scheduled three-year cycle review, a number of engagement leaders are selected each year to be subjected to a surprise review.

We conduct the annual QPR programme in accordance with global QPR instructions received from KPMG International. The reviews are performed at a KPMG South Africa level and are monitored regionally and globally. Our QPR programme is overseen by a senior, experienced lead reviewer who is independent of our local practice.

As part of strengthening our QPR programme, only experienced reviewers independent of KPMG South Africa were used in both 2018 and 2019. Training is provided to review teams and other reviewers overseeing the process, with a focus on topics of concern identified by audit oversight regulators and the need to be as rigorous as external reviewers.

2019 QPR cycle

Consistent with 2018, the 2019 QPR cycle was performed by a 100% international review team, which included a number of members from the KPMG Global Audit Quality Monitoring Group.

We completed the 2019 QPR cycle during August 2019. Thirty of our engagement leaders (39 per cent) were reviewed as part the 2019 QPR cycle (2018: 25 engagement leaders (30 per cent)).

One of the tangible measures of whether our audit quality has improved is the results of our QPR reviews. The 2019 results demonstrate a significant improvement from the 2018 results and are now broadly in line with KPMG network norms.

In 2019, 63 per cent of engagements reviewed were rated as 'Satisfactory' (2018: 22 per cent), 22 per cent of engagements were rated as 'Performance Improvement Needed' (2018: 56 per cent) and 15 per cent of engagements were rated as 'Unsatisfactory' (2018: 21 per cent). Although we are pleased with the improved results, we are on a continuous journey to improve our audit quality as our various quality initiatives implemented during the past 12 months are being embedded in business as usual and we continue to identify additional opportunities to learn and improve.

The following tables summarise the depth and intensity of the last three years of QPRs:

Composition of the QPR teams	2019	2018	2017
Non-local reviewers	25	28	11
Local reviewers	0	0	17
Total	**25**	**28**	**28**

Engagement leaders covered during the QPR cycle	2019	2018	2017
Number of engagement leaders subject to QPR	30	25	30
Total number of audit engagement leaders	76	83	100
Percentage of engagement leaders reviewed	**39%**	**30%**	**30%**

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:

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

ii) 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.

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 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 QRP review, to improve the quality, consistency and efficiency of our audits (refer to 'Commitment to technical excellence and quality service delivery' section).

Lead audit engagement partners are notified of less than satisfactory engagement ratings on their respective engagements. Additionally, lead audit engagement partners of parent companies/head offices are notified in instances where a subsidiary/affiliate of their client group is audited by a member firm where significant quality issues have been identified during the QPRs.

The assessment of the audit quality issues driving a less than satisfactory rating in the 2018 QPR resulted in four engagement leaders being included in the 2019 QPR cycle as part of additional monitoring and coaching activities.

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

Overview of findings that resulted in the 2019 Unsatisfactory ratings

The main drivers of the 2019 Unsatisfactory ratings are summarised as:

- Insufficient testing of estimates relating to accounts receivable and goodwill
- Insufficient journal entry testing
- Ineffective control testing, including General IT controls testing
- Ineffective substantive analytical procedures
- Inter-office reports inconsistent with KPMG policies and
- Ineffective testing of information produced by the entity.

Additional audit quality file reviews by KPMG International

As reported in our March 2019 Integrated Report, in April 2018, the firm announced that an additional programme of extensive audit quality file reviews had commenced. The objective of this additional programme was not to undertake another QPR but rather to assess the commitment to quality and professionalism of each audit partner and overarching themes in areas of audit quality to be addressed through co-ordinated responsive and preventative remedial action. Undertaken in addition to our normal internal and external reviews, this additional review was conducted by experienced reviewers from elsewhere in the KPMG Network. The programme concluded in October 2018.

The review focused primarily on audits conducted in 2017 and identified a number of deficiencies that were classified into thematic areas for improvement. We undertook a primary root cause analysis of these issues and adopted additional remediation plans to address them. Certain audit partners were identified as requiring some intervention or disciplinary action.

While the number of findings from these reviews was higher than we would have liked, the additional programme allowed us to truly understand the level of audit quality in our firm at that time and the thematic areas identified drove the significant number of remedial actions taken, and provided input into the development our comprehensive AQ Plan, implemented from January 2019, which is bringing about significant improvements in audit quality.

We also shared the findings of our review programme, and related remedial actions, with the IRBA to demonstrate our commitment to improving audit quality. The IRBA investigations department has followed up with regards to these engagement reviews and requested some engagement partners to respond in writing to each of the findings made by the KPMG reviewers. All of the engagement partners responded to the IRBA in January 2019 and we continue to engage with the IRBA to close out this matter.

Risk Compliance Programme

KPMG International develops and maintains quality control policies and processes that apply to all member firms through its Risk Compliance Programme (RCP). These policies and processes, and their related procedures, include the requirements of ISQC 1. During the annual RCP conducted in 2019, we performed a robust assessment of our documentation of quality controls and procedures, related compliance testing, and reporting of exceptions, action plans and conclusions.

The objectives of the RCP are to internally monitor, document and assess the extent of compliance of our system of quality control with Global Quality & Risk Management (GQRM) policies and key legal and regulatory requirements relating to the delivery of professional services. The RCP provides the basis for us to evaluate whether the firm and its personnel comply with relevant professional standards and applicable legal and regulatory requirements. Where deficiencies are identified, we are required to develop appropriate action plans to remediate non-compliance.

The 2019 RCP indicated substantial compliance with KPMG International GQRM policies. Matters requiring immediate attention in relation to the audit function included:

- instituting formal processes for follow-ups on outstanding training,
- independence requirements when working with third parties and
- the processes around obtaining independence clearance prior to accepting clients.

The overall assessment for the firm is 'substantial compliance'. This rating means:

- The firm is substantially in compliance with KPMG International GQRM 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

Each member firm is subject to a Global Compliance Review (GCR), conducted by a international GCR team, independent of the member firm, at least once in a three-year cycle. The GCR provides independent oversight and assessment of our system of quality control. Among other items, the GCR assesses our commitment to quality and risk management and the extent to which the overall structure, governance and financing of the firm supports and reinforces this commitment, as well as the completeness and robustness of our RCP.

The KPMG International Global Compliance team performed a GCR of KPMG South Africa during August 2019. The review concluded that KPMG South Africa is substantially in compliance with the KPMG International GQRM policies, reconfirming our RCP conclusion. Key findings of the GCR related to:

- some instances of non-compliance with policies and procedures;
- improvements required in the monitoring of training;
- improvements required in the adequacy of documenting personal performance evaluations and related impact on compensation; and
- the formalising of talent management processes.

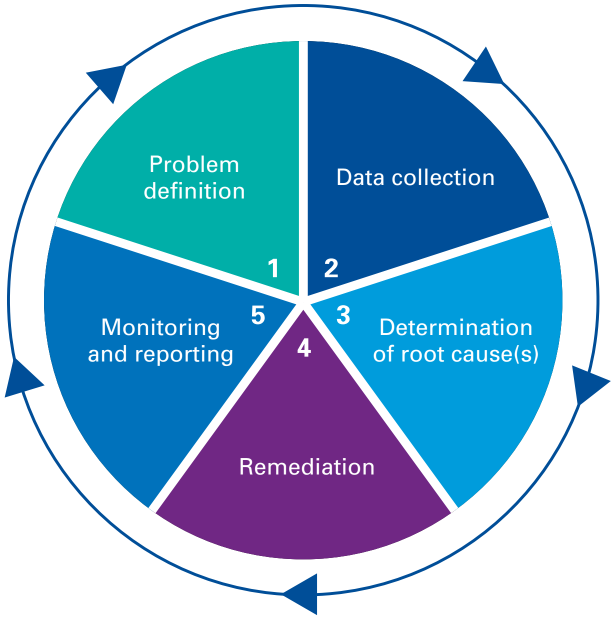
We have developed action plans to respond to all of the findings of the GCR and have agreed these with the GCR team. Our progress on action plans is monitored by a Global GCR Central Team. Results are reported to the KPMG GQRM Steering Group (GQRMSG) and, where necessary, to appropriate KPMG International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

Root Cause Analysis

As part of our focus on continuous improvement, we perform Root Cause Analysis (RCA) to understand the causes for the deficiencies and consider what remediation is required. In 2019, RCA training, based on our Global 5 Step RCA Principles, was attended by six audit professionals involved in RCA. The training provides a common platform for advancing the practices and skills associated with resourcing, planning and conducing RCA.

> *"As part of our focus on continuous improvement we perform Root Cause Analysis."*

The following diagram describes the Global 5 Step RCA Principles:



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

The AAQC is responsible for the development and implementation of action plans as a result of RCA, including identification of solution owners.

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.

IFIAR monitors audit quality results in their annual survey and during 2019 their members reported in the 2018 survey that 37% of audit engagements inspected had at least one finding, compared to 40% in the 2017 survey and to 47% in the first survey capturing this percentage (2014 survey).

In 2015, nine audit regulators represented on IFIAR (not including IRBA) and the six biggest global audit networks agreed on a target to decrease the proportion of audits of listed public interest entities identified with findings from regulator inspections on an aggregate basis by at least 25% over a four year period which will be reported in the 2019 IFIAR Survey to be published in 2020.

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.

In February 2019, the IRBA released the 2018 profession-wide inspections report, highlighting significant themes for the auditing profession.

Firm-wide inspection findings

As part of its seventh inspection cycle, the IRBA issued its most recent firm-wide inspection report of KPMG South Africa on 5 March 2019. The IRBA firm-wide inspection took place during September and October 2018 and identified a number of areas that require remedial action. Based on the decision outcomes of the IRBA Inspections Committee, none of the individual engagements inspected, nor the firm itself, have been referred for investigation to the IRBA Investigations Department.

We presented our AQ Plan to the IRBA Executive management team during February 2019. The AQ Plan forms a key part of our overall remediation plan, which was submitted to the IRBA in response to the seventh inspection cycle (2018/2019) review report that was received on 5 March 2019.

Our RCA and Remediation Action Plan (RAP) were submitted to the IRBA on 3 April 2019.

> *"As part of its seventh inspection cycle, the IRBA issued its most recent firm-wide inspection report of KPMG South Africa on 5 March 2019."*

The IRBA has requested that KPMG provide it with written reports on progress against the targets and timeframes in the AQ Plan on a quarterly basis. The first written response was submitted on 15 May 2019, following approval by the AQC, with two further reports having been submitted.

The IRBA Board requested its remediation team to perform a 'robust' assessment of the RCA and RAP of KPMG South Africa after the firm-wide seventh cycle inspection. The assessment took place during May 2019 and entailed a follow-up and review of the portfolio of evidence of the firm supporting:

- the implementation of actions relating to the turnaround strategy;
- the responses provided on the IRBA firm-wide review findings; and
- the AQ Plan.

Eight of the nine firm findings have been addressed and the IRBA has accepted the written undertaking of the firm to implement the necessary remedial actions to address the remaining deficiency going forward.

Individual engagement inspections

The seventh cycle engagement-level inspections of the IRBA no longer include engagement ratings, but include reportable findings for each engagement inspected. These are defined by the IRBA as:

A reportable finding at an **engagement level** includes any significant deficiency whereby the firm has failed to obtain sufficient and appropriate audit evidence to support its auditor's report, including a failure to identify or address a material or potential material financial reporting/ accounting related deficiency; or any non-compliance with applicable standards.

Codes of conduct and legislation, including a departure from the firm's adopted policies, procedures or methodology.

Reportable findings on assurance engagements do not necessarily imply that the financial statements are materially misstated or that the auditor's opinion is inappropriate.

The IRBA performed 11 individual engagement-level inspections during 2018, which we have responded to with root cause analysis and remedial plans.

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.

None of the individual engagements inspected, nor the firm, have been referred for investigation to the IRBA Investigations Department based on the decision outcomes of the IRBA Inspections Committee.

The number of findings from the IRBA engagement inspections is higher than we would like, but we also recognise that the inspections largely assessed work that was performed prior to the significant changes that have been made to the firm. Ten of the 11 engagement inspections related to engagements with client financial years ended December 2017 or earlier, and the one remaining engagement inspection had a February 2018 year-end. In addition, the reviews identified themes requiring improvement that are consistent with matters identified in other quality review initiatives and remedial actions that have already been incorporated into the scope of our AQ Plan.

As part of the seventh cycle inspections process, the IRBA visited the firm during September/October 2019 to perform file engagement reviews, which are still in the process of being finalised at the time of publication of this report. We expect the results from these inspections during the first quarter of the 2020 calendar year.

We have shared the results of both the firm and the individual engagement inspection results from the 5 March 2019 IRBA inspection report, together with the remedial actions instituted by the firm, with audit committees of our listed clients, as required by the JSE listing requirements.

Public Company Accounting Oversight Board inspections

The PCAOB performs regulatory reviews with the last review completed in 2017. 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

On 3 May 2019, the firm submitted its response to Part I of the PCAOB Draft Report on its 2017 Inspection of KPMG Inc., dated 2 April 2019. The Final Report of Inspection was issued by the PCAOB on 20 June 2019 and the firm has 12 months from that date to make a written submission to address the findings and potential deficiencies.

Client feedback

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

Monitoring of complaints

We have procedures in place for monitoring and addressing complaints received relating to the quality of our work. These procedures are detailed in the terms and conditions of our engagement letters and under our general terms of business.

Our local hotline, and the KPMG International hotline, are also available for KPMG partners, employees, clients and other parties to report concerns confidentially.

KPMG International hotline

The KPMG International hotline allows KPMG stakeholders to report concerns confidentially. https://home.kpmg/xx/en/home/campaigns/2018/01/kpmg-international-hotline.html

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

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 South Africa 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 South Africa has considered:

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

Taking all of this evidence together, the Policy Board of KPMG South Africa 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 2019.

Prof Wiseman Nkuhlu
Chairperson of the Policy Board

27 January 2020

Ignatius Sehoole
Chief Executive Officer

27 January 2020

Appendices

Global Legal structure

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

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

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

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

Global governance structure

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

Global Council

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

It performs functions equivalent to a shareholders' meeting (albeit KPMG International has no share capital and, therefore, only has members, not shareholders).

Among other things, the Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 58 member firms that are "members" of KPMG International as a matter of Swiss law. Sublicenses are generally indirectly represented by a member.

Global Board

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

The Global Board includes the Global Chairman, the Chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)) and a number of senior partners of member firms.

It is led by the Global Chairman, who is supported by the Executive Committee, consisting of the Global Chairman, the Chairman of each of the regions and currently three other senior partners of member firms. The list of Global Board members, as at October 2019 is available in the KPMG Global Review. https://home.kpmg/xx/en/home/campaigns/2019/12/global-annual-review.html

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

Global Management Team

The Global Board has delegated certain responsibilities to the Global Management Team. These responsibilities include developing global strategy by working together with the Executive Committee. The Global Management Team also supports the member firms in their execution of the global strategy and is responsible for holding them accountable for commitments.

It is led by the Global Chairman and includes the Global Chief Operating Officer, Global Chief Administrative Officer, global function and infrastructure heads, and the General Counsel.

The list of Global Management Team members as at October 2019 is available in the KPMG Global Review. https://home.kpmg/xx/en/home/campaigns/2019/12/global-annual-review.html

Global Steering Groups

The Global Steering Groups work closely with regional and member firm leadership to:

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

The Global Steering Groups act under the oversight of the Global Management Team. The roles of the Global Audit Steering Group and the Global Quality & Risk Management Steering Group are detailed in the KPMG International Transparency Report.

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

Area Quality & Risk Management Leaders

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

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

South African Legal structure and ownership

KPMG South Africa is affiliated with KPMG International Cooperative ("KPMG International").

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

KPMG South Africa is locally owned and managed and is responsible for its own obligations and liabilities. KPMG International and other member firms are not responsible for the obligations or liabilities of a member firm.

KPMG South Africa consists of two separate legal entities (KPMG Inc. and KPMG Services (Pty) Ltd.) Each separate legal entity is responsible only for its own obligations and liabilities.

Professional indemnity insurance

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

Responsibilities and obligations of member firms

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

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

Member firms commit to a common set of KPMG values.

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

Details of those charged with governance at KPMG South Africa – Policy Board and Audit Quality Committee

Policy Board members at 1 October 2019:


Prof. Wiseman Nkuhlu
Chairperson (NED)


Ansie Ramalho
(NED)


Prof. Ben Marx
(NED)


Ignatius Sehoole


Makgotso Letsitsi


Giuseppina Aldrighetti


Coenie Basson


Kashmira Bhana


Zola Beseti


Devon Duffield


Nosisa Fubu


Mohammed Hassan


Modise Maseng


Imogen Mkhize
(NED)

Audit Quality Committee Members


Prof. Ben Marx
Chairperson of the Audit Quality Commitee


Prof. Wiseman Nkuhlu
Chairperson of the Policy Board


Devon Duffield
Elected Director

KPMG Inc. and KPMG Services (Pty) Ltd

85 Empire Road

Johannesburg

2193

www.home.kpmg.com/za