



# Transparency Report 2020

**Our relentless focus on quality**

KPMG in Bermuda







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# Our Values



## Our Values represent who we are and what we believe in

Our Values represent what we believe in and what is important to us. They guide our behaviours day-to-day, inform how we act and shape the decisions we make. We all have a role to play in KPMG's success. By living these Values we can ensure we are the most trusted and trustworthy professional services firm, and shape how we are viewed by the world.



### Integrity

We do what is right.



### Excellence

We never stop learning and improving.



### Courage

We think and act boldly.



### Together

We respect each other and draw strength from our differences.



### For Better

We do what matters.

# Message from the Chief Executive Officer



**Mike Morrison**

Welcome to the 2020 KPMG in Bermuda Transparency Report providing information about our firm as at September 30, 2020.<sup>1</sup>

This report illustrates how KPMG in Bermuda upholds our professional responsibilities, outlines our firm’s structure, governance and approach to quality control, and articulates the innovative ways we maintain robust audit quality.

KPMG in Bermuda has developed its strategy, fully aligned with KPMG’s Collective Strategy of Trust and Growth, with an aim to be the most trusted and trustworthy professional services firm. Delivering quality audits is a strategic imperative that requires building and maintaining a quality centric culture where our leaders are held accountable and our people are trained and developed and ultimately rewarded for meeting this goal. We measure our people’s engagement in this and other areas through our Global People Survey.

Our culture is underpinned by Our Values which guide our actions and behaviors. The [KPMG’s Global Code of Conduct](#) defines who we are and how we will act and everyone at KPMG is expected to follow it.

In performing high quality audits we draw upon a wide range of specialist skills both within our firm and throughout the KPMG network. We are investing and equipping our people with leading technology through our “smart” audit platform, KPMG Clara and related technologies. The platform brings our powerful data and analytical capabilities into one interface with the ability to integrate new technologies such as artificial intelligence and machine learning.

This year our “normal” was and continues to be disrupted by the COVID-19 pandemic. Our people and our systems met this challenge, readjusted our working environments and how we work to meet our strategic imperative of audit quality and delivering excellence in client service.

<sup>1</sup> KPMG in Bermuda is registered with Financial Reporting Council (FRC) in the United Kingdom under the Statutory Auditors and Third Country Auditors Regulations 2013 (2013/1672) (as amended) (“SATCAR 2013”), the Statutory Auditors and Third Country Auditors Regulations 2016 (2016/649)(as amended)(“SATCAR 2016”) and relevant UK legislation. As a result of our registration with FRC, this is the first Transparency Report that we have produced in accordance with the requirements of Article 13 of the EU Regulation No. 537/2014.

# Message from the Head of Audit



**James Berry**

KPMG in Bermuda has an unwavering commitment to audit quality and integrity. Quality is engrained in our values and our mindset. We have deliberately designed and nurtured a culture that supports and promotes audit quality.

Our leaders stress quality work and monitor our progress toward consistently getting it right, from our incoming classes of interns to our most senior Managing Directors.

We always hold ourselves accountable for audit quality which we define as:

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

In addressing our ambition to be the most trusted and trustworthy professional services firm:

- We consistently commit to the highest levels of quality in all that we do;
- We invest in our people, processes and systems to ensure a robust system of quality control; and
- We view innovation as essential to continuous improvement.

To further promote audit quality, we have established policies, clearly articulated ethical guidance, hired and trained outstanding candidates in the profession, and implemented reward structures that promote quality work and integrity.

Thus as part of our commitment to stakeholders, we aim to be transparent and open in communicating how we address audit quality. We are always seeking to do better. We actively solicit suggestions from our professionals and value input from our regulators. We undertake rigorous root-cause analyses to assess and remediate deficiencies. In so doing, we help to foster public trust and inspire confidence in KPMG and in the capital markets.

This Transparency Report covers the year October 1, 2019 to September 30, 2020. We also invite you to browse our [website](#) for further information relating to other aspects of our firm.

We trust you find this report informative.

Throughout this document, “KPMG”, “we”, “our” and “us” refers to the global organisation or to one or more of the member firms of KPMG International Limited, each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients.

No member firm has any authority to obligate or bind KPMG International Limited or any other member firm vis-à-vis third parties, nor does KPMG International Limited have any such authority to obligate or bind any member firm.

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



# Who we are



## Our business

KPMG in Bermuda is a professional services firm that delivers Audit, Tax and Advisory services. KPMG in Bermuda has operated from a single location, Crown House, 4 Par-la-Ville Road, Hamilton, since October 1, 2000 and had an average of 220 employees (including 16 Managing Directors) in the year to September 30, 2020.

Our audit services in Bermuda are delivered through KPMG Audit Limited. Full details of the services offered by KPMG in Bermuda can be found on our [website](#).



## Our strategy

Our strategy is set by the KPMG in Bermuda Board and demonstrates a commitment to quality and trust. Our focus is to invest significantly in priorities that form part of a multi-year collective strategy implementation that is taking place across our entire global organisation.

Commitment to audit quality has been determined by the Board to be a key strategic priority and critical to the success of our business. Audit quality ranks first at KPMG and is driven from the top by our leadership and is a critical part of our culture and values.

One of our key priorities is to also have a respectful and trusted relationship with our local and other regulators as we have a common interest in building public trust by promoting audit quality and, as a result, the health of the capital markets.

# Our structure and governance



## Legal structure

### Legal structure and ownership for the financial year ending September 30, 2020

KPMG in Bermuda is made up of limited liability Bermuda registered companies providing Audit, Tax and Advisory services to a wide variety of public and private sector organisations. These entities, along with a company that provides internal administration services, are held under KPMG Bermuda Holdings Limited and collectively form “KPMG in Bermuda”. A list of these entities, together with details of their legal structure, regulatory status, the nature of their business and areas of operation, is set out in [Appendix 1](#).

As at September 30, 2020, 13 Managing Directors held equity interests in KPMG Bermuda Holdings Limited. Two (2) other Managing Directors of KPMG in Bermuda did not hold equity interests.

The term ‘Partner(s)’ used in this report refers generally to either the Managing Directors of KPMG in Bermuda, audit engagement leaders or to certain role titles prescribed by KPMG International (e.g. ‘Risk Management Partner’).

KPMG in Bermuda is affiliated with KPMG International Cooperative (“KPMG International”). KPMG International is a Swiss cooperative which is a legal entity formed under Swiss law. Prior to October 1, 2020 it was the coordinating entity for the network and the entity with which all the member firms of the KPMG organisation were required to be affiliated. Further details about KPMG International and its business activities, including our relationship with it for the financial year ending September 30, 2020, are available in the ‘Governance and leadership’ section of the [2019 KPMG International Transparency Report](#).

### Legal structure and ownership from October 1, 2020

On October 1, 2020, KPMG in Bermuda and all other KPMG firms entered into new membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organisation became members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee. KPMG International Limited acts as the coordinating entity for the overall benefit of the KPMG member firms. It does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

Further detail on the revised legal and governance arrangements for the KPMG global organisation from October 1, 2020 can be found in section ‘Governance and leadership’ of the [2020 KPMG International Transparency Report](#).

KPMG International Limited and the KPMG member firms are not a global partnership, single firm, multinational corporation, joint venture, or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International Limited, any of its related entities or any other member firm vis-à-vis third parties, nor does KPMG International or any of its related entities have any such authority to obligate or bind any member firm. KPMG in Bermuda is part of the KPMG global organisation of professional services firms providing Audit, Tax, and Advisory services to a wide variety of public and private sector organisations. The KPMG organisation structure is designed to support consistency of service quality and adherence to agreed Values wherever its member firms operate.



## Name, ownership and legal relationships

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

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

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



## Responsibilities and obligations of member firms

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

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

Member firms commit to a common set of [KPMG Values](#).

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



## Governance structure

The principal governance and oversight body of KPMG in Bermuda is the Board of Directors of KPMG Bermuda Holdings Limited (the "Board").

### The Board

As at September 30, 2020, the Board consisted of 13 persons including the Chairman, Chief Executive Officer and 11 other Managing Directors, all of whom held an equity interest in the holding company. It is the Board's responsibility to steward the business, oversee the system of quality management, manage the statutory affairs and direct strategy. The Board meets at least quarterly, and during the year ended September 30, 2020 met six times. The Board delegates certain activities to committees of Board members.

### The Executive Committee

The Executive Committee includes the Chairman, Chief Executive Officer, the Function Heads, Head of People and the Risk Management Partner, subject to a maximum of seven Board members. The Executive Committee meets monthly and supports the Chief Executive Officer in the day-to-day operations of KPMG in Bermuda. It is further responsible for taking actions on key matters delegated to it by the Board to ensure the business can respond proactively in between meetings of the full Board.

### The Compensation Committee

The Board's Compensation Committee, which meets once or twice an annual basis, has the delegated responsibility to approve and oversee the [Managing Director compensation process](#). The Compensation Committee comprises the Chairman, Chief Executive Officer and at least one other Board member.

The composition of the Board and its Committees as at September 30, 2020 are set out in [Appendix 2](#).



# System of quality control

Tone at the top, leadership, and a clear set of Values and conduct are essential to set the framework for quality. However, these must be backed up by a system of quality control that ensures our performance meets the highest professional standards.

To help all audit professionals concentrate on the fundamental skills and behaviours required to deliver a quality audit, KPMG has developed the Audit Quality Framework, based on International Standards on Quality Control (ISQC 1), issued by the International Auditing and Assurance Standards Board (IAASB) and on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which apply to professional services firms that perform audits of financial statements.

KPMG International has quality control policies that apply to all member firms. These are included in KPMG's Global Quality & Risk Management Manual (GQRM) which applies to all KPMG Managing Directors and employees. KPMG in Bermuda is required to establish and maintain a system of quality control and design, implement, and test the operating effectiveness of quality controls.

KPMG in Bermuda is required to implement KPMG International policies and procedures and also adopts additional policies and procedures that are designed to address rules and standards issued by Chartered Professional Accountants of Bermuda (CPA Bermuda), Bermuda Public Accountability Board (BPAB) and other relevant regulators as well as applicable legal and regulatory requirements.

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

We are implementing our program to adopt the new international standard on quality management (ISQM 1), which was [approved by the IAASB](#) in September 2020 and is expected to be effective from December 2022. ISQM 1 requires each KPMG firms to design, implement and operate a system of quality management to consistently deliver quality audits, and to evaluate the effectiveness of the system on an annual basis.

KPMG in Bermuda maintains a system of quality control for its audit practice that is designed to meet or exceed the requirements of Bermuda law, the rules of the Chartered Professional Accountants of Bermuda (CPA Bermuda), International Ethics Standards Board for Accountants (IESBA), and the rules and standards issued by the Public Company Accounting Oversight Board (PCAOB), Bermuda Public Accountability Board (BPAB) and the American Institute of Certified Public Accountants (AICPA).

While this Transparency Report summarises KPMG's approach to audit quality, it may also be useful for stakeholders interested in a member firm's Tax and Advisory services, as many KPMG quality control procedures and processes are cross-functional and apply equally to all services offered.



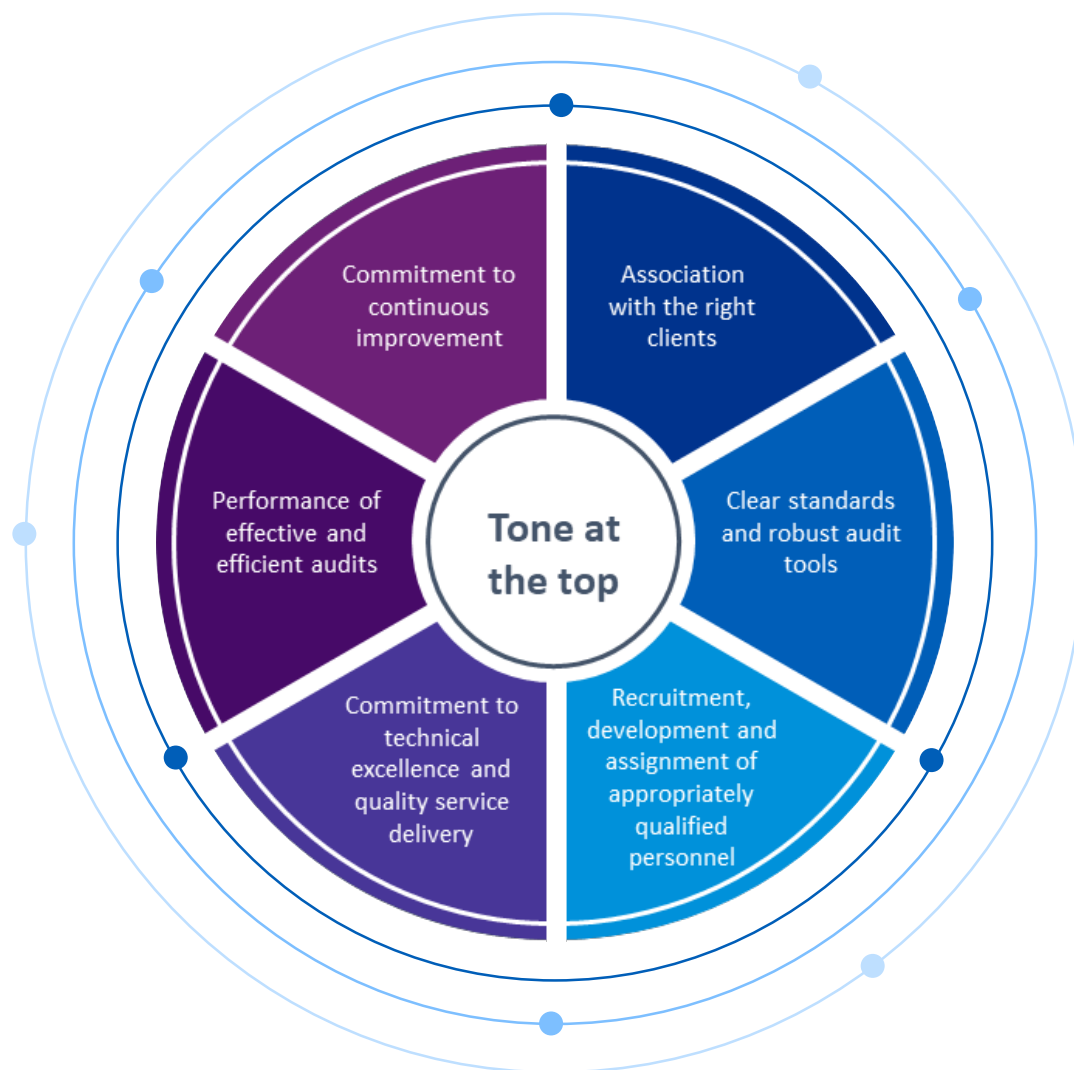


## Audit quality framework

At KPMG in Bermuda audit quality is not just about reaching the right opinion, but how that opinion is reached. It is about the processes, thought and integrity behind the auditors' report. The outcome of a quality audit is the delivery of an appropriate and independent opinion in compliance with relevant professional standards and applicable legal and regulatory requirements. To help all audit professionals concentrate on the fundamental skills and behaviours required to deliver a quality audit, KPMG International has developed the Audit Quality Framework.

KPMG's audit quality framework introduces a common language that is used by all KPMG firms to describe what drives audit quality and to help highlight to their audit professionals how they contribute to its delivery.

'Tone at the top' sits at the core of the Audit Quality Framework's seven drivers of audit quality and helps ensure that the right behaviours permeate all KPMG firms. All of the other drivers create a virtuous circle because each driver is intended to reinforce the others.





## Tone at the top

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

At KPMG in Bermuda we promote a culture in which consultation is encouraged and recognized as a strength.

Tone at the top means that KPMG in Bermuda leadership demonstrates commitment to quality, ethics and integrity and communicates its commitment to clients, stakeholders, and society at large to earn public trust.

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

### Our Values are:



## Integrity

We do what is right.



## Excellence

We never stop learning and improving.



## Courage

We think and act boldly.



## Together

We respect each other and draw strength from our differences.



## For Better

We do what matters.



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

Outlined in [KPMG's Global Code of Conduct](#) are the responsibilities all KPMG people have to each other, our clients, and the public. It shows how our Values inspire our greatest aspirations and guide all of our behaviours and actions. It defines what it means to work at and be part of KPMG, as well as our individual and collective responsibilities.

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



Everyone at KPMG is required to comply with the Global Code of Conduct and to confirm their compliance with the Code. Everyone at KPMG is also required to take regular training covering the Code and will be held accountable for behaving in a way that is not consistent with it.

Individuals are encouraged to speak up when they see something that makes them uncomfortable or that is inconsistent with our Values.

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

To safeguard this, each KPMG firm is required to have procedures and established channels of communication so that anyone working there can report ethical and quality issues.

In addition, the KPMG International hotline is a mechanism for KPMG Partners, Managing Directors, employees, clients and other third parties to confidentially report concerns they have relating to certain areas of activity by KPMG International itself, activities of KPMG firms or KPMG personnel.

All member firms and KPMG personnel are prohibited from retaliating against individuals who have the courage to speak up in good faith. Retaliation is a serious violation of the Code, and any retaliation by anyone at KPMG will result in disciplinary action.

At KPMG in Bermuda, we regularly monitor the extent to which our people feel that the firm lives the KPMG Values through the [Global People Survey](#).

## Leadership responsibilities for quality and risk management

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

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



The following individuals have leadership responsibilities for quality and risk management at KPMG in Bermuda.

### 1 Chief Executive Officer

In accordance with the principles in ISQC 1, our CEO Mike Morrison has assumed ultimate responsibility for KPMG in Bermuda's system of quality control.

### 2 The firm's risk management function

To support this system, KPMG in Bermuda has appointed specific Managing Directors and senior personnel with the responsibility for the oversight of risk management and quality control. Neil Patterson, who retired on December 31, 2020, held the position of Risk Management Partner until September 30, 2020. Umer Islam is now the current RMP for KPMG in Bermuda effective October 1, 2020. Todd Kearns is the Ethics and Independence Partner since October 1, 2015.

### 3 Risk Management Partner (RMP)

The Risk Management Partner (RMP) is responsible for setting overall professional risk management and quality control policies and monitoring compliance for KPMG in Bermuda. The RMP is a member of the Executive Committee and has a direct reporting line to the CEO. The RMP consults with the appointed Area Quality and Risk Management Leader where required.

The fact that the role is a Managing Director position, and seniority of the reporting lines, underlines the importance that the firm places on risk and quality issues. The RMP is supported by a team of experienced professionals in each of the functions.

### 4 Ethics and Independence Partner (EIP)

The Ethics and Independence Partner has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG in Bermuda.



## 5 The Audit, Tax and Advisory functions – Function Heads

The three heads of the client service functions (Audit, Tax and Advisory) are accountable to the CEO for the quality of service delivered in their respective functions. They are responsible for the execution of the risk management, quality assurance and monitoring procedures for their specific functions within the framework set by the Risk Management Partner. These procedures make it clear that, at the engagement level, risk management and quality control is ultimately the responsibility of all professionals in the firm.

KPMG in Bermuda's Head of Audit is responsible for leading a sustainable high-quality Audit practice. This includes:

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

## 6 Audit Leadership Team

The Audit Leadership Team of KPMG in Bermuda met regularly during the year to September 30, 2020 and these meetings included regular discussions about current and emerging audit quality issues arising from external and internal quality review processes, queries being raised by engagement teams, root cause analysis procedures and other quality matters identified from a variety of sources. These were debated, other observations collected from client-facing teams were considered, and actions agreed. Typically, most of these actions are short term, in which case they are developed and communicated through the regular technical briefings issued to the whole Audit function of KPMG in Bermuda and also, if considered of sufficient magnitude, included in the next mandatory training.

For more complex issues (which might require amendments to KPMG's global audit methodology or audit tools) these will be raised

with the KPMG International Global Audit groups for consideration and potential development of solutions by the [KPMG Global Solutions Group \(KGSG\)](#) and the [International Standards Group \(ISG\)](#).

## 7 Investing in continuous improvement

KPMG continues to invest significantly in audit quality across the global organisation. We are building on our sound audit quality foundations, both in terms of how we manage our firms and our audit engagements.

Audit quality is fundamental to maintaining public trust and is the key measure on which our professional reputation stands. We define "audit quality" as the outcome when audits are executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls. And all of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

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

Our global audit quality program ensures consistent deployment of investments to enhance and support a common approach.



## Association with the right clients



### Acceptance and continuance of clients and engagements

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

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

KPMG firms are required to evaluate whether to accept or continue a client relationship, or perform a specific engagement. Where client/engagement acceptance (or continuance) decisions pose significant risks, additional approvals are required.



### Client and engagement acceptance process

#### Client evaluation

KPMG in Bermuda undertakes an evaluation of every prospective client.

This involves obtaining sufficient information about the prospective client, its key management and significant beneficial owners and then properly analysing the information to be able to make an informed acceptance decision. This evaluation includes completion of a questionnaire to assess the client's risk profile and obtaining background information on the client, its key management, Directors and owners. In addition, we obtain additional information required to satisfy our local legal and/or regulatory AML requirements.

### Engagement evaluation

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

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

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

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

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



### Continuance process

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

Recurring or long running non-audit engagements with low and medium risk ratings are also subject to periodic re-evaluation.

In addition, clients and engagements are required to be re-evaluated if there is an indication that there may be a change in their risk profile, and as part of the continuous independence evaluation process, engagement teams are required to identify if there have been any changes to previously identified threats or if there are new threats to independence. The threats are then evaluated and, if not at an acceptable level, are eliminated or appropriate safeguards are applied to reduce the threats to an acceptable level.





## Withdrawal process

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



## Client portfolio management

KPMG in Bermuda leadership appoints engagement partners who have the appropriate competence, capabilities, time and authority to perform the role for each engagement.

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



## Clear standards and robust audit tools

All KPMG in Bermuda professionals are expected to adhere to KPMG International and KPMG in Bermuda policies and procedures, including independence policies, and are provided with a range of tools and guidance to support them in meeting these expectations. The KPMG in Bermuda policies and procedures set for audit engagements incorporate the relevant requirements of accounting, auditing, ethical and quality control standards, and other relevant laws and regulations.



## Our approach to audit

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

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

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

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

The COVID-19 pandemic has forced us all to think differently, we continue to respond to and embrace this challenge. Most organisations are likely to be impacted by the COVID-19 pandemic, either directly or indirectly, and the increased economic uncertainty and risk may have significant financial reporting implications. Issues including going concern, asset impairments and valuations will require careful judgment as organisations deal with a high degree of uncertainty and market volatility. KPMG firms' role as auditors is to evaluate these judgements.

Since the start of the pandemic we have maintained an online COVID-19 | Financial reporting resource center to assist companies and other stakeholders understand potential accounting and disclosure implications.

KPMG International has issued extensive guidance to assist teams in addressing the various accounting, financial reporting and audit related matters arising from the impacts of the COVID-19 pandemic including going concern, asset impairments, valuations and related disclosures, materiality, risk assessment, group audits, inventory, subsequent events, audit evidence communications with Those Charged With Governance, and considerations for remote working environments. KPMG's guidance has been continually updated throughout the pandemic as other significant auditing, accounting and reporting issues have been identified.

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

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

## Consistent audit methodology and tools

### Bringing consistency through our methodology

Our audit methodology, tools and guidance are:

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

The KPMG audit methodology is set out in KPMG's Audit Manual (currently used with eAudit) and the KPMG Audit Execution Guide (for use with the KPMG Clara workflow) and includes additional requirements that go beyond the ISAs, which we believe enhance audit quality. The methodology emphasizes applying appropriate professional skepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence.

Enhancements to the audit methodology, guidance and tools are made regularly to maintain compliance with standards, and

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

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

### Delivering through our current audit workflow

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

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

## Investing for the future

While our current audit workflow and methodology are robust and consistent with all auditing standards' requirements, the changes we are making will enable us to continually drive audit quality and consistency upwards and provide us with the platform to build in continuous enhancements as the power of new technologies develops.

### Audit solutions for today's world

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

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

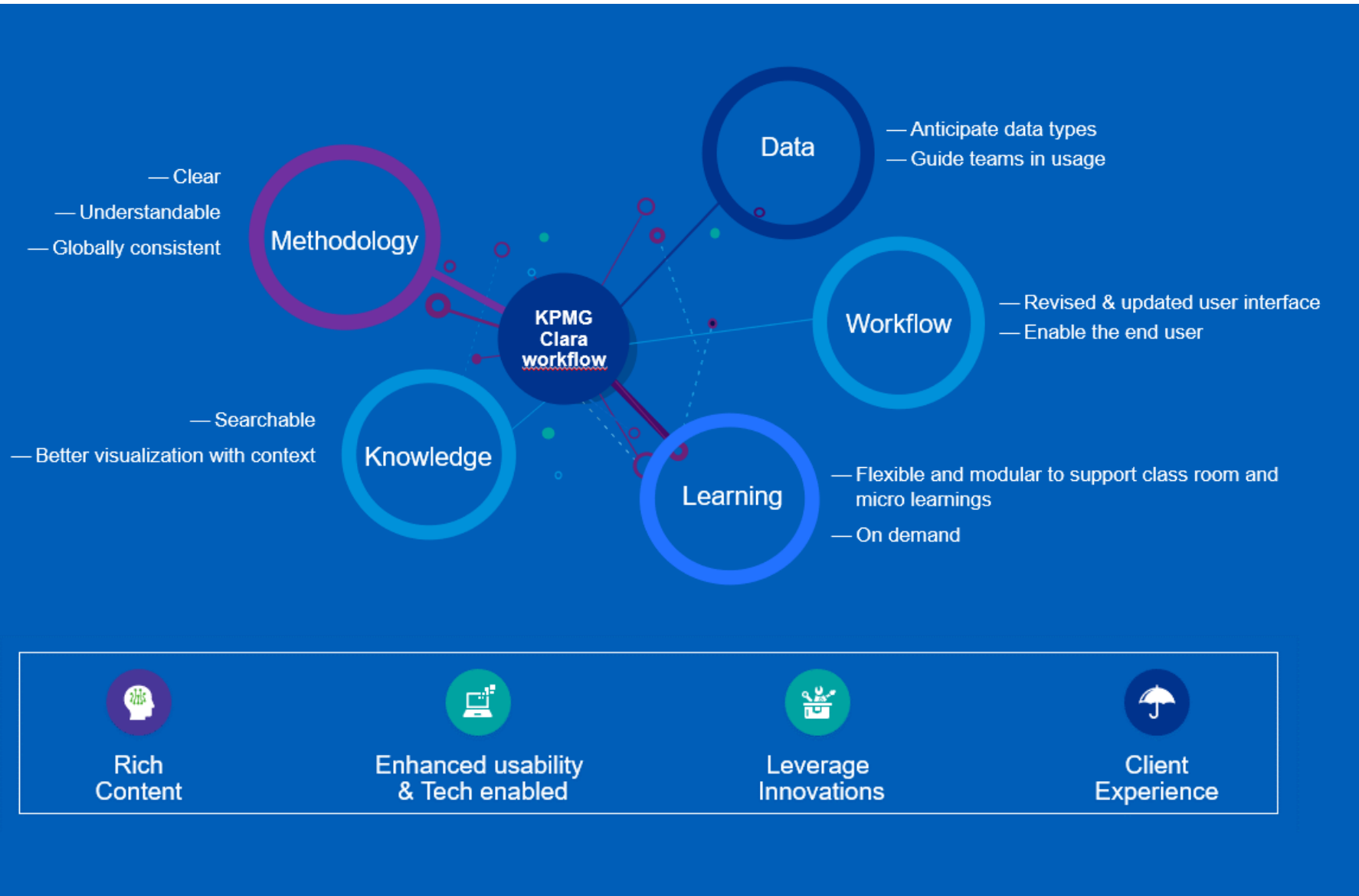
The continuation of this process will see a new workflow and revised audit methodology embedded into the KPMG Clara platform. Limited deployment of the new "KPMG Clara workflow" took place during 2019, and full deployment globally started in 2020, and is expected to be completed by the end of 2022.

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

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

## Bringing it all together in KPMG Clara

The KPMG Clara smart audit platform brings together KPMG’s audit Data & Analytics (D&A) capabilities, innovative new technologies, collaboration capabilities and our new KPMG Clara workflow.







### Creating the new KPMG Clara workflow

The new KPMG Clara workflow will be used by our audit teams to execute and document KPMG audits. It will guide audit teams through a series of steps in a logical sequence aligned to the applicable auditing standards with a clear display of information, visuals, and guidance available at the moment of need, and with embedded advanced data and analytics (D&A) capabilities. The workflow and revised audit methodology will also be scalable – adjusting the requirements to the size and complexity of the audit engagement. This globally-driven project will significantly overhaul and redesign the execution of an audit by KPMG professionals and clearly drive audit quality and global consistency.

Through the use of data mining and tracking of relevant engagement level data indicators, the KPMG Clara workflow will also facilitate member firms’ monitoring of audit execution at the engagement level.

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

### Strategically embedding the use of data through Data & Analytics (D&A)

KPMG Clara also allows us to more seamlessly build D&A capabilities into our audits. D&A is central to interrogating and analysing vast quantities of data. This takes the power and reach of an audit far beyond the traditional capabilities of the past.

KPMG’s audit, powered by D&A, is designed to:

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

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

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

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

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



## Independence, integrity, ethics and objectivity

### Overview

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

KPMG International has detailed independence policies and procedures, incorporating the requirements of the IESBA Code of Ethics. These are set out in KPMG's GQRMM, which applies to all KPMG firms. Automated tools, which must be used for every prospective engagement to identify potential independence and conflict of interest issues, facilitate compliance with these requirements.

These policies are supplemented by other processes to ensure compliance with the standards issued by CPA Bermuda and BPAB and those of PCAOB and FRC where applicable. These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, partner rotation and approval of audit and non-audit services.

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

KPMG in Bermuda has a designated Ethics and Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG in Bermuda. The EIP is responsible for communicating and implementing KPMG global policies and procedures and ensuring that local policies and procedures are established and effectively implemented when they are more stringent than the global requirements. The EIP fulfills this responsibility through:

- implementing/monitoring the ethics and independence quality control process and structure within the firm;
- approving/appointing partners responsible for ethics and independence within the firm;

- overseeing the processes related to the evaluation of specific independence threats in connection with clients and prospective clients;
- participating in the development and delivery of training materials,
- monitoring compliance with policies;
- implementing procedures to address non-compliance; and
- overseeing the disciplinary process for ethics and independence matters.

Amendments to KPMG International's ethics and independence policies in the course of the year are included in regular quality and risk communications with all KPMG firms. KPMG firms are required to implement changes as specified in the communications, and this is checked through the [internal monitoring programs](#).

KPMG in Bermuda Managing Directors and employees are required to consult with the EIP on certain matters as defined in the GQRMM. The EIP may also be required to consult with the Global Independence Group, depending upon the facts and circumstances.

## Personal financial independence

KPMG International policies require that KPMG firms and KPMG professionals are free from prohibited financial interests in, and prohibited financial relationships with, KPMG firm assurance and audit clients (by definition, 'audit client' includes its related entities or affiliates), their management, Directors, and, where required, significant owners. All KPMG Managing Directors and Directors — irrespective of their firm or function — are generally prohibited from owning securities of any audit client of any KPMG firm.

KPMG firms use a web-based independence compliance system (KICS) to assist KPMG professionals in complying with personal independence investment policies. This system contains an inventory of publicly available investments and provides a tracking mechanism for required users to report acquisitions and disposals of their financial interests. The system facilitates monitoring by identifying and reporting impermissible investments and other non-compliant activity (i.e., late reporting of an investment acquisition).

All Managing Directors and all manager grade and above client-facing employees are required to use the KICS system prior to entering into an investment to identify whether they are permitted to do so. They are also required to maintain a record of all of their investments in publicly traded entities in KICS, which automatically notifies them if any investment subsequently becomes restricted. Newly restricted investments must be disposed of within five business days of the notification. KPMG monitors Managing Director, Director and manager compliance with this requirement as part of our program of independence

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

In the year ended September 30, 2020, 28 of KPMG in Bermuda Managing Directors and employees were subject to these audits (this included approximately 39% of our Managing Directors and Directors).

## Employment relationships

Any KPMG in Bermuda professional providing services to an audit client irrespective of function is required to notify our EIP if they intend to enter into employment negotiations with that audit client. For Managing Directors and Directors, this requirement extends to any audit client of any KPMG firm.

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

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

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

## Firm financial independence

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

In common with other KPMG firms, KPMG in Bermuda uses KICS to record its own direct and material indirect investments in listed entities and funds (or similar investment vehicles) as well as in non-listed entities or funds. This includes investments held in associated pension and employee benefit plans.

Additionally, KPMG in Bermuda is required to record in KICS all borrowing and capital financing relationships, as well as custodial, trust and brokerage accounts that hold member firm assets.

On an annual basis, KPMG in Bermuda confirms compliance with independence requirements as part of the Risk Compliance Program.

## Business relationships/suppliers

KPMG in Bermuda has policies and procedures in place that are designed to ensure its business relationships with audit clients are maintained in accordance with the IESBA Code of Ethics and other applicable independence requirements, such as those promulgated by the Securities Exchange Commission (SEC).



## Independence clearance process

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

Currently, KPMG in Bermuda uses a manual process to perform independence clearance for all new/prospective audit clients no matter whether they are public or not. The Firm is planning to implement for next year the ‘KPMG Independence Checkpoint’ tool, used to automate and standardise all the workflows that comprise the independence clearance process.

## Independence training and confirmations

All KPMG in Bermuda Managing Directors and client facing professionals, as well as certain other individuals (i.e third parties), must complete independence training that is appropriate to their grade and function upon joining KPMG in Bermuda and on an annual basis thereafter.

New Managing Directors and client facing employees who are required to complete this training must do so by the earlier of (a) thirty days after joining KPMG in Bermuda or (b) before providing any services to, or becoming a member of the chain of command for, any audit client.

We also provide all Managing Directors and employees with annual training on:

- the KPMG in Bermuda Code of Conduct and ethical behavior, including KPMG’s anti-bribery policies, compliance with laws, regulations, and professional standards, Financial Crime and Acting with integrity modules; and
- reporting suspected or actual non-compliance with laws, regulations, professional standards, and KPMG’s policies.

New Managing Directors and employees are required to complete this training within thirty days after joining KPMG in Bermuda. All KPMG Managing Directors and employees are required to complete, upon joining KPMG in Bermuda, a new joiner confirmation to confirm their understanding with all applicable firm policies and other established requirements as set out in the Global Quality and Risk Management Manual (“GQRMM”); and thereafter, an annual confirmation stating that they have remained in compliance with applicable ethics and independence policies throughout the year.

## Non-audit services

All KPMG firms are required, at a minimum, to comply with the IESBA Code of Ethics and applicable laws and regulations related to the scope of services that can be provided to audit clients.

KPMG in Bermuda is required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG in Bermuda. KPMG in Bermuda’s EIP is involved in the review of potential independence issues related to these new or modified services.

In addition to identifying potential conflicts of interest, Sentinel™ facilitates compliance with independence requirements. Certain information on all prospective engagements, including detailed service descriptions, deliverables and estimated fees must be entered into Sentinel™ as part of the engagement acceptance process. When the engagement is for an audit client, an evaluation of potential independence threats and safeguards is also required to be included in the Sentinel™ submission. Lead audit engagement partners are required to maintain group structures for their publicly traded and certain other audit clients including their related entities or affiliates in Sentinel™, and they are also responsible for identifying and evaluating any independence threats that may arise from the provision of a proposed non-audit service and the safeguards available to address those threats.

For entities for which group structures are maintained, Sentinel enables LAEPs to review and request revision, approve, or deny, any proposed service for those entities worldwide. For approved proposed services, Sentinel designates a timeframe during which the approval remains valid. Upon expiration of the established timeframe, the services are required to be complete or be re-evaluated for permissibility; otherwise, the services are required to be exited.

KPMG global independence policies prohibit member firm audit partners from being evaluated on, or compensated based on, their success in selling non-assurance services to their audit clients.



## Fee dependency

KPMG International's policies recognize 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 KPMG firm expressing the audit opinion. These policies require firms to consult with their Area Quality & Risk Management Leader where it is expected that total fees from an audit client will exceed 10 percent of the annual fee income of the member firm for two consecutive years. In the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10 percent of the total fees received by a particular member firm for two consecutive years, these policies further require that:

- This be disclosed to those charged with governance at the audit client; and
- A partner from another KPMG member firm be appointed as the engagement quality control (EQC) reviewer.

No audit client accounted for more than 10 percent of the total fees received by KPMG in Bermuda over the last two years.

## Resolving conflicts of interest

Conflicts of interest can arise in situations where KPMG in Bermuda Managing Directors or employees have a personal connection with the client which may interfere, or be perceived to interfere, with their ability to remain objective, or where they are personally in possession of confidential information relating to another party to a transaction. Consultation with the Risk Management Partner (RMP) or the EIP is required in these situations.

KPMG International policies are also in place to prohibit KPMG Managing Directors and staff

from offering or accepting inducements, including gifts and hospitality to or from audit clients, unless the value is trivial and inconsequential, is not prohibited by relevant law or regulation and is not deemed to have been offered with the intent to improperly influence the behaviour of the recipient or which would cast doubt on the individual's or the member firm's integrity, independence, objectivity or judgment.

All KPMG firms and personnel are responsible for identifying and managing conflicts of interest, which are circumstances or situations that have, or may be perceived to have an impact on a firm's and/or its partners', Managing Directors or employees' ability to be objective or otherwise act without bias.

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

KPMG in Bermuda has risk management resources who are responsible for reviewing any identified potential conflict and working with the affected member firms to resolve the conflict, the outcome of which must be documented.

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

## Independence breaches

All KPMG in Bermuda personnel are required to report an independence breach as soon as they become aware of it to the EIP. In the event of failure to comply with our independence policies, whether identified in the compliance

review, self-declared or otherwise, professionals are subject to an independence disciplinary policy. All breaches of independence rules must be reported to those charged with governance as soon as possible except where alternative timing for less significant breaches has been agreed to with those charged with governance.

KPMG in Bermuda has a documented and communicated disciplinary policy in relation to breaches of independence policies, incorporating incremental sanctions reflecting the seriousness of any violations. Our Disciplinary Committee oversees policies and procedures in relation to ethical matters and breaches of requirements.

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

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

Compliance with laws, regulation and standards is a key aspect for everyone at KPMG in Bermuda. In particular, we have zero tolerance of bribery and corruption.

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

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

## Audit Partner rotation

KPMG International partner rotation policies are consistent with the requirements of the IESBA Code of Ethics and require all member firms to comply with any stricter local applicable rotation requirements.

All KPMG in Bermuda Managing Directors and Directors serving as audit engagement 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 audit partners in certain roles may provide audit services to a client, followed by a 'time-out' period during which time these partners may not:

- participate in the audit;
- provide quality control for the audit;
- consult with the engagement team or the client regarding technical or industry-specific issues;
- in any way influence the outcome of the audit;
- lead or coordinate professional services at the client;
- oversee the relationship of the firm with the audit client; or
- have any other significant or frequent interaction with senior management or those charged with governance at the client.

KPMG in Bermuda monitors the rotation of audit engagement partners (and any other key roles, such as the Key Audit Partner and Engagement Quality Control Reviewer, where there is a rotation requirement) and develops transition plans to enable allocation of partners with the necessary competence and capability to deliver a consistent quality of service to clients.

To comply with rotation requirements, the firm monitors the rotation of its audit engagement partners and Engagement Quality Control Reviewers (EQCR). Our monitoring system also aids in the development of timely transition plans that help the firm deliver consistent quality service to our clients. The process of monitoring and tracking service time and rotation is subject to compliance testing as part of our Quality Performance Review Programme.





## Recruitment, development and assignment of appropriately qualified people

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

### Recruitment

KPMG in Bermuda is committed to building an extraordinary people experience for all KPMG Managing Directors and employees and prospective Managing Directors and employees.

All candidates applying for professional positions apply and follow a thorough selection processes, which may include application screening, competency-based interviews, psychometric and ability testing, and qualification/reference checks. These leverage fair and job-related criteria to ensure that candidates possess the appropriate characteristics to perform competently, are suitable and best placed for their roles.

Upon joining the firm, new joiners participate in an onboarding programme. Induction programmes includes training in areas such as ethics and independence, quality and risk management principles, engagement management and our people management procedures.

All new recruits are required to complete a prospective affidavit (indicating they will abide by the rules and policies that are applicable to them).

For each new recruit (client facing) from Assistant Manager and above an Independence Compliance pre-audit is performed by the Ethics and Independence Manager in order to identify financial products or relationships and that could impair the independence rules as well as to assure that all the required reportable products are reported in KICS as applicable.

### Personal development

KPMG in Bermuda has launched a new approach to performance development built around the *Everyone a Leader* performance principles, *Open Performance Development*, which includes:

- Global role profiles;
- A goal library; and
- Standardised review forms.

Open Performance Development is linked to the KPMG values and designed to articulate what is required for success — both individually and collectively. We know that by being clear and consistent about the behaviour we're looking for and rewarding those who role model these behaviours, will enhance our ability to achieve quality and we have articulated this through our performance principles of seeking growth, inspiring trust and delivering impact.

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

All our people are encouraged to think about their careers and personal development needs via regular performance conversations with ongoing feedback and support. To support career and professional development there is a range of core skills programmes that support performance improvement and ensure that individuals reach their full potential. Our learning and development framework focuses on critical and stretching experiences and learning opportunities are provided through a blend of formal learning for the development of key technical, leadership and business skills; social learning or learning through others; and through their engagement and project work.

A clear focus on high performance and regular feedback helps our firm identify high performers who have the potential to take on more senior or more complex roles. High performers are further developed through coaching and mentoring on the job, rotation opportunities, global mobility opportunities and secondments. In recognition that some KPMG professionals are unable to always attend training courses in person, to complement the mix between education, collaboration and experience, and to provide training accessible at the right time in a flexible and interactive approach, we also provide training via online learning and virtual classrooms.

KPMG in Bermuda monitors quality and compliance incidents and maintains quality and compliance metrics in assessing the overall evaluation, promotion and remuneration of Managing Directors and Directors and Managers. These evaluations are conducted by Performance Managers and Managing Directors who are in a position to assess performance.



## Inclusion and Diversity programs

KPMG in Bermuda works hard to foster an inclusive culture.

We promote a positive integration between work and life to encourage not only professional achievements but also to provide an environment that enables everyone, regardless of gender, ethnicity, age, disability, religion, socio-economic background or sexual orientation, to reach their full potential. We strive to be an employer of choice by ensuring that all our people are empowered to make decisions and feel proud and motivated to do their best.

Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and perspectives.

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

We are proud of our diversity at KPMG in Bermuda. Based on gender diversity, 51% of our staff are women. Culturally, KPMG in Bermuda has representation from close to 20 different countries. Throughout the year we have a number of initiatives from International Women's Day to Heritage Month to Pride to support an open culture. We work hard to ensure our people can bring their whole self to work.

We believe that the established KPMG Global Inclusion and Diversity strategy provides the framework to drive the actions that are necessary to promote inclusive leadership at KPMG in Bermuda and across all KPMG member firms.

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

## Reward and Promotion

KPMG in Bermuda's policy prohibits audit partners from being evaluated on or compensated based on their success in selling non-assurance services to audit clients.

### Reward

KPMG has compensation and promotion policies that are informed by market data, clear, simple, and linked to the performance review process. This helps our Managing Directors and employees know what is expected of them, and what they can expect to receive in return. The connection between performance and reward is achieved through moderation meetings where relative performance across a peer group is discussed and used to inform reward decisions.

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

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

The extent to which our people feel their performance has been reflected in their reward is measured through the [Global People Survey](#), with action plans developed accordingly .

### Promotion

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

## Managing Director admissions

The KPMG in Bermuda process for Managing Director admission is rigorous and thorough, involving appropriate members of leadership. Our criteria for Managing Director admission to the KPMG in Bermuda is consistent with our commitment to professionalism and integrity, quality, and being an employer of choice.



## Assignment of professionals

KPMG in Bermuda has procedures in place to assign both engagement partners and other professionals to a specific engagement on the basis of their skill sets, relevant professional and industry experience, and the nature of the assignment or engagement. Function heads are responsible for the partner assignment process. Key considerations include partner experience and capacity - based on an annual partner portfolio review - to perform the engagement taking into account the size, complexity and risk profile of the engagement and the type of support to be provided (i.e. the engagement team composition and specialist involvement).

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

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

- an understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation
- an understanding of professional standards and legal and regulatory requirements
- appropriate technical skills, including those related to relevant information technology and specialised areas of accounting or auditing

- knowledge of relevant industries in which the client operates
- ability to apply professional judgment
- an understanding of KPMG in Bermuda's quality control policies and procedures
- Quality Performance Review (QPR) results and results of regulatory inspections.

## Insights from our people – Global People Survey (GPS)

Annually KPMG in Bermuda invites all its people to participate in an independent Global People Survey to share their perception about their experience working for KPMG. The GPS provides an overall measure of our people's engagement through an Engagement Index (EI) as well as insights into areas driving engagement which may be strengths or opportunities. Results can be analysed by functional or geographic area, grade, role, gender to provide additional focus for action. Additional insight is provided on how we are faring on categories known to impact engagement.

The survey also specifically provides KPMG in Bermuda leadership and KPMG global leadership with results related to quality and risk behaviours, audit quality, upholding the KPMG values, employee and Managing Directors attitudes to quality, leadership and tone at the top.

KPMG in Bermuda participates in the GPS, monitors results and takes appropriate actions to communicate and respond to the findings of the survey. The results of the GPS are also aggregated for the entire Global organisation and are presented to the Global Board each year and appropriate follow-up actions agreed.





## Commitment to technical excellence and quality service delivery

All KPMG in Bermuda professionals are provided with the technical training and support they need to perform their roles. This includes access to internal specialists and the professional practice department, either to provide resources to the engagement team or for consultation. Where the right resource is not available within KPMG in Bermuda, access is provided to a network of highly skilled KPMG professionals in other KPMG member firms.

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

### Lifetime learning strategy

Annual training priorities for development and delivery are identified by the Audit Learning and Development steering groups at global, regional and, where applicable, at a local level. Training is delivered using a blend of classroom, digital learning and performance support to assist auditors on the job.

In addition to rolling out the training released by the Audit Learning and Development group, KPMG in Bermuda develops and provides local audit trainings for all audit professionals. These local trainings provide an overview of the industries operating in Bermuda and KPMG in Bermuda's approach to auditing such entities.

We are responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge and experience in the local predominant financial reporting framework.

We have accreditation requirements for many of our services which ensure that only Managing Directors and employees with the appropriate training and experience are assigned to engagements and are appropriately licensed where necessary.

Our technical learning curriculum provides a core training programme for all colleagues and differs by grade and experience level. To drive continued focus on audit quality, we deliver regular training on Audit Quality for engagement leaders (which is extended to all audit staff). These cover key messages regarding quality, and actions in respect of the internal and external monitoring. In addition all our audit people complete technical training focusing on performing an effective quality audit with different topic areas included as relevant.

Audit training includes mandatory courses and completion of these is monitored through a Learning Management System. This allows individuals to monitor their compliance both with their ongoing Continuing Professional Development requirements and with KPMG's mandatory training and accreditation requirements. In addition to structured technical training, we encourage coaching, consultation, on-the-job training and mentoring.

Learning is not confined to the classroom — rich learning experiences are available when needed through coaching and just-in-time learning, available at the click of a mouse and aligned with job specific role profiles and learning paths. All classroom courses are reinforced with appropriate performance support to assist auditors on the job.

## Licensing and mandatory requirements for IFRS and U.S. GAAP engagements

### Licensing

All KPMG in Bermuda professionals are required to comply with applicable professional licence rules and satisfy the Continuing Professional Development requirements in the jurisdiction where they practice. KPMG International/Bermuda policies and procedures are designed to facilitate compliance with license requirements. We are responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge, and experience in the local predominant financial reporting framework – *IFRS and U.S.GAAP*.

### Mandatory requirements – IFRS and U.S. GAAP engagements

In addition, KPMG has specific requirements for Managing Directors, Directors, Managers and Engagement Quality Control (EQC) reviewers working on IFRS engagements in countries where IFRS is not the predominant financial reporting framework.

Similar policies apply to engagements performed outside the US to report on financial statements or financial information prepared in accordance with US GAAP and/or audited in accordance with US auditing standards, including reporting on the effectiveness of the entity's internal control over financial reporting (ICOFR). These require that at a minimum, all Managing Directors, Directors, Managers, engagement in-charges and EQC reviewers assigned to the engagement 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.

## Access to specialist networks

KPMG in Bermuda engagement teams have access to a network of local KPMG specialists – either within their firm or in other KPMG firms. These specialists receive the training they need to ensure they have the competencies, capabilities and objectivity to appropriately fulfill their role. They also receive a global annual update on global quality performance issues.

The need for specialists to be assigned to an audit engagement in an areas such as information, technology, tax, treasury, actuarial, forensic and valuations is considered as part of the audit engagement acceptance and continuance process, as well as during the conduct of the engagement.

## Culture of consultation

### Encouraging a culture of consultations

KPMG encourages a strong culture of consultation that supports teams at KPMG firms throughout their decision-making processes and is a fundamental contributor to audit quality. KPMG in Bermuda promotes a culture in which consultation is recognised as a strength and that encourages all KPMG professionals to consult on difficult or contentious matters.

To help with this, firms are required to 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. In addition, the GQRMM includes mandatory consultation requirements on certain matters.

## Technical consultation and global resources

Technical auditing and accounting support is available to member firms through the Global Audit Methodology Group (GAMG), KPMG Global Solutions Group (KGSG), the ISG and the PCAOB Standards Group (PSG).

### Global Audit Methodology Group (GAMG)

KPMG’s audit methodology is developed and maintained by the Global Audit Methodology Group (GAMG) (formally the KGSG Audit Methodology). The GAMG develops our audit methodology based on the requirements of the applicable auditing standards – International Standards on Auditing, PCAOB and AICPA.

### KPMG Global Solutions Group (KGSG)

The KGSG and GAMG work collaboratively to support member firms through collaboration, innovation and technology. We have made significant investment in our audit methodology and tools with the core focus of improving audit quality and global consistency.

Key areas of work performed include:

- developing innovative audit capabilities (i.e. technology solutions) and deploying and using advanced audit solutions
- deploying KPMG Clara — our smart audit platform, incorporating advanced technologies, data science, audit automation, data visualization and more
- enhancing KPMG’s audit methodology, workflow and knowledge used by member firms’ audit professionals

With locations, in each region (Americas, EMA and ASPAC), the KGSG and GAMG teams comprise professionals with backgrounds in audit, IT, data science, mathematics, statistics,

and more from around the world, who bring diverse experiences and innovative ways of thinking to further evolve KPMG’s audit capabilities.

### International Standards Group (ISG)

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

### PCAOB Standards Group (PSG)

The PCAOB Standards Group (PSG) comprises a dedicated group of professionals with background in PCAOB auditing standards who promote consistency of interpretation of PCAOB auditing standards applied globally in audits of foreign private issuers and non-US components of issuers. The PSG also develops and facilitates trainings for auditors who work on PCAOB audit engagements.

### Member firm professional practice resource

Member firms provide consultation support on auditing and technical accounting matters to their audit professionals through professional practice resources (referred to as Department of Professional Practice or DPP). This resource also assists engagement teams where there are differences of opinion either within teams or with the EQC reviewer. Unresolved differences are required to be escalated to senior partners for final resolution. KPMG’s International Standards Group and PCAOB Standards Group are also available for consultation when required.





## Performance of effective and efficient audits

How an audit is conducted is as important as the final result. KPMG in Bermuda Managing Directors and employees are expected to demonstrate certain key behaviors and follow certain policies and procedures in the performance of effective and efficient audits.

### Embedding ongoing mentoring, supervision and review

To invest in the building of skills and capabilities of KPMG professionals, KPMG in Bermuda promotes a continuous learning environment and supports a coaching culture.

Ongoing mentoring, coaching and supervision during an audit involves:

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

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

### Engagement quality control (EQC) reviewers

The EQC is an important part of KPMG's framework for quality. An EQC reviewer is required to be appointed for audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with a high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements as designated by the Risk Management Partner or country Head of Audit.

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

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

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

KPMG is continually seeking to strengthen and improve the role that the EQC review plays in member firm audits and have taken a number of actions to reinforce this, including issuing leading practice guidance, incorporating specific review requirements into our audit workflow, and developing policies relating to recognition, nomination and development of EQC reviewers.

### Reporting

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

In preparing auditors' reports, engagement partners have access to extensive reporting guidance and technical support through consultations with our DPP, especially where there are significant matters to be reported to users of the auditors' report (e.g. a modification to the opinion or through the inclusion of an 'emphasis of matter' or 'other matter' paragraph, as well as key audit matters to be communicated).

### Engagement documentation

Our audit documentation is completed and assembled according to the timeline established by KPMG in Bermuda policy, auditing standards and we have implemented administrative, technical and physical safeguards to protect the confidentiality and integrity of client and firm information.

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

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

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

**Audit Committee Institute**

In recognition of the demanding and important role that Audit Committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, the [Audit Committee Institute](#) (ACI) aims to help audit committee members enhance their commitment and ability to implement effective audit committee processes. The ACI operates in more than 40 countries across the globe and provides audit committee members with authoritative guidance (such as the [ACI Audit Committee Handbook](#)) on matters of interest to Audit Committees; updates on issues like EU audit reform, changes to accounting standards and other matters of interest to Audit Committees (such as cyber security and corporate culture); and the opportunity to network with their peers during an extensive program of technical updates and awareness seminars.



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

Further details and insights on Audit Committee Institute are available [here](#).

**IFRS Institute**

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

**Client confidentiality, information security, and data privacy**

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

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

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



## Commitment to continuous improvement

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

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

### Internal monitoring and compliance programs

KPMG in Bermuda monitoring programs evaluate both:

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

Our internal monitoring program also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively. These include:

- Quality Performance Reviews (QPR) and Risk Compliance Programs (RCP), which are conducted annually across the Audit, Tax and Advisory functions; and
- A cross functional Global Compliance review (GCR) program with firms selected for review at various intervals based on identified risk criteria.

The results and lessons from the integrated monitoring programs are communicated internally and appropriate action is taken at local, regional and global levels.

### Audit Quality Performance Reviews (QPRs)

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

### Risk-based approach

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

KPMG in Bermuda conducts the annual QPR program in accordance with KPMG International QPR instructions. The reviews are performed at KPMG in Bermuda level and are monitored regionally and globally. Firm Audit QPR reviews are overseen by a senior experienced lead reviewer independent from the firm.

### Reviewer selection, preparation and process

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

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

### Evaluations from Audit QPR

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

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

### Reporting

Findings from the QPR program are disseminated to firm professionals through written communications, internal training tools, and periodic partner, manager and staff meetings.

These areas are also emphasized in subsequent inspection programs to gauge the extent of continuous improvement.

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

### **Risk Compliance Program (RCP)**

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

The objectives of the RCP are to:

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

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

### **Global Compliance Review (GCR) program**

Each KPMG firm is subject to a GCR conducted by KPMG International’s GCR team, independent of the member firm, at various intervals based on identified risk criteria.

The GCR team performing the reviews is independent of the firm and is objective and knowledgeable of GQ&RM policies. GCRs assess compliance with selected KPMG

International policies and procedures and share best practices among member firms. The GCR provides an independent assessment of:

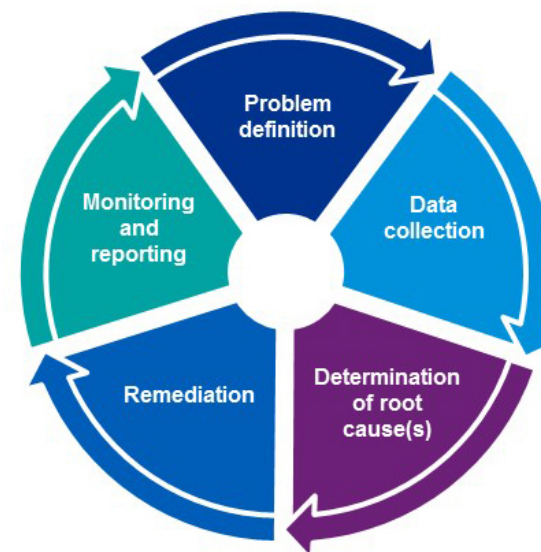
- a firm’s commitment to quality and risk management (tone at the top) and the extent to which its overall structure, governance and financing support and reinforce this commitment;
- a firm’s compliance with KPMGI policies and procedures; and
- the robustness with which the member firm performs its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

KPMG in Bermuda develops action plans to respond to all GCR findings and agree these with the GCR team. Our progress on action plans is monitored by the GCR central team. Results are reported to the GQ&RM Steering Group and, where necessary, to appropriate KPMG International and regional leadership.

### **Root Cause Analysis (RCA)**

KPMG in Bermuda performs root cause analysis to identify and address audit quality issues in order to prevent them from recurring and help identify good practices as part of continuous improvement. Over the last year there have been no QPR and inspection results that created the need for a formal root cause analysis. Should this be required in future, the firm has access to our Global root-cause analysis 5 step methodology to address any findings as these may occur in future. The RCA is performed by a team trained in our Global root-cause analysis 5-step methodology and independent of the engagement team.

The Global RCA 5 Step Principles are as follows:



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

KPMG in Bermuda’s Head of Audit Quality is responsible for the development and implementation of action plans as a result of RCA, including identification of solution owners. Our Risk Management Partner monitors their implementation.



## Recommendations for improvements

At a global level, through the Global Audit Quality Council and the GQ&RM Steering Group, KPMG International reviews the results of the quality monitoring programs, analyzes firm root causes and action plans and develops additional global actions as required.

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

## External feedback and dialogue

### Regulators

Due to our international client base, KPMG in Bermuda is currently regulated by four primary audit regulators. KPMG in Bermuda is also a corporate member of the Institute of Chartered Professional Accountants in Bermuda (CPA Bermuda) and our audit professionals are also licensed to practice in Bermuda by CPA Bermuda. Many of our audit professionals are expatriates and they are also governed by their “home” institute where they earned their original professional designation.

Our primary audit regulators are (i) the Public Company Accounting Oversight Board (PCAOB), which regulates our audit work for all US SEC issuer entities, (ii) the Bermuda Public Accountability Board (BPAB), which regulates our audit work for Bermuda-domiciled public interest entities, (iii) the Canadian Public Accountability Board (CPAB) which regulates our audit work for Canadian public interest entities and (iv) the Financial Reporting Council (FRC) which regulates our audit work for UK listed entities.

## Inspection Results

Our most recently published PCAOB inspection report can be found [here](#). The PCAOB did not identify any audit performance issues that required publication in Part 1 of either report. Our most recent inspection took place in July 2020, and we have not yet received the draft inspection report.

We have also been inspected by BPAB in 2017 and 2019 with a satisfactory outcome on all engagement files inspected. Any residual feedback comments on our firmwide system of quality control were remediated on a timely basis.

The Area Quality and Risk Management Leader (ARL) is made aware of any findings and the proposed actions in order to assist in consistent application across the network.

### PCAOB Matter Closed in 2019

On April 9, 2019, the PCAOB issued an Order Making Findings and Imposing Sanctions in the Matter of KPMG Audit Limited and Damion J. Henderson, CA ([PCAOB Release No. 105-2019-008](#)). This Settlement Order arose from an investigation commenced by the PCAOB in April 2016 and involved the misplacement of certain independence confirmations in late 2014, which were subsequently re-executed and backdated by certain staff members in late 2014 and 2015 ahead of our PCAOB inspection in May 2015.

As a result of the Settlement Order, the PCAOB sanctioned the firm and Mr. Henderson due to perceived deficiencies in our firm’s system of quality control. The PCAOB required the payment of monetary penalties by both parties and required KPMG in Bermuda to remediate the quality control deficiencies noted in the PCAOB Order. KPMG in Bermuda completed the remediation in 2019.



## CPA-B and BPAB Matters Closed in 2020

Following the PCAOB Settlement Order, in July 2019, CPA Bermuda began its own investigation of the matter. On June 17, 2020, the Discipline Committee of CPA Bermuda determined that KPMG in Bermuda and Mr. Henderson's conduct breached Rules 201 and 205 of the Rules of Professional Conduct of CPA Bermuda (an alleged breach of Rule 502 against KPMG in Bermuda was not upheld) and a Notice was published on the CPA Bermuda [website](#) on November 20, 2020. The Discipline Committee recommended that the respective conduct of KPMG in Bermuda and Damion J. Henderson, CA did not warrant a hearing of the Discipline Committee on this occasion. However, KPMG in Bermuda and Damion J. Henderson, CA were put on notice that the recommendation will be subject to review for a period of one year from February 11, 2020. Any further offenses during that period might lead to a referral to the Discipline Committee.

Similarly, in December 2019, the BPAB began its own investigation of the same matter. On November 13, 2020, the BPAB Compliance Committee determined that KPMG in Bermuda and Mr. Henderson's conduct constituted violation events under the Bermuda Public Accountability Act 2011 (the Act) and related rules and a [Notice](#) was published on the BPAB website on November 20, 2020. The BPAB held that KPMG in Bermuda breached Rule 25(2) of the Act (and related rules). The BPAB also held that KPMG in Bermuda and Mr. Henderson breached the Rules of Professional Conduct of CPA Bermuda (as discussed above), which were incorporated by reference into the BPAB Rules.

The Notice required that KPMG in Bermuda accomplish certain undertakings and implement enhancements to our educational materials and quality control policies and procedures. KPMG in Bermuda was also ordered to pay the BPAB's investigative costs. All enhancements to our educational materials and policies and procedures required by the BPAB were addressed on a timely basis.

## Client feedback

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



## Monitoring of complaints

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

# Financial information

## Companies listed in the EU/EEA

Entities that have transferable securities listed on a EU/EEA regulated market for which KPMG in Bermuda has signed an audit opinion in the year 2020 are given below.

- |   |  |
|---|--|
| 1 | Oakley Capital Investments Limited       |
| 2 | CATCo Reinsurance Opportunities Fund Ltd |

## Financial Information

The financial information of KPMG in Bermuda for the year ended September 30, 2020 is as follows:

Service	September 30, 2020
Audit and directly related services for audit clients listed in EU	0.52%
Permitted non-audit services for audit clients listed in EU	0.06%
Other audit and non-audit services	99.42%
Total revenue	100%





# Managing Director and Director remuneration

Managing Directors who own an equity interest in KPMG in Bermuda are remunerated based on a fixed salary for the year plus a share of the distributable profits of KPMG in Bermuda. The allocation of the distributable profits to each Managing Director is determined and approved by the Board's Compensation Committee based on seniority and experience of each Managing Director plus an element which reflects individual performance against objectives for the year.

Managing Directors and Directors who do not hold an equity interest are remunerated based on a fixed salary plus a discretionary bonus dependent on their individual performance against set objectives and performance of KPMG in Bermuda as a whole.



Our policies for the variable element of Managing Directors and Directors remuneration take into account a number of factors including quality of work, excellence in client service, growth in revenue and profitability, leadership and living the KPMG Values.

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



# Network arrangements



## Legal Structure

### Legal structure for the Financial Year ending September 30, 2020

KPMG in Bermuda is affiliated with KPMG International Cooperative (“KPMG International”). KPMG International is a Swiss cooperative which is a legal entity formed under Swiss law. Prior to October 1, 2020 it was the coordinating entity for the network and the entity with which all the member firms of the KPMG organisation were required to be affiliated with. Further details about KPMG International and its business activities, including our relationship with it for the financial year ending September 30, 2020, are available in the ‘Governance and leadership’ section of the [2020 KPMG International Transparency Report](#).

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.

Pursuant to their membership agreements with KPMG International, member firms are required to comply with KPMG International’s policies, procedures 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.

KPMG International is an entity that is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture, or in a principal

or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

The name of each audit firm that is a member of the organisation and the EU/EEA countries in which each firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available [here](#).

## Legal structure from 1 October 2020

On 1 October 2020, KPMG in Bermuda and all other KPMG firms entered into new membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organisation became members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee. From October 1, 2020, KPMG International Limited acts as the coordinating entity for the overall benefit of the KPMG member firms. It does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

Further detail on the revised legal and governance arrangements for the KPMG global organisation from October 1, 2020 can be found in section 'Governance and leadership' of the [2020 KPMG International Transparency Report](#).

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

## Total turnover achieved by EU/EEA audit firms resulting from the statutory audit of annual and consolidated financial statements\*

Aggregated revenues generated by KPMG firms from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was 2.8 billion euros during the fiscal year ending September 30, 2020. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent currently calculable and translated at the average exchange rate prevailing in the 12 months ended September 30, 2020.

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



## Responsibilities and obligations of member firms

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

Each KPMG firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of [KPMG Values](#).

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



## Professional Indemnity Insurance

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





## Governance structure

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

### Global Council

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

Among other things, the Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 61 KPMG firms that are “members” of KPMG International as a matter of Swiss law. Sublicensee firms<sup>2</sup> 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 current Global Board members is set out [here](#).

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, the Global Head of Quality, Risk and Regulatory and the General Counsel.

The list of current Global Management Team members is available [here](#).

### Global Steering Groups

The Global Steering Groups represent the function and infrastructure groups of KPMG International and are the main driving groups of

the organisation. They act under delegated authority from the Global Board and oversight by the Global Management Team, in particular the Global Audit Steering Group Committee and Global Quality Risk Management Steering Group 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 organisation.

The roles of the Global Audit Steering Group and the Global Quality & Risk Management Steering Group are detailed in section ‘Governance and leadership’ of the [2020 KPMG International Transparency Report](#).

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

Further details about KPMG International including the governance arrangements for the year ending September 30, 2020, can be found in section ‘Governance and leadership’ of the [2020 KPMG International Transparency Report](#).

<sup>2</sup> Unless otherwise stated, the words ‘member firm’ or ‘KPMG member firm’ when used in this Transparency Report include the following:

- Those entities that are members of KPMG International as a matter of Swiss law because KPMG International is a Swiss cooperative (i.e. similar to shareholders, albeit KPMG International has no share capital and, therefore, only has members not shareholders).
- Those entities (‘sublicensees’) that are not members of KPMG International as a matter of Swiss law but have still entered into legal agreements with KPMG International and also an entity that is a ‘member’.





## 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 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 firm remediation of significant issues, including identification of the root cause(s) of serious quality incidents.





# Statement by the Board of KPMG in Bermuda on the effectiveness of quality controls and independence

The measures and procedures that serve as the basis for the system of quality control for KPMG in Bermuda 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. Because of its inherent limitations, the system of quality controls is not intended to provide absolute assurance that non-compliance with relevant laws and regulations would be prevented or detected.

The Board of KPMG in Bermuda has considered:

- the design and operation of the quality control systems as described in this report;
- the findings from the various compliance programs operated by our firm (including the KPMG International Review Programs as described on [page 31](#) and our local compliance monitoring programs); and
- findings from regulatory inspections and subsequent follow up and/or remedial actions.

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

Further, the Board of KPMG in Bermuda confirms that an internal review of independence compliance within our firm has been conducted in the year to September 30, 2020.

**January 29, 2021**  
**Mike Morrison**  
**CEO**



# Appendices

## Appendix 1

### Key legal entities and areas of operation

Name of Entity	Legal Structure	Regulatory Status	Nature of Business	Area of Operation
KPMG Audit Limited	Limited liability company	Subject to audit regulation by CPA Bermuda, BPAB, PCAOB, FRC and CPAB	Professional services	Audit and assurance services
KPMG Tax Limited	Limited liability company	Not regulated	Professional services	Tax services
KPMG Advisory Limited	Limited liability company	Not regulated	Professional services	Advisory services
KPMG Internal Services Limited	Limited liability company	Not regulated	Internal administrative services	Internal administrative services
KPMG Bermuda Holdings Limited	Limited liability company	Not regulated	Holding company	Holding company



## Appendix 2

### Board of KPMG in Bermuda



**Neil Patterson\*†**  
Managing Director,  
Chairman, Risk  
Management Partner  
*(retired on  
December 31, 2020)*



**Mike Morrison\*†**  
Managing Director,  
CEO



**James Berry\***  
Managing Director,  
Head of Audit



**Umer Islam\***  
Managing Director,  
Risk Management  
Partner *(effective  
October 1, 2020)*



**Charles Thresh\***  
Managing Director,  
Head of Advisory



**Will McCallum\***  
Managing Director,  
Head of Tax



**Adam Smith\***  
Managing Director,  
Head of People



**Todd Kearns**  
Managing Director,  
Ethics and  
Independence Partner



**Gary Pickering**  
Managing Director,  
Head of Audit Quality



**Colin Coupert†**  
Managing Director



**Damion Henderson**  
Managing Director



**Bill Miller**  
Managing Director



**Steve Woodward**  
Managing Director



**Mark Allitt**  
Managing Director  
*(appointed to the Board  
on January 1, 2021)*



**Himad Zafar**  
Managing Director  
*(appointed to the Board  
on January 1, 2021)*

\* Member of the Executive Committee

† Member of the Compensation Committee



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