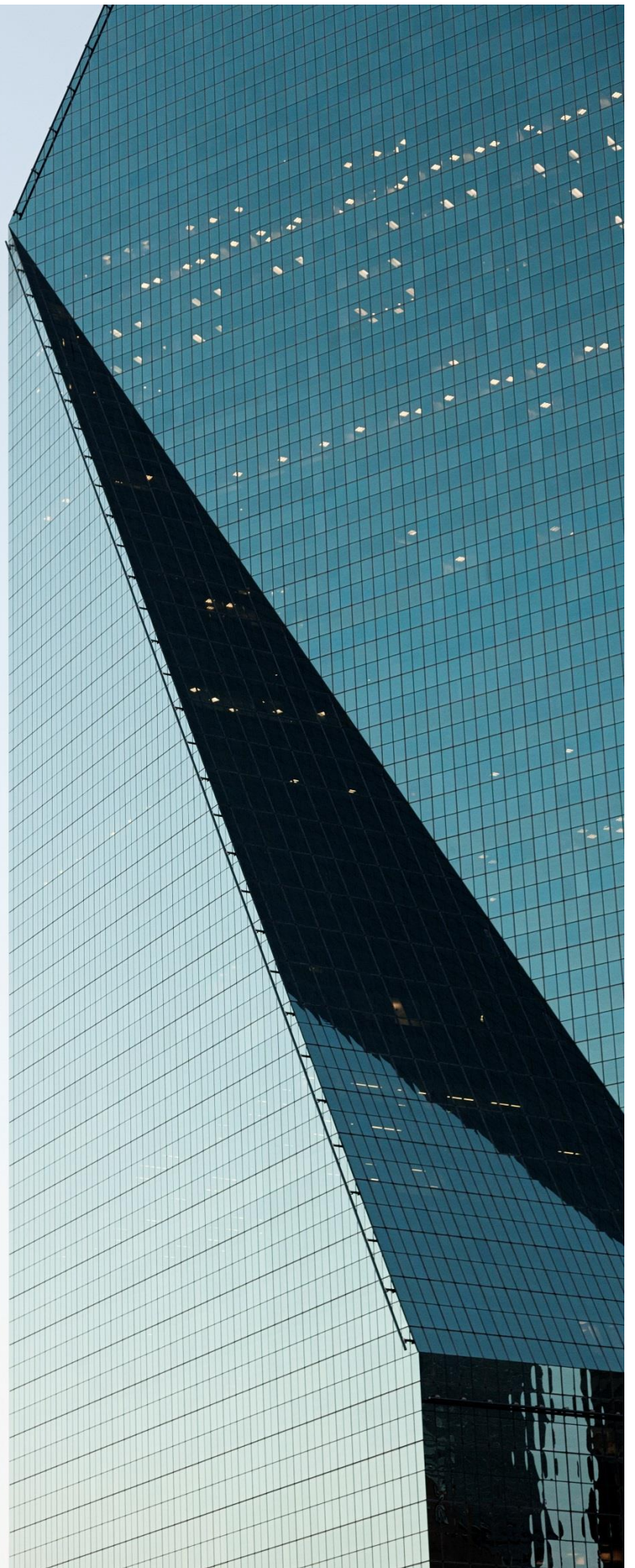


# 2017 Transparency Report

Samjong KPMG



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## Message from our CEO

Welcome to our 2017 Transparency Report, which sets out the structure and governance of KPMG Samjong Accounting Corp. (“KPMG Korea”) as well as the quality control procedures and standards of integrity that we adopt across the range of our services.

The pillars of our “Vision” to become “The Clear Choice” are “Our people are extraordinary”, “Our Clients see a difference in us” and “The public trusts us”.

We have always prided ourselves on providing quality professional services in an ethical manner in our market. Our Firm’s success and reputation are based on our unwavering commitment to audit quality and tone at the top. We remain committed to working closely with regulators, audit committees, investors and businesses to enhance quality.

Therefore, we are delighted to publish the Transparency Report 2017, which clearly outlines our commitment to audit quality and the steps we take to achieve it. We trust you will find this report a useful insight into how we strive to enhance the quality of our work.



**Kim, Kyo Tae**

**Chief Executive Officer**

30 June 2017



## 1 WHO WE ARE

### 1.1 OUR BUSINESS

KPMG in the Republic of Korea (“Korea”) is a professional services firm that delivers Audit, Tax and Advisory services. We operate out of offices in Seoul as a main office and Naju as a local office with 2,628 as of 31 March 2017.

Our audit services in Korea are delivered through KPMG Samjong Accounting Corp (“KPMG Korea”). Full details of the services offered by KPMG Korea can be found on our website: <https://home.kpmg.com/kr/en/home.html>.

### 1.2 OUR STRATEGY

Our firm has set a vision to become the best firm that our professionals are proud of, a firm that clients trust and a firm that is socially respected.

To achieve this vision the firm-wide strategic priorities are to:

- *Continue to invest in our people and be seen as the employer of choice and also fulfil our social responsibilities.*
- *Achieve sustainable growth in our business and pioneer new business areas to develop new services.*
- *Maintain and enhance the quality of the services we provide with deepened and extended knowledge and experience of our industry and through multi-disciplinary management and high ethical professional standards.*

We recognize that our commitment to audit quality is the most important element of our strategy and without this the other strategic priorities will not be achieved.

## 2 OUR STRUCTURE AND GOVERNANCE

### 2.1 LEGAL STRUCTURE

KPMG Korea is affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law. Further details about KPMG International and its business, including our relationship with it, are available in [the supplement to the KPMG International Transparency Report](#).

KPMG Korea is a partnership formed under the Korean “Certified Public Accountant Act” in Korea. As of 31 March 2017, there are 129 partners in KPMG Korea.

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

### 2.2 NAME AND OWNERSHIP

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.

Samjong KPMG LLC, the holding company of KPMG Korea, consists of more than one separate legal entity. Each separate legal entity will be responsible only for its own obligations and liabilities, unless it has expressly agreed otherwise.

## 2.3 RESPONSIBILITIES AND OBLIGATIONS OF MEMBER FIRM

Under agreements with KPMG International, we 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 our 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.

We take responsibility for our management and the quality of work. We commit to a common set of KPMG values (see section A.4).

## 2.4 GOVERNANCE STRUCTURE

The details of the key governance and management bodies of Samjong KPMG LLC are provided below:

### ***The Board of Directors***

The Board of Directors consists of 12 members, including the CEO and Country Risk Management Partner. The constitution of the Board is as determined by the Shareholders' Meeting. The Board meets from time to time to undertake certain statutory duties for KPMG Korea.

### ***The Shareholders' Council***

The Shareholders' Council consists of 7 members, elected by the Shareholders' Meeting. The Council meets from time to time to undertake certain statutory duties for shareholders.

### ***The Executive Committee***

The Executive Team is responsible for recommending policy to the Board and developing the business plan within the overall strategy set by the Board, together with its subsequent implementation. It deals with operational matters affecting the firm (including the operating and financial performance, budgets, new business proposals, marketing, technology

development, recruitment and retention).

### ***The Risk Management Committee***

The principal role of the Risk Management Committee is to provide oversight of quality & risk management matters across the firm. As part of its role it oversees that a culture of quality and integrity is maintained within the firm and, where required, it will act as a sounding board to the Country Risk Management Partner on the policies and procedures relating to professional risk management, ethics and independence, quality control and compliance. The Committee also considers the impact of the key findings from our compliance quality monitoring programs and the adequacy of proposed remedial actions.

The Committee is held from time to time to identify and discuss firm-wide risk management issues, if any.



### 3 SYSTEM OF QUALITY CONTROL

A robust and consistent system of quality control is an essential requirement in performing high quality services.

Accordingly, KPMG International has policies of quality control that apply to all member firms.

These policies and associated procedures are designed to guide member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances.

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

KPMG Korea implements KPMG International policies and procedures and adopts additional policies and procedures that are designed to address rules and standards issued by Financial Supervisory Services and other relevant regulators as well as applicable legal and other requirements.

KPMG International's policies reflect individual

quality control elements to help our personnel act with integrity and objectivity, perform their work with diligence, and comply with applicable laws, regulations, and professional standards.

Quality control and risk management are the responsibility of all KPMG personnel. This responsibility includes the need to understand and adhere to firm policies and associated procedures in carrying out their day-to-day activities.

While many KPMG quality control processes are cross-functional, and apply equally to tax and advisory work, the remainder of this section focuses on what we do to enable the delivery of quality audits. In this section we therefore focus on our system of audit quality control.

At KPMG audit quality is not just about reaching the right opinion, but how we reach that opinion. It is about the processes, thought, and integrity behind the audit report. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. This means, above all, being independent, and compliant with relevant legal and professional requirements.

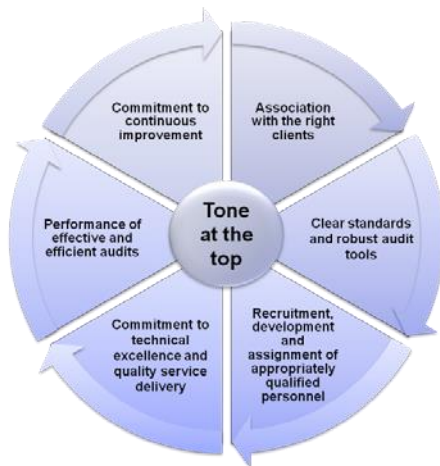
To help all audit professionals concentrate on the fundamental skills and behaviors required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework. Our Framework introduces a common language that is used by all KPMG member firms to describe what we believe drives audit quality, and to highlight how every audit professional at KPMG contributes to the delivery of audit quality.

Our Audit Quality Framework identifies seven drivers of audit quality:

1. Tone at the top
2. Association with the right clients
3. Clear standards and robust audit tools
4. Recruitment, development and assignment of appropriately qualified personnel
5. Commitment to technical excellence and quality service delivery
6. Performance of effective and efficient audits
7. Commitment to continuous improvement

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 behaviors permeate across our entire network. All of the other drivers are presented within a virtuous circle because each driver is intended to reinforce the others. Each of the seven drivers is described in more detail in the following sections

of this report.



### 3.1 TONE AT THE TOP

Tone at the top is a term used to describe an organization’s general ethical climate, as established by its leadership. KPMG and its leadership use “tone at the top” to indicate its commitment to quality, ethics and integrity.

#### **KPMG’s focus on quality**

KPMG’s tone at the top provides a clear focus on quality through:

- culture, values, and code of conduct - clearly stated and demonstrated in the way we work;
- focused and well-articulated strategy - incorporating quality at all levels;
- standard set by our leadership; and
- governance structure and clear lines of responsibility for quality - skilled and experienced people in the right positions to influence the quality agenda.

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG core value – above all, we act with integrity. This commitment underlies our values-based compliance culture where individuals are encouraged to raise their concerns when they see behaviors or actions that are inconsistent with our values or professional responsibilities.

Our Code of Conduct incorporates our core values and addresses the commitments that we make as well as the responsibilities of our personnel at all levels across the firm. Our core values are further described in [Appendix A.4](#).

A [KPMG International hotline](#) and KPMG Korea’s

local [Samjong KPMG hotline](#) are available for KPMG personnel, clients, and other parties to confidentially report concerns they have relating to certain areas of activity by KPMG International itself, those who work for KPMG International, or the senior leadership of a KPMG member firm.

#### **3.1.1 Leadership responsibilities for quality and risk management**

While we stress that all professionals are responsible for quality and risk management, the following entities and individuals have leadership responsibilities.

##### **Chief Executive Officer (CEO)**

In accordance with the principles in ISQC 1, our CEO Kyo Tae Kim has assumed ultimate responsibility for KPMG Korea’s system of quality control. Details of some of the measures that he and the rest of the Board have taken to ensure that a culture of quality prevails within KPMG Korea are set out in section 3 – System of quality control.

##### **Risk Management Partner**

Operational responsibility for the system of quality control, risk management and compliance in KPMG Korea has been delegated to the Country Risk Management Partner, Won Jeong Suh, who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for firm. He has a direct reporting line to the CEO. The fact that the role is in seniority of the reporting lines, underlines the importance that the group places on risk and quality issues. The Country Risk Management Partner is supported by a team of partners and professionals in each of the functions.

##### **The Audit, Tax and Advisory (Consulting Service, Business Consulting Service and Deal Advisory) functions – Function Heads**

The five heads of the client service functions (Audit, Tax, Consulting Service, Business Consulting Service and Deal Advisory) and the functional Risk Management Partners (FRMPs) are accountable to the CEO for the quality of service delivered in their respective functions. Between them, they determine the operation of the risk management, quality assurance and monitoring

procedures for their specific functions within the framework set by the Head of Department of Professional Practice (DPP). These procedures make it clear that at the engagement level, risk management and quality control is ultimately the responsibility of all professionals.

### **Department of Professional Practice (DPP)**

The DPP function is responsible for providing support to the firm's professionals in meeting their professional responsibilities in the areas of accounting, reporting, auditing and assurance standards, and advisory services. It is comprised of a team of directors and experienced managers with the technical expertise necessary to support client teams on the interpretation and application of auditing, accounting and regulatory requirements.

## **3.2 ASSOCIATION WITH THE RIGHT CLIENTS**

### **3.2.1 Acceptance and continuance of clients and engagements**

Rigorous client and engagement acceptance and continuance policies and processes are vital to our ability to provide high-quality professional services and to protect KPMG's reputation and support its brand.

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

### **3.2.2 Prospective client and engagement evaluation process**

Before accepting a client, we undertake an evaluation of the prospective client. This involves an assessment of its principals, its business, and other service-related matters. This also involves background checks on the prospective client, its key management, and significant beneficial owners. A key focus is on the integrity of management at a prospective client and the evaluation considers breaches of law and regulation, anti-bribery and corruption and human rights among the factors to consider. A second partner, as well as the evaluating

partner, approves the prospective client evaluation. Where the client is considered to be 'high risk' the Risk Management Partner or their delegate is involved in approving the evaluation.

The prospective engagement partner evaluates each prospective engagement. The evaluation identifies potential risks in relation to the engagement. A range of factors is considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel™, our global conflicts and independence checking system) as well as factors specific to the type of engagement, including for audit services, the competence of the client's financial management team and the skills and experience of personnel assigned to staff the engagement. The evaluation is made in consultation with other senior member firm personnel and includes review by quality and risk management leadership as required.

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

Any potential independence or conflict of interest issues are documented and resolved prior to acceptance.

Depending on the overall risk assessment of the prospective client or engagement, additional safeguards may be introduced to help mitigate the identified risks.

We will decline a prospective client or engagement if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional and firm standards, or there are other quality and risk issues that cannot be appropriately mitigated. The Non-Audit services and Conflicts of interests sections provide more information on our independence and conflict checking policies.

### **3.2.3 Continuance process**

An annual re-evaluation of all audit clients and audit engagements is undertaken. In addition, clients are re-evaluated earlier if there is an indication that there may be a change in their risk profile. Recurring or long running engagements are also subject to re-evaluation.

This re-evaluation serves two purposes. Firstly, we will decline to continue to act for any client where we are unable to deliver to our expected level of



quality, or if we consider that it would not be appropriate to continue to be associated with the client. More commonly, we use the re-evaluation to consider whether or not any additional risk management or quality control procedures need to be put in place for the next engagement (this may include the assignment of additional professionals or the need to involve additional specialists on the audit).

### 3.2.4 Withdrawal

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

### 3.2.5 Client portfolio management

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

## 3.3 CLEAR STANDARDS AND ROBUST AUDIT TOOLS

Professional practice, risk management, and quality control are the responsibilities of every KPMG professional. Our professionals are expected to adhere to KPMG policies and procedures (including independence policies), and are provided with a range of tools to support them in meeting these expectations. The policies and procedures set for audit incorporate the relevant requirements of accounting, auditing, ethics, and quality control standards, and other relevant laws and regulations.

### 3.3.1 Audit methodology and tools

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

member firms may add local requirements and/or guidance in KAM to comply with additional professional, legal, or regulatory requirements. Our audit methodology is supported by eAudit, KPMG International's electronic audit tool, which provides KPMG auditors worldwide with the methodology, guidance, and industry knowledge needed to perform efficient, high-quality audits. eAudit's activity-based workflow provides engagement teams with ready access to relevant information at the right time throughout the audit, thereby enhancing effectiveness and efficiency and delivering value to stakeholders. The key activities within the eAudit workflow are:

#### *Engagement setup*

- perform engagement acceptance and scoping;
- determine team selection and timetable;

#### *Risk assessment*

- identify and assess risks;
- plan for involvement of KPMG specialists and external experts, internal audit, service organizations and other auditors as required;
- evaluate design and implementation of relevant controls;
- understand the entity;
- conduct risk assessment and planning discussion;
- determine audit strategy and planned audit approach;

#### *Testing*

- test operating effectiveness of selected controls;
- plan and perform substantive procedures;

#### *Completion*

- update risk assessment;
- perform completion procedures, including overall review of financial statements;
- perform overall evaluation, including evaluation of significant findings and issues;
- communicate with those charged with governance (e.g., the audit committee); and
- form the audit opinion.

KAM contains, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks. Our methodology encourages engagement teams to exercise professional skepticism in all aspects of planning and performing an audit. The methodology encourages use of specialists when appropriate, and also requires involvement of relevant specialists in the core audit engagement team when certain criteria are met.

KAM includes the implementation of quality control procedures at the engagement level that provides us with reasonable assurance that our engagements comply with the relevant professional, legal, regulatory, and KPMG requirements.

The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the Global Quality & Risk Management Manual (GQ&RMM) that is applicable to all KPMG member firms, functions and personnel.

### 3.3.2 Independence, Integrity, Ethics and Objectivity

#### 3.3.2.1 Overview

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

These policies are supplemented by other processes to ensure compliance with the standards issued by the Korean Institute of Certified Public Accountants (KICPA), the Korean "Certified Public Accountant Act" and the "Act on External Audit of Stock Companies". 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.

To help ensure ethical conduct, including integrity and independence, KPMG International requires that each member firm, and its personnel, must be free from prohibited financial interests in, and prohibited relationships with, the audit clients, their management, directors, and significant owners.

KPMG Korea has a designated Ethics and Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence policies and procedures. Member firms' EIP are supported by the Global Independence Group. The Partner-in-Charge of the Global Independence Group is supported by a core team of specialists to help ensure that implement robust and consistent independence policies, procedures and tools are implemented. Amendments to KPMG International's ethics and independence policies in the course of the year are communicated by e-mail alerts and included in regular quality and risk communications. Member firms are required to implement changes as specified in the email alerts, and this is checked through the internal monitoring programs described in 3.7.1.

KPMG Korea personnel are required to consult with the EIP on certain matters as defined in the Global Q&RM Manual.

In the event of failure to comply with the independence policies, professionals are subject to an independence disciplinary policy. Matters arising are factored into promotion and compensation decisions and performance discussions.

The disciplinary policy is communicated to all professionals and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations."

#### 3.3.2.2 Personal financial independence

KPMG International policy extends the IESBA Code of Ethics restrictions on ownership of audit client securities to every member firm partner in respect of any audit client of any member firm.

Each member firm and its professionals must be free from prohibited financial interests in, and prohibited relationships with, KPMG's audit clients, their management, directors, and significant owners.

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

In common with other member firms of KPMG International, we use a web-based independence compliance system (KICS) to assist our

professionals in their compliance with personal independence investment policies. This system contains an inventory of publicly available investment products.

Based on the KICPA guidelines, KPMG Korea bolstered the KPMG International policy by extending KICS users from partners and client facing managers to include all professionals in 2015. All professionals are required to use the KICS system prior to entering into an investment to identify whether they are able to do so. They are also required to maintain a record of all of their investments in KICS, which automatically notifies them if their investments subsequently become restricted and they must dispose of that investment within 5 business days of the notification.

Subsequently, KPMG Korea extended the IESBA Code of Ethics restrictions on ownership of audit client securities to all employees, excluding administrative staff level, in accordance with the adoption of KICPA's guidelines which are released to all accounting firms in Korea.

We monitor Professional compliance with this requirement as part of our program of independence compliance audits of a sample of professionals.

In FY2016 over 587 of our people were subject to these audits (this included approximately 60% of our partners)

### 3.3.2.3 Employment relationships

Any 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 partners, this requirement extends to any audit client of any KPMG member firm that is a public interest entity.

Former members of the audit team or former partners of a member firm are prohibited from joining an audit client in certain roles unless they have disassociated from the member firm financially and have ceased participating in KPMG Korea business or 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 of our professionals by audit clients.

### 3.3.2.4 Firm financial independence

We also use KICS to record their own investments in SEC entities and affiliates (including funds), locally listed companies and funds, direct and material indirect investments held in pension, and employee benefit plans (including non-public entities and funds).

Additionally, we are required to record in the system all borrowing and capital financing relationships, and custodial, trust and brokerage accounts that hold member firm assets.

On an annual basis, we confirm compliance with independence requirements as part of the Risk Compliance Program.

### 3.3.2.5 Business relationships/suppliers

We have policies and procedures in place that are designed to ensure that business relationships are maintained in accordance with the IESBA Code of Ethics and any additional applicable independence requirements. Compliance with these policies and procedures is reviewed periodically.

### 3.3.2.6 Business acquisition, admission and investments

If KPMG Korea is in the process of considering the acquisition of, or investment in, a business, we are required to perform sufficient due diligence procedures on the prospective target to identify and address any potential independence and risk management issues prior to closing the transaction. Specific consultation requirements are applied to enable independence and other issues to be addressed when integrating the business into KPMG Korea and the network.

### 3.3.2.7 Independence Clearance Process

Prior to accepting a financial statement audit engagement for a public interest entity, the Independence Clearance Process (ICP) is conducted by the prospective Lead Audit Engagement Partner ("LAEP").

The process assists in identifying and evaluating any threats to independence prior to accepting an audit, in accordance with professional standards, which includes the approval of the local EIP or RMP (and GIG if applicable) regarding the procedures performed and the conclusions reached.

### 3.3.2.8 Independence training and confirmations

We provide all relevant personnel (including all Partners and client service professionals) with independence training that is appropriate to their grade and function on an annual basis.

According to KPMG's policies, new personnel who are required to complete this training must do so by the earlier of (a) thirty days after joining KPMG Korea or (b) before providing any services to and audit client or its affiliates. To comply with this policy, KPMG Korea reinforced the procedures that new personnel are required to complete this training within 2 days of joining the firm.

We also provide all personnel with training on the Code of Conduct and ethical behavior, including KPMG's anti-bribery policies, compliance with laws, regulations, and professional standards, and reporting suspected or actual non-compliance with laws, regulations, professional standards, and KPMG's policies on a biennial basis.

Upon acceptance of employment, all KPMG personnel are required to confirm that they are in compliance with, and will abide by applicable ethics and independence rules and policies. Thereafter, all KPMG personnel are required to sign an annual confirmation stating that they have remained in compliance with applicable ethics and independence policies throughout the year covered by the confirmation. In addition, all KPMG personnel are required to confirm their understanding of, and compliance with, the applicable Code of Conduct upon joining their member firm and on an annual basis thereafter. This confirmation is used to evidence the individual's compliance with and understanding of our independence policies.

### 3.3.2.9 Non-audit services

We have policies as to the scope of services that can be provided to audit clients which are consistent with both IESBA principles, the Korean "Certified Public Accountant Act" and the "Act on External Audit of Stock Companies".

We establish and maintain a process to review and approve all new and modified services that are developed by the KPMG Korea. The EIP is involved in the review of potential independence issues, and the Global Independence Group is involved in the case of services developed for global adoption.

In addition to identifying potential conflicts of

interest, KPMG International's proprietary system, Sentinel™, facilitates compliance with these policies. Certain information on all prospective engagements that includes service descriptions and fees must be entered into Sentinel™ as part of the engagement acceptance process. Using Sentinel™ Lead audit engagement partners are required to: maintain group structures for their publicly traded and certain other audit clients as well as their affiliates, and identify and evaluate any independence threats that may arise from the provision of a proposed non-audit services and the safeguards available to address those threats. Sentinel™ enabled lead audit engagement partners for entities for which group structures are maintained, to review and approve, or deny, any proposed service for those entities worldwide.

### 3.3.2.10 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 operating firm expressing the audit opinion. In particular, KPMG International's policies require that in the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10 percent of the total fees received by a particular member firm for two consecutive years, a senior partner from another operating firm would be appointed as the engagement quality control (EQC) reviewer.

Also, this would be disclosed to those charged with governance at the audit client.

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

### 3.3.2.11 Conflicts of interest

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

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

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

It may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise, or be perceived to arise, so that the confidentiality of all clients' affairs is maintained. Such procedures may, for example, include establishing formal dividers between engagement teams serving different clients, and making arrangements to monitor the operation of such dividers.

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

### 3.3.2.12 Breaches of independence policy

All KPMG personnel are required to report an independence breach as soon as they become aware of it. 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.

We have a documented disciplinary policy in relation to breaches of independence policies. The disciplinary policy is communicated to all professionals and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations. Any breaches of auditor independence regulations are reported to those charged with governance at the audit client, on the basis agreed with them.

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

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

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

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

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

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

### 3.3.2.14 Partner rotation

KPMG International rotation policies are consistent with the IESBA Code of Ethics and require our firm to comply with the requirements of the "Act on External Audit of Stock Companies" which is stricter than the IESBA Code.

Partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG International policy.

These requirements place limits on the number of consecutive years that partners in certain roles may provide statutory audit services to a client, followed by a '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 or in any way influence the outcome of the audit.

We monitor the rotation of audit engagement leaders and develop transition plans to enable allocation of partners with the necessary competence and capability to deliver a consistent quality of service to clients. The partner rotation monitoring is subject to compliance testing.

### 3.4 RECRUITMENT, DEVELOPMENT AND ASSIGNMENT OF APPROPRIATELY QUALIFIED PERSONNEL

One of the key drivers of quality is ensuring that KPMG professionals have the skills and experience to deliver on our vision. This requires recruitment, promotion and retention of professionals and a robust capacity and resource management processes. KPMG's global behaviors, which are linked to our Values, are designed to help articulate what is required for success – both individually and collectively. One of KPMG's global behaviors is 'Delivering Quality'.

#### 3.4.1 Recruitment

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

We recruited 295 of new KICPAs in FY2016 (in FY15, we recruited 275).

Our recruiting strategies are focused on drawing entry-level talent from a broad talent base, including working with established universities, colleges and business schools helping build relationships with a younger, diverse talent pool at an early age.

We also recruit significant numbers at an experienced hire.

#### 3.4.2 Personal development

It is important that all professionals have the necessary business and leadership skills to be able to perform quality work in addition to technical skills (see section 3.5.1).

In relation to audit, we provide opportunities for professionals to develop the skills, behaviors, and personal qualities that form the foundations of a successful career in auditing. Courses are available to enhance personal effectiveness and develop technical, leadership, and business skills. We further develop our personnel for high performance through coaching and mentoring on the job, stretch assignments, and country rotational and global mobility opportunities.

#### 3.4.3 Inclusion and Diversity programs

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

Our established Global Inclusion and Diversity strategy provides the framework to drive the actions we believe are necessary to promote inclusive leadership across the KPMG network.

#### 3.4.4 Evaluation, compensation and promotion

All professionals, including partners, undergo annual goal-setting and performance reviews. Each professional is evaluated on his or her attainment of agreed-upon goals, demonstration of the KPMG global behaviors, technical capabilities and market knowledge. These evaluations are conducted by performance managers and partners who are in a position to assess their performance and propose a performance rating. Performance ratings are awarded following a robust calibration process to effectively address rating inconsistencies and ensure fairness in the rating process. This is achieved through our global performance development process, which is supported by a web-based application.

##### *Compensation and promotion*

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

We monitor quality and compliance incidents and maintain quality metrics for the purposes of partner assignments and also for the purposes of partner evaluation, promotion and remuneration.

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

### 3.4.5 Partner admissions

Our process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. Our criteria for admission to the partnership are consistent with our commitment to professionalism and integrity, quality, and being an employer of choice. These are strongly aligned to KPMG's behavioral capabilities and are based on consistent principles to help achieve quality of hire in our partner admissions. The procedure includes a business case and a personal case for the individual candidate. All recommendations for admission to membership of KPMG Korea need to be approved by the Board of Directors.

### 3.4.6 Assignment of professionals

Our firm has procedures in place to assign both the engagement partners and other professionals to a specific engagement on the basis of his or her skill sets, relevant professional and industry experience, and the nature of the assignment or engagement. Heads of departments are responsible for the process for allocating particular engagement partners to clients. Key considerations include partner experience, accreditation, and capacity, based on an annual partner portfolio review, to perform the engagement in view of the size, the complexity and risk profile of the engagement and the type of support to be provided (i.e., the engagement team composition and specialist involvement).

Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies 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 or other KPMG member firms.

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

- 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 specialized areas of accounting or auditing;
- knowledge of relevant industries in which the client operates;
- ability to apply professional judgment;
- an understanding of KPMG's quality control policies and procedures; and
- QPR results and results of regulatory inspections.

### 3.4.7 Employee engagement

Annually, we invite all our people to participate in an independent Global People Survey (GPS) which measures our people's attitudes and provides an overall Employee Engagement Score. The GPS also provides insights about what drives engagement across different demographic groups and how we are faring in selected categories. In alternate years, we run a short form Pulse survey.

The results of GPS provide leadership with information about employee/partner perceptions about quality, tone at the top, and employee engagement and motivation; helping track progress against strategic priorities as well as providing warning indicators if there are areas of concern.

We participate in the GPS, monitor results and take appropriate actions to communicate and respond to the findings of the survey.

This includes monitoring GPS results against agreed targets relevant to:

- quality and tone at the top - referred to in the GPS as 'leadership behavior'
- employee engagement score

The results of the GPS are presented to the Global Board each year and appropriate follow-up actions agreed.

### 3.5 COMMITMENT TO TECHNICAL EXCELLENCE AND QUALITY SERVICE DELIVERY

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

At the same time we use our audit accreditation and licensing policies to require professionals to have the appropriate knowledge and experience for their assigned engagements. Our structure enables our engagement teams to apply their business understanding and industry knowledge to deliver valued insights and to maintain audit quality.

#### 3.5.1 Professional training

In addition to personal development discussed in the section above, our policies require all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

Audit Learning and Development steering groups at the global, regional and, where applicable, local levels identify annual technical training priorities for development and delivery using a blend of classroom, e-learning and virtual classroom methods. Audit Learning and Development teams work with subject matter experts and leaders from GSC, the International Standards Group (ISG) and DPP, as appropriate, to ensure the training is of the highest quality, is relevant to performance on the job, and is delivered on a timely basis.

#### 3.5.2 Accreditation and licensing

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

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.

In addition, we have specific accreditation requirements for partners and managers working on IFRS engagements, US Generally Accepted Accounting Principles (US GAAP) engagements, US Generally Accepted Auditing Standards (US GAAS) engagements, and the Standards of the Public Company Accounting Oversight Board (PCAOB) for SEC and Internal Control Over Financial Reporting (ICOFR) engagements performed outside the US. These require that the partner, manager, and Engagement Quality Control reviewer have completed relevant training and that the engagement team, collectively, has sufficient experience in performing engagements that apply the relevant reporting standards or has implemented appropriate safeguards to address any shortfalls.

We require that all Audit professionals maintain accreditation with their professional bodies and satisfy the Continuing Professional Development requirements of such bodies. Our policies and procedures are designed to ensure that those individuals that require a license to undertake their work are appropriately licensed.

#### 3.5.3 Access to specialist networks

Our engagement teams have access to a network of local KPMG specialists. Engagement partners are responsible for ensuring that their engagement teams have the appropriate resources and skills. The need for specialists (e.g., Information Technology, Tax, FRM, Actuarial, Forensic, Valuation) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process.

#### 3.5.4 Consultation

We promote a culture in which consultation is recognized as a strength and that encourages personnel to consult on difficult or contentious matters.

To assist audit engagement professionals in addressing difficult or contentious matters, we have established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues.



We provide appropriate consultation support to audit engagement professionals through professional practice resources that include a Department of Professional Practice (DPP) or equivalent.

Technical support is available to us through the International Standards Group (ISG) as well as the US Capital Markets Group for work on SEC foreign registrants.

### **International Standards Group (ISG)**

The ISG works with Global IFRS and ISAs topic teams with geographic representation from around the world to promote consistency of interpretation of IFRS between member firms, identify emerging issues, and develop global guidance on a timely basis. Further details about the GSC and ISG and its activities are available in [the supplement to the KPMG International Transparency Report](#).

### **3.5.5 Developing business understanding and industry knowledge**

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

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

## **3.6 PERFORMANCE OF EFFECTIVE AND EFFICIENT AUDITS**

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

### **3.6.1 KPMG Audit Process**

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

- timely partner and manager involvement;
- timely access to the right knowledge – specialists, accredited individuals and relevant industry expertise;
- critical assessment of audit evidence;
- exercise of professional judgment and professional skepticism;
- ongoing mentoring, supervision, and review;
- appropriately supported and documented conclusions; and
- robust challenge and review, including EQC review.

#### **3.6.1.1 Timely partner and manager involvement**

To help identify and respond to the significant audit risks applicable to each audit, the engagement team requires an understanding of the client's business, its financial position, and the environment in which it operates.

The engagement partner is responsible for the overall quality of the audit engagement and therefore for the direction, supervision and performance of the engagement.

Involvement and leadership from the engagement partner during the planning process and early in the audit process helps set the appropriate scope and tone for the audit, and helps the engagement team obtain maximum benefit from the partner's experience and skill. Timely involvement of the engagement partner at other stages of the engagement allows the engagement partner to identify and appropriately address matters significant to the engagement, including critical areas of judgment, and significant risks.

The engagement partner is responsible for the final audit opinion and reviews key audit documentation – in particular, documentation relating to significant matters arising during the audit and conclusions reached. The engagement manager assists the partner in meeting these

responsibilities and in the day-to-day liaison with the client and team, building a deep business understanding that helps the partner and team deliver valued insights.

### 3.6.1.2 Critical assessment of audit evidence with emphasis on professional skepticism

We consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence. The nature and extent of the audit evidence we gather is responsive to the assessed risks. We critically assess audit evidence obtained from all sources. For the purpose of obtaining sufficient appropriate audit evidence each team member is required to exercise professional judgment and maintain professional skepticism throughout the audit engagement.

Professional skepticism involves a questioning mind and alertness to contradictions or inconsistencies in audit evidence. Professional skepticism features prominently throughout auditing standards and receives significant focus from regulators. Our Audit Quality Framework emphasizes the importance of maintaining an attitude of professional skepticism throughout the audit.

KPMG professional judgment process facilitates good judgment by introducing a structured approach to auditing areas that require significant judgment. It also reinforces the importance of independence and objectivity and emphasizes the importance of having the right mindset - the need to apply professional skepticism. Our professional judgment process recognizes the need to be aware of, and alert to, biases which may pose threats to good judgment. The structured approach to auditing areas that require significant judgment involves:

- considering alternatives;
- critically assessing audit evidence by challenging management's assumptions and following up contradictory or inconsistent information; and
- documenting the rationale for conclusions reached on a timely basis as a means of evaluating their completeness and appropriateness.

The use of the professional judgment process and the application of professional skepticism is reinforced through coaching and training,

acknowledging that judgment is a skill developed over time and with different experiences.

### 3.6.1.3 Ongoing mentoring, supervision and review

We understand that skills build over time and through exposure to different experiences. To invest in the building of skills and capabilities of our professionals, without compromising on quality, we promote a continuous learning environment and support a coaching culture throughout KPMG as part of enabling personnel to achieve their full potential.

Ongoing mentoring and on-the-job 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; and
- identifying matters for consultation with more experienced team members during the engagement.

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

### 3.6.1.4 Appropriately supported and documented conclusions

We use the KAM and KPMG International's electronic audit tool, eAudit, to provide guidance, mechanisms for and documentation of, the supervision and control of the audit engagement.

Audit documentation records the audit procedures performed, evidence obtained and conclusions reached on significant matters on each audit engagement. Our policies require review of documentation by more experienced engagement team members.

Our methodology recognizes that documentation

prepared on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before our report is finalized. Teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period, which is ordinarily not more than 60 calendar days from the date of the audit report.

The key principle that engagement team members are required to consider is whether an experienced auditor, having no previous connection with the engagement, will understand:

- the nature, timing, and extent of audit procedures performed to comply with the ISAs;
- applicable legal and regulatory requirements;
- the results of the procedures performed, and the audit evidence obtained;
- significant findings and issues arising during the audit, and actions taken to address them (including additional audit evidence obtained); and
- the basis for the conclusions reached, and significant professional judgments made in reaching those conclusions.

We have a formal document retention policy in accordance with applicable laws and regulations that govern the period we retain audit documentation and other client-specific records.

### 3.6.1.5 Appropriate involvement of the EQC reviewer

Engagement Quality Control (EQC) reviewers have appropriate experience and knowledge to perform an objective review of the decisions and judgments made by the engagement team. They are experienced audit professionals who are independent of the engagement team.

They provide an objective review of the more critical and judgmental elements of the audit. An EQC reviewer is required to be appointed for the 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.

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

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

Although the engagement partner is ultimately responsible for the resolution of financial reporting and auditing matters, the EQC reviewer must be satisfied that all significant questions raised have been resolved before an audit can be considered to be completed. We are continually seeking to strengthen and improve the role that the EQC review plays in audits, as this is a fundamental part of the system of audit quality control. In recent years we have taken a number of actions to reinforce this, including:

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

### 3.6.1.6 Reporting

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

In preparing audit reports, engagement partners have access to extensive reporting guidance and technical support to audit partners through consultations with DPPs, especially where there are significant matters to be reported to users of the audit report, either as a qualification to the audit report or through the inclusion of an emphasis of matter paragraph.

### 3.6.1.7 Insightful, open, and honest two-way communication

Two-way communication with those charged with governance is key to audit quality. Often the audit committee will be the group identified as those charged with governance.

At KPMG Korea, we stress the importance of keeping those charged with governance informed of issues arising throughout the audit and of understanding their views. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings, and ongoing discussions with members of the audit committee.

Communications with audit committees include:

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

We ensure such communications meet the requirements of professional standards.

#### ***Audit Committee Institute***

In recognition of the demanding and important role that audit committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, our 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 35 countries across the globe including Korea and provides audit committee members with authoritative guidance on matters of interest to audit committees as well as 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.

### 3.6.1.8 Focus on effectiveness of group audits

Our audit methodology, KAM, covers the conduct of group audits in detail. We stress the importance of effective two-way communication between the group engagement team and the component auditors, which is a key to audit quality. The group audit engagement partner is required to evaluate the competence of component auditors, whether or not they are KPMG member firms, as part of the engagement acceptance process.

Consistent methodology and tools are used across the KPMG network. Lead audit engagement partners are provided with information on component auditors within the KPMG network to help them evaluate their competence and capabilities. In addition, for PCAOB engagements, the results of relevant inspections related to the KPMG component member firms are made available to the lead audit engagement partner.

Lead audit engagement partners may review component auditor engagement documentation in person or obtain electronic access.

### 3.6.2 Client confidentiality, information security, and data privacy

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

We have a formal document retention policy concerning the retention period for audit documentation and other records relevant to an engagement in accordance with the relevant IESBA requirements as well as the Act on External Audit of Stock Companies.

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 of our personnel.

### 3.7 COMMITMENT TO CONTINUOUS IMPROVEMENT

We commit to continually improve the quality, consistency and efficiency of our 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 member firm's system of quality control. KPMG International's integrated quality and monitoring programs include the Quality Performance Review (QPR) program, the Risk Compliance Program (RCP) and the Global Compliance Review (GCR) program.

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

#### 3.7.1 Internal monitoring and compliance programs

Our monitoring programs evaluate both:

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

The results and lessons from the programs are communicated within each member firm, and the overall results and lessons from the programs are considered and appropriate action taken at regional and global levels. 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.

Two KPMG International developed and administered inspection programs are conducted annually across the Audit, Tax, and Advisory functions, the Quality Performance Review (QPR) Program and the Risk Compliance Program (RCP).

Additionally all member firms are covered at least 3 years by cross-functional Global Compliance Reviews (GCRs). These programs are designed by KPMG International and participation in them is a condition of ongoing membership of the KPMG network.

#### **Quality Performance Reviews (QPRs)**

The QPR Program assesses engagement level performance in the Audit, Tax, and Advisory functions and identifies opportunities to improve engagement quality.

#### Risk-based approach

Each engagement leader is reviewed at least once in a 3 year cycle. A risk-based approach is used to select engagements.

We conduct the annual QPR program in accordance with global QPR instructions. The reviews are performed at our level and are monitored regionally and globally. Member firm Audit QPR reviews are overseen by a senior experienced lead reviewer independent from the member firm.

#### Reviewer selection, preparation and process

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

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

#### Evaluations from Audit QPR

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

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

#### Reporting

Findings from the QPR program are disseminated to member 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 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 member firms. These policies and processes, and their related procedures, include the requirements of ISQC 1. During the annual RCP, we perform a robust assessment 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:

- monitor, document and assess the extent of compliance of our system of quality control with Global Quality & Risk Management policies and key legal and regulatory requirements relating to the delivery of professional services; and
- provide the basis for our firm 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.

**Global Compliance Review (GCR) program**

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

The GCR provides independent oversight of our assessment of our system of quality control, including:

- our commitment to quality and risk management (tone at the top) and the extent to which the overall structure, governance and financing support and reinforce this commitment; and
- the completeness and robustness of our RCP.

The GCR team performing the reviews is independent of our firm, objective and

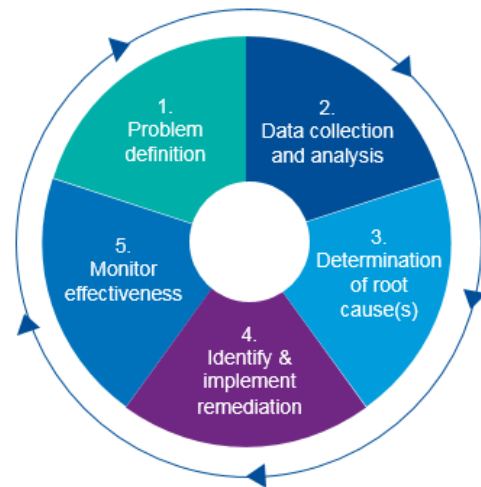
knowledgeable of Global Quality and Risk Management policies.

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

**Root Cause Analysis (RCA)**

We perform root cause analysis to identify and address audit quality issues in order to prevent them from recurring and help identify good practices as part of continuous improvement. In 2017, RCA training based on our Global RCA 5 Step Principles was attended by those individuals at KPMG Korea who will be performing RCA or directing those performing RCA. The training provides a common platform for advancing the practices and skills associated with resourcing, planning and conducting RCA.

The Global RCA 5 Step Principles are as follows:



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

The Head of Audit is responsible for the development and implementation of action plans as a results of RCA including identification of solution owners. The Risk Management Partner monitors their implementation.

### 3.7.2 Recommendation for improvements

At a global level, through the GAQIC and the GQRMSG, KPMG International reviews the results of the quality monitoring programs, analyzes member firm root causes and action plans and develops additional global actions as required.

The GAQIC considers network-wide issues arising from internal quality control reviews and external inspections, monitors progress being made in addressing audit quality issues and makes recommendations to the GASG on audit quality issues.

Global remediation plans to date include holistic actions aimed at culture and behavior and at driving consistent engagement team performance. The global actions also include training, tools and guidance to drive consistency, ensure we have the fundamentals right and that best practice is shared across the network.

### 3.7.3 External feedback and dialogue

#### 3.7.3.1 Regulators

In Korea, the Financial Supervisory Service (“FSS”) has been carrying out independent inspections for a number of years. They completed their work on the 2016 inspection of the firm in December 2016. FSS had delivered their final inspection report in February 2017.

KPMG Korea is also registered with the US PCAOB, Japanese Financial Services Authority, POB and CSSF. The US PCAOB performed a joint inspection of the firm with the FSS in December 2016. We have received a copy of their draft report which we envision will be finalized and issued in early 2018.

We have considered each of the findings and recommendations and have implemented actions to address deficiencies and strengthen policies and procedures as appropriate.

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

#### 3.7.3.2 Client feedback

We proactively seek feedback from clients through in-person conversations and third-party surveys to monitor their satisfaction with services

delivered. We endeavor to take this feedback and make dynamic changes at both the engagement level and firm level to meet clients’ needs

#### 3.7.3.3 Monitoring of complaints

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

#### 3.7.3.4 Other assessments of audit quality

KPMG Korea also has an in-flight review process to ensure audit quality.

DPP selects a sample of audit engagements each year and conducts in-flight reviews in three phases. Each phase has pre-defined points for review, which also includes comments received during the relevant year’s QPR, and is notified to all audit engagement teams prior to the commencement of the review. Phase 1 includes review points related to audit planning matters and is conducted prior to interim audit season.

Phase 2 review includes those relevant for risk assessment and controls testing and is conducted after audit engagement teams have completed their interim audits but prior to the commencement of year end audits. Phase 3 (Final RMP Review) review includes review of the client’s financial statements and review of pre-defined review points as well as certain significant areas in the relevant audit documentation and is conducted before the audit report is to be issued. These selected audit engagements are graded based on the contents of the reviews and the relevant audit engagements teams are to clear these comments before they can issue the audit report. The final grades of the in-flight review are reflected in the relevant engagement partner’s quality performance evaluation program (QPEP) for each year.

## 4 FINANCIAL INFORMATION

Fee revenue earned by the firm for services for the years ended March 31, 2017, 2016 and 2015 are summarized in the table below.

(In millions of Korean won)

	2017	2016	2015
<b>Audit</b>	116,958	117,441	112,756
<b>TAX</b>	46,927	46,150	41,410
<b>Advisory</b>	155,189	136,856	121,754
<b>Total</b>	319,074	300,447	275,920

## 5 PARTNER REMUNERATION

### Partners' profit share

Partners are remunerated out of the distributable profits of the firm (such profits being determined by the board of directors and are personally responsible for funding pensions and most other benefits. The final allocation of profits to partners is made after assessing each partner's contribution for the year.

There are two elements to partner remuneration:

- base component – a proportion of the firm's budgeted profits are allocated to members as base component; this is effectively member salary. The amount of base component reflects the role and seniority of each partner, and
- profit related performance component – rewards performance in the year by each partner against individual objectives previously agreed and the overall profits of their part of the firm and the firm as a whole. Our policies for this variable element of partner 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 values of the firm. Audit 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.

### Drawings

During the year, partners working within Korea received monthly drawings, and from time to time, additional profit distributions. All such drawings and profit distributions to partners represent payments on account of current year profits and are reclaimable from partners until profits have been allocated. Any over-distribution of profits during the year is also recoverable from partners.



## 6 NETWORK ARRANGEMENTS

### 6.1 LEGAL STRUCTURE

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

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



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

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

## 6.2 RESPONSIBILITIES AND OBLIGATIONS OF MEMBER FIRMS

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

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

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

## 6.3 PROFESSIONAL INDEMNITY INSURANCE

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

## 6.4 GOVERNANCE STRUCTURE

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

### *Global Council*

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

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

Among other things, the Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 58 member firms that are "members" of KPMG International as a matter of Swiss law. Sublicensees 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 and ratifies the Global Chairman's appointment of the Global Deputy Chairman.

The Global Board includes the Global Chairman, the Global Deputy Chairman, the Chairman of each of the 3 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 Global Deputy Chairman,

the Chairman of each of the regions and currently four other senior partners of member firms. The list of Global Board members, as at 1 October 2016 is available in the International Annual Review.

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 Deputy Chairman and includes the Global Chairman, the Global Chief Operating Officer, global function and infrastructure heads, and the General Counsel.

The list of Global Management Team members as at 1 October 2016 is available in the International Annual Review.

### **Global Steering Groups**

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

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

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

Each member firm is part of one of 3 regions (the Americas, ASPAC, and EMA). Each region has a Regional Board comprising a regional chairman, regional chief operating or executive officer, representation from any sub-regions, and other

members as appropriate. Each Regional Board focuses specifically on the needs of member firms within their region and assists in the implementation of KPMG International’s policies and processes within the region.

Further details about KPMG International including the governance arrangements, can be found in KPMG International Transparency Report, which is available at [KPMG International Transparency Report](#).

## **6.5 AREA QUALITY & RISK MANAGEMENT LEADERS**

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders who:

- assess the effectiveness of a member firm’s quality and risk management efforts to identify and mitigate significant risks to the member firm and network, and actively monitor alignment with global quality and risk management strategies and priorities;
- share leading best practices in quality and risk management; and
- report to Global Head of Quality, Risk and Regulatory.

## 7 STATEMENTS BY THE BOARD OF KPMG KOREA 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 Korea 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 Korea 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 in section 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 Korea confirms with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 31 March 2017.

Further, the Board of KPMG Korea confirms that an internal review of independence compliance within our firm has been conducted in the year to 31 March 2017.

30 June 2017



**Kim, Kyo Tae**  
Chief Executive Officer

## A. APPENDICES

### A.1 KEY LEGAL ENTITIES AND AREAS OF OPERATION

Name of Entity	Legal Structure	Regulatory Status	Nature of Business	Area of Operation
Samjong KPMG LLC	Holding Company	Limited Liability Company as defined in the Commercial Law in the Republic of Korea	Holding company	Korea
KPMG Samjong Accounting Corp.	-	Limited Liability Company as defined in the Certified Public Accountant Act in the Republic of Korea	Audit, tax and Deal advisory services	Korea
Samjong KPMG Economic Research Institute	Associated entity	Corporation as defined in the Commercial Law in the Republic of Korea	Research on domestic/international	Korea
Samjong KPMG AAS Inc.	Associated entity	Corporation as defined in the Commercial Law in the Republic of Korea	Accounting Administration Services	Korea
Samjong KPMG Actuaries Inc.	Associated entity	Corporation as defined in the Commercial Law in the Republic of Korea	Financing and actuarial consulting services	Korea
Sejong Customs Corp.	-	Limited Liability Company as defined in the Commercial Law in the Republic of Korea	Customs services	Korea
KPMG Audit LLC	-	Limited Liability Company as defined in the Commercial Law in Mongolia	Audit and financial advisory services	Mongolia

## A.2 DETAILS OF THOSE CHARGED WITH GOVERNANCE AT KPMG KOREA



**Kim, Kyo Tae**  
Chief Executive Officer



**Suh, Won Jeong**  
Country Risk Management Partner



**Shin, Kyung Sup**  
Head of Audit



**Goo, Seung Hoe**  
Head of Deal Advisory



**Choi, Jeong Wook**  
Head of Tax



**Bae, Hong Gi**  
Head of BCS



**Jung, Dae Gil**  
Head of Consulting

## A.3 PUBLIC INTEREST ENTITIES

The list of public interest entity audit clients for which KPMG Korea has signed an audit opinion in the year ended 31 March 2017 is given below. A public interest entity is an issuer whose transferable securities are admitted to trading on a regulated market or a financial institution which adopted IFRS.

ABL Life Insurance Co. Ltd.	DAEHAN SYNTHETIC FIBER CO., LTD.
Action Square Co., Ltd.	DAESUNG ELTEC CO., LTD.
AHN-GOOK PHARMACEUTICAL Co., Ltd.	DAESUNG INDUSTRIAL CO., LTD.
AJ Networks Co.,Ltd.	DAEWON PHARMACEUTICAL CO.,LTD
Aju Capital Co., Ltd.	DAEWOONG CO., Ltd.
Allianz Global Investors Korea Limited	Daewoong Pharmaceuticals Co., Ltd.
AMINOLOGICS CO.,LTD.	Daishin Information & Communications
AnyGen. Co., Ltd	Daiwa securities Capital Markets Korea Co., Ltd.
ASIA SEED Co.,Ltd.	Darin Co.,Ltd
Asiana Airlines, Inc.	Deutsche Securities Korea Co.
Atlasbx Co., Ltd.	DeutscheAssetManagementCompany
Autech Corporation	DGB Capital Co., Ltd.
Baring Asset Management Korea Limited	DGB FINANCIAL GROUP CO.,LTD
BARO INVESTMENT&SECURITIES CO.,LTD	DGB LIFE INSURANCE CO.LTD
BGF Co., Ltd.	DGB UPay Co., Ltd.
Bioleaders Corporation	DigiCAP Co., Ltd.
Bookook Steel Co.,Ltd	Dong-A S.T. Co.,Ltd
BORYUNG MEDIENCE Co., Ltd.	Dong-A Socio Holdings Co., Ltd.
Bubang Co., Ltd.	DONGAELTEK Co., Ltd
Cammsys Corp.	Dongbu Hitek Co., Ltd.
Caregen co., ltd	Dongbu Steel Co., Ltd.
Cell Biotech Co., Ltd	DONGBUKA NO.10 SHIP INVESTMENT CO.
Chabiotech Co., Ltd.	DONGBUKA NO.11 SHIP INVESTMENT CO.
CHASYS Co.,Ltd	DONGBUKA NO.12 SHIP INVESTMENT CO.
Cheryong Industrial Co., Ltd.	DONGBUKA NO.13 SHIP INVESTMENT CO.
Chung Kwang General Construction Co.,Ltd	DONGBUKA NO.14 SHIP INVESTMENT CO.
CIS Co., Ltd	DongilSteel
Citibank Korea Inc.	Dongkook Pharmaceutical Co., Ltd
Citigroup Global Markets Korea Securities Limited	Dongnam Chemical Co., Ltd.
CJ CGV Co., Ltd.	DONGYANG P&F CO., LTD.
CJ E&M Corporation	DONGYANG STEEL PIPE CO.,LTD
CROWNHAITAI Holdings CO.,LTD	Doosan Capital Co., Ltd.
CS CORPORATION	Doosan Engineering & Construction Co.,Ltd.
CTC BIO, INC.	EAGON HOLDINGS CO., LTD.
Cuchen Co., Ltd.	EAGON INDUSTRIAL LTD
Daedong Steel Co., Ltd.	Eastspring Asset Management Korea
Daegu Bank	Ecoplastic Corp.

ELK Corporation	HS INDUSTRIES CO.,LTD
Energy Material Technology Co., Ltd.	Huchems Fine Chemical Corporation
ESTsoft Corp.	Hugel
Eugene Asset Management	Huons global Co.,Ltd.
Eugene Corporation	HUSTEEL CO., LTD
Eugene Investment & Futures	HWA SUNG Co., Ltd.
EUGENE INVESTMENT & SECURITIES CO., LTD	Hwacheon Machinery Co., Ltd.
Eusu Holdings Co., Ltd.	HYUNDAI CAPITAL SERVICES, INC.
Foxbrain Co., Ltd	HYUNDAI COMMERCIAL INC.
FUTURESTREAM NETWORKS	Hyundai Green Food Co., Ltd.
GENIC CO., LTD.	HYUNDAI HCN CO., Ltd
GenoFocus, Inc.	HYUNDAI HEAVY INDUSTRIES CO.,LTD
GIIR Inc.	Hyundai Home Shopping Network Corp.
Goldenbridge No.2 Special Purpose Acquisition Co., LTD	HYUNDAI INFORMATION TECHNOLOGY CO.,LTD.
GOLFZON CO.,LTD	Hyundai Life Insurance Co., Ltd
GOLFZONNEWDIN Co., Ltd.	Hyundai Mobis Co., Ltd.
Grand Korea Leisure Corp.	HYUNDAI STEEL COMPANY
GS Home Shopping Inc.	HYUNGJI ELITE INC.
GS Retail Co., Ltd.	HYUNGKUK F&B Co., Ltd
GwangjuShinsegae Co., Ltd.	Igloo Security, Inc.
Haitai Confectionery & Foods Co., LTD	ILDONG PHARMACEUTICAL CO., LTD
Han Kook Capital Co., Ltd.	In the F CO.,LTD
HANALL BIOPHARMA CO.,LTD	Infobank Corporation
HANMI Semiconductor CO., LTD.	INFRAWARE Inc.
HANSAEMK CO.,LTD.	Innowireless Co., Ltd.
HANSHIN ENGINEERING & CONSTRUCTION	INTEKPLUS Co., Ltd.
HANSOL CHEMICAL CO.,LTD.	Interpark Corporation
Hansol CNP Co., Ltd.	IRIVER Limited
Hansol Holdings Co., Ltd	ITEK Semiconductor, Inc.
Hansol Paper Co., Ltd.	JC HYUN SYSTEMS, INC.
HANSOL PNS CO.,LTD.	JEIL PHARMACEUTICAL CO.,LTD
HANSUNG ENTERPRISE-Seoul	JW Life Science Corporation
Harim Co., Ltd.	KB Autosys Co.,Ltd
Harim Holdings Co., Ltd.	KC CO., LTD.
HCT CO.,LTD.	KCC Corporation
Heungkuk Fire & Marine Insurance	KCC ENGINEERING & CONSTRUCTION CO.,LTD.
HISEM CO., LTD.	KDB Infrastructure Investment Asset Management Co.,Ltd.
HLB Inc.	KDB Life Insurance Co.,Ltd
HOTEL SHILLA CO.,LTD	KEC Corporation
HRS Co.,Ltd	KEC HOLDINGS CO.,LTD.

Kemimedi Co.,Ltd	LOTVacuum.Co.,Ltd.
KEPCO Engineering & Construction Company , Inc.	Mediana Co., Ltd.
KG Chemical Corporation	MEGAMD CORPORATION
KOLEN CO., LTD	MegaStudyEdu Co. Ltd
Kolon Fashion Material, Inc.	Mercedes-Benz Financial Services Korea
Kolon Industries Inc.	MG Non-life Insurance Co., Ltd.
Kooksoondang Co., Ltd.	Michang Oil Ind. Co., Ltd.
Korea Asset In Capital Co., Ltd.	Mirae Asset Life Insurance Co., Ltd.
Korea Asset In Trust Co., Ltd	Miwon Commercial Co., Ltd.
Korea AutoGlass Corporation	Miwon Holdings Co.,Ltd.
KOREA COMPUTER & SYSTEMS INC	Nable Communications, Inc.
Korea Computer Terminal Inc.	NANOBIOSYS INC.
Korea Electric Power Corporation	Nara Loan Finance Company Limited
KOREA ELECTRIC TERMINAL CO.,LTD	Naturalendo Tech Co., Ltd.
Korea Electronic Power Industrial Development Co., Ltd	Nexolon Company Limited.
Korea Investment & Securities Co., Ltd.	NHN BUGS Corporation
Korea Investment Capital	NHN Entertainment
Korea Investment Holdings Co., Ltd.	NICE D&B CO., LTD.
Korea Investment Management Company	NONGWOO BIO CO., LTD.
Korea Maritime Guarantee Co., Ltd.	NS Shopping Co., Ltd
KOREA REFRACTORIES Co., Ltd.	NSN Co., Ltd.
Korea Value Asset Management Co.,Ltd.	NUINTEK CO.,LTD.
KOREA ZINC INC	OK Capital Co., Ltd.
KOYJ. CO.,LTD	ONDA Entertainment Co., Ltd.
KT&G Corporation	Oyang Corporation
KTB Asset Management Co. Ltd	PaperCorea Inc.
KTB Investment & Securities Co., Ltd.	Paratech Company Limited
KTB Network Co., Ltd.	PATI Games Corporation
KTB Private Equity	PCA Life Insurance Co., Ltd.
KUKDONG OIL & CHEMICALS CO.,LTD	Pixelplus. Co., Ltd.
Kumho Electric Co., Ltd.	POSCO
KUMHO HT, Inc.	RedcapTour Co., Ltd.
Kumho Industrial Co., Ltd.	Resolution Alliance Korea Ltd.
Kwangdong Pharmaceutical Co., Ltd.	RSUPPORT Co., Ltd.
Leading Investment & Securities	S&T Dynamics Co., LTD.
LG Display Co., Ltd.	S&T Holdings Co. Ltd.
LIG NEX1 CO., LTD	S.M. ENTERTAINMENT Co., Ltd.
LOCK&LOCK CO.,LTD.	SAE DONG CO. LTD
Lotte Himart Co., Ltd.	Saehwa IMC Co., Ltd
Lotte Shopping Co., Ltd	SAJO SEA FOOD CO.,LTD



Sambo Motors Co., Ltd.	Standard Chartered Securities Korea
Samick THK Co., Ltd.	STX Corporation
SAMSUNG FIRE & MARINE INSURANCE CO.,LTD	SunBio, Inc.
Samsung SDI Co., Ltd.	SUNGCHANG AUTOTECH CO.,LTD.
Samsung SRA Asset Management Co., Ltd.	Sunjin Co., Ltd.
SAMWHA ELECTRIC CO.,LTD	TAEKWANG INDUSTRIAL CO.,LTD
Sangsin Brake Co., Ltd.	Tailim Packaging Co., Ltd
Sebo Manufacturing Engineering Corp.	Tamul Multimedia Co., Ltd.
SELVAS AI Inc.	TBH GLOBAL CO.,LTD
SELVAS Healthcare, Inc.	Tego Science, Inc.
Seoul Semiconductor Co., Ltd.	THERAGEN ETEX CO.,LTD.
SEOYON Co., Ltd.	TONGYANG Asset Management Corp
SGA SYSTEMS Co., Ltd.	TONGYANG Life Insurance Co., Ltd.
Shinhan Aitas Co., Ltd.	Top Engineering Co., Ltd.
Shinhan Bank	TS Credit & Investment Corporation
Shinhan Capital Co., Ltd.	UJU Electronics Co., Ltd.
Shinhan Card Co., Ltd.	Union Materials Corporation
Shinhan Credit Information Co., Ltd.	Unitrontech Co., Ltd.
Shinhan Financial Group Co., Ltd.	VISANG EDUCATION INC
Shinhan Investment Corp.	WINPAC INC.
Shinhan Private Equity Inc.	Wonik Co., LTD
SHINHANBNPPARIBASASSETMANAGEMENT	WONLIM CORPORATION
SHINHANLIFEINSURANCECO	WOONGJIN THINKBIG CO., LTD.
SHINWONCORPORATION	WOONGJINENERGY
Silicon Works Co. Ltd.	Woori Investment Bank Co.,Ltd
Sillajen, Inc.	Xavis Co., Ltd.
SIMPAC INC.	Yangjisa
SJM Company Ltd	Yongpyong Resort Corporation
SK Communications Co., Ltd.	Yoosung Enterprise Co., Ltd.
SK Hynix Inc.	YOUNYI INFORMATION & COMUNICATION
SK TELECOM CO., LTD.	YTN
SKC Co., Ltd.	Yungjin Pharm. Co., Ltd.
SKC solmics Co., Ltd.	Zuminternet Corp.
SM Culture & Contents Co., Ltd.	
Sonokong Co., Ltd.	
SOOSAN HEAVY INDUSTRIES CO.,LTD	
SS COMTECH Co., Ltd.	
SSANGYONG CEMENT INDUSTRY CO.,LTD	
ST PHARM CO., LTD.	
Standard Chartered Bank Korea Limited	

## A.4 KPMG'S GLOBAL VALUES

KPMG people work together to deliver value to clients. We believe strongly in a common set of shared values which guide our behavior when dealing with both clients and each other:

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<b>We lead by example:</b>	At all levels we act in a way that exemplifies what we expect of each other and our clients.
<b>We work together:</b>	We bring out the best in each other and create strong and successful working relationships.
<b>We respect the individual:</b>	We respect people for who they are and for their knowledge, skills and experience as individuals and team members.
<b>We seek the facts and provide insight:</b>	By challenging assumptions and pursuing facts, we strengthen our reputation as trusted and objective business advisers.
<b>We are open and honest in our communication:</b>	We share information, insight and advice frequently and constructively and manage tough situations with courage and candor.
<b>We are committed to our communities:</b>	We act as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities and protecting the environment.
<b>Above all, we act with INTEGRITY:</b>	We are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.

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## Contact us

**Kim, Kyo Tae**  
**Chief Executive Officer**  
T +82 2 2112 0400  
E [kkim1@kr.kpmg.com](mailto:kkim1@kr.kpmg.com)

**Shin, Kyung Sup**  
**Head of Audit**  
T +82 2 2112 0870  
E [kyungsupshin@kr.kpmg.com](mailto:kyungsupshin@kr.kpmg.com)

**Suh, Won Jeong**  
**Country Risk Management Partner**  
T +82 2 2112 0630  
E [wsuh@kr.kpmg.com](mailto:wsuh@kr.kpmg.com)

[www.kpmg.com/kr/en](http://www.kpmg.com/kr/en)

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