

2024

Audit Quality Unit

# **Report on 2023 quality assurance review of KPMG**

11 March 2024



## Vision

Public trust and confidence in quality auditing and accounting



## Mission

Upholding quality corporate reporting and an accountable profession

## Our Values



### Excellence

Striving to be  
the best we  
can be



### Independence

Regulating  
impartially and  
objectively



### Integrity

Being  
trustworthy and  
respectful

## Introduction

### Overview of KPMG (the Firm)



**4**

offices in Dublin, Belfast, Cork and Galway



**62**

audits of public-interest entities in 2023



**42**

audit partners



**29%**

market share based on audit fees associated with public-interest entities in 2023

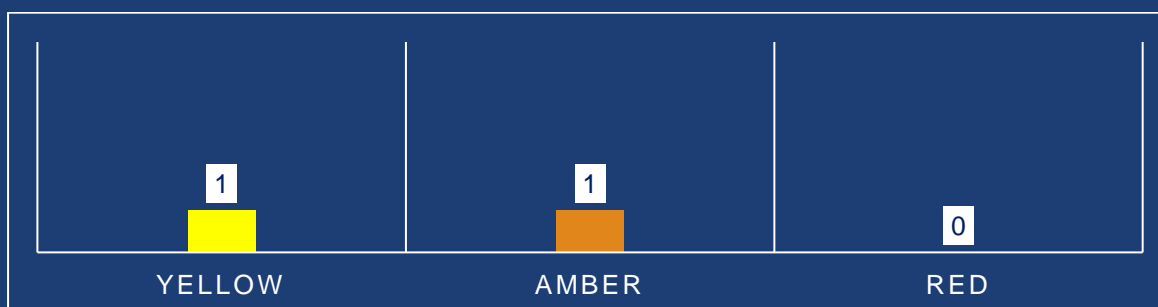


**1,547**

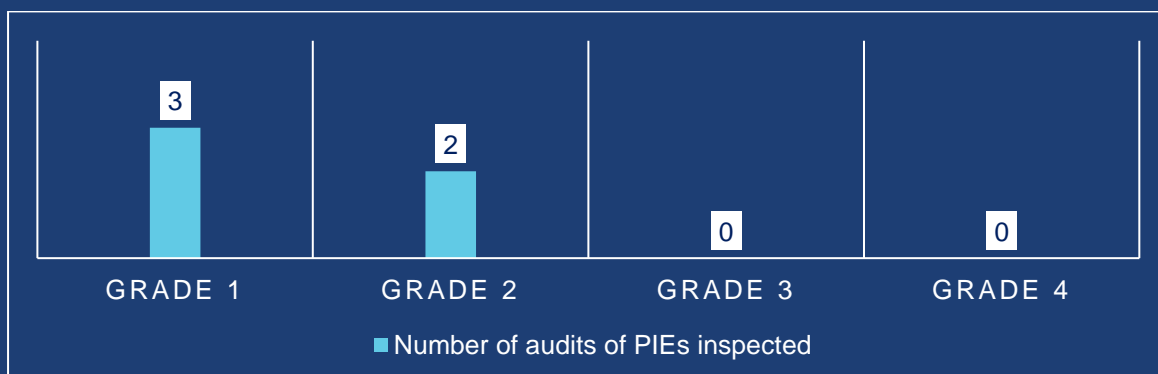
personnel working in the audit function

### Outcome of the quality assurance review

#### Firm's system of quality management - findings with related recommendations<sup>1</sup>



#### Audits of PIEs – grading<sup>1</sup>



<sup>1</sup> See Appendix for detailed description of ratings and grades.

## Guide to IAASA's reports on quality assurance reviews

A guide to assist readers in understanding IAASA's reports on quality assurance reviews of audit firms is available [here](#).

The guide sets out what users can expect from the quality assurance review report. It also explains how IAASA's quality assurance review process drives the form and content of these reports.

## Quality assurance review explained

The purpose of a quality assurance review is to assess the effectiveness of the Firm's system of quality management.

A quality assurance review:

- assesses the design of the Firm's system of quality management
- performs compliance testing around the implementation of the Firm's procedures
- evaluates the quality of a sample of audits of public-interest entities (PIEs)

Note that a quality assurance review is not designed to identify all weaknesses that may exist in the Firm's system of quality management.

In 2023, IAASA inspected the implementation of the International Standard on Quality Management (Ireland) 1 (ISQM 1) which was effective for the first time during this inspection period. ISQM 1 requires audit firms to design a system of quality management that is tailored to the nature and circumstances of the firm and engagements it performs. Firms are also required to monitor their own quality management system in order to ensure timely and effective remediation takes place, if and when required.

Assessing the design of the Firm's system of quality management involves evaluating the quality objectives, quality risks and related responses identified by the Firm and reviewing the Firm's policies and procedures and their impact, if any, on audit quality. Compliance testing involves testing of the operating effectiveness of selected responses and assessing the Firm's monitoring of the responses across component areas.

The Authority selects the sample of audits of PIEs using a risk based approach. A risk based approach allows for audits with particular complexities to be selected, as well as audits of varying sizes. As the sample of audits of PIEs is not a representative sample, results cannot be extrapolated to make inferences about audits that have not been selected. In evaluating the quality of an audit of a PIE, the Authority considers the sufficiency and quality of audit evidence across a number of selected audit areas.

## Scope of the quality assurance review of the Firm

### The Firm's policies and procedures

The assessment of the Firm's system of quality management is performed across eight component areas, as defined in ISQM 1, on a three year cyclical basis. In 2023, the quality assurance review assessed the design of the system of quality management in four component areas:

- risk assessment process
- governance and leadership
- resources – technological resources, intellectual resources and service providers
- information and communication

For the resources component, the Authority assessed the Firm's system of quality management across the areas of technological resources, intellectual resources and service providers. For the remaining components, the Authority assessed the full component areas. The Authority evaluated the quality objectives, quality risks and related responses designed by the Firm, including the implementation of related policies and procedures.

### Audits of public-interest entities

In 2023, the Authority selected a sample of five audits of PIEs.

For each audit selected, the Authority evaluated the quality of the communications with those charged with governance, the review of financial statements, the engagement quality control review and the audit procedures performed in relation to related parties and subsequent events.

For each audit selected, the Authority also evaluated the quality of audit evidence across additional audit areas. The additional audit areas were selected at the discretion of the Authority, taking into consideration the specific risks pertaining to the audit as well as other areas of focus for the Authority.

## Overview of findings

There were two findings with related recommendations identified in relation to the effectiveness of the design or implementation of the Firm's system of quality management.

The Authority assigned a grade of 1 (good audit) to three audits of PIEs and a grade of 2 (limited improvements required) to two audits of PIEs.

The results of the quality assurance review are set out in detail in the next section of this report.

A description of ratings and grades is set out in the appendix to this report.

The Firm must implement each recommendation raised by the Authority within 12 months of the date of the recommendation. The Authority follows up to ensure each recommendation is implemented. Where the Firm fails to satisfactorily implement the recommendation within the 12 month timeframe, the Authority will refer the matter to its Enforcement Unit.

## Results of the quality assurance review

### Overview of areas

Acceptance and continuance	<p>This area was not included in the review scope of the Authority, however, as a result of self-identified breaches identified by the Firm in relation to the Ethical Standard for Auditors (Ireland), the following warranted inclusion in the Report.</p> <p><b>The Authority noted that, through an internal investigation process performed by the Firm, a number of breaches in relation to the Ethical Standard for Auditors (Ireland) were identified. As a result, the Firm also failed to comply with the auditing standards to obtain pre-approval of the services provided and failed to document the threats and safeguards. Full details of those findings and recommendations are set out below. (Findings 1 and 2).</b></p>
Risk assessment process	<p>The Authority evaluated whether the Firm had designed and implemented a risk assessment process to establish quality objectives, identify and assess quality risks and design and implement responses to address the quality risks. The Authority performed procedures to understand the Firm's risk assessment process, including whether the Firm had identified quality risks to provide a basis for the design and implementation of responses.</p> <p><b>The Authority has no findings with related recommendations to report in this area.</b></p>
Governance and leadership	<p>The Authority assessed whether the Firm had established quality objectives that address the Firm's governance and leadership and that demonstrated a commitment to quality through the culture that exists throughout the Firm. The Authority evaluated the quality risks identified and assessed by the Firm for each of the quality objectives relating to governance and leadership and the responses designed and implemented to address the quality risks, including the specified responses of ISQM 1.</p> <p>The Authority performed procedures to understand how the Firm's leadership is held accountable for quality and how they demonstrate a commitment to quality through their actions and behaviours.</p> <p><b>The Authority has no findings with related recommendations to report in this area.</b></p>
Resources – technological resources, intellectual resources and service providers	<p>The Authority evaluated whether the Firm had established quality objectives, and appropriate responses to the risks of not meeting these quality objectives, that address appropriately obtaining, developing, using, maintaining, allocating and assigning technological and intellectual resources in a timely manner to enable the design, implementation and operation of the system of quality management and whether human, technological or intellectual resources from service providers are appropriate for use in the Firm's system of quality management and in the performance of engagements.</p>

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**The Authority has no findings with related recommendations to report in this area.**


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Information and communication	The Authority evaluated whether the Firm had established quality objectives, and appropriate responses to the risks of not meeting these quality objectives, that address obtaining, generating or using information regarding the system of quality management, and communicating information within the firm and to external parties on a timely basis to enable the design, implementation and operation of the system of quality management.
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**The Authority has no findings with related recommendations to report in this area.**

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## Findings and recommendations on the Firm's system of quality management

Area and significance rating	Background	Issue	Recommendation
<b>Acceptance and continuance</b>  <b>Finding 1</b>   <b>Amber</b>	<p>Legislation and ethical standards require that the Firm shall require others within the Firm, when considering whether to provide a non-audit service to an entity relevant to an engagement or to any of its affiliates, to communicate details of the proposed non-audit service to the engagement partner who considers the implications for the integrity, objectivity and independence of the Firm and covered persons before provision of the non-audit service is accepted.</p> <p>Both also requires that, before the Firm accepts to provide a non-audit service to an entity relevant to the engagement, the engagement partner shall:</p> <ul style="list-style-type: none"> <li>a) identify and assess the significance of any related threats to the integrity or objectivity of the Firm and covered persons, including whether independence would be compromised.</li> <li>b) identify and assess the effectiveness of the available safeguards to eliminate the threats or reduce them to a level where independence would not be compromised.</li> </ul>	<p>The Firm, through the investigation process, identified breaches of the Ethical Standard for Auditors (Ireland) in 179 unlisted audit clients of the Firm (out of 2,613 independence approval requests for these non-audit services), where non-audit services were provided and not included in independence requests.</p> <p>The services were permissible as they did not involve the Firm undertaking part of the role of management, or initiating transactions and the services were of a routine or mechanical nature, requiring little or no professional judgment. However, as the services were not specifically included in the approval request, there was a breach of the Ethical Standard for Auditors (Ireland), specifically paragraphs 5.9, 5.12 and 5.31.</p> <p>Two member firms reported to the Firm of providing translation services to controlled undertakings of a PIE audit client of the Firm. The services were permissible as</p>	<p>The Authority notes that the Firm has undertaken a number of actions including changes to the independence approval request system to separately identify such services, additional training and guidance being provided to engagement teams.</p> <p>The Authority agrees with the above actions and recommends that the remediating actions are assessed as part of the Firm's system of quality management annual monitoring.</p>



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c) consider whether it is probable that an objective, reasonable and informed third party, having regard to the threats and safeguards, would conclude that the proposed non-audit service would not impair integrity or objectivity and compromise the independence of the firm or covered persons.

Furthermore, legislation and ethical standards require that for an engagement, the engagement partner shall ensure that the reasoning for a decision to provide non-audit services, and any safeguards adopted and why they are effective, are appropriately documented prior to an engagement letter for the service being issued to an entity relevant to an engagement.

The Firm utilises a global independence system to ensure that there are no independence or conflicts of interest issues that would prevent from undertaking an engagement. The use of the independence system is mandatory for all engagements.

KPMG International identified instances, within the global network, whereby a limited number of engagement teams were performing non-audit services without identifying these additional services in the independence system approval request.

On receiving notification of this from KPMG International, the Firm commenced an investigation of its independence approval

they did not involve the firms in question undertaking part of the role of management and were performed after the audit opinion on the financial statements of the PIE had been issued.

However, as the services were not notified for audit engagement team consideration, a breach of the Ethical Standard for Auditors (Ireland) paragraphs 5.9, 5.12 and 5.31 occurred. Additionally, as one of the controlled undertakings was incorporated in the EU, the requirement to obtain pre-approval from those charged with governance and to document the threats and safeguards was not met.

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requests, in order to identify any breaches or violations or independence standards/rules.

The Firm's investigation identified instances in which non-audit services ancillary to the conduct of the statutory audit were omitted from the independence approval request.

These included:

- financial statement preparation of the local statutory financial statements;
- certain forms of word processing related to the audited financial statements; and
- translation of the financial statements.

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**Acceptance and continuance**

**Finding 2**

 **Yellow**

Auditing Standards requires that, in the case of listed entities, the auditor shall communicate the following with those charged with governance:

- a) a statement that the engagement team and others in the Firm, as appropriate, the Firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and

Two member firms reported two instances, to the Firm, where services were not included in the independence system register. As a result, the Firm failed to communicate to those charged with governance the required communications regarding the auditor's independence in the case of one PIE audit client of the Firm.

The identified breaches specifically relate to failure to obtain pre-approval of the services provided and the failure to

The Authority notes that the Firm has undertaken a number of actions including changes to the independence approval request system to separately identify such services and additional training and guidance being provided to engagement teams.

The Authority agrees with the above actions and recommends that the remediating actions are assessed as part

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- b) all relationships and other matters between the Firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the Firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and
- c) the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.
- document the threats and safeguards to independence.
- of the Firm's system of quality management annual monitoring.

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**Risk  
assessment  
process**

The Authority has no findings with related recommendations to report in this area.

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**Governance  
and leadership**

The Authority has no findings with related recommendations to report in this area.

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**Resources:  
technological**

The Authority has no findings with related recommendations to report in this area.

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**and intellectual  
resources and  
service  
providers**

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**Information  
and  
communication**

The Authority has no findings with related recommendations to report in this area.

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## Summary of audits of PIEs inspected

	Assigned grade <sup>2</sup>	Audit areas reviewed
Audit one	2	<ul style="list-style-type: none"> <li>• Valuation of net defined benefit pension asset</li> <li>• Valuation of property, plant and equipment</li> <li>• Management override of controls</li> <li>• Communications with those charged with governance</li> <li>• Review of financial statements</li> <li>• Review of the engagement quality control review</li> <li>• Related parties</li> <li>• Subsequent events</li> </ul>
Audit two	2	<ul style="list-style-type: none"> <li>• Valuation of Investment Property</li> <li>• Going Concern</li> <li>• Management override of controls</li> <li>• Communications with those charged with governance</li> <li>• Review of financial statements</li> <li>• Review of the engagement quality control review</li> <li>• Subsequent events</li> </ul>
Audit three	1	<ul style="list-style-type: none"> <li>• Valuation and existence of financial instruments</li> <li>• Expected credit losses</li> <li>• Management override of controls</li> <li>• Communications with those charged with governance</li> <li>• Review of financial statements</li> <li>• Review of the engagement quality control review</li> <li>• Related parties</li> <li>• Subsequent events</li> </ul>
Audit four	1	<ul style="list-style-type: none"> <li>• Valuation and existence of financial assets</li> <li>• Management override of controls</li> <li>• Communications with those charged with governance</li> <li>• Review of financial statements</li> <li>• Review of the engagement quality control review</li> <li>• Related parties</li> <li>• Subsequent events</li> </ul>
Audit five	1	<ul style="list-style-type: none"> <li>• Valuation of insurance contract liabilities and accuracy of investment contract liabilities</li> <li>• Initial engagement</li> </ul>

<sup>2</sup> See Appendix for detailed description of ratings and grades

- Management override of controls
- Communications with those charged with governance
- Review of financial statements
- Review of the engagement quality control review
- Related parties
- Subsequent events

## Key recommendations arising from the inspection of audits of PIEs

This table sets out the key recommendations for the Firm arising from the inspection of audits of PIEs. These are recommendations deemed by the Authority to be key to an individual inspection or which were recurring across inspections. Not all recommendations apply to all audits of PIEs inspected and not all recommendations issued are included in this table.

Audit area	Recommendation
Valuation of net defined benefit pension asset	The Authority recommends that, going forward, the Firm ensures that the audit file evidences the engagement team's evaluation of whether management's experts are subject to technical performance standards or other professional or industry requirements.
Valuation of property, plant and equipment	The Authority recommends that, going forward, the Firm ensures that evidence in the audit file is clear regarding the data used to assess the assumptions used by the management's expert regarding the useful life of property, plant and equipment.
Communications with those charged with governance	The Authority recommends that, going forward, the Firm ensures that communication to those charged with governance, regarding procedures performed to address the risk and the key audit matter, are consistent with procedures performed in the audit file.
Valuation of Investment Property	The Authority recommends that, going forward, the Firm ensures that the correct client listing is used so that planned audit procedures on special capital expenditure testing, in relation to the valuation testing of investment property, are performed without errors in performance of the audit procedure.

## Results of follow up procedures

The Firm is required to implement the Authority's recommendations within 12 months. The Authority is satisfied that all recommendations made to the Firm in 2022 were appropriately implemented in 2023.

## Purpose and limitations of this report

The purpose of the quality assurance review is to assess the effectiveness of the Firm's system of quality management. The purpose of this report is to communicate any deficiencies identified through the quality assurance review and the recommendations arising.

This report is not intended to serve as a balanced scorecard or as an overall rating tool. Although this report on the quality assurance review may comment positively on certain items, it is not designed to give a balanced analysis of all areas of the Firm.

Where an inspection of an audit of a PIE identifies an area where the Firm did not obtain sufficient audit evidence, this does not necessarily indicate that the audit opinion is inappropriate or that the financial statements are misstated. Furthermore, it would be inappropriate to infer that any issues identified in this quality assurance review report are replicated in audits that have not been inspected by the Authority.

## Appendix – Detailed description of ratings and grades

### Ratings

Findings arising in relation to the effectiveness of the design or implementation of a firm's system of quality management have their significance rated by way of a red-amber-yellow (RAY) system.

● **Red** indicates that a finding is a significant deficiency<sup>3</sup>. Failure to implement a recommendation and/or remediation set out in a prior finding in relation to a firm's system of quality management, or, in relation to a matter arising from a PIE inspection is also likely to be assigned a red grading.

● **Amber** indicates that an improvement is required. This is a less than significant failure to:

- meet the requirements of the ethical standards and (ISQM 1); or
- apply a firm's processes or procedures.

● **Yellow** indicates that a finding is a minor deficiency. This is:

- a minor failure in the application of a firm's procedures or processes; or
- a low level deficiency that has the potential to develop into a significant or less than significant failure to meet the requirements of the ethical standards and ISQM 1.

### Grades

Each of the audits of PIEs inspected as part of the quality assurance review is assigned a grade.

- 1** A 1 grade is a good audit with no concerns regarding the sufficiency and quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Any concerns are very limited in their implications (both individually and collectively).
- 2** A 2 grade is an audit that requires limited improvements. There are only limited concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Although there may be some concerns, their implications (both individually and collectively) are limited.
- 3** A 3 grade is an audit that requires improvements. There are some concerns, assessed as less than significant<sup>4</sup>, regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. Although there may be concerns, their implications (both individually and collectively) are less than significant.
- 4** A 4 grade is an audit that requires significant improvements. There are significant concerns regarding the sufficiency or quality of audit evidence or the appropriateness of significant audit judgements in the areas reviewed. There may be concerns in other areas, with implications that are individually or collectively significant.

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<sup>3</sup> A significant deficiency is a significant failure to meet the requirements of the ethical standards or ISQM 1; or, a pervasive failure to apply a firm's processes or procedures where there is more than a remote likelihood that the deficiency could affect the firm's independence or the quality of audits performed by the firm.

<sup>4</sup> For audits of PIEs, four key factors will be considered in assessing 'significance' of findings, these are as follows: the materiality of the area or matter concerned; the extent of any concerns regarding the sufficiency or quality of audit evidence (e.g. whether they relate to specific elements of the audit evidence only or are more pervasive to the overall sufficiency or quality of audit evidence in the areas concerned); whether appropriate professional scepticism appears to have been exercised in forming audit judgements; and the extent of any non-compliance with standards or the firm's methodology identified.





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