

2021

Audit Quality Unit

**Report on 2020
quality assurance
review of KPMG**

15 March 2021

Mission

To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest.

About IAASA

The Irish Auditing and Accounting Supervisory Authority ('IAASA' or 'the Authority') is designated as the competent authority in Ireland responsible for quality assurance reviews of statutory auditors and audit firms that carry out statutory audits of public-interest entities (audits of PIEs).

The Authority accepts no liability and disclaims all responsibility for the consequences of anyone acting or refraining from acting in reliance on the information contained in this document or for any decision based on it.

Introduction

Overview of KPMG (the Firm)



4

offices in Dublin, Belfast, Cork and Galway



76

audits of public-interest entities in 2020



39

audit partners



27%

market share based on audit fees associated with public-interest entities in 2020



1,393

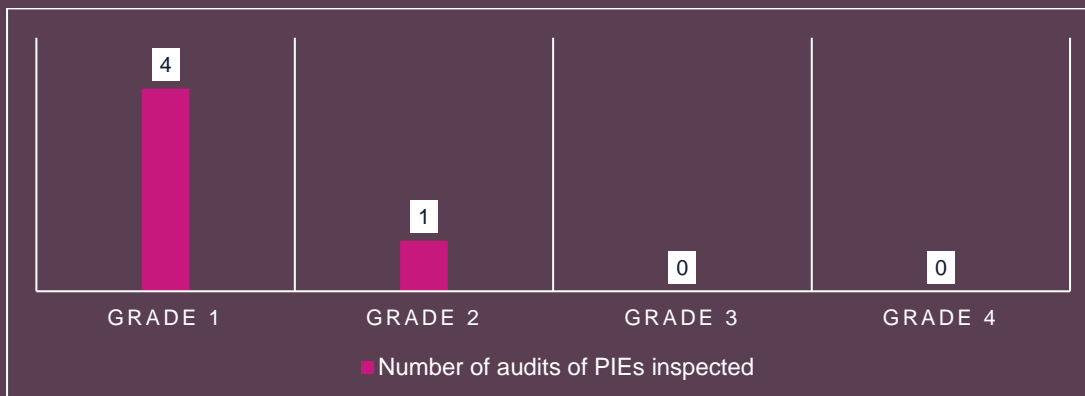
personnel working in the audit function

Outcome of the quality assurance review

Firm's system of quality control - recommendations¹



Audits of PIEs – grading¹



¹ See Appendix 1 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 control. A quality assurance review:

- assesses the design of the Firm's system of quality control
- 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 control.

Assessing the design of the Firm's system of quality control involves a review of the Firm's policies and procedures and their impact, if any, on audit quality. Compliance testing involves a review of the Firm's implementation of its policies and procedures.

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 control is performed across 13 areas on a three year cyclical basis. In 2020, the quality assurance review assessed the design of the system of quality control in four areas:

- ethics and independence
- acceptance and continuance
- documentation
- complaints and allegations

For each of the four areas assessed, the Authority evaluated the Firm's policies and procedures and obtained evidence of the implementation of the Firm's policies.

Audits of public-interest entities

In 2020 the Authority selected a sample of five audits of PIEs. For each audit selected, the Authority evaluated the quality of evidence across the following audit areas:

- audit planning
- communications with those charged with governance
- completion areas

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

The quality assurance review identified two matters requiring improvement in the Firm's system of quality control. The quality assurance review also identified one minor deficiency in the Firm's system of quality control. These matters are discussed in the next section of this report.

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

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 to the Firm 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

Ethics and independence	The Authority evaluated whether the Firm had adequate procedures to provide reasonable assurance that the Firm and its personnel comply with relevant ethical and independence requirements. The Authority performed a range of procedures to understand the Firm's policies around ethics and independence. These included examining policies regarding financial interests, conflicts of interest and the independence of partners and staff from the Firm's audit clients. The Authority obtained evidence of the Firm's implementation of its policies.
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Full details of this finding and recommendation are set out in the table below.

The Authority noted that the Firm's independence compliance audit detected that some of the Firm's partners and professional staff failed to record all of their financial interests in the Firm's independence tracking system in a timely manner. None of the late recorded financial interests caused the Firm to be in breach of external independence rules. (Finding 1)

The Authority also noted that for one of the sample of ten new joiners selected for testing, the required independence confirmation form was not completed in a timely manner. (Finding 2)

Acceptance and continuance	The Authority evaluated whether the Firm had adequate procedures to ensure appropriate acceptance and continuance of audit clients. The Authority performed procedures to understand the Firm's policies around the acceptance and continuance of audit clients, including whether the Firm's policies ensure an appropriate response to any issues identified. The Authority obtained evidence of the Firm's implementation of its policies.
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The Authority notes that the Firm identified an instance of non-compliance with the Firm's own engagement continuance procedures relating to a dormant entity. Furthermore, an auditor's report for that entity was issued and signed by a partner who, at the time of signing the auditor's report, was no longer designated as a responsible individual by the Firm, though they had previously been. (Finding 3)

Documentation	The Authority evaluated the Firm's policies around audit documentation and data security. The Authority performed procedures to understand the Firm's policies on audit documentation, including the assembly of final engagement files and their confidentiality, retention, accessibility and retrievability. The Authority also evaluated the Firm's policies to ensure the security of data. The Authority obtained evidence of the Firm's implementation of its policies.
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The Authority has no findings or recommendations to report in this area.

Complaints
and
allegations

The Authority evaluated the Firm's process for identifying and dealing with complaints and allegations. The Authority interviewed senior personnel to determine if any significant complaints existed. The Authority performed procedures to understand the Firm's processes for dealing with audit-related complaints or allegations, which originated internally or externally. The Authority also evaluated the Firm's arrangements for 'whistle-blowing' and how these arrangements have been communicated. The Authority obtained evidence of the Firm's implementation of its policies.

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

Findings and recommendations on the Firm's system of quality control

Area and significance rating	Background	Issue	Recommendation
<p>Ethics and independence</p> <p>Finding 1</p> <p>● Amber</p>	<p>The International Standard on Quality Control (Ireland) 1 requires firms to establish procedures to provide reasonable assurance that they are notified of breaches of independence requirements, and to enable appropriate actions to resolve such situations.</p> <p>The Firm's policies require partners and professional staff to record all acquisitions or disposals of reportable financial interests in the Firm's independence tracking system within 14 days of the transaction.</p> <p>On at least an annual basis, partners and professional staff are required to confirm the completeness and accuracy of their portfolio in the Firm's independence tracking system.</p> <p>The Firm routinely conducts an independence compliance audit, which includes choosing a sample of partners and client facing professionals and assessing whether they had recorded all reportable financial interests in the Firm's independence tracking system, in accordance with the Firm's policy.</p>	<p>The Firm's independence compliance audit detected that a number of the Firm's partners and professional staff failed to record, in a timely manner, all of their transactions relating to their financial interests in the Firm's independence tracking system.</p> <p>The Firm concluded that none of the late reported transactions caused the Firm to be in breach of external independence rules.</p> <p>All of the non-compliant individuals had stated in their latest available annual independence confirmation that they had complied with the Firm's independence policies and procedures.</p> <p>As the Firm conducts its independence compliance audit on a sample basis, there is a risk that other partners and professional staff could also be failing to record their transactions in financial interests in the Firm's independence tracking system on a timely basis.</p>	<p>The Authority notes that the Firm has taken a number of actions to improve compliance with the Firm's policies in this area, including:</p> <ul style="list-style-type: none"> • increasing the types and frequency of communications, training and guidance in this area; • enhancing its direct import process, whereby transactions are input into the Firm's independence tracking system by brokers. <p>The Authority agrees with the above actions and recommends that the Firm continues with their implementation.</p> <p>Further to this, the Authority recommends that the Firm continues to monitor the effectiveness of these actions to ensure compliance with the Firm's own policies in this area.</p>

Area and significance rating	Background	Issue	Recommendation
Ethics and independence Finding 2 ● Yellow	<p>The Firm's policy regarding the completion of independence confirmations for new joiners to the firm requires that, upon acceptance of employment, all new joiners are required to sign a confirmation that they are in compliance with, and will abide by, applicable ethics and independence rules and policies.</p> <p>The Authority selected a sample of ten new joiners to the Firm and reviewed the independence confirmations signed upon their commencement with the Firm.</p>	<p>One of the ten new joiners in the sample had not completed and signed the independence confirmation form. This resulted in a delay of 122 days in the completion and signing of the required confirmation from the date of the commencement of employment.</p>	<p>The Authority notes that the Firm has augmented the processes and controls for ensuring that new joiners complete the required independence confirmation forms, which includes escalating any delays in completion to an appropriately senior level with the Firm.</p> <p>The Authority agrees with the above action.</p>
Acceptance and continuance Finding 3 ● Amber	<p>The International Standard on Quality Control (Ireland) 1 requires that audit firms establish policies and procedures for the acceptance and continuance of audit clients. These policies and procedures should provide the Firm with reasonable assurance that it will only undertake or continue audit engagements where the firm:</p> <ul style="list-style-type: none"> Is competent to perform the engagement and has the capabilities, including time and resources, to do so; 	<p>The Authority notes that the Firm identified an instance of non-compliance with the Firm's own engagement continuance procedures relating to a dormant entity. Furthermore, an auditor's report for that entity was issued and signed by a partner who, at the time of signing the auditor's report, was no longer designated as a responsible individual by the Firm, though they had previously been.</p>	<p>The Authority recommends that the Firm issues reminders to its personnel that acceptance and continuance procedures must be completed prior to commencing an audit engagement.</p> <p>Furthermore, the Authority recommends that the Firm ensures that procedures are in place to clearly identify at all times all Responsible Individuals authorised to sign an audit report on the Firm's behalf.</p>

Area and significance rating	Background	Issue	Recommendation
	<ul style="list-style-type: none"> • Can comply with relevant ethical requirements; and • Has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity. 		
	<p>The Firm assigns the role of “Responsible Individual” to all personnel who, in compliance with the Firm’s policies, are suitably qualified to sign an auditor’s opinion on behalf of the Firm.</p>		
Documentation	The Authority has no findings or recommendations to report in this area.		
Complaints and allegations	The Authority has no findings or recommendations to report in this area.		

Summary of audits of PIEs inspected

	Assigned grade ²	Audit areas reviewed
Audit one	1	<ul style="list-style-type: none">• accounting estimates• audit planning• communications with those charged with governance• completion• journal entry testing• subsequent events
Audit two	1	<ul style="list-style-type: none">• audit planning• communications with those charged with governance• completion• group audit• journal entry testing• revenue recognition• taxation
Audit three	1	<ul style="list-style-type: none">• accounting estimates• audit planning• communications with those charged with governance• completion• journal entry testing
Audit four	1	<ul style="list-style-type: none">• accounting estimates• audit planning• communications with those charged with governance• completion• journal entry testing
Audit five	2	<ul style="list-style-type: none">• accounting estimates• audit planning• communications with those charged with governance• completion• journal entry testing• revenue recognition

² See Appendix 1 for detailed description of ratings and grades

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 that were 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
Audit planning	The Authority recommends that the engagement team ensures that they identify and assess the risks of material misstatement at the assertion level in relation all identified key audit matters.
Communications with those charged with governance	<p>The Authority recommends that the engagement team ensures that all key audit matters (KAMs) identified in the auditor's report are included in the communications to those charged with governance.</p> <p>The Authority further recommends that the engagement team sufficiently evidences their consideration of the matters that required significant auditor attention, and the rationale for their determination as to whether or not each of these matters is a KAM.</p>

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 2019 were appropriately implemented in 2020.

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 control. 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 control have their significance rated by way of a red-amber-yellow (RAY) system.

● **Red** indicates that a finding is a significant deficiency³. Failure to implement a recommendation and/or remediation set out in a prior finding in relation to a firm's system of quality control, 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 International Standard on Quality Control (Ireland) 1 (ISQC 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 ISQC 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 significant⁴, 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.

³ A significant deficiency is a significant failure to meet the requirements of the ethical standards or ISQC 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.

⁴ 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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