

2023

Audit Quality Unit

**Report on 2022 quality
assurance review of
KPMG**

6 March 2023



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



73
audits of public-interest entities in 2022



41
audit partners



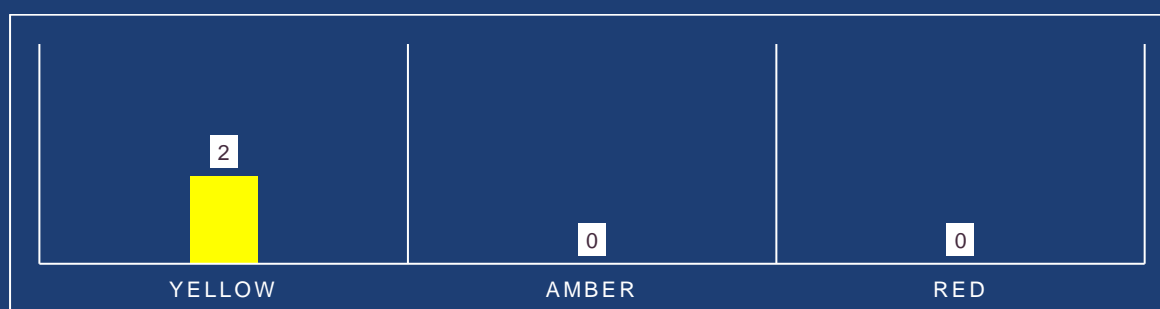
28%
market share based on audit fees associated with public-interest entities in 2022



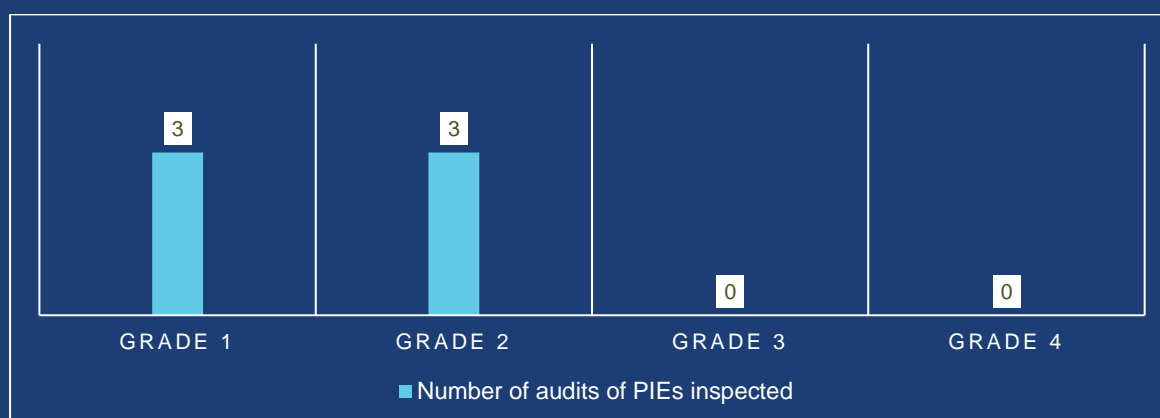
1,562
personnel working in the audit function

Outcome of the quality assurance review

Firm's system of quality control - findings with related recommendations¹



Audits of PIEs – grading¹



¹ 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 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 2022, the quality assurance review assessed the design of the system of quality control in four areas:

- ethics and independence
- acceptance and continuance
- partner evaluation and compensation
- staff evaluation and compensation

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 2022, the Authority selected a sample of six audits of PIEs.

For each audit selected, the Authority evaluated the quality of the communications with those charged with governance, review of financial statements and the audit procedures performed in relation to related parties and analytical reviews. 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 the areas reviewed in relation to the effectiveness of the design or implementation of the Firm's system of quality control.

The Authority assigned a grade of 1 (good audit) to three audits of PIEs and a grade of 2 (limited improvements required) to three 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	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 noted that for two engagement continuance forms, the engagement team assigned an overall low risk to the engagements. However, as both clients were high profile clients, the Firm's policy requires that the overall risk must be marked either medium or high risk. Furthermore, as a result of the assigning of low risk to one of the engagements, all required levels of review and approval were not obtained for the continuance of the engagement. Full details of this finding and recommendation are set out below. (Finding 1).

Partner evaluation and compensation	The Authority evaluated whether adequate remuneration policies were in place for audit partners to provide sufficient performance incentives to secure audit quality. The Authority performed procedures to understand the Firm's policies around the evaluation and compensation of audit partners. The Authority obtained evidence of a sample of partner appraisals, and the related remuneration, in order to ensure that audit quality was appropriately reflected.
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The Authority notes that, for one of the audit partner evaluations reviewed, there was insufficient evidence of the consideration given to audit quality. Full details of this finding and recommendation are set out below. (Finding 2).


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

Staff evaluation and compensation	The Authority evaluated whether adequate remuneration policies were in place for audit staff to provide sufficient performance incentives to secure audit quality. The Authority performed procedures to understand the Firm's policies around the evaluation and compensation of audit staff. The Authority obtained evidence of a sample of staff appraisals, and the related remuneration, in order to ensure that audit quality was appropriately reflected.
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The Authority has no findings with related 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>Acceptance and continuance</p> <p>Finding 1</p> <p> Yellow</p>	<p>The Firm's policy regarding the engagement acceptance and continuance requires that if an entity is determined to have a high public profile, then the engagement acceptance or continuance form cannot be marked as low risk and must be marked either medium or high risk.</p>	<p>The Authority notes that, in the case of two of the client's acceptance and continuance forms, the overall risk of the engagements in their acceptance and continuance had been assigned as low.</p> <p>Both clients have correctly been identified within their acceptance/continuance form as being clients with a high public profile and therefore, as per the Firm's policy, should have been assigned an overall engagement risk of a medium risk, at a minimum.</p> <p>Furthermore, as a result of the assigning of low risk to one of the engagements, all required levels of review and approval were not obtained for the continuance of the engagement.</p>	<p>The Authority notes that the Firm has a new process in place where the system calculates the engagement risk rating based on the responses to the questions contained therein. While an engagement partner can increase a calculated risk rating, (e.g. from low to medium risk) they cannot reduce it.</p> <p>The Authority agrees with the above actions.</p>
<p>Partner evaluation and compensation</p>	<p>Auditing standards require that the Firm establish human resources policies and procedures designed to provide reasonable assurance that there are sufficient personnel</p>	<p>The Authority notes that, for one of the audit partner evaluations reviewed, there was insufficient evidence of the consideration given to audit quality. During</p>	<p>The Authority notes that the Firm has developed a set of audit quality indicators for audit partners and principals designed to make it clearer how audit quality</p>

Finding 2

● Yellow

with the competence and capabilities to perform engagements in accordance with professional standards and applicable legal and regulatory requirements. Personnel issues relevant to such policies and procedures include performance evaluation. Performance evaluation, and compensation procedures, shall give due recognition and reward to the development and maintenance of competence.

Auditing standards further require that the Firm have in place adequate remuneration policies to provide sufficient performance incentives to secure audit quality.

The Firm uses an in-house system to document the results of performance evaluations and has issued guidance on how the evaluation process should be completed.

As part of its internal quality control procedures, the Firm's performs cold file reviews to monitor the quality of completed audits.

The Authority reviewed a sample of five performance evaluations carried out by the Firm in 2021 for partners and principals, including the remuneration paid to the partners in the sample.

the performance period, the partner concerned was subject to the Firm's internal cold file review process. The cold file review process reviewed one of the partner's audit files and concluded that the audit had not been completed in accordance with the Firm's policy and professional standards in significant areas. There was insufficient evidence of how this audit quality failing impacted the audit partner's evaluation and remuneration.

performance of partners and principals is determined on a consistent basis. The Authority further notes that the Firm plans to develop and issue supplementary guidance for audit partners and principals on how audit quality performance should be assessed and documented. This would include guidance that the consideration of results of internal and external reviews are explicitly taken into account in the performance assessment.

The Authority agrees with the above actions.

Ethics and independence

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

Staff evaluation and compensation

The Authority has no findings with related 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"> • Financial assets at fair value through profit or loss • Dividend income • Related parties • Analytical review • Subsequent events
Audit two	2	<ul style="list-style-type: none"> • Impairment of property, plant and equipment • Revenue recognition • Analytical reviews • Communications and auditor's report • Financial statement review • Management override of controls • Related parties • Statement of cash flows
Audit three	2	<ul style="list-style-type: none"> • Analytical reviews • IT audit • Communications and auditor's report • Management override of controls • Related parties • Financial statement review • Valuation of loans and advances • Application of hedge accounting
Audit four	2	<ul style="list-style-type: none"> • Impairment of goodwill • Litigation • Analytical reviews • Communications and auditor's report • Financial statement review • Management override of controls • Related parties • Statement of cash flows • European Single Electronic Format (ESEF)
Audit five	1	<ul style="list-style-type: none"> • Analytical reviews • Statement of cash flows • Communications and auditor's report

² See Appendix for detailed description of ratings and grades

- Financial statement review
- Management override of controls
- Related parties
- Insurance contract provisions

Audit six	1	<ul style="list-style-type: none"> • Investments at fair value • Analytical reviews • Statement of cash flows • Communications and auditor's report • Financial statement review • Management override of controls • Related parties
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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
Related parties	The Authority recommends that, going forward, the engagement team ensures that the audit file sufficiently documents the engagement team's judgements in evaluating management's assertion that the related party transactions were conducted on terms equivalent to those prevailing in an arm's length transaction.
Financial statement disclosures	The Authority recommends that, going forward, the engagement file evidences the substantive procedures designed and performed for each material financial statement disclosure.
Auditor's report	The Authority recommends that, going forward, the engagement team ensures that the descriptions in the auditor's report of all procedures performed to address the key audit matters are accurate and written in clear and unambiguous language.
Communications with those charged with governance	The Authority recommends that, going forward, the engagement team ensures that the communications with the Entity's audit committee regarding the planned audit procedures, and the results of the audit procedures performed, in relation to the impairment of property, plant and equipment are accurate and

sufficient to enable the audit committee to understand the results of all procedures performed in context.

Competence, capabilities and objectivity of management's expert

The Authority recommends that, going forward, the engagement team ensures that the audit file sufficiently evidences the evaluation of the competence, capabilities and objectivity of the management's expert; and evaluation of whether the management's expert is subject to technical performance standards or other professional or industry requirements.

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 2021 were appropriately implemented in 2022.

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

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.

judgements in the areas reviewed. There may be concerns in other areas, with implications that are individually or collectively significant.



**Irish Auditing & Accounting
Supervisory Authority**

Willow House
Millennium Park
Naas, Co. Kildare
W91 C6KT
Ireland

Phone: +353 (0) 45 983 600
Email: info@iaasa.ie

www.iaasa.ie