

2022

Audit Quality Unit

**Report on 2021 quality  
assurance review of  
KPMG**

1 March 2022

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## 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.

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## 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.

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.

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## Introduction

### Overview of KPMG (the Firm)



**4**  
offices in Dublin, Belfast, Cork  
and Galway



**73**  
audits of public-interest  
entities in 2021



**39**  
audit partners



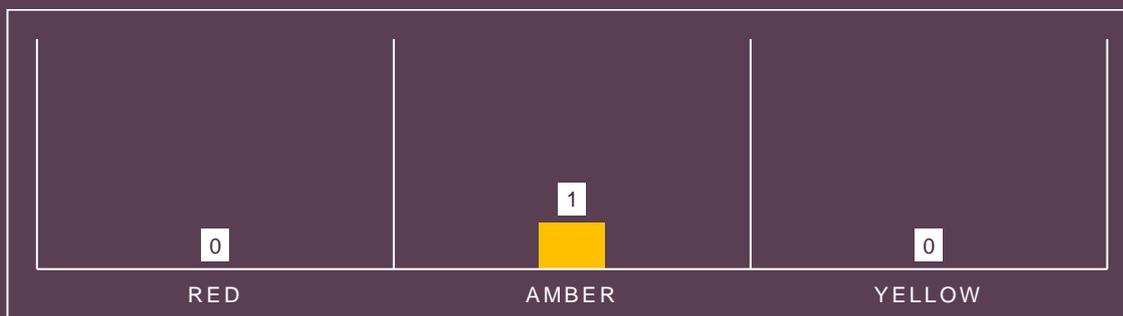
**28%**  
market share based on audit  
fees associated with public-  
interest entities in 2021



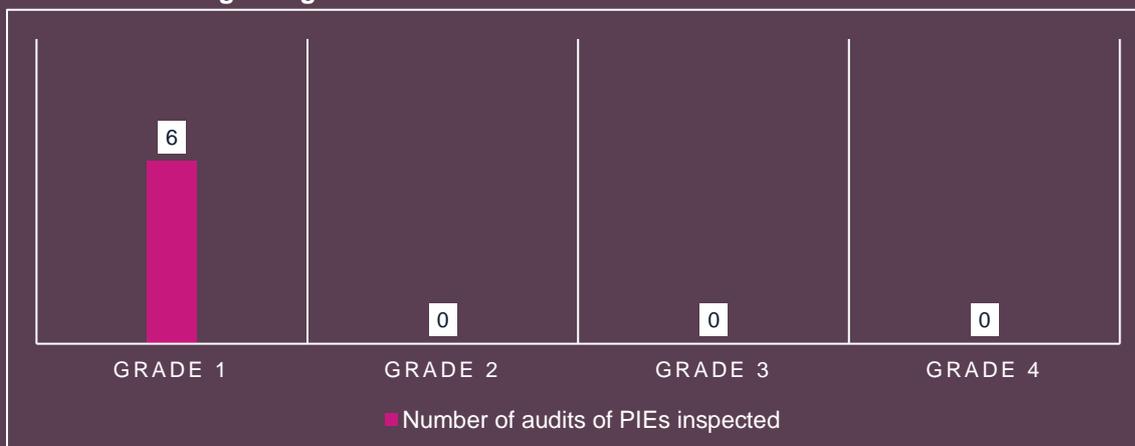
**1,491**  
personnel working in the audit  
function

### Outcome of the quality assurance review

#### Firm's system of quality control - recommendations<sup>1</sup>



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



<sup>1</sup> 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 2021, the quality assurance review assessed the design of the system of quality control in five areas:

- consultations
- internal monitoring
- methodology
- other quality control reviews
- training

For each of the five 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 2021, the Authority selected a sample of six audits of PIEs.

For each audit selected, the Authority evaluated the quality of the audit planning and the communications with those charged with governance. 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 one matter requiring improvement in the Firm's system of quality control.

The Authority assigned a grade of 1 (good audit) to six 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 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

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**Consultations** The Authority evaluated whether the Firm had adequate policies and procedures for consultations and differences of opinion.

The Authority performed procedures to understand the Firm's policies related to consultations and differences of opinion and obtained evidence of the Firm's implementation of its policies.

**The Authority noted that for one consultation, seeking a one year extension for an audit engagement partner who had served as engagement partner for ten years on the audit of an unlisted entity, there was ongoing involvement of the audit engagement partner prior to the conclusion of the consultation. The safeguard determined by the consultation did not sufficiently address the risk to the audit engagement partner's independence and objectivity arising from their continuance as engagement partner for more than ten years. The consultation also did not comply with all of the requirements of the Firm's own policies. Full details of this finding and recommendation are set out below. (Finding 1).**

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**Internal monitoring** The Authority evaluated whether the Firm had adequate procedures to monitor its system of quality control and to respond appropriately to issues identified by the monitoring process.

The Authority performed procedures to understand the Firm's internal monitoring, including reviews of audit files and the Firm's system of internal quality control. The Authority performed procedures to understand the Firm's arrangements for reporting on the outcome of the internal monitoring process. The Authority obtained evidence of the Firm's implementation of its policies.

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

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**Methodology** The Authority evaluated whether the Firm had adequate procedures to ensure that audits are performed effectively and in accordance with both professional and auditing standards.

The Authority evaluated whether the Firm's audit methodology reflects the requirements of the auditing standards applicable in Ireland. The Authority performed procedures to understand how the Firm has developed its audit methodology and its policies for change management. The Authority also performed procedures to understand the Firm's policies around review and approval of audit work, the Firm's policies on the use of specialists and the IT system used within the Firm's audit practice. The Authority obtained evidence of the Firm's implementation of its policies.

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

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Other quality control reviews

The Authority evaluated the Firm's policies and procedures for other quality control reviews on audit engagements.

Other quality control reviews supplement the review procedures performed by the engagement team and through internal monitoring programs. These include reviews such as pre-issuance financial statement reviews, key performance indicator reviews, in-flight or hot file reviews and cold file reviews. The Authority performed procedures to understand the other quality control reviews in place at the Firm and obtained evidence of the Firm's implementation of its policies.

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

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Training

The Authority evaluated whether the Firm's partners and staff receive the necessary training to ensure that audits are performed effectively and in accordance with both professional and auditing standards.

The Authority performed procedures to understand the Firm's policies in relation to training their partners and staff. The Authority evaluated whether the Firm had adequate procedures to ensure that audit partners and staff undertake appropriate training to maintain their theoretical knowledge, professional skills and values at a sufficiently high level. The Authority obtained evidence of the Firm's implementation of its policies.

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

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

Area and significance rating	Background	Issue	Recommendation
<p><b>Consultations</b></p> <p><b>Finding 1</b></p> <p>● <b>Amber</b></p>	<p>Auditing standards require firms to establish policies and procedures to provide them with reasonable assurance that appropriate consultation takes place on difficult or contentious matters.</p> <p>Auditing standards further require that audit documentation includes the nature and scope of, and conclusions resulting from, consultations undertaken during the course of an audit engagement. Documentation that is sufficiently complete and detailed contributes to an understanding of the results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.</p> <p>The Firm's policies set out the instances where a mandatory consultation is required and the specific requirements regarding the documentation of consultations.</p> <p>The Ethical Standard for Auditors (Ireland) requires that appropriate safeguards are</p>	<p>The failure to consult on this matter at the planning stage of the audit resulted in the ongoing involvement of the audit engagement partner prior to the conclusion of the consultation.</p> <ul style="list-style-type: none"> <li>The engagement partner had reviewed the planning section of the audit, as well as certain sections of the substantive testing, prior to initiating the consultation seeking an extension to the ten year rotation period.</li> </ul> <p>Following their discussion of key points on the audit with the engagement partner, the additional partner did not review any documentation on the audit file.</p> <ul style="list-style-type: none"> <li>It is not clear how the safeguard determined by the consultation could sufficiently address the risk to the engagement partner's independence and objectivity</li> </ul>	<p>The Authority notes that the Firm has updated its client and engagement acceptance system in order to improve the controls relating to audit rotation. In addition, the Firm is currently developing a query management system for risk management consultations which will formalise how such consultations are processed in the future.</p> <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 issues clarified guidance regarding:</p> <ul style="list-style-type: none"> <li>the documentation requirements of risk management consultations</li> <li>the individuals who are required to be consulted with when a ten year rotation extension request</li> </ul>

Area and significance rating	Background	Issue	Recommendation
	<p>applied in circumstances where the audit partner of an unlisted entity has not rotated off the engagement after a period of ten years.</p> <p>The Firm's policies require a consultation when an audit partner has been the engagement partner of an unlisted entity for ten years and is not rotating off the engagement. The Firm's policy states that consultation with the Firm's audit executive team is required. The Firm's policy further states that only exceptional circumstances would allow for such an extension to the ten-year rotation period.</p> <p>The Authority reviewed a sample of ten consultations undertaken by the Firm and the related documentation.</p> <p>One of the consultations in the sample related to a one year extension being sought by an audit partner who had served as engagement partner for ten years on the audit of an unlisted entity.</p> <p>The consultation concluded that there were "exceptional circumstances" under the Firm's</p>	<p>arising from their continuance as engagement partner for more than ten years.</p> <p>The Authority notes that the consultation did not comply with all of the requirements of the Firm's own policies.</p> <ul style="list-style-type: none"> <li>• There was no consultation with the Firm's audit executive team prior to approving the extension to the ten year rotation period, as required by the Firm's own policy.</li> <li>• The documentation of the consultation does not sufficiently evidence how it was concluded that there were "exceptional circumstances," as required by the Firm's own policy, that allowed for the one year rotation extension.</li> <li>• The engagement partner incorrectly confirmed, during the planning stage of the audit, that they had consulted on any</li> </ul>	<p>is being sought for the audit of an unlisted entity</p> <ul style="list-style-type: none"> <li>• the appropriate safeguards to be applied in such an occurrence to address the threats to the objectivity and independence of the audit partner</li> </ul>

Area and significance rating	Background	Issue	Recommendation
	<p>own policy that could allow for the audit partner's continued involvement in the audit engagement. The consultation concluded that an appropriate safeguard could be put in place to address the risks around the audit partner's independence and objectivity. The consultation documentation states that the safeguard was for the engagement partner to discuss key points on the audit with an additional partner in the Firm.</p>	<p>possible threats to objectivity, including any perceived loss of independence. This confirmation was completed and signed prior to the initiation of the consultation.</p>	
<b>Internal monitoring</b>	<p>The Authority has no findings or recommendations to report in this area.</p>		
<b>Methodology</b>	<p>The Authority has no findings or recommendations to report in this area.</p>		
<b>Other quality control reviews</b>	<p>The Authority has no findings or recommendations to report in this area.</p>		
<b>Training</b>	<p>The Authority has no findings or recommendations to report in this area.</p>		

## Summary of audits of PIEs inspected

	Assigned grade <sup>2</sup>	Audit areas reviewed
Audit one	1	<ul style="list-style-type: none"> <li>Accounting estimates</li> <li>Auditor's report</li> <li>Audit planning</li> <li>Cash and cash equivalents</li> <li>Communications with those charged with governance</li> <li>Consultations</li> <li>Going concern</li> </ul>
Audit two	1	<ul style="list-style-type: none"> <li>Accounting estimates</li> <li>Audit planning</li> <li>Auditor's report</li> <li>Cash and cash equivalents</li> <li>Communications with those charged with governance</li> <li>Going concern</li> <li>Revenue recognition</li> </ul>
Audit three	1	<ul style="list-style-type: none"> <li>Accounting estimates</li> <li>Audit planning</li> <li>Auditor's report</li> <li>Cash and cash equivalents</li> <li>Communications with those charged with governance</li> <li>Consultations</li> <li>Going concern</li> <li>Related parties</li> </ul>
Audit four	1	<ul style="list-style-type: none"> <li>Accounting estimates</li> <li>Audit planning</li> <li>Cash and cash equivalents</li> <li>Communications with those charged with governance</li> <li>Engagement quality control review</li> <li>Going concern</li> </ul>

<sup>2</sup> See Appendix 1 for detailed description of ratings and grades

	Assigned grade <sup>2</sup>	Audit areas reviewed
Audit five	1	<ul style="list-style-type: none"> <li>• Accounting estimates</li> <li>• Audit planning</li> <li>• Auditor's report</li> <li>• Cash and cash equivalents</li> <li>• Communications with those charged with governance</li> <li>• Consultations</li> <li>• Going concern</li> <li>• Group audit</li> </ul>
Audit six	1	<ul style="list-style-type: none"> <li>• Accounting estimates</li> <li>• Audit planning</li> <li>• Auditor's report</li> <li>• Cash and cash equivalents</li> <li>• Communications with those charged with governance</li> <li>• Going concern</li> </ul>

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

The Authority deemed none of the recommendations arising from the inspection of audits of PIEs to be key recommendations.

## 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 2020 were appropriately implemented in 2021.

## 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 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 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 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 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.

<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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