



# Transparency Report 2021

**Our relentless focus on quality**

KPMG Iceland

[kpmg.is](http://kpmg.is)

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# Focus on quality

## to inspire confidence and empower change

Trust and growth through high quality audits are the foundation of our business and the basis on which KPMG was founded.

In this report we document how we are improving our quality management – by investing in new technologies and resources, while building a stronger culture of consistency and accountability. We share how our relentless focus on quality underpins our commitment to serve the public interest, and drives our ambition to be the most trusted and trustworthy professional services organization.

This report sets out the practices and processes that are currently employed by KPMG ehf. While KPMG Iceland is a professional service organization, this report is primarily focused on our audit practice and related services. It relates to the fiscal year 1 October 2020 to 30 September 2021.

KPMG ehf. is a leading audit and professional services firm with 280 people in Iceland. KPMG ehf.'s clients range from large listed companies to small companies as well as all types of organizations and activities in the public sector.

At KPMG, our purpose is to build trust and empower change. We are a network of firms in 145 countries and territories, and in FY21, collectively employed more than 236,000 people who are committed to delivering quality in Audit & Assurance, Advisory and Tax & Legal services. We are committed to driving a strong culture of quality and excellence that is core to our purpose.

KPMG has a bold ambition: To become the most trusted and trustworthy professional services organization. That aim is impossible without delivering quality audits, and even though we have a sound foundation to build on, we need to constantly innovate and never losing our focus – especially as leaders of this proud profession.

The focus on delivering high-quality audits has remained paramount during the pandemic. Our fundamental role of guaranteeing stability and building trust between market participants may never have been more important.

All our actions are guided by our values. They drive our daily behaviors, guide our decisions, and shape our ethical culture.

Integrity is a core value – we do what is right, in the right way, at the right time. We embody our values of integrity and excellence in our commitment to quality.

Our people are at the heart of our business and supporting their wellbeing remains a priority through challenging times. This also means assessing the appropriate level of workloads as well as initiatives that drive efficiencies through technology.

Driving improvements in audit quality relies on exceptional people always doing the right thing, not taking shortcuts, and being able to speak up without fear of repercussion.

Finally, creating the right environment requires strong governance and practice management standards. It is why our Global Board implemented governance changes to achieve greater levels of consistency and accountability across our entire global organization. All KPMG member firms are committed to a common set of values, standards, and service quality expectations.

Together, we are committed to drive a strong culture of quality and excellence that is core to our purpose. Quality is what our profession is built on, and that is why KPMG is relentless in our approach to delivering it.

We are committed to working closely together with regulators, our clients, their investors, and businesses to meet expectations for audit quality.

KPMG ehf.'s Transparency Report is aimed at anyone who is interested in finding out more about the way our firm is structured and our commitment to quality, ethics and independence.

Together, we are making incredible strides for the better. Quality is what our profession is built on, and it is why KPMG is relentless in our approach to delivering it. Thank you for the trust you have in us.

Reykjavik, 20 April 2022



**Jón S. Helgason**  
KPMG Iceland



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Audit quality is fundamental to maintaining public trust and is the key measure on which our professional reputation stands.

We define “audit quality” as the outcome when audits are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls.

All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.



# Driving the quality agenda

## – our approach to delivering audit quality

Tone at the top, leadership, and a clear set of values and conduct are essential to set the framework for quality. However, these are required to be backed up by a system of quality control that holds us accountable to meet the highest professional standards.

KPMG continues to invest significantly in audit quality across the global organization. We are building on our sound audit quality foundations, both in terms of how we manage KPMG firms and how KPMG firms execute audit engagements.

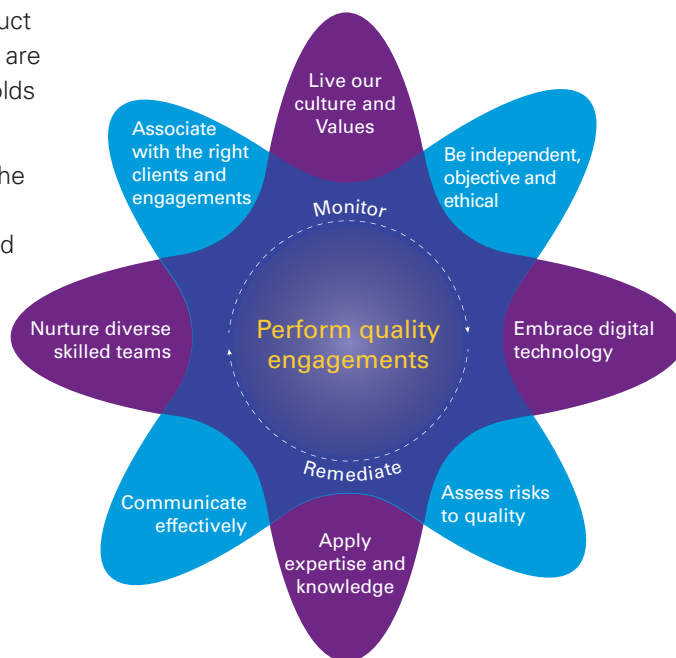
This means ongoing investment in the system of quality management, global monitoring of audit quality, enhanced support, and providing best-in-class technology and tools for engagement teams.

KPMG’s global audit quality program supports consistent deployment of investments to enhance and drive a common approach.

A robust and consistent system of quality control is essential to delivering quality services. KPMG International has quality control policies that apply to all KPMG firms. These are included in KPMG’s Global Quality & Risk Management Manual (GQ&RM Manual), which applies to all KPMG personnel.

To adopt the new international standard on quality management (ISQM 1) which was approved by the IAASB and will be effective from December 2022, KPMG International initiated a program to redesign the network-wide requirements for member firms’ systems of quality management. ISQM1 requires each KPMG firm to design, implement and operate a system of quality management to consistently deliver quality audits, and to evaluate the effectiveness of the system on an annual basis.

As we prepare for ISQM 1, we have adopted a new Global Quality Framework to better outline how we deliver quality at KPMG, and how everyone at KPMG is accountable to its delivery. ‘Perform quality engagements’ sits at the core along with our commitment to continually monitor and remediate our processes as necessary.



being ready for ISQM1 it also meets the requirements of the current International Standards on Quality Control (ISQC 1), issued by the International Auditing and Assurance Standards Board (IAASB) and the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA), which apply to professional services firms that perform audits of financial statements.

While this Transparency Report summarizes KPMG’s approach to audit quality, it may also be useful for stakeholders interested in Tax & Legal and Advisory services, as many KPMG quality control procedures and processes are cross-functional and apply equally to all services offered.

Throughout this document, “KPMG”, “we”, “our” and “us” refers to the global organization or to one or more of the member firms of KPMG International Limited, each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients.

No member firm has any authority to obligate or bind KPMG International Limited or any other member firm vis-à-vis third parties, nor does KPMG International Limited have any such authority to obligate or bind any member firm.

Throughout this document, references to “Firm”, “KPMG firm”, “member firm” and “KPMG member firm” refer to firms which are either: members of KPMG International Limited; sublicensee firms of KPMG International Limited; or entities that are wholly or dominantly owned and controlled by an entity that is a member or a sublicensee. The overall governance structure of KPMG International Limited is provided in the ‘Governance and leadership’ section of the 2021 KPMG International Transparency Report



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# KPMG values

Our values represent what we believe in, and what's important to us as an organization. They guide our behaviors day-to-day, informing how we act, the decisions we make, and how we work with each other, our clients, companies that we audit, and all our stakeholders.

## Our values are:

- **Integrity:** We do what is right.
- **Excellence:** We never stop learning and improving.
- **Courage:** We think and act boldly.
- **Together:** We respect each other and draw strength from our differences.
- **For Better:** We do what matters.

KPMG's values express our long-standing core beliefs, and in 2020 the language was updated to make them bolder, simpler and more memorable to help each of us bring them to life every day.



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# Living our culture and values

It's not just what we do at KPMG that matters: we also pay attention to how we do it. Our values are our core beliefs, guiding and unifying our actions and behaviors. Shared across every level and in every country, jurisdiction and territory in which we operate, they are the foundation of our unique culture.

## Fostering the right culture, starting with tone at the top



KPMG's global leadership, working with regional and member firm leadership, plays a critical role in establishing our commitment to quality and the highest standards of professional excellence. A culture based on accountability, quality, objectivity, independence, integrity, and ethics is essential in an organization that carries out audits and other services on which stakeholders rely. At KPMG we promote a culture in which consultation is encouraged and recognized as a strength.

We communicate our commitment to clients, stakeholders, and society at large to earn the public's trust.

Outlined in KPMG's Global Code of Conduct ("the Code") are the responsibilities all KPMG personnel have to each other, our clients, and the public. It shows how our values inspire our greatest aspirations and guide our behaviors and actions. It defines what it means to work at and be part of KPMG, as well as our individual and collective responsibilities.

Our values lie at the heart of the way we do things. To do the right thing, the right way. Always. They drive our daily behaviours, guide our decisions, and shape our character. They form the foundation of a resilient culture ready to meet challenge with integrity, so we never lose sight of our principal responsibility to protect the public interest. And they propel us forward – through our work and the example we set – as we inspire confidence and empower change throughout the world.

Everyone at KPMG is held accountable to comply with the Global Code of Conduct and to confirm their compliance with the Code. Everyone at KPMG is also required to take regular training covering the Code. We are committed to holding ourselves accountable for behaving in a way that is consistent with the Code. Individuals are encouraged to speak up if they see something that makes them uncomfortable or that is not in compliance with the Code.

Moreover, everyone at KPMG is held accountable for reporting – and is required to report – any activity that could potentially be illegal or in violation of our values, KPMG policies, applicable laws, regulations, or professional



standards. To safeguard this, each KPMG firm is required to establish, communicate, and maintain clearly defined channels to allow KPMG personnel and third parties to make inquiries about, raise concerns in relation to, provide feedback on, and notify, reportable matters, without fear of reprisal, in accordance with applicable law or regulation.

The KPMG International hotline is a mechanism for KPMG personnel, clients and other third parties to confidentially report concerns they have relating to certain areas of activity by any KPMG International entity, activities of KPMG firms or KPMG personnel.

All KPMG firms and personnel are prohibited from retaliating against individuals who have the courage to speak up in good faith. Retaliation is a serious violation of the Code, and any person who takes retaliatory action will be subject to their firm's disciplinary policy.

The Global People Survey provides KPMG ehf. leadership and KPMG International leadership with results related to upholding the KPMG values. KPMG ehf. and KPMG International monitor the results and take appropriate actions to communicate and respond to any findings.



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# Governance and Leadership

## Clearly articulated strategy focused on quality, consistency, trust and growth



### Our business

KPMG ehf. is a professional services firm that delivers Audit, Tax and Advisory services. We operate out of 16 offices across Iceland and had an average of 271 employees in the year 1 October 2020 to 30 September 2021. At 30 September 2020, the company employed a total of 47 state-authorized public accountants (2020: 53).

Our audit services in Iceland are delivered through KPMG ehf. Full details of the services offered by KPMG ehf. can be found on our [website](#).

### Our strategy

Our strategy set by the Board of KPMG ehf. demonstrates a commitment to quality and trust. Our focus is to invest significantly in priorities that form part of a multi-year collective strategy implementation that is taking place across the global organization.

## Defined accountability, roles and responsibilities



### Legal structure

*Legal structure and ownership from 1 October 2020*  
Effective 1 October 2020, KPMG ehf. and all other KPMG firms entered into membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organization became members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee. KPMG International Limited acts as the coordinating entity for the overall benefit of the KPMG member firms. It does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

Further details on the legal and governance arrangements for the KPMG International organization from 1 October 2020 can be found in section 'Governance and leadership' of the 2021 [KPMG International Transparency Report](#).

KPMG International Limited and the KPMG member firms are not a global partnership, single firm, multinational corporation, joint venture, or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International Limited, any of its related entities or any other member firm vis-à-vis third parties, nor does KPMG International Limited or any of its related entities have any such authority to obligate or bind any member firm. KPMG ehf. is part of the KPMG global organization of professional services firms providing Audit & Assurance, Tax & Legal and Advisory

services to a wide variety of public and private sector organizations. The KPMG organization structure is designed to support consistency of service quality and adherence to agreed values wherever its member firms operate.

KPMG ehf. is a private limited liability company incorporated under the Icelandic Act on Private Limited Liability Companies no. 138/1994.

It was established on 4 September 1975 and became an affiliate with KPMG International in 1985. It is wholly owned by 35 practicing partners as at 30 September 2021 (2020: 34 partners). A list of the partners is accessible at the company's website.

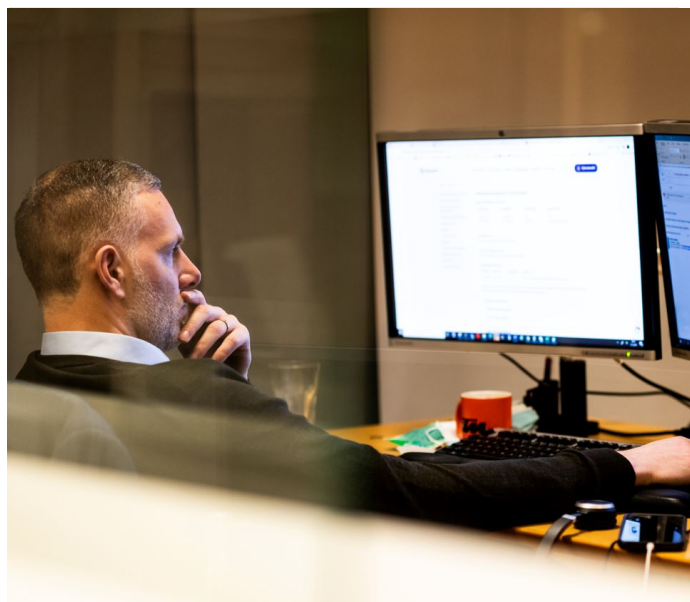
KPMG is authorised in accordance with the Icelandic Act on Auditors and Auditing no. 94/2019, and has the auditor registration number EF-2011-003.

Audit, Tax and Advisory services are delivered through the legal entity KPMG ehf. and legal services through the legal entity KPMG Law ehf. which is a sub-licencee of KPMG ehf.

### Name, ownership and legal relationships

KPMG is the registered trademark of KPMG International and is the name by which the member firms are commonly known. The rights of member firms to use the KPMG name and marks are contained within agreements with KPMG International.

Member firms are generally locally owned and managed. Each member firm is responsible for its own obligations and liabilities. KPMG International and other member firms are not responsible for a member firm's obligations or liabilities. Member firms may consist of more than one separate legal entity. If this is the case, each separate legal entity will be responsible only for its own obligations and liabilities, unless it has expressly agreed otherwise.



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## Responsibilities and obligations of member firms

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

Each member firm takes responsibility for its management and the quality of its work.

Member firms commit to a common set of KPMG values.

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

The name of each audit firm that is a member of the organization and the EU/EEA countries in which each firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available in Appendix 4.

Aggregated revenues generated by KPMG firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements\* was 2.05 billion euros during the year ending 30 September 2021.

The EU/EEA aggregated statutory audit revenue figures are presented to the best extent currently calculable and translated at the average exchange rate prevailing in the 12 months ended 30 September 2021.

## Professional Indemnity Insurance



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

## Overseen using robust governance structures



### Governance structure

KPMG ehf. applies high standards of corporate governance.

#### *The shareholders*

The shareholders of KPMG ehf. take part in shareholders' meetings and the Annual General Meeting. Shareholder's meeting make decisions on, among other things, the selection of new shareholders and the firm's funding. Decisions made at Annual General Meeting include issues that are regulated under Icelandic law, such as the election of the Board of Directors and the auditor, as well as deciding on dividends to shareholders.

#### *The Board*

The Board of Directors of KPMG ehf. is constituted in accordance with Icelandic corporate legislation, including the provisions of the Icelandic Act on Auditors and Auditing. All Board members shall uphold the company's shared interests. In accordance with the company's Articles of Association, the Board shall comprise five members. Members of the Board are elected for a term of one year. The Board appoints its own Chairperson.

The Board meets generally once a month to undertake certain statutory duties for KPMG ehf., including approving the annual accounts and the transparency report.

Details of those charged with governance for KPMG ehf. are set out in Appendix 3.



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\*\*The financial information set forth represents combined information of the separate KPMG firms from EU and EEA Member States that perform professional services for clients. The information is combined here solely for presentation purposes. KPMG International performs no services for clients nor, concomitantly, generates any client revenue.





## Leadership responsibilities for quality and risk management

KPMG ehf. demonstrates commitment to quality, objectivity, independence, ethics and integrity, and communicates our focus on quality to clients, stakeholders and society. Our leadership plays a critical role in setting the right tone and leading by example – demonstrating an unwavering commitment to the highest standards of professional excellence and championing and supporting major initiatives.

Our leadership team is committed to building a culture based on quality, objectivity, independence, integrity and ethics, demonstrated through their actions – written and video communications, presentations to teams and one-to-one discussions.

KPMG ehf. is required to seek input from the chair of the relevant Global Steering Group or his/her delegee on the performance of certain leaders within KPMG ehf. whose role most closely aligns with the activities of the Global Steering Group. Input is sought as part of the annual performance process and is based on an assessment of the leader’s performance, which includes matters of public interest, audit quality and risk management activities.

The following individuals have leadership responsibilities for quality and risk management at KPMG ehf.

### Senior Partner

In accordance with the principles in ISQC 1, our Senior Partner Jón S. Helgason has assumed ultimate responsibility for KPMG ehf.’s system of quality control. Details of some of the measures that he and the rest of the Management team have taken to ensure that a culture of quality prevails within KPMG ehf. are set out in in this transparency report.

### Risk Management Partner

The Risk Management Partner (RMP) is responsible for the direction and execution of risk, compliance and quality control in KPMG ehf. The RMP consults with the appointed Area Quality and Risk Management Leader.

The fact that RMP is a senior role, underlines the importance that the firm places on risk and quality issues. The RMP is supported by a team of partners and professionals in each of the functions.

### Ethics and Independence Partner (EIP)

The RMP also holds a role as Ethics and Independence Partner and has thereby also primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG ehf.

### The Audit, Tax and Advisory functions – Function Heads

The three heads of the client service functions (Audit, Tax and Advisory) are accountable to the Senior Partner for the quality of service delivered in their respective functions. They are responsible for the execution of the risk management and quality assurance and monitoring procedures for their specific functions within the framework



### The Executive Committee

The Executive Committee is responsible for management of the day-to-day activities of KPMG ehf., recommending policy to the Board and developing the business plan within the overall strategy set by the Board, together with its subsequent implementation. It deals with operational matters affecting the firm, including monitoring operating and financial performance, budgets, new business proposals, marketing, technology development, recruitment, and retention and general remuneration, prioritization and allocation of resources and investment and managing the risk profile of KPMG ehf.

The Executive Committee consists of the Senior Partner, Heads of Functions, CFO and Head of HR.

### Senior Partner/Chief Executive Officer

The role of Senior Partner is a fixed-term position. The Senior Partner acts as CEO and is appointed by the Board. The Senior Partner is responsible for the day-to-day management of KPMG ehf.’s activities.

The Senior Partner bases all his or her work on KPMG’s Values, overarching goals and adopted strategies.

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set by the Risk Management Partner. These procedures make it clear that, at the engagement level, risk management and quality control is ultimately the responsibility of all professionals in the firm.

Our Head of Audit, Magnús Jónsson, is responsible for leading a sustainable high-quality effective management and control of the Audit practice. This includes:


- setting the right tone at the top by demonstrating an unwavering culture supporting audit quality through communication, engagement support and commitment to the highest standards of professional excellence, including professional scepticism, objectivity, and independence ethics and integrity;
- developing and implementing strategies to monitor and maintain knowledge and skills required of partners and employees to fulfil their professional responsibilities and audit strategy which is aligned with KPMG ehf.'s audit quality requirements; and
- working with the Risk Management Partner to monitor and address audit quality and risk matters as they relate to the Audit practice, including an annual evaluation of activities considered to be key to audit quality.

#### *Audit Leadership Team*

The Audit Leadership Team of KPMG ehf. has regular discussions to agree actions about current and emerging audit quality issues arising from external and internal quality review processes, queries being raised by engagement teams, root cause analysis procedures and other quality matters identified from a variety of sources.

For more complex issues (which might require amendments to KPMG's global audit methodology or audit tools) these will be raised with the KPMG International Global Audit groups for consideration and potential development of solutions by the KPMG Global Solutions Group (KGSG) and the International Standards Group (ISG).

## Partner remuneration

 Remuneration to partners is based on the annual surplus generated to partners.

### Principles of remuneration to partners

The basis for remuneration to partners is the role and responsibility for the partner and specific key areas which consider a number of factors including Quality & Trust, People, Market & Growth, Building the firm and living the KPMG values. Audit partners are not permitted to have objectives related to, or receive any remuneration from, selling non-audit services to their audit clients. In addition, a part of their performance-related component is based on an assessment of their ability to deliver audit quality.

Partners are assessed yearly, which includes a self-evaluation, assessment at function level and firm level.

Evaluations of quality and independence are particularly important components. The remuneration committee, which is a sub-committee of the Board of Directors, monitors the remuneration process. A partner's remuneration consists of several components, such as salary, dividend, pension and other benefits.

## Network arrangements

### Legal structure

On 1 October 2020, KPMG ehf. and all other KPMG firms entered into new membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organization became members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee.

Since 1 October 2020, KPMG International Limited has been the coordinating entity for the overall benefit of the KPMG member firms. It does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

KPMG is the registered trademark of KPMG International and is the name by which the member firms are commonly known. The rights of member firms to use the KPMG name and marks are contained within agreements with KPMG International.

Pursuant to their membership agreements with KPMG International, member firms are required to comply with KPMG International's policies, including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes being professionally and financially stable; having an ownership, governance and management structure that ensures continuity and stability and long-term success; and being able to comply with policies issued by KPMG International, adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools.

KPMG International Limited and the KPMG member firms are not a global partnership, single firm, multinational corporation, joint venture, or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International Limited, any of its related entities or any other member firm vis-à-vis third parties, nor does KPMG International Limited or any of its related entities have any such authority to obligate or bind any member firm.

Further detail on the revised legal and governance arrangements for the KPMG global organization from 1 October 2020 can be found in section 'Governance and leadership' of the [2021 KPMG International Transparency Report](#).



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## Responsibilities and Obligations of Member Firms

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

Each KPMG firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG Values (as set out in the Appendices to this document).

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

### Governance structure

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

#### *Global Council*

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

Among other things, the Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 56 KPMG firms that are "members" of KPMG International Limited as a matter of English law.

#### *Global Board*

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include approving global strategy, protecting and enhancing the KPMG brand and reputation, overseeing the Global Management Team and approving policies with which KPMG firms are required to comply. It also approves the admittance or termination of KPMG firms to/from the global organization.

It is led by the Global Chairman, Bill Thomas, and also includes the Chairman of each of the regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)), and a number of members who are also member firm Senior Partners.

The list of current Global Board members, is set out on the [Leadership page](#) of [kpmg.com](#)

#### *Global Board committees:*

- Executive Committee;
- Governance Committee;
- Global Quality, Risk & Reputaton Committee; and
- Global Audit Quality Committee.

The overarching responsibility of the Global Audit Quality Committee is to strive for globally consistent audit quality across all firms and to oversee those KPMG International activities which relate to improving and maintaining the consistency and quality of audits provided by KPMG firms.

#### *Global Management Team*

The Global Board has delegated certain responsibilities to the Global Management Team. These responsibilities include developing the global strategy by working together with the Executive Committee, and jointly recommending the global strategy to the Global Board for its approval. The Global Management Team also supports KPMG firms in their execution of the global strategy and KPMG International decisions and policies by member firms, including holding them accountable against their commitments.

It is led by the Global Chairman, Bill Thomas. The list of current Global Management Team members is available in the Leadership section on KPMG.com.

#### *Global Steering Groups*

There is a Global Steering Group for each key function and infrastructure area, chaired by the relevant member of the Global Management Team and, together they assist the Global Management Team in discharging its responsibilities. They act under delegated authority from the Global Board and oversight by the Global Management Team (GMT). Under the oversight of the GMT, they promote the execution of the global strategy and compliance with KPMG International decisions and policies by member firms.

In particular, the Global Audit Steering Group and Global Quality & Risk Management Steering Group work closely with regional and member firm leadership to:

- Establish, and ensure communication of, appropriate audit and quality/risk management policies;
  - Establish and support effective and efficient risk processes to promote audit quality;
  - promote and support strategy implementation in member firms' audit functions, including standards of audit quality; and
  - assess and monitor audit quality issues, including those arising from quality performance and regulatory reviews, and focus on best practices that reduce audit quality findings.
- The roles of the Global Audit Steering Group and the Global Quality & Risk Management Steering Group are detailed in section 'Governance and leadership' of the 2021 KPMG International Transparency Report.



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Each firm is part of one of three regions (the Americas, ASPAC, and EMA). Each region has a Regional Board comprising a regional chairman, regional chief operating officer, representation from any sub-regions, and other members as appropriate. Each Regional Board focuses specifically on the needs of member firms within their region and assists in the implementation of KPMG International's policies and processes within the region.

Further details about KPMG International including the governance arrangements for the year ending 30 September 2021, can be found in section 'Governance and leadership' of the [2021 KPMG International Transparency Report](#).



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# Applying expertise and knowledge

We are committed to continue to build on our technical expertise and knowledge recognizing its fundamental role in delivering quality audits.



## Methodology aligned with professional standards, laws and regulations



### Consistent audit methodology and tools

Our audit methodology, tools and guidance are:

- globally consistent and fully compliant with the applicable standards, including International Standard on Auditing (ISA), Public Company Accounting Oversight Board (PCAOB) and the American Institute of CPAs (AICPA) and are supplemented to comply with local auditing standards and regulatory or statutory requirements by member firms
- inclusive of KPMG methodology interpretations that drive consistency in areas where the applicable standards are not prescriptive in the approach to be followed
- centred on identifying risk, focusing on risks of material misstatements and the necessary audit response
- made available to all KPMG audit professionals and required to be used, where necessary
- applied even where local auditing standards may be less demanding than the ISAs
- how we enable a consistent approach to planning, performing and documenting audit procedures over key accounting processes
- focused on the international assurance methodology and the alignment of assurance products in response to growth of Environmental, Social and Governance (ESG reporting).



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The KPMG audit methodology is set out in the KPMG Audit Manual (for use with eAudit) and the KPMG Audit Execution Guide (for use with the KPMG Clara workflow) and includes KPMG interpretation of how to apply ISAs, which we believe enhance audit quality. The methodology emphasizes applying appropriate professional scepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence.

Enhancements to the audit methodology, guidance and tools are made regularly to maintain compliance with standards and address emerging auditing areas of focus and audit quality results (internal and external). For example, as a result of the COVID-19 pandemic, many companies are experiencing significant financial uncertainty. We have issued guidance to our auditors on conducting audit procedures in a remote-working environment, raising awareness of key audit risks such as going concern and impairments and provided reminders of the importance of exercising professional scepticism taking appropriate actions if information is identified that is unexpected or unusual and may be indicative of potential management bias, a fraud risk or fraud.

## Deep technical expertise and knowledge



### Access to specialist networks

KPMG ehf. engagement teams have access to a network of KPMG specialists – either within their firm or in other KPMG firms. These specialists receive the training they need to ensure they have the competencies, capabilities and objectivity to appropriately fulfil their role on our audits. They also receive a global annual update on global quality performance issues.

The need for specialists to be assigned to an audit engagement in areas such as information, technology, tax, treasury, actuarial, forensic and valuations is considered as part of the audit engagement acceptance and continuance process, as well as during the planning and performance of the engagement.

### KPMG's commitment to audit quality during the COVID-19 pandemic

The COVID-19 pandemic has forced us all to think differently, we continue to respond to and embrace this challenge. Most organizations are likely to have been impacted by the COVID-19 pandemic, either directly or indirectly, and the increased economic uncertainty and risk may have significant financial reporting implications. Issues including going concern, asset impairments and valuations will require careful judgment as organizations deal with a high degree of uncertainty and market volatility. KPMG firms' role as auditors is to evaluate these judgments.

Since the start of the pandemic, we have maintained an online COVID-19 Financial reporting resource centre to assist companies and other stakeholders understand potential accounting and disclosure implications.

KPMG International has issued extensive guidance to assist teams in addressing the various accounting, financial reporting and audit related matters arising from the impacts of the COVID-19 pandemic including going concern, asset impairments, valuations and related disclosures, materiality, risk assessment, group audits, inventory, subsequent events and audit evidence of communications with Those Charged With Governance. Additionally, KPMG International has issued specific guidance for remote working environments which covers how teams work together, communications with management and the design and performance of audit procedures.

KPMG's guidance has been continually updated throughout the pandemic as other significant auditing, accounting and reporting issues have been identified.

KPMG is a technology-enabled organization, with technical accounting and auditing resources, guidance and audit platforms and tools available electronically, enabling the conversion to a remote working environment.

Enhanced communication has been increasingly important to everyone during the COVID-19 pandemic. We have leveraged our investments in technology to provide KPMG firms with regular communications, including virtual meetings to share best practices and guidance. In addition, we have enhanced our listening strategy to include specific COVID-19 pulse surveys to allow us to hear from our people in real time and shape our response accordingly.

## Quality and risk management manual



KPMG International has quality control policies that apply to all member firms. These are included in KPMG's Global Quality & Risk Management

Manual (GQRMM) which applies to all KPMG personnel. KPMG ehf. is required to establish and maintain a system of quality control and design, implement, and test the operating effectiveness of quality controls.

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# Embracing digital technology

At KPMG, we are committed to serving the public interest and create value through continuous innovation. By leveraging leading technologies, we are transforming the audit experience for our professionals and our clients – enabling us to provide an even higher quality audit by increasing our ability to focus on the issues that matter through the data and insights it provides.

## Intelligent, standards-driven audit workflow



All KPMG ehf. professionals are expected to adhere to KPMG International and KPMG ehf. policies and procedures, including independence policies, and are provided with a range of tools and guidance to support them in meeting these expectations. The KPMG ehf. policies and procedures set for audit engagements incorporate the relevant requirements of accounting, auditing, ethical and quality control standards, and other relevant laws and regulations. This includes the Act on auditors and auditing no. 94/2019, the Financial Statements Act no. 3/2006 and other relevant laws and regulations such as bribery legislation, the Money Laundering Act and insider rules.

## Evolving our audit workflow

We recognize that to deliver quality audits, we need to continually evolve and develop our technology solutions to keep pace with today's digital world.

That is why KPMG embarked on a process of reimagining our audit platform, workflow and methodology to provide enhanced consistency and support to our audit engagement teams, deliver detailed insights to the audit, and future-proof our systems for the expected continued development of new technologies such as robotic process automation, machine learning and cognitive technologies.

The release of the KPMG Clara workflow and revised audit methodology is an important milestone in KPMG's journey to innovate, digitalize and transform the audit. It is a significant investment that underlines our commitment to audit quality, consistency and innovation.

## KPMG Clara



KPMG Clara is our smart and intuitive technology platform that is driving globally consistent audit execution. As a fully integrated, scalable, cloud-based platform, it enables the enhanced audit methodology through a data-enabled workflow.

The platform integrates new and emerging technologies, with advanced capabilities that leverage data science, audit automation, and data visualization.

The digital audit is increasingly integral to how KPMG member firms obtain audit evidence and interact with clients. Policies and guidance are in place to establish and maintain appropriate processes and controls regarding the development, evaluation and testing, deployment and support of technology in our audits.

KPMG Clara is helping auditors see meaningful patterns across a business, whether conducting risk assessment, tracing every single transaction through a complex revenue process, or simply adding up the accounts. Current capabilities include:

- enable the analysis of account balances and journal entry data
- automate 'period on period' balances comparison and 'time series' evolution information
- enable the analysis of sub-ledger, transactional data over certain business processes and accounts.

## Our vision of the future

KPMG Clara was developed to be the base technology to help deliver new capabilities in a globally consistent way, enabling the audit workflows and a fully digital experience for our people.

The KPMG Clara platform evolves as technologies such as artificial intelligence, blockchain and cognitive capabilities transform how audits are delivered.



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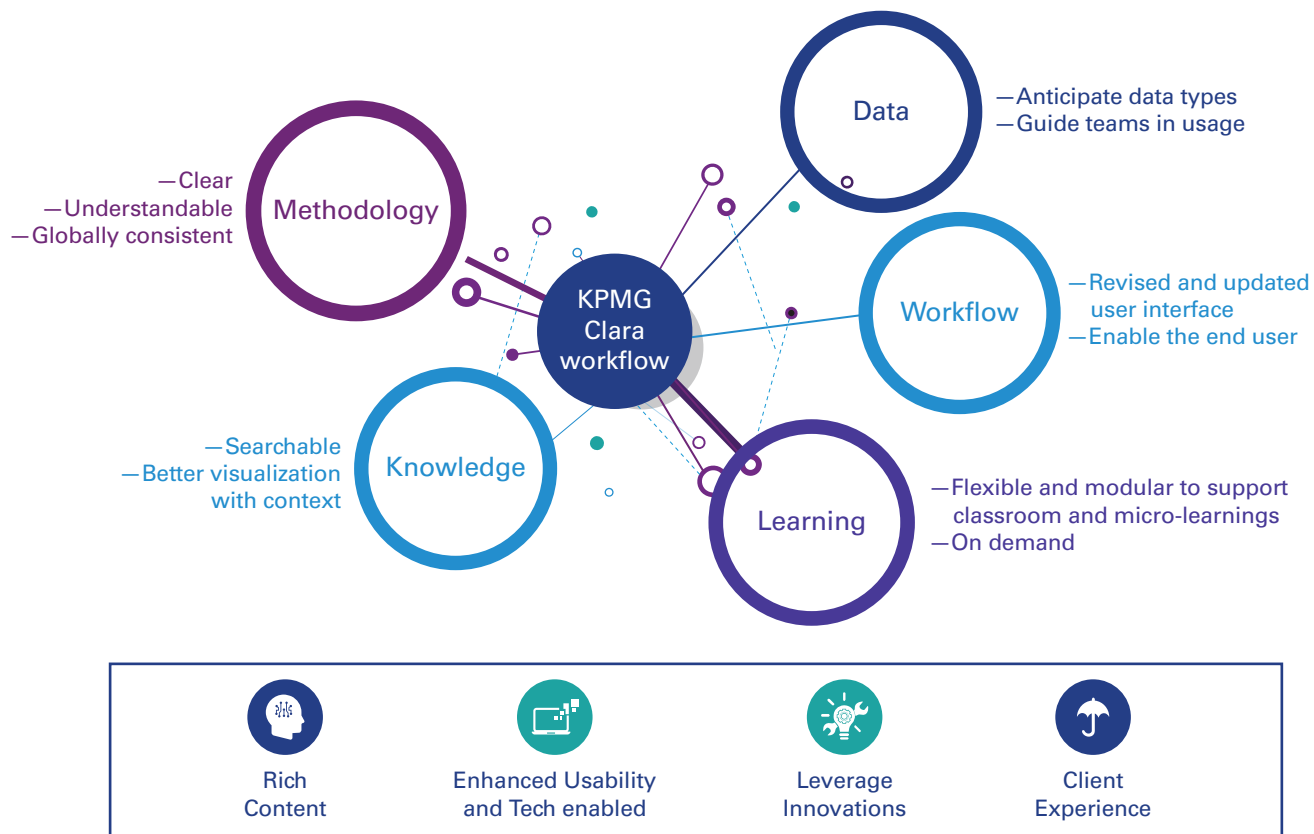
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### KPMG Clara workflow

We are replacing eAudit with a new workflow and revised audit methodology embedded into the KPMG Clara smart audit platform. Phased full deployment of KPMG Clara workflow commenced globally in 2020 with planned completion of full global transition by 2022 for applicable audits. Enhanced scaling capability will be delivered for our least complex national audits with global transition being completed by 2023.

The KPMG Clara workflow guides audit teams through a series of steps in a logical sequence aligned to the applicable auditing standards with a clear display of information, visuals, and guidance available, and with embedded advanced digital audit and project management capabilities. The workflow and revised audit methodology are scalable – adjusting the requirements to the size and complexity of the audit engagement. KPMG Clara workflow significantly enhances the execution of an audit by KPMG professionals and clearly drives audit quality and global consistency.

Through the use of data mining and tracking of relevant engagement level data indicators, the KPMG Clara workflow will also facilitate monitoring of audit execution at the engagement level.

We continue to enhance the KPMG Clara smart audit platform to accommodate accelerating security demands, integrate existing client-facing audit applications into a single platform, and develop new capabilities to digitize additional audit processes.

Once the KPMG Clara workflow has been fully deployed our predecessor audit workflow tool, eAudit, will be retired.

Both KPMG Clara and NASAA Web are significant investments that underline our commitment to audit quality, consistency and innovation.

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

The importance of maintaining client confidentiality is emphasized through a variety of mechanisms including the KPMG Global and KPMG ehf. Code of Conduct. All KPMG professionals are required to confirm their compliance with the Code and take regular training.

We have policies on information security, confidentiality, personal information and data privacy. We have a document retention policy concerning the retention period for audit documentation and other records relevant to an engagement in accordance with the relevant IESBA requirements as well as other applicable laws, regulations, and professional standards.

We provide training on confidentiality, information protection and data privacy requirements to all KPMG ehf. personnel annually.

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# Nurturing diverse skilled teams

Our people make the real difference and are instrumental in shaping the future of audit. We put quality and integrity at the core of our audit practice. Our auditors have diverse skills and capabilities to address complex problems.

## Recruiting appropriately qualified and skilled people, including specialists, with diversity of perspective and experience



One of the key drivers of quality is ensuring that KPMG professionals have the appropriate skills and experience, passion and purpose, to deliver high quality audits. This requires the right recruitment, development, reward, promotion, retention and assignment of professionals.

### Recruitment

KPMG ehf. is committed to building an extraordinary people experience for all current and prospective partners and employees.

Our recruitment strategy is focused on drawing entry-level talent from a broad talent base, including working with established universities, colleges and business schools. KPMG ehf. also recruits significant numbers of experienced staff and some lateral partner hires on a yearly basis.

All candidates submit an application and are assessed using a variety of selection methods, which may include application screening, competency-based interviews, psychometric and ability testing, and qualification/reference checks. These methods leverage fair and job-related criteria to ensure that candidates possess the appropriate skills and experience to perform competently, and help us gather data points to determine which candidates are the best fit for the roles.

KPMG ehf. hired 19 new graduates in the year ended 30 September 2021 (2020: 13). Where individuals are recruited for senior grades, a formal background check is performed. KPMG ehf. does not accept any confidential information belonging to the candidate's former firm/ employer.

## Inclusion, Diversity & Equity programs

KPMG ehf. is committed to building a diverse and equitable firm that is inclusive to all. To succeed with this, we constantly educate all our staff in different ways.

Inclusion, diversity and equity (IDE) is core to our very existence – helping us build great teams with diverse views that represent the world we live in. It leads to better decision making, drives greater creativity and innovation, and encourages us to stand up, live our values, and do what is right.

We recognize our firms' global position working with clients around the world affords us a privileged place and that we are not perfect. With that comes an opportunity and responsibility to achieve more and push for a fairer, more equitable society.

Our co-created KPMG Global Inclusion, Diversity & Equity Collective Action Plan outlines the actions that are necessary to advance inclusion, diversity and equity at KPMG ehf. and across all KPMG firms.

For more about Inclusion & Diversity at KPMG read [here](#).

### Reward and promotion

#### Reward

KPMG ehf. has compensation and promotion policies that are informed by market data, clear, simple, fair and linked to the performance review process. This helps our partners and employees understand what is expected of them, and what they can expect to receive in return. The connection between performance and reward is achieved by assessing relative performance across a peer group to inform reward decisions.

Reward decisions are based on consideration of both individual and firm performance as well as market collective salary agreement.

The extent to which our people feel their performance has been reflected in their reward is measured through the Global People Survey, with action plans developed as required.



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### Promotion

The results of performance evaluations directly affect the promotion and remuneration of partners and employees.

### Partner admissions

The KPMG ehf. process for admission to partnership is rigorous and thorough, involving appropriate members of leadership. Our criteria for admission to the partnership are consistent with our commitment to our values, and being an employer of choice.

## Assigning an appropriately qualified team



KPMG ehf. has procedures in place to assign both engagement partners and other professionals to a specific engagement on the basis of their skill sets, relevant professional and industry experience, and the nature of the assignment or engagement. Function heads are responsible for the partner assignment process. Key considerations include partner experience and capacity – based on an annual partner portfolio review – to perform the engagement taking into account the size, complexity and risk profile of the engagement and the type of support to be provided (i.e. the engagement team composition and specialist involvement).

Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies, training and capabilities, including time, to perform audit engagements in accordance with our audit methodology, professional standards, and applicable legal and regulatory requirements. This may include involving specialists from our own firm, other KPMG member firms or external experts.

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

- an understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation
- an understanding of professional standards and legal and regulatory requirements
- appropriate technical skills, including those related to relevant information technology and specialized areas of accounting or auditing
- knowledge of relevant industries in which the client operates
- ability to apply professional judgment
- an understanding of KPMG ehf.'s quality control policies and procedures
- Quality Performance Review (QPR) results and results of regulatory inspections.

## Investing in data-centric skills, including data mining, analysis and visualization



KPMG ehf. is strategically investing in our talent pipeline by partnering with world-class institutions to sustain our strong leadership, while also looking forward to cultivating the skills and capabilities that will be needed in the future. We are recruiting and training professionals who specialize in software, cloud capabilities and artificial intelligence and who can bring industry best practices to our smart audit platform. We provide our professionals with training on a wide range of technologies to ensure that our field professionals not only meet the highest professional standards but are also upskilled in new technology. With this approach we are bringing together the right people with the right skills and the right technology to perform exceptional audits.

## Focused learning and development on technical expertise, professional acumen and leadership skills



### Commitment to technical excellence and quality service delivery

All KPMG ehf. professionals are provided with the technical training and support they need to perform their roles. This includes access to internal specialists and the professional practice department for consultation. Where the right resource is not available within KPMG ehf., the firm accesses a network of highly skilled KPMG professionals in other KPMG firms.

At the same time, audit policies require all KPMG audit professionals to have the appropriate knowledge and experience for their assigned engagements.

### Lifetime learning strategy

#### Formal training

Annual training priorities for development and delivery are identified by the Audit Learning and Development steering groups at global, regional and, where applicable at a local level.

Mandatory learning requirements for audit professionals across the KPMG organization are established annually. Training is delivered using a blend of learning approaches and performance support. All mandatory audit training curriculum training is provided by our regional KPMG Nordic L&D Centre of Excellence in Riga.

#### Mentoring and on the job training

Learning is not confined to a single approach – rich learning experiences are available when needed through coaching and just-in-time learning, available at the click of a mouse and aligned with job specific role profiles and learning paths.



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Mentoring and on-the-job experience play key roles in developing the personal qualities important for a successful career in auditing, including professional judgment, technical excellence and instinct.

We support a coaching culture throughout KPMG as part of enabling KPMG professionals to achieve their full potential and instil that every team member is responsible for building the capacity of the team, coaching other team members and sharing experiences.

In relation to audit, KPMG ehf.:

- deploys a variety of learning solutions that are designed to reinforce the KPMG values and ensure our professionals get the fundamentals right, and develop the necessary skills and attitudes to make judgments, and apply professional skepticism that enhance audit quality and the value of audit
- provides instructor-led and virtual classroom training, performance support tools, coaching guides and just-in-time learning. Guidance is available on judgmental audit topics – this is used by audit teams and this guidance is embedded across audit learning solutions
- has also developed professional judgment tools, designed to reinforce the importance of independence and objectivity, and to assist engagement teams in demonstrating professional skepticism
- provides courses to enhance personal effectiveness and develop leadership and business skills. Our partners and employees are developed further for high performance through coaching and mentoring on the job, stretch assignments and country rotational and global mobility opportunities.

### Licensing and mandatory requirements for IFRS Standards and U.S. GAAP engagements

#### Licensing

All KPMG ehf. professionals are required to comply with applicable professional license rules and satisfy the Continuing Professional Development requirements stipulated by the Icelandic Act on Auditors and Auditing. KPMG International and KPMG ehf. policies and procedures are designed to facilitate compliance with license requirements. We are responsible for ensuring that audit professionals working on engagements have appropriate audit, accounting and industry knowledge, and experience in the local predominant financial reporting framework – IFRS.

#### Mandatory requirements – IFRS and U.S. GAAP engagements

In addition, KPMG has specific requirements for partners, managers and Engagement Quality Control (EQC) reviewers working on IFRS engagements in countries where IFRS is not the predominant financial reporting framework.

Similar policies apply to engagements performed outside the U.S. to report on financial statements or financial information prepared in accordance with U.S. GAAP and/or audited in accordance with U.S. auditing standards, including reporting on the effectiveness of the entity’s internal control over financial reporting (ICOFR). These require that at a minimum, all partners, managers and, if appointed, the EQC reviewers (and for engagements conducted in accordance with US GAAP and/or US auditing standards engagements, the engagement partner, engagement manager, engagement in-charge and, if appointed the EQCR reviewers) assigned to the engagement have completed relevant training and that the engagement team, collectively, has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

### Recognizing quality



#### Personal development

KPMG ehf.’s approach to performance development, ‘Open Performance Development’, is built around the Everyone a Leader performance principles, and includes:

- global role profiles (including role profiles specific to audit quality accountabilities and responsibilities);
- a goal library (including audit quality content); and
- standardized review forms (with provision for audit quality ratings).

Open Performance Development is linked to the KPMG values and designed to articulate what is required for success – both individually and collectively. We know that by being clear and consistent about the behaviours we expect and rewarding those who demonstrate them, we will continue to drive a relentless focus on audit quality. At the same time, KPMG is driving a shift in our performance-driven culture, supported by and enacted through leading technology that allows us to embed audit quality into the assessment of performance and the decisions around reward as well as drive consistency across the global organization.

KPMG ehf. monitors quality and compliance incidents and maintains quality and compliance metrics in assessing the overall evaluation, promotion and remuneration of partners, directors and managers. These evaluations are conducted by performance managers and partners who are in a position to assess performance.



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# Associating with the right clients and engagements

Rigorous global client and engagement acceptance and continuance policies are vital to being able to provide high-quality professional services.

## Following the client and engagement acceptance and continuance policies



KPMG's client and engagement acceptance and continuance policies and processes are designed to identify and evaluate any potential risks prior to accepting or continuing a client relationship or performing a specific engagement.

KPMG firms are required to evaluate whether to accept or continue a client relationship or perform a specific engagement. Where client/engagement acceptance (or continuance) decisions pose significant risks, additional approvals are required.

## Accepting appropriate clients and engagements



### Client evaluation

KPMG ehf. undertakes an evaluation of every prospective client.

This involves obtaining sufficient information about the prospective client, its key management and significant beneficial owners and then properly analyzing the information to be able to make an informed acceptance decision. This evaluation includes an assessment of the client's risk profile and obtaining background information on the client, its key management, directors and owners. If necessary, we obtain additional information required to satisfy our local legal and regulatory requirements.

### Engagement evaluation

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors are considered as part of this evaluation, including potential independence and conflict of interest issues (using SentinelTM, KPMG's conflicts and independence checking system), intended purpose and use of engagement deliverables, public perception, whether the services would be unethical or inconsistent with our values, as well as factors specific to the type of engagement. For audit services, these include the competence of the client's

financial management team and the skills and experience of partners and employees assigned to staff the engagement. The evaluation is made in consultation with other senior KPMG ehf. personnel and includes review by quality and risk management leadership as required.

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

Similar independence evaluations are performed when an existing audit client becomes a public interest entity or additional independence restrictions apply following a change in the circumstances of the client.

Depending on the overall risk assessment of the prospective client and engagement, additional safeguards may be introduced to help mitigate the identified risks. Any potential independence or conflict of interest issues are required to be documented and resolved prior to acceptance.

A prospective client or engagement will be declined if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional standards and our policies, or if there are other quality and risk issues that cannot be appropriately mitigated.

### Continuance process

KPMG ehf. undertakes an annual re-evaluation of all its audit clients. The re-evaluation identifies any issues in relation to continuing association and any mitigating procedures that need to be put in place. This may include the assignment of additional professionals such as an Engagement Quality Control (EQC) reviewer or the need to involve additional specialists on the audit.

Recurring or long running non-audit engagements are also subject to periodic re-evaluation.



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In addition, clients and engagements are required to be re-evaluated if there is an indication that there may be a change to the risk profile, and as part of the continuous independence evaluation process, engagement teams are required to identify if there have been any changes to previously identified threats or if there are new threats to independence. The threats are then evaluated and, if not at an acceptable level, are eliminated or appropriate safeguards are applied to reduce the threats to an acceptable level.

### Withdrawal process

Where KPMG ehf. comes to a preliminary conclusion that indicates that we should withdraw from an engagement or client relationship, we consult internally and identify any required legal, professional and regulatory responsibilities. We also communicate as necessary with those charged with governance and any other appropriate authority.

### Managed portfolio of clients

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

We review each audit partner's client portfolio in individual discussions with the audit partner. The reviews consider the industry, nature and risk of the client portfolio as a whole along with the competence, capabilities and capacity of the partner to deliver a quality audit for every client.



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# Being independent and ethical

Auditor independence is a cornerstone of international professional standards and regulatory requirements.

## Acting with integrity and living our values



KPMG International has detailed independence policies and procedures, incorporating the requirements of the IESBA Code of Ethics. These are set out in KPMG's GQRMM, which applies to all KPMG firms. Automated tools, which are required to be used for every prospective engagement to identify potential independence and conflict of interest issues, facilitate compliance with these requirements.

These policies are supplemented by other policies and processes to ensure compliance with the Icelandic Act on Auditors and Auditing, and the EU Audit Regulation or the SEC independence rules (as relevant).

These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, employment relationships, partner rotation and approval of audit and non-audit services.

The Partner-in-Charge of the Global Independence Group is supported by a core team of specialists to help ensure that robust and consistent independence policies and procedures are in place at KPMG firms, and that tools are available to help the firms and their personnel to comply with these requirements.

KPMG ehf. has a designated Ethics and Independence Partner (EIP) who has primary responsibility for the direction and execution of ethics and independence policies and procedures in KPMG ehf. The EIP is responsible for communicating and implementing KPMG International policies and procedures and ensuring that local independence policies and procedures are established and effectively implemented when they are more stringent than the KPMG International requirements. The EIP fulfils this responsibility through:

- implementing/monitoring the ethics and independence quality control process and structure within the firm;
- approving/appointing partners responsible for ethics and independence within the firm;
- overseeing the processes related to the evaluation of specific independence threats in connection with clients and prospective clients;
- participating in the development and delivery of training materials;
- implementing procedures to address non-compliance; and
- overseeing the disciplinary process for ethics and independence matters.

Amendments to KPMG International's ethics and independence policies are included in regular quality and risk communications with all KPMG firms. KPMG firms are required to implement changes as specified in the



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communications, and this is checked through the internal monitoring programs described in section Internal monitoring and compliance programs.

KPMG ehf. partners and employees are required to consult with the EIP on certain matters as defined in the GQRMM. The EIP may also be required to consult with the Global Independence Group, depending upon the facts and circumstances.

## Maintaining an objective, independent and ethical mindset, in line with our code of conduct and policies



### Personal financial independence

KPMG International policies require that KPMG firms and KPMG professionals are free from prohibited financial interests in, and prohibited financial relationships with, KPMG firm assurance and audit clients (by definition, 'audit client' includes its related entities or affiliates), their management, directors, and, where required, significant owners. All KPMG partners – irrespective of their firm or function – are generally prohibited from owning securities of any audit client of any KPMG firm.

KPMG firms use a web-based independence compliance system (KICS) to assist KPMG professionals in complying with personal independence investment policies.

This system contains an inventory of publicly available investments and provides a tracking mechanism for required users to report acquisitions and disposals of their financial interests. The system facilitates monitoring by identifying and reporting impermissible investments and other non-compliant activity (i.e., late reporting of an investment acquisition).

All partners and all manager grade and above are required to use KICS system prior to entering an investment to identify whether they are permitted to do so. They are also required to maintain a record of all of their investments in publicly traded entities in KICS, which automatically notifies them if any investment subsequently becomes restricted.

Newly restricted investments are required to be disposed of within five business days of the notification. KPMG monitors partner and manager compliance with this requirement as part of our program of independence compliance audits of professionals. The Global Independence Group provides guidance and required procedures relating to the audit and inspection by KPMG firms of personal compliance with KPMG's independence policies. This includes sample criteria including the minimum number of professionals to be audited annually.

## Employment relationships

Any KPMG ehf. professional providing services to an audit client irrespective of function is required to notify the firm EIP if they intend to enter into employment negotiations with that audit client. For partners, this requirement extends to any audit client of any KPMG firm that is a public interest entity.

Former members of the audit team or former partners of KPMG ehf. are prohibited from joining an audit client in certain roles unless they have disengaged from all significant connections to KPMG ehf., including payments which are not fixed and predetermined and/or would be material to KPMG ehf. and ceased participating in KPMG ehf. business and professional activities.

Key audit partners and members of the chain of command for an audit client that is a public interest entity are subject to time restrictions (referred to as 'cooling-off' periods) that preclude them from joining that client in certain roles until a defined period of time has passed.

An assurance team member is also required to notify the EIP when they enter into employment negotiations with the assurance client during the course of the engagement. Former assurance team members or former partners of KPMG ehf. who join an assurance client in certain roles cannot continue to participate in KPMG ehf.'s business or professional activities.

We communicate and monitor requirements in relation to employment and partnership of KPMG ehf. professionals by audit and assurance clients.



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## Firm financial independence

KPMG firms are required to also be free from prohibited interests in, and prohibited relationships with, audit clients, their management, directors and, where required, significant owners.

In common with other KPMG firms, KPMG ehf. uses KICS to record its own direct and material indirect investments in listed entities and funds (or similar investment vehicles) as well as in non-listed entities or funds. This includes investments held in associated pension and employee benefit plans.

Additionally, KPMG ehf. is required to record in KICS all borrowing and capital financing relationships, as well as custodial, trust and brokerage accounts that hold member firm assets.

On an annual basis, KPMG ehf. confirms compliance with independence requirements as part of the Risk Compliance Program.

## Business relationships/suppliers

KPMG ehf. has policies and procedures in place that are designed to ensure its business relationships with audit and assurance clients are maintained in accordance with the IESBA Code of Ethics and other applicable independence requirements, such as those promulgated by the SEC.

These include establishing and maintaining a process to evaluate potential third-party arrangements (for example business alliances and joint working arrangements, procurement relationships and marketing and public affairs activities) with particular regard to whether they have bearing on auditor independence.

## Business acquisitions, admissions and investments

If KPMG ehf. is in the process of considering the acquisition of, or investment in, a business, it is required to perform sufficient due diligence procedures on the prospective target to identify and address any potential independence and risk management issues prior to closing the transaction. Specific consultations with the Global Independence Group and Global Quality & Risk Management are required to enable independence and other issues to be addressed when integrating the business into KPMG ehf. and the wider global organization.

## Independence clearance process

In addition to the standard acceptance evaluation performed for every engagement, which includes an evaluation of independence, KPMG ehf. follows specific procedures to identify and evaluate threats to independence related to prospective audit clients that are public interest entities; these procedures, also referred to as 'the independence clearance process, are required to be completed prior to accepting an audit engagement for these entities.

The 'KPMG Independence Checkpoint' tool is used to automate and standardize all the workflows that comprise the independence clearance process. The tool was developed in anticipation of the increasing number of audit tenders and independence clearances that need to be completed as a result of mandatory firm rotation of statutory audits.

## Independence training and confirmations

All KPMG ehf. partners and client facing professionals as well as certain other individuals, are required to complete independence training that is appropriate to their grade and function upon joining KPMG ehf. and on an annual basis thereafter.

New partners and client facing employees who are required to complete this training are required to do so by the earlier of (a) thirty days after joining KPMG ehf. or (b) before providing any services to, or becoming a member of the chain of command for, any audit client.

We also provide all partners and employees with annual training on:

- the Global Code of Conduct ; and
- bribery and compliance with laws, regulations, and professional standards.

New partners and employees are required to complete this training within three months of joining KPMG ehf.

All KPMG partners and employees are required to sign, upon joining KPMG ehf. – and thereafter, an annual confirmation stating that they have remained in compliance with applicable ethics and independence policies throughout the year.

## Non-audit services

All KPMG firms are required, at a minimum, to comply with the IESBA Code of Ethics and applicable laws and regulations related to the scope of services that can be provided to audit clients.

In addition to identifying potential conflicts of interest, Sentinel™ facilitates compliance with independence requirements. Certain information on all prospective engagements, including detailed service descriptions, deliverables and estimated fees are required to be entered into Sentinel™ as part of the engagement acceptance process. When the engagement is for an audit client, an evaluation of potential independence threats and safeguards is also required to be included in the Sentinel™ submission.

Lead audit engagement partners (LAEPs) are required to maintain group structures for their publicly traded and certain other audit clients including their related entities or affiliates in Sentinel™. They are also responsible for identifying and evaluating any independence threats that may arise from the provision of a proposed non-audit service and the safeguards available to address those threats. For entities for which group structures are maintained, Sentinel enables

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LAEPs to review and request revision, approve, or deny, any proposed service for those entities worldwide. For approved proposed services, Sentinel designates a timeframe during which the approval remains valid. Upon expiration of the established timeframe, the services are required to be complete or be re-evaluated for permissibility; otherwise, the services are required to be exited.

KPMG ehf. is required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG ehf. KPMG ehf.'s EIP is involved in the review of potential independence issues related to these new or modified services.

KPMG global independence policies prohibit member firm audit partners from being evaluated on, or compensated based on, their success in selling non-assurance services to their audit clients.

### Fee dependency

KPMG International's policies recognize that self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the KPMG firm expressing the audit opinion. These policies require firms to consult with their Area Quality & Risk Management Leader where it is expected that total fees from an audit client will exceed 10 percent of the annual fee income of the member firm for two consecutive years.

In addition, if the total fees from a public interest entity audit client and its related entities were to represent more than 10 percent of the total fees received by a particular member firm for two consecutive years, these policies further require that:

- This be disclosed to those charged with governance at the audit client; and
- A partner from another KPMG member firm be appointed as the engagement quality control (EQC) reviewer.

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

### Resolving conflicts of interest

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

KPMG International policies are also in place to prohibit KPMG personnel from offering or accepting inducements,

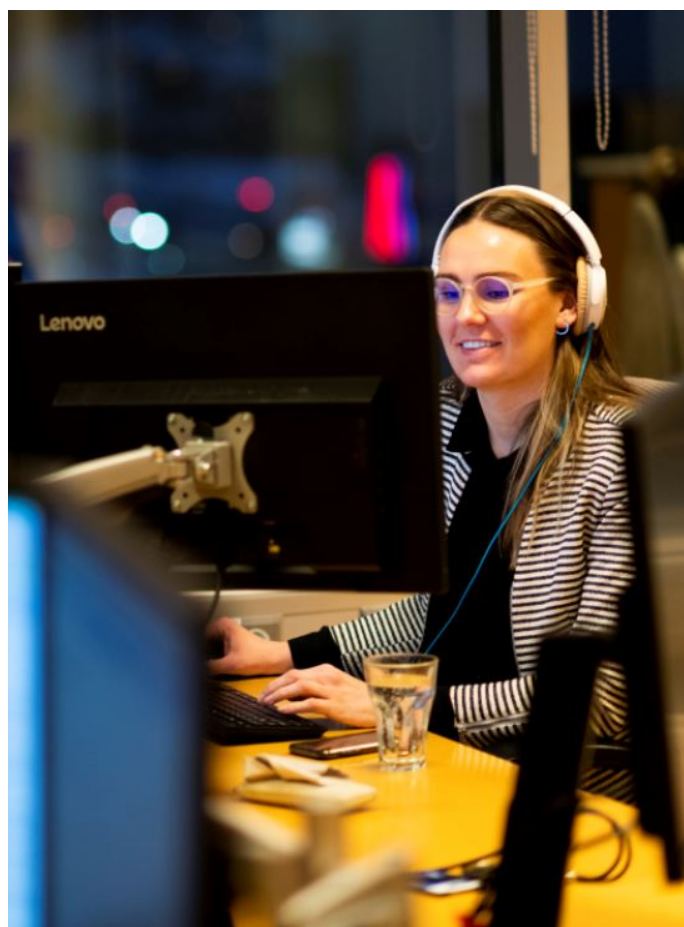
including gifts and hospitality to or from audit clients, unless the value is trivial and inconsequential, is not prohibited by relevant law or regulation and is not deemed to be have been offered with the intent to improperly influence the behaviour of the recipient or which would cast doubt on the individual's or the member firm's integrity, independence, objectivity or judgment.

All KPMG firms and personnel are responsible for identifying and managing conflicts of interest, which are circumstances or situations that have, or may be perceived to have an impact on a firm's and/ or its partners' or employees' ability to be objective or otherwise act without bias.

All KPMG firms are required to use Sentinel™ for potential conflict identification so that these can be addressed in accordance with legal and professional requirements.

KPMG ehf. has risk management resources who are responsible for reviewing any identified potential conflict and working with the affected member firms to resolve the conflict, the outcome of which is required to be documented.

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



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## Independence breaches

All KPMG ehf. personnel are required to report an independence breach as soon as they become aware of it to the EIP. In the event of failure to comply with our independence policies, whether identified in the compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy. All breaches of independence requirements of the IESBA Code or other external independence requirements are required to be reported to those charged with governance as soon as possible except where alternative timing for less significant breaches has been agreed to with those charged with governance.

KPMG ehf. has a documented and communicated disciplinary policy in relation to breaches of independence policies, incorporating incremental sanctions reflecting the seriousness of any violations. KPMG ehf.'s Disciplinary Committee oversees policies and procedures in relation to ethical matters and breaches of requirements.

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

## Partner and firm rotation

### Partner rotation

KPMG International partner rotation policies are consistent with the requirements of the IESBA Code of Ethics and require all member firms to comply with any stricter local applicable rotation requirements.

KPMG ehf. partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG International policy. These requirements place limits on the number of consecutive years that partners in certain roles may provide audit services to a client, followed by a 'time-out' period during which time these partners may not:

- participate in the audit;
- provide quality control for the audit;
- consult with the engagement team or the client regarding technical or industry-specific issues;
- in any way influence the outcome of the audit;
- lead or coordinate professional services at the client;
- oversee the relationship of the firm with the audit client; or
- have any other significant or frequent interaction with senior management or those charged with governance at the client.

KPMG ehf. monitors the rotation of audit engagement leaders (such as the engagement partner, the engagement quality control reviewer and any other key audit partner

role, where there is a rotation requirement) and develops transition plans to enable allocation of partners with the necessary competence and capability to deliver a consistent quality of service to clients.

### Firm rotation

KPMG ehf. is permitted to act as an auditor for Public Interest Entities ("PIE") as defined in the EU Audit Regulation.

This means that the firm is subject to firm rotation rules stipulating a maximum number of years as the statutory auditor and not to act as auditor for such clients for a specified period thereafter (referred to as the 'cooling off period'). KPMG ehf. has processes in place to track and manage compliance with audit firm rotation requirements.

## Zero-tolerance approach to bribery and corruption



Compliance with laws, regulations and standards is a key aspect for everyone at KPMG ehf. In particular, we have zero tolerance of bribery and corruption.

We prohibit involvement in any type of bribery – even if such conduct is legal or permitted under applicable law or local practice. We also do not tolerate bribery by third parties, including by our clients, suppliers or public officials. Further information on KPMG International anti-bribery and corruption policies can be found on the [anti-bribery and corruption site](#).

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# Assessing risks to quality



At a global level, through the Global Audit Quality Council and the GQ&RM Steering Group, KPMG International reviews the results of the quality monitoring programs, reviews firm root causes and planned remedial actions and develops additional global remediation actions as required.

Global remediation actions developed by KPMG International are aimed at changing culture and behavior across the global organization and at driving consistent engagement team performance within KPMG firms. The remediation actions have been implemented through the development of global training, tools and guidance to drive consistency, ensure the fundamentals are right and that best practice is shared across the global organization.



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# Communicating effectively

We recognize that another important contributor to upholding audit quality is to obtain and act upon feedback from key stakeholders.



## Conduct and follow-up on the Global People Survey (GPS)

Annually KPMG ehf. invites all its people to participate in an independent Global People Survey to share their perception about their experience of working for KPMG. The GPS provides an overall measure of our people's engagement through an Engagement Index as well as insights into areas driving engagement which may be strengths or opportunities. Results can be analyzed by functional or geographic area, grade, role, gender to provide additional focus for action. Additional insight is provided on how we are faring on categories known to impact employee engagement. We also cover areas of focus which are directly relevant to audit quality; the survey includes specific audit quality related questions that all individuals who participated in audit respond to, giving us a particular data set for audit quality related matters.

The survey also specifically provides KPMG ehf. leadership and KPMG International leadership with results related to quality and risk behaviors, audit quality, upholding the KPMG values, employee and partner attitudes to quality, leadership and tone at the top.

KPMG ehf. participates in the GPS, monitors results and takes appropriate actions to communicate and respond to the findings of the survey. The results of the GPS are also aggregated for the entire global organization and are presented to the Global Board each year and appropriate follow-up actions agreed. Audit specific analysis of GPS results is also undertaken, with a particular focus on audit quality. Results and key themes are presented to the Global Audit Steering Group on an annual basis, with action plans subsequently developed.

## Provide insights, and maintain open and honest two-way communication



Two-way communication with those charged with governance, often identified as the Audit Committee, is key to audit quality and is a key aspect of reporting and service delivery.

At KPMG ehf. we stress the importance of keeping those charged with governance informed of issues arising throughout the audit. We achieve this through a combination of reports and presentations, attendance at Audit Committee or board meetings, and, when appropriate, ongoing informal discussions with management and members of the Audit Committee.

### *IFRS Institute*

KPMG's Global IFRS Institute provides information and resources to help audit professionals and Audit Committee members, executives, management, stakeholders and government representatives gain insight and access thought leadership about the evolving global financial reporting framework.



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# Performing quality engagements

On all KPMG audits, the nature and extent of the audit evidence we gather is responsive to the assessed risks. We consider all audit evidence obtained during the course of the audit including contradictory or inconsistent audit evidence. Each team member is required to exercise professional judgment and maintain professional skepticism throughout the audit engagements. Professional skepticism involves a questioning mind and alertness to contradictory or inconsistencies in the audit evidence. Professional judgment encompasses the need to be aware of and alert to biases that may pose threats to good judgments.

## Consulting where necessary



### Encouraging a culture of consultation

KPMG encourages a strong culture of consultation that supports engagement teams at KPMG firms throughout their decision-making processes and is a fundamental contributor to audit quality. KPMG ehf. promotes a culture in which consultation is recognized as a strength and that encourages all KPMG professionals to consult on difficult or contentious matters.

To help with this, firms are required to have established protocols for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. In addition, the GORMM includes mandatory consultation requirements on certain matters.

### Technical consultation and global resources

Technical auditing and accounting support is available to member firms through the Global Audit Methodology Group (GAMG), the KPMG Global Solutions Group (KGSG), the ISG and the PCAOB Standards Group (PSG).

#### *Global Audit Methodology Group (GAMG)*

KPMG's audit methodology is developed and maintained by GAMG. The GAMG develops our audit methodology based on the requirements of the applicable auditing standards – International Standards on Auditing, PCAOB and AICPA.

#### *KPMG Global Solutions Group (KGSG)*

The KGSG is responsible for the envisioning, development and deployment of global audit solutions, including new technology and automation innovations.

The KGSG and GAMG work collaboratively to support member firms through collaboration, innovation and technology. We have made significant investment in our audit methodology and tools with the core focus of improving audit quality, global consistency and standardization.

With locations in each of the three KPMG regions (Americas, EMA and ASPAC), the KGSG and GAMG teams comprise professionals with backgrounds in audit, IT, data science, mathematics, statistics, and more from around the world, who bring diverse experiences and innovative ways of thinking to further evolve KPMG's audit capabilities.

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

The ISG works with Global IFRS topic teams, geographic representation from around the world, and the IFRS Panel and ISA Panel to promote consistency of interpretation of IFRS and auditing requirements between member firms, identify emerging issues and develop global guidance on a timely basis.

#### *PCAOB Standards Group (PSG)*

The PSG comprises a dedicated group of professionals with background in PCAOB auditing standards who promote consistency of interpretation of PCAOB auditing standards applied globally in KPMG firms' audits of non-US components and foreign private issuers and non-US components of SEC issuers, as defined by SEC regulations. The PSG also provides input into the development of training for auditors who work on PCAOB audit engagements and, where practicable, facilitates delivery of such training.



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*Member firm professional practice resource*

Member firms provide consultation support on auditing and technical accounting matters to their audit professionals through professional practice resources (referred to as Department of Professional Practice or DPP). Across KPMG ehf., the role of DPP is crucial in terms of the support that it provides to our audit professionals. It provides technical guidance to client service professionals on specific engagement related matters, develops and disseminates specific topic related guidance on emerging local technical and professional issues and disseminates international guidance on IFRS and ISAs.

DPP also assists engagement teams where there are differences of opinion either within teams or with the EQC reviewer. Consultation with a team member at a higher level of responsibility than either of the differing parties usually resolves differences. In other circumstances, the matter may be elevated through the chain of responsibility for resolution by technical specialists. In exceptional circumstances, a matter may be referred to the Head of Quality and Risk, Head of Audit or ultimately the Senior Partner.

Unresolved differences are required to follow a prescribed escalation protocol for final resolution. KPMG’s International Standards Group and PCAOB Standards Group are also available for consultation support when required.

**Critically assessing audit evidence, using professional judgment and scepticism**



How an audit is conducted is as important as the final result. KPMG ehf.’s partners and employees are expected to demonstrate certain key behaviors and follow certain policies and procedures in the performance of effective and efficient audits.

**Direct, coach, supervise and review**

**Embedding ongoing mentoring, supervision and review**



To invest in the building of skills and capabilities of KPMG professionals, KPMG ehf. promotes a continuous learning environment and supports a coaching culture.

Ongoing mentoring, coaching and supervision during an audit involves:

- engagement partner participation in planning discussions
- tracking the progress of the audit engagement
- considering the competence and capabilities of the individual members of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement



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- helping engagement team members address any significant matters that arise during the audit and modifying the planned approach appropriately
- identifying matters for consultation with more experienced team members during the engagement.

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

### Engagement quality control (EQC) reviewers

The EQC review is an important part of KPMG’s framework for quality. An EQC reviewer is required to be appointed for audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with a high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements as designated by the Risk Management Partner.

An EQC review provides reasonable assurance that the team has appropriately identified significant risks, including fraud risks, and has designed and executed audit procedures to address them.

EQC reviewers are required to meet training and experience criteria to perform a quality control review for a particular engagement. Reviewers are independent of the engagement team and audit client and have the appropriate experience and knowledge to perform an objective review of the more critical decisions and judgments made by the engagement team and the appropriateness of the financial statements.

The audit is completed only when the EQC reviewer is satisfied that all significant questions raised have been resolved, though the engagement partner is ultimately responsible for the resolution of accounting and auditing matters.

KPMG is continually seeking to strengthen and improve the role that the EQC review plays in member firm audits and have taken a number of actions to reinforce this, including issuing leading practice guidance, incorporating specific review requirements into our audit workflow, and developing policies relating to recognition, nomination and development of EQC reviewers.

## Appropriately support and document conclusions



### Reporting

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

In preparing auditors’ reports, engagement partners have access to extensive reporting guidance and technical support through consultations with our DPP, especially where there are significant matters to be reported to users of the auditors’ report (e.g. a modification to the opinion or through the inclusion of an ‘emphasis of matter’ or ‘other matter’ paragraph, as well as key audit matters to be communicated).

### Engagement documentation

KPMG ehf.’s audit documentation is completed and assembled according to the timeline established by the KPMG International policy and auditing standards and we have implemented administrative, technical and physical safeguards to protect the confidentiality and integrity of client and firm information.



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# Monitoring and remediation

Integrated quality monitoring and compliance programs enable KPMG firms to identify quality deficiencies, to perform root cause analysis and develop, implement and report remedial action plans, both in respect of individual audit engagements and the overall system of quality control.

## Rigorously monitor and measure quality at the local and global level



### Commitment to continuous improvement

KPMG commits to continually improve the quality, consistency and efficiency of KPMG ehf. audits.

The quality monitoring and compliance programs (see section Internal monitoring and compliance programs) are globally administered and consistent in their approach across all member firms, including the nature and extent of testing and reporting. KPMG ehf. compares the results of its internal monitoring programs with the results of those of any external inspection programs and take appropriate action.

### Internal monitoring and compliance programs

KPMG ehf. monitoring programs evaluate both:

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

Our internal monitoring programs also contribute to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively. These include Quality Performance Reviews (QPR) and Risk Compliance Programs (RCP), which are conducted annually across the Audit & Assurance, Tax & Legal and Advisory functions.

The results and lessons from the integrated monitoring programs are communicated internally and appropriate action is taken at local, regional and global levels.

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

The QPR program assesses engagement level performance and identifies opportunities to improve engagement quality.

#### *Risk-based approach*

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

KPMG ehf. conducts the annual QPR program in accordance with KPMG International QPR instructions. The reviews are performed at KPMG ehf. level and are monitored regionally and globally. Firm Audit QPR reviews are overseen by a senior experienced lead reviewer independent from the firm.

#### *Reviewer selection, preparation and process*

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

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

#### *Evaluations from Audit QPR*

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

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

#### *Reporting*

Findings from the QPR program are disseminated to firm professionals through written communications, internal training tools, and periodic partner, manager and staff meetings.

These areas are also emphasized in subsequent inspection programs to gauge the extent of continuous improvement.

Lead audit engagement partners are notified of unsatisfactory ratings on their respective cross-border engagements. Additionally, lead audit engagement partners of parent companies/head offices are notified where a subsidiary/affiliate of their client group is audited by a member firm where significant quality issues have been identified during the QPR.



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*Global Quality & Compliance Review (GQ&CR) program*  
 Each KPMG firm is subject to a GQ&CR conducted by KPMG International’s GQ&CR team, independent of the member firm, at various intervals based on identified risk criteria.

The GQ&CR team performing the reviews is independent of the firm and is objective and knowledgeable of GQ&RM policies. GQ&CRs assess compliance with selected KPMG International policies and procedures and share best practices among member firms. The GQ&CR provides an independent assessment of:

- a firm’s commitment to quality and risk management (tone at the top) and the extent to which its overall structure, governance and financing support and reinforce this commitment
- a firm’s compliance with KPMG International policies and procedures; and
- the robustness with which the member firm performs its own compliance program (RCP).

KPMG ehf. develops action plans to respond to all GQ&CR findings that indicate improvement is required and agree these with the GQ&CR team. Our progress on action plans is monitored by the GQ&CR central team. Results are reported to the GQ&RM Steering Group and where necessary, to appropriate KPMG International and regional leadership.

### Area Quality & Risk Management Leaders

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders (ARLs) who serve a regular and ongoing monitoring function to assess the effectiveness of a member firm’s efforts and processes to identify, manage and report significant risks that have the potential to damage the KPMG brand. Significant activities of the ARL, including member firm issues identified and related member firm response/remediation, are reported to GQ&RM leadership.

### Obtain, evaluate and act on stakeholder feedback

#### ☆☆☆ Regulators

As a registered audit firm KPMG ehf. is subject to supervision through external regulatory review processes performed by various regulators. In Iceland the Auditors’ Oversight Board performs independent inspections in accordance with the Icelandic Act on Auditors and Auditing with regards to individual auditors as well as registered audit firms.

Each of the GAQMG reviewers attends the Global QPR training delivered for their respective member firm. The GAQMG team is responsible for performing selected QP reviews of LRE audit engagements.

#### Risk Compliance Program (RCP)

KPMG International develops and maintains quality control policies and processes that apply to all KPMG firms. These policies and processes, and their related procedures, include the requirements of ISQC 1. During the annual RCP, we perform a robust assessment program consisting of documentation of quality controls and procedures, related compliance testing and reporting of exceptions, action plans and conclusions.

The objectives of the RCP are to:

- document, assess and monitor the extent of compliance of KPMG ehf.’s system of quality control with Global Quality & Risk Management (GQ&RM) policies and key legal and regulatory requirements; and
- provide the basis for KPMG ehf. to evaluate that the firm and its personnel comply with relevant professional standards and applicable legal and regulatory requirements.

Where deficiencies are identified, we are required to develop appropriate action plans and monitor the status of each action item.



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The external inspections have not identified any issues that have a material impact on the conduct of our statutory audit business.

KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss audit quality findings and actions taken to address such issues across the global organization.

**Client feedback**

We proactively seek feedback from clients through in-person conversations and third-party surveys to monitor their satisfaction with services delivered. We endeavour to take this feedback and make dynamic changes at both the engagement level and firm level to meet clients’ needs.

**Monitoring of complaints**

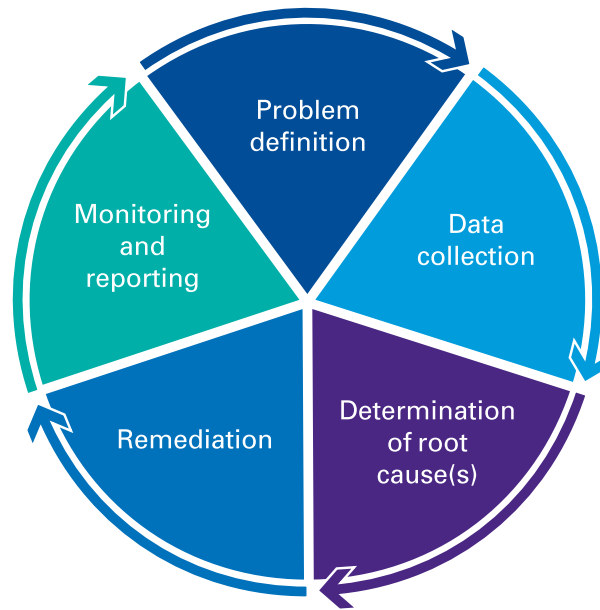
We have procedures in place for monitoring and addressing complaints received relating to the quality of our work. These procedures are detailed on our website and in our general terms of business.

**Perform root cause analysis**



KPMG ehf. conducts Root Cause Analysis (RCA) in respect of audit quality issues. In 2021, RCA training based on our Global RCA 5 Step Principles was attended by those individuals at KPMG ehf. who will be performing RCA or directing those performing RCA. The training provides a common platform for advancing the practices and skills associated with resourcing, planning and conducting RCA.

The Global RCA 5 Step Principles are as follows:



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

KPMG ehf.’s Head of Audit & Assurance is responsible for audit quality including the remediation of audit quality issues. The firm’s Risk Management Partner monitors the remediation plan(s) implementation.



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# Statement on the effectiveness of quality controls and independence

The measures and procedures that serve as the basis for the system of quality control for KPMG ehf. outlined in this report aim to provide a reasonable degree of assurance that the statutory audits carried out by our firm comply with the applicable laws and regulations. Because of its inherent limitations, the system of quality controls is not intended to provide absolute assurance that non-compliance with relevant laws and regulations would be prevented or detected.

The Board of KPMG ehf. has considered:

- the design and operation of the quality control systems as described in this report;
- the findings from the various compliance programs operated by our firm (including the KPMG International review programs and our local compliance monitoring programs); and
- findings from regulatory inspections and subsequent follow up and/or remedial actions.

Taking all of this evidence together, the Board of KPMG ehf. confirms with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to 30 September 2021.

Further, the Board of KPMG ehf. confirms that an internal review of independence compliance within our firm has been conducted in the year from 1 October 2020 to 30 September 2021.

Reykjavík, February, 2022

**Hrafnhildur Helgadóttir**

Chair of the Board



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# Appendix 1

## Financial information

Revenues includes expenses billed to clients and revenues related to billings to other KPMG firms. Revenues amounts disclosed in this report include revenues from both audit and non-audit clients.

Revenues is presented in accordance with the Annual Accounts Act and included for

1. Revenues from the statutory audit of annual and consolidated financial statements of PIEs, and entities belonging to a group of undertakings whose parent undertaking is a PIE.
2. Revenues from the statutory audit of annual and consolidated financial statements of other entities.
3. Revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm.
4. Revenues from non-audit services to other entities.

### Financial information for the period ended on 30th of September 2021 expressed in ISK million

	FY21	%	FY20	%
1. Statutory audits of PIE:s	67	5%	291	18%
2. Statutory audits of non PIE:s	1,414	95%	1,352	82%
3. Permitted non-audit services to entities that are audited by KPMG	1,119	30%	1,055	30%
4. Non-audit services to other entities	2,592	70%	2,479	70%
<b>Total</b>	<b>5,192</b>	<b>100%</b>	<b>5,177</b>	<b>100%</b>

For more detailed financial information, please refer to our annual report as of 30<sup>th</sup> September 2021.

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# Appendix 2

## Audit clients that are public interest entities (PIEs)

The list of public interest entity audit clients for which KPMG ehf. has signed an audit opinion in the year ended 30 September 2021 (FS 2020 audited in 2021) is given below. The definition of public interest for this purpose is that given under the provisions of the Act on Auditors and Auditing no. 94/2019, item 3, paragraph 1, Article 2.

### Public interest entities that have issued transferable stocks on a regulated market:

Brú Lífeyrissjóður starfsmanna sveitarfélaga  
Eik fasteignafélag hf.  
Eimskipafélag Íslands hf.  
FÍ Fasteignafélag slhf.  
Fjarðabyggð  
Fljótsdalshérað  
Frjálsi lífeyrissjóðurinn  
Garðabær  
Heimstaden hf.  
Húsnæðissjóður  
Icelandair Group hf.  
ÍL-sjóður  
Landfestar ehf.  
Lífeyrissjóður starfsmanna Reykjavíkurborgar  
Marel hf.  
Mosfellsbær  
Múlaping  
Origo hf.  
Rangárþing ytra  
Síminn hf.  
Sjónvá-Almennar tryggingar hf.  
Skeljungur hf.  
Sparisjóður Austurlands  
Sparisjóður Strandamanna  
Stapi lífeyrissjóður  
Vestmannaeyjabær



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# Appendix 3

## Details of those charged with governance at KPMG ehf. as at 30 September 2021

### The Board of Directors

Hlynur Sigurðsson Chairman of the Board  
Ágúst Karl Guðmundsson  
Haraldur Örn Reynisson  
Hrafnhildur Helgadóttir  
Kristrún H. Ingólfssdóttir

### Management

Jón S. Helgason Senior Partner and CEO  
Benedikt K. Magnússon Head of Advisory  
Magnús Jónsson Head of Audit  
Birna M. Rannversdóttir Head of Bookkeeping  
Soffía Eydís Björgvinsdóttir Head of Tax  
Auður Þórisdóttir RMP  
Erik Christansson Head of HR  
Sigrún Kristjánsdóttir CFO



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# Appendix 4

## List of KPMG audit firms located in EU & EEA

This is a list of KPMG audit firms as defined in Article 2 (3) of EU Directive 2006/43/EC which are located in EU/EEA countries. It has been prepared solely for the purpose of compliance by KPMG member firms with Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC. It is prepared on behalf of KPMG International Limited, a company limited by guarantee incorporated in England and Wales, which provides no professional services to clients. To the best of our knowledge, the list is accurate as of 30 September 2021. However, we cannot and do not warrant its accuracy at any given time.

Location	Firm name
Austria	KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (Wien)
Austria	KPMG Alpen-Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (Wien)
Austria	KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (Linz)
Austria	KPMG Niederösterreich GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft
Belgium	KPMG Bedrijfsrevisoren / KPMG Réviseurs d'Entreprises
Bulgaria	KPMG Audit OOD
Croatia	KPMG Croatia d.o.o. za reviziju
Cyprus	KPMG
Cyprus	KPMG Limited
Czech Republic	KPMG Česká republika Audit, s.r.o.
Denmark	KPMG P/S
Estonia	KPMG Baltics OÜ
Finland	KPMG Oy Ab
Finland	KPMG Julkistarkastus Oy
France	KPMG Associés S.A.
France	KPMG Audit Est S.A.S.
France	KPMG Audit FS I S.A.S.
France	KPMG Audit ID S.A.S.
France	KPMG Audit IS S.A.S.
France	KPMG Audit Nord S.A.S.
France	KPMG Audit Ouest S.A.S.
France	KPMG Audit Paris et Centre S.A.S.
France	KPMG Audit Rhône Alpes Auvergne S.A.S.
France	KPMG Audit Sud-Est S.A.S.
France	KPMG Audit Sud-Ouest S.A.S.
France	KPMG Fiduciaire de France
France	KPMG SA

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Location	Firm name
France	Salustro Reydel S.A.
Germany	KPMG AG Wirtschaftsprüfungsgesellschaft
Germany	KPMG Bayerische Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft
Greece	KPMG Certified Auditors S.A.
Greece	KPMG Auditing A.E.
Hungary	KPMG Hungária Kft./KPMG Hungary Ltd.
Iceland	KPMG ehf.
Ireland	KPMG
Italy	KPMG S.p.A.
Italy	KPMG Audit S.p.A.
Latvia	KPMG Baltics SIA
Liechtenstein	KPMG (Liechtenstein) AG
Lithuania	'KPMG Baltics' UAB
Luxembourg	KPMG Luxembourg
Malta	KPMG
Netherlands	KPMG Accountants N.V.
Norway	KPMG Holding AS
Norway	KPMG AS
Poland	KPMG Audyt Services Sp z.o.o.
Poland	KPMG Audyt Sp. Z ograniczoną odpowiedzialnością
Poland	KPMG Audyt Sp. Z ograniczoną odpowiedzialnością Spółka Komandytowa
Portugal	KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A.
Romania	KPMG Audit SRL
Slovakia	KPMG Slovensko spol. s r.o.
Slovenia	KPMG Slovenija, podjetje za revidiranje, d.o.o.
Spain	KPMG Auditores, S.L.
Sweden	KPMG AB

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