



# Enhancing Audit Quality and Transparency

## **Supplement**

Additional information required by  
Article 13 of EU Regulation 537/2014

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# Contents

<b>1. Network arrangement</b>	<b>1</b>
1.1 Legal structure of KPMG International	1
1.2 Responsibilities and obligations of member firms	1
1.3 Professional indemnity insurance	1
1.4 Governance structure	1
1.4.1 Global Council	1
1.4.2 Global Board	2
1.4.3 Global Management Team	2
1.4.4 Global Steering Groups	2
1.4.5 Area Quality & Risk Management Leaders	2
<b>2. Our governance</b>	<b>2</b>
2.1 Firm governing body – the Board	2
2.1.1 Selection process	3
2.1.2 Lead Director	3
2.1.3 Board Process and Evaluation Committee	3
2.1.4 Professional Practice, Ethics and Compliance Committee	3
2.1.5 Audit and Finance Committee	3
2.1.6 Operations Committee	3
2.1.7 Compensation and Pension Committee	3
2.1.8 Partnership and Employer of Choice Committee	4
2.2 Senior management	4
2.3 Management Committee	4
<b>3. Financial information</b>	<b>5</b>
<b>4. List of entities audited in EU member countries</b>	<b>5</b>

## 1. Network arrangement

### 1.1 Legal structure of KPMG International

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law.

KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

One of the main purposes of KPMG International is to facilitate the provision by member firms of high-quality Audit, Tax, and Advisory services to their clients. For example, KPMG International establishes and facilitates the implementation and maintenance of uniform policies, standards of work and conduct by member firms, and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity that is legally separate from each member firm. KPMG International and the member firms are not a global partnership, 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 or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

The name of each audit firm that is a member of the network and the EU/EEA countries in which each network member firm is qualified as a statutory auditor or has its registered office, central administration, or principal place of business are available at <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/12/eu-and-eea-audit-entities-list-30-09-2017.pdf>.

### **Total turnover achieved by EU/EEA audit firms resulting from the statutory audit of annual and consolidated financial statements<sup>2</sup>**

Aggregated revenues generated by KPMG audit firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.7 billion during the year ending September 30, 2017. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent calculable and translated at the average exchange rate prevailing in the 12 months ended September 30, 2017.

### 1.2 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 multinational 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 amounts paid 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 network may be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.

### 1.3 Professional indemnity insurance

A substantial level of insurance cover 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.

### 1.4 Governance structure

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

#### 1.4.1 Global Council

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

It performs functions equivalent to a shareholders' meeting (albeit KPMG International has no share capital and only has members, not shareholders).

Among other things, the Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 58 member firms that are "members" of KPMG International as a matter of Swiss law. Sublicensees are generally indirectly represented by a member.

<sup>2</sup> The financial information set forth represents combined information of the separate KPMG member 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.

### 1.4.2 Global Board

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International, and approving policies and regulations. It also admits member firms.

The Global Board includes the Global Chairman, the Chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)) and a number of senior partners of member firms.

It is led by the Global Chairman, who is supported by the Executive Committee, consisting of the Global Chairman, the Chairman of each of the regions, and currently four other senior partners of member firms. The list of Global Board members as of October 1, 2017 is available in the [2017 International Annual Review](#).

One of the other Global Board members is elected as the lead director by those Global Board members who are not also members of the Executive Committee of the Global Board ("nonexecutive" members). A key role of the lead director is to act as liaison between the Global Chairman and the "nonexecutive" Global Board members.

### 1.4.3 Global Management Team

The Global Board has delegated certain responsibilities to the Global Management Team. These responsibilities include developing global strategy by working together with the Executive Committee. The Global Management Team also supports the member firms in their execution of the global strategy and is responsible for holding them accountable for commitments.

It is led by the Global Chairman and includes the Global Chief Operating Officer, Global Chief Administrative Officer, global function and infrastructure heads, and the General Counsel.

The list of Global Management Team members as of October 1, 2017 is available in the [2017 International Annual Review](#).

### 1.4.4 Global Steering Groups

The Global Steering Groups work closely with regional and member firm leadership to:

- Establish and communicate appropriate audit and quality/risk management policies
- Enable effective and efficient risk processes to promote audit quality
- Proactively identify and mitigate critical risks to the network.

The Global Steering Groups act under the oversight of the Global Management Team. The roles of the Global Audit Steering Group and the Global Quality & Risk Management Steering Group are detailed in Appendix 1 to the [2017 KPMG International Transparency Report](#).

Each member 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 or executive officer, representation from any subregions, 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, can be found in Appendix 1 to the [2017 KPMG International Transparency Report](#).

### 1.4.5 Area Quality & Risk Management Leaders

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders who:

- Assess the effectiveness of a member firm's quality and risk management efforts to identify and mitigate significant risks to the member firm and network and actively monitor alignment with global quality and risk management strategies and priorities
- Share leading best practices in quality and risk management
- Report to Global Head of Quality, Risk and Regulatory.

## 2. Our governance

KPMG LLP has two principal governing documents: a Partnership Agreement and Partnership Bylaws. Together, these documents establish the structure and principal procedures of governance for the firm.

KPMG LLP's governing body is its Board of Directors (the Board), and it may have between 13 and 18 members. KPMG LLP takes pride in the fact that it has built several different safeguards into its governance structure to ensure the independence of the Board from the operational management of the firm.

### 2.1 Firm governing body – the Board

The business, property, and affairs of the firm are managed under the direction of the Board. The Board is responsible for the firm's policies and for the oversight of the firm's management, including the election of the Chairman and Deputy Chairman, approval of senior management appointments, and general oversight of management operations. As a general matter, members of the Board other than the Chairman and Deputy Chairman serve a

five-year term and may not seek re-election until they have been off the Board for two years. KPMG LLP requires that a majority of the members of the Board be Certified Public Accountants (CPAs) and prohibits members of the Management Committee—other than the Chairman and the Deputy Chairman—from serving on the Board.

#### *2.1.1 Selection process*

A Nominating Committee of the Board selects a slate of candidates for the Board, and the firm's partners may invoke procedures to place other candidates on the ballot directly. At least one-half of this committee must be composed of partners who are not Directors. Members of the firm's Management Committee are not eligible for membership on the Nominating Committee, and neither the Chairman nor the Deputy Chairman is involved in the selection of the Board's slate of candidates. The candidates are voted on by the firm's partners in an election supervised and tabulated by outside counsel. Partners' votes are counted using two methods of calculation. To be elected, each candidate must receive a majority of votes under both methods of calculation.

#### *2.1.2 Lead Director*

A Lead Director is elected annually by fellow Board members. The Chairman and the Deputy Chairman cannot be involved in the selection of the Lead Director, nor can they serve as the Lead Director. The Lead Director has a number of specific duties, including making recommendations for Board committee appointments, assisting the Chairman in the development of the Board's agendas, and acting as the liaison between the Chairman and Deputy Chairman and the other Directors with respect to issues raised during executive sessions of the Board, from which the Chairman and Deputy Chairman are excused.

#### *2.1.3 Board Process and Evaluation Committee*

The Board Process and Evaluation Committee is chaired by the Lead Director and is responsible for recommending Board governance processes and guidelines designed to foster the active and accountable performance of Board duties and developing and implementing annual Board and Director evaluation processes. The Board Process and Evaluation Committee reports the results of its evaluation to the Board of Directors for full Board discussion following the end of each fiscal year.

#### *2.1.4 Professional Practice, Ethics and Compliance Committee*

The Professional Practice, Ethics and Compliance Committee assists the Board in fulfilling its responsibilities by overseeing the firm's legal, professional practice, regulatory, compliance, ethics, and risk management activities. The committee also is responsible for promoting, monitoring, and reporting to the Board on activities that manifest the firm's commitment to the highest standards of ethics as well as compliance with applicable legal requirements, professional standards, and firm policies.

#### *2.1.5 Audit and Finance Committee*

The Audit and Finance Committee assists the Board in fulfilling its responsibilities by overseeing the internal audit function of the firm and all other matters pertaining to the internal control, audit, or reporting of the financial affairs of the firm that the committee deems advisable and necessary. Specific responsibilities of the committee include annual and interim financial reporting to the partnership; overseeing the firm's capital structure; monitoring the firm's internal controls related to significant financial and accounting processes; and overseeing the firm's strategic investments and the development of its annual budget.

#### *2.1.6 Operations Committee*

The Operations Committee assists the Board in fulfilling its oversight responsibilities by providing guidance and oversight related to management's operation of the firm, including matters related to information technology systems and applications.

#### *2.1.7 Compensation and Pension Committee*

The Compensation and Pension Committee assists the Board in fulfilling its responsibilities by providing guidance and oversight related to the compensation policies that affect the firm's partners. In addition, the Committee reviews the Management Committee members' compensation as recommended by the Chairman and Deputy Chairman and recommends, for approval by the full Board, the Chairman and Deputy Chairman's compensation. Other specific responsibilities include overseeing the investment of funds deposited in the savings and pension plans maintained by the firm on behalf of the firm's personnel and the selection and appointment of third-party advisors regarding the investment of such funds.



### *2.1.8 Partnership and Employer of Choice Committee*

The Partnership and Employer of Choice Committee assists the Board in fulfilling its responsibilities by providing guidance and oversight related to the admission and withdrawal of partners, talent management, succession, and after-KPMG considerations. The Partner Rights Committee (a subcommittee of the Partnership and Employer of Choice Committee) reviews grievances that any partner may have concerning his/her partnership allocation, other compensation, or other career matters, such as the partner's career progression or a request by management that the partner withdraw, transfer, or relocate. Neither the Chairman nor the Deputy Chairman may be members of the Partnership and Employer of Choice Committee or the Partner Rights Subcommittee.

### *2.2 Senior management*

The firm's Chairman of the Board is also its CEO. Subject to the advice of and direction from the Board, the firm's CEO is responsible for the management of the firm's business and affairs and carrying out the firm's policies and may act on all matters on behalf of the firm.

The firm's Deputy Chairman, who reports to the Chairman, is the Vice Chairman of the Board of Directors and is chairman of the firm's Management Committee. The firm's current Deputy Chairman also serves as the firm's COO.

The Chairman and the Deputy Chairman are elected for an initial five-year term and may be reelected for an additional three-year term. They are elected by a majority of the Board, subject to a ratification vote of the firm's partners.

### *2.3 Management Committee*

The firm's Chairman and Deputy Chairman are supported by a number of members of senior management who together comprise the firm's Management Committee. The Management Committee is responsible for implementing firm policies as promulgated by the Board, developing strategies and tactical and operational plans to support such policies, and for the sound and profitable operations of the firm. The firm's current Management Committee includes the Chairman; the Deputy Chairman; the Vice Chairs of Audit, Tax, Advisory, Operations, Market Development, Innovation & Enterprise Solutions, and Human Resources, as well as the Vice Chair – LRR.

### 3. Financial information

For the period ended September 30, 2017, KPMG LLP had total fee income of \$8.96B, as follows:

Audit & Accountancy	<b>32.0%</b>
Tax Services:*	<b>27.8%</b>
Advisory Services:*	<b>40.2%</b>

\* Includes fee income associated with direct support of the Audit practice in the conduct of audits

#### FY2017 sources of fee income

Sources of Fee Income	Amount
Public Interest Entities Listed in EU** (Audit Fees Only)***	\$256M
All Other Fees	\$8.70B
<b>FY2017 Total Fee Income</b>	<b>\$8.96B</b>

\*\* See section 4 for list of public interest entities

\*\*\* May include fee revenue for services rendered by non-U.S. member firms of the KPMG International network or other subcontractors

### 4. List of entities audited in EU member countries

The list below sets out public interest entities we audit listed in European Union member countries for which KPMG LLP carried out an audit during the firm's preceding fiscal year. For this purpose, "public interest entities" are defined in Regulation 3 of the European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010 as follows:

- Companies (or other bodies corporate governed by law of a Member State) whose transferable securities are admitted to trading on a regulated market of any Member State
- Credit institutions
- Insurance undertakings.

#### Entities

BMW US Capital, LLC	Fresenius Medical Care US Finance II, Inc.
Citibank N.A.	Fresenius US Finance II, Inc.
Citigroup Global Markets Holdings Inc.	General Electric Company
Citigroup Inc.	ING Capital Funding Trust III
Daimler Canada Finance Inc.	Juneau Investments LLC
Daimler Finance North America LLC	National Rural Utilities Cooperative Finance Corporation
Diebold Nixdorf, Inc.	Nestle Holdings Inc.
Deutsche Bank Capital (Finance) Trust I	Pfizer Inc.
Deutsche Bank Contingent Capital Trust IV	Unisys Corporation
Deutsche Postbank Funding Trust I	Wells Fargo & Company
Deutsche Postbank Funding Trust II	
Deutsche Postbank Funding Trust III	

