FRC – first Public AIU report on KPMG –Dec. 2008 (doc 20 April to Dec 2007)

Credit crunch communications

In the autumn of 2007, KPMG responded to global liquidity problems by issuing bulletins outlining the causes of the adverse market developments, the potential consequences for both financial services and non-financial services sectors and the ramifications for year-end reporting. A "credit crunch" intranet site was established so that all matters arising could be logged and easily shared across the practice. In early December, a series of weekly meetings was established within financial services, with conference call facilities, to discuss emerging issues. Following each call a summary of the issues discussed, the agreed response and/ or actions going forward were posted on the intranet site. In our view the firm responded in an appropriate and timely manner to the audit risks arising from global liquidity problems.

Preliminary analytical procedures

Auditors are required to conduct analytical procedures as part of their overall risk assessment process, to enhance their understanding of the entity and its environment. Appropriate guidance on preliminary analytical procedures is included in the firm's audit methodology and the additional guidance provided by the firm during the year resulted in an improved approach. However, on nearly half of the files reviewed there was a lack of evidence that appropriate preliminary analytical procedures had been performed.

Audit Judgments

However, one of the main recurring themes continued to be the lack of evidence on files that all relevant data, procedures and thought processes underpinning key audit judgments had been effectively analysed and evaluated and appropriate conclusions reached. The quality of audit evidence on file did not always reflect the extent of partner involvement in the resolution of key audit issues or the thoroughness with which these matters were addressed.

2.4.5 ***Audit finalisation***

Audit finalisation procedures include a final analytical review of the financial statements as a whole, a review of events occurring after the end of the financial year that may require adjustment of, or disclosure in, the financial statements ("subsequent events") and consideration of the appropriateness of the going concern assumption in preparing the financial statements.

Generally we noted during our file reviews that the audit finalisation procedures adopted were adequate and that the standard of the relevant documentation on file had improved. However, on just over half of the audits reviewed, improvements are required in the relevant procedures to ensure that all inadequate or erroneous disclosures are properly followed up and included in the letter of representation obtained from the Board. In some cases, audit teams should pay greater attention to their assessment on file of the adequacy of disclosures in financial statements.

FRC 2010/2011 PUBLIC REPORT by AIU on KPMG (March 2010 to Feb 2011 Doc20A)

Each year we select a number of areas of particular focus. For 2010/11, these were: the fair value measurement of assets and liabilities, the impairment of assets (including goodwill and other intangible assets), revenue recognition and fraud risks, segmental reporting and the evaluation of going concern. Certain of our reviews were restricted to some or all of these areas.

1.4 Key messages

The firm should pay particular attention to the following areas in order to enhance audit quality:

- Ensure that audit teams apply appropriate professional scepticism to information prepared by the audited entity's staff that is significant to material amounts included in the financial statements (such as provisions or recognised revenue) and test its reliability.
- Consider the need for further action to improve the overall consistency of work performed on key judgment areas.
- Ensure that the improvements made to the partner appraisal system are also applied to audit managers, particularly in relation to selling non-audit services to entities which are audited by the firm.
- Readdress as a priority our recurring findings in relation to substantive analytical review where there are implications for the sufficiency of substantive testing and as a

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result the overall audit evidence obtained. A focused initiative is required to eliminate the recurrence of issues in this area.

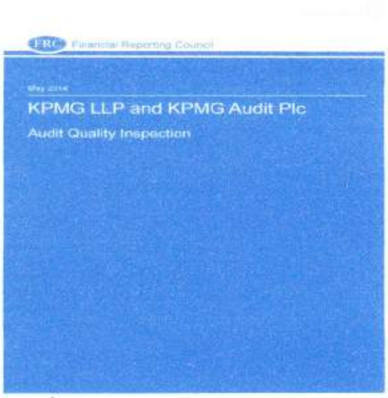
Monitor more rigorously the application of finalisation policies and file assembly procedures.

We draw attention to the following findings which the firm should ensure are adequately addressed in future audits.

- Impairment of loans

  Improvements were required in the audit of loan impairment in three audits we reviewed. Collective provisions were established in each case for impairments incurred by the end of the year but not yet reported. In each case we raised issues on the sufficiency of audit evidence supporting certain aspects of the techniques adopted by management to assess the level of collective provision required. Also, in one case, there was insufficient review of the work performed by overseas audit teams in relation to significant specific loan impairments incurred during the year.

FRC 2013/2014 PUBLIC REPORT by AIU on KPMG (Document 20C)



Financial Reporting Council
Aldwych House
71-91 Aldwych
London
WC2 4HN

16 May 2014

Dear Sirs

Audit Quality Inspection report 2013/4

We are pleased to respond to this 2013/14 Audit Quality Inspection report.

We are committed to achieving high levels of audit quality and the highest ethical standards, and to continuous improvement in both areas. We take very seriously observations and recommendations made by the FRC and have developed a detailed action plan that responds to these matters together with those identified through other internal and external review processes.

Reflecting our desire for continuous improvement, many of these actions are well progressed having been developed as issues emerged through the inspection process.

We recognise the fundamental importance of quality and ethics in our joint objective of restoring trust in audit and acknowledge the contribution of audit inspection in this process.

We would like to record our thanks to the review team for the way in which they conduct their reviews.

Further information about our approach to delivering quality audits is set out in our Transparency Report available on our website.

Yours faithfully

Tony Cates
Head of Audit

Findings in relation to audit evidence and judgments

Our reviews focused on the audit evidence and related judgments for material areas of the financial statements and areas of significant risk. We draw attention below to findings which the firm should ensure are addressed appropriately in future audits.

The significance of these findings in the context of an individual audit reviewed, and therefore the implications for our grading of that audit, will vary. However, whatever the implications for the specific audits reviewed, we nevertheless include the relevant findings in this report if we consider them important in the broader context of improving audit quality at the firm.

Audit of loan loss provisions

We reviewed the audit of loan loss provisions for five financial services entities.

In all five audits we identified issues relating to the extent of audit evidence to support the level of specific provisions and, in four cases, collective provisions. In particular, we continue to find cases where further audit evidence should have been obtained or there was a lack of appropriate challenge of management by the audit team.

On two of the audits, insufficient audit evidence was obtained that all forbearance arrangements in place had been identified for disclosure and provisioning purposes.

General IT controls

We reviewed the testing of the operational effectiveness of IT controls on 12 audits and found weaknesses on six of them.

In two cases, the audit procedures performed relied upon system generated reports which had not been adequately tested for completeness or accuracy. In two further audits, insufficient procedures were performed on IT systems hosted by outsourced service providers. In the remaining two audits, it was unclear how the audit team had responded to deficiencies identified by their testing.

Inventories

The audit of inventory was reviewed on six audits and we identified weaknesses in three of them.

On two of those audits, there was insufficient evidence to support the rationale for the locations selected for stocktake attendance; and insufficient procedures performed regarding changes in inventory in the period between the dates of stocktakes attended and the year end. On the third audit, there was insufficient challenge of the stock provisioning method.

Audit of goodwill and other intangible assets

We reviewed the firm's audit of goodwill and other intangible assets on nine audits and found weaknesses in six of those audits.

We concluded that two audits required significant improvements in this area. In both cases, there were errors in the disclosures made in the financial statements which had not been identified by the audit team. In these cases and one further audit, there was a lack of challenge by the audit team of key assumptions used. In two further audits, there was insufficient evaluation of the value in use calculation for certain assets. In another audit, we found insufficient evidence of the audit team's assessment of a valuation model.

LATEST FRC JUNE 2017 PUBLIC REPORT by AIU on KPMG (Document 20E)

FRC Financial Reporting Council

KPMG LLP
KPMG AUDIT PLC
AUDIT QUALITY INSPECTION
JUNE 2017

Firm's actions:

This is a broad topic and one where we have always left a great deal to the judgment of individual engagement leaders. Their experience and judgment has been central to the audit approaches they tailored for each client.

The primary root cause identified where our work has been identified as requiring improvement is the failure to adequately evidence all elements of the thought process and the basis for the decisions made.

Going forward, we will drive more consistent approaches from our teams and ensure their findings are evidenced using mandatory templates. Where practical, consistency will be achieved using data analysis tools which we have already developed.

These solutions will be followed up by the Second Line of Defence teams to ensure adoption and check consistency of application.

2 Key findings requiring action and the firm's response

We set out below the key areas where we believe improvements are required to enhance audit quality and safeguard auditor independence. The firm was asked to provide a response setting out the actions it has taken or will be taking in each of these areas.

Improve the extent of challenge of management in relation to areas of judgment, in particular for impairment reviews, loan loss provisions and other valuations

The audit of valuations, loan loss provisions and impairment reviews requires appropriate use of professional judgment. Effective audit teams will consider management's assumptions and compare these to available audit evidence and, where appropriate, challenge management in relation to the basis of those assumptions. We continue to identify a number of concerns in relation to the audit of valuations, loan loss provisions and impairment reviews of goodwill and other intangibles. The issues largely related to the extent of audit teams' challenge of management, including:

- Audit teams not adequately demonstrating their critical assessment of valuation assumptions or methodology relating to investments and inventory.
- Insufficient challenge of management's assumptions in relation to the impairment of goodwill and other intangibles, with undue reliance placed on evidence which supported management's assumptions/ position.
- In relation to loan loss provisions our concerns, on both audits where this was relevant, related to there being insufficient procedures performed to corroborate certain of the inputs used. The work performed did not demonstrate sufficient scepticism and challenge of management regarding the appropriateness of the provisions.

Other concerns arose in relation to the identification of intangibles, the challenge of sensitivities considered by management and the compliance of impairment models with Accounting Standards.