



KPMG  
International  
Annual Review  
2006

Our governance  
structure and our  
commitment to  
quality and integrity

KPMG INTERNATIONAL

# Our governance structure

To provide high quality and services across the globe, KPMG recognizes the critical importance of good governance in promoting our values and performance.

Professional services organizations play a central role in the capital markets and we believe this demands a high level of quality, integrity and transparency. We also believe KPMG should not only talk about high standards of good corporate governance but also demonstrate high standards in everything we do.

## How we operate

KPMG International is a Swiss cooperative with which member firms of the KPMG network of independent firms are affiliated. KPMG International performs a coordinating role but provides no services to clients. All services are provided to clients by member firms or by other independent firms licensed to use the KPMG name. Each KPMG firm is separate and legally distinct.

The membership agreement signed by each member firm includes a clear commitment to provide quality service for all clients, regardless of where they are in the world.

Our global values and global code of conduct define a common culture within KPMG, including a collective commitment to the highest principles of personal and professional conduct.

## Our governance

The Board of KPMG International currently comprises up to 21 members, including the KPMG International Chairman and the CEO, representatives drawn from the seven largest member firms by revenue, and representatives from up to 12 other member firms nominated by the Board and the International Council on the recommendation of the Chairman. The Board reviews and endorses the policies and procedures of KPMG International and monitors their implementation. The Board delegates authority to the International Management Committee to oversee the management of KPMG International through the International Executive Team. It also makes recommendations to the Council on membership and strategic matters.

The Council consists of the KPMG International Chairman, the Senior Partners from the 25 largest member firms, and members nominated by the Board and the Council on the recommendation of the Chairman. Its role is to approve common goals, direction and policies. It also approves membership matters, the annual international budget and other financial decisions as well as recommends the annual financial statements of KPMG International for approval by the General Meeting.

## Membership criteria

KPMG member firms operate in 148 countries. KPMG member firms must:

- Be self-supporting professionally and financially.
- Have a structure that ensures continuity and stability.
- Be able to:
  - Meet KPMG International's standards
  - Adopt global and regional policies
  - Share incoming and outgoing resources
  - Provide services to multinational clients
  - Manage professional risk
  - Deploy global services
  - Compete effectively.

Member firms are subject to sanctions, including termination of the right to use the KPMG name. The International Council may sanction or terminate membership if the firm has acted contrary to the objectives of KPMG International or violated its obligations.

## International Board

Mike Rake\* (International Chairman)  
Hubert Achermann† (Switzerland)  
David Bunce§ (Brazil)  
Jean-Luc Decornoy§ (France)  
Frantisek Dostalek (CEE)  
Timothy P. Flynn\* (U.S.)  
Guillermo García Naranjo (Mexico)  
Tom Grieve† (South Africa)  
John Griffith-Jones (U.K.)  
Renato Guerini (Italy)  
John Harrison\* (China and Hong Kong SAR)  
Doug Jukes† (Australia)  
William MacKinnon† (Canada)  
Rolf Nonnenmacher\* (Germany)  
Denis O'Connor (Ireland)  
Masanori Sato (Japan)  
Danny Teoh§ (Singapore)  
Thomas Thiel (Sweden)  
Ben van der Veer\* (Netherlands)  
Mike Wareing\* (International CEO)

### *Board sub-committees*

\* Management Committee

† Nomination and Remuneration Committee

§ Audit Committee

### *KPMG sub-region definitions*

CEE—Central and Eastern Europe

TOG—The Offshore Group

MESA—Middle East and South Asia

CIS—Commonwealth of Independent States

## International Council

Mike Rake (International Chairman)  
Hubert Achermann (Switzerland)  
David Bunce (Brazil)  
Wuyee Chang (Taiwan)  
Jan Dawson (New Zealand)  
Jean-Luc Decornoy (France)  
Frantisek Dostalek (CEE)  
Theo Erauw (Belgium)  
Hossam Amin Fahmy (Egypt)  
Jamal Fakhro (Bahrain)  
Timothy P. Flynn (U.S.)  
Arne Frogner (Norway)  
Guillermo García Naranjo (Mexico)  
Tom Grieve (South Africa)  
John Griffith-Jones (U.K.)  
Renato Guerini (Italy)  
John Harrison (China and Hong Kong SAR)  
David McGarry (TOG)  
Doug Jukes (Australia)  
Jesper Koefoed (Denmark)  
John Li (Luxembourg)  
William MacKinnon (Canada)  
Vijay Malhotra (MESA)  
Roger Munnings (CIS)  
Rolf Nonnenmacher (Germany)  
Kaisri Nuengsigkapan (Thailand)  
Sixten Nyman (Finland)  
Denis O'Connor (Ireland)  
Russell Parera (India)  
Poh Keat Quah (Malaysia)  
Sikander Satar (Portugal)  
Masanori Sato (Japan)  
Alberto Schuster (Argentina)  
John Scott (Spain)  
Gad Somekh (Israel)  
Danny Teoh (Singapore)  
Thomas Thiel (Sweden)  
Francisco Vázquez (Venezuela)  
Ben van der Veer (Netherlands)  
Martin Wagner (Austria)  
Ken Yun (Korea)

## International Executive Team

Neil Austin (Global Markets)  
Graeme Bailey (COO ASPAC)  
Stuart Campbell (CIO)  
Loughlin Hickey (Tax)  
Henry Keizer (Audit)  
Thomas Löhmer (CFO)  
Ian O'Brien (People, Performance and Culture)  
Bernd Schmid (Advisory)  
Jack Taylor (COO Americas)  
Jean-Paul Thill (CEO EMA)  
John Veihmeyer (Risk Management)  
Mike Wareing (International CEO)

# Our commitment to quality and integrity

Transparency underpins our commitment to quality and integrity and is vital to the wider public confidence in financial reporting and the global capital markets. Our global core values state that KPMG leads by example and that we are open and honest in our communication.

KPMG nurtures a culture based on leadership, teamwork and integrity. Leaders here have all embraced The KPMG Way, which defines common values and commitments across all member firms. These are the themes that set the tone at the top of our organization, and they are incorporated in training and performance measurement.

KPMG member firms are committed to providing high-quality services in an ethical and independent way regardless of location. We recognize that the quality and the integrity of our people and our work play a vital role in creating trust with stakeholders, and can help to sustain and enhance confidence in our profession and the capital markets.

We back up our commitments with a set of shared values, a code of conduct, and common processes, policies and controls. All of these are consistent globally, so people know what to expect of KPMG wherever we operate.

## **Our approach to quality**

KPMG's policies and procedures are strengthened by the involvement of experienced leaders whose principal responsibility is risk management and quality control and whose roles do not

include managing business activities and objectives. Primary responsibility falls to KPMG International's Global Head of Risk. This individual is supported by a number of groups:

- The Global Risk Management Steering Group (GRMSG) designs the risk management and quality control processes for KPMG International and oversees the development and monitoring of policies and procedures.
- Global Steering Groups within each of the Audit, Tax and Advisory functions seek to ensure that quality services are consistently provided across member firms.
- Regional Risk Management Partners, each of whom oversees risk management matters in one of three regional groups covering the Americas; Europe, Middle East and Africa; and Asia Pacific.
- National Risk Management Partners provide risk management leadership in their respective firms.
- The Global Risk Management Group assists the GRMSG with policy, process and systems development, and coordinates our internal monitoring programs.



- The International Standards Group comprises:
  - The International Financial Reporting Group, which promotes consistent application and interpretation of International Financial Reporting Standards
  - The International Standards on Auditing Group, which focuses on the global acceptance and adoption of International Standards on Auditing.

### **Our approach to ethics and independence**

It is the responsibility of all KPMG partners and employees to maintain their integrity and objectivity, to exercise a high standard of professional judgment and to comply with professional ethics and independence policies and requirements applicable to the work they perform.

Member firms must establish and communicate comprehensive independence policies and procedures to partners and employees, and these must meet or exceed the International Federation of Accountants' "Code of Ethics for Professional Accountants" and, where appropriate, other relevant standards such as those of the U.S. Securities and Exchange Commission. Member firms are also required

to maintain policies and procedures protecting the confidentiality of clients' and former clients' data in accordance with legal, regulatory and professional standards and to the extent permitted by applicable law.

Each member firm, its partners, management and the employees assigned to each audit engagement must be free from financial interests in and certain prohibited relationships with their clients, client management, client directors and significant client owners.

We have rigorous policies and procedures to help us identify and avoid potential conflicts, i.e., circumstances or situations that may affect a member firm or an employee's ability to be objective or otherwise act without bias. These include:

- A browser-based tracking system used to monitor partner, manager and firm direct and material indirect investments in listed companies and funds.
- A global conflict-checking and lead partner approval system, used to identify potential conflicts of interest as well as obtain pre-approval of services provided to audit clients to ensure applicable auditor independence requirements are met.

Member firms' audit partners are subject to rotation requirements that limit the number of years they may provide services to a listed entity and its affiliates. KPMG has also strengthened its policies to include an explicit prohibition against audit partners joining their listed audit clients in an executive position for at least a year after their last involvement in the audit. Audit partners' remuneration must not include any compensation based on the value of non-audit services provided to their audit clients.

KPMG International policies require that member firms ask their professionals to affirm their independence and compliance with independence policies upon joining the member firm and annually thereafter. Member firms also obtain annual confirmation from their professionals that they understand and have complied with local regulations and firm policies governing treatment of confidential client information.

Compliance with KPMG International's independence policies must be confirmed in writing by all member firms each year. The Global Independence Group, in cooperation with independence professionals from individual member firms, periodically performs independence compliance reviews at selected member firms on a rotating basis.

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# “KPMG should assist in the development of standards—they have the knowledge to be at the heart of the key issues.”

*Client, KPMG Brand Survey 2006*

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Non-compliance with independence requirements may result in disciplinary actions that vary based on circumstances but may include dismissal.

KPMG International launched the KPMG International Hotline as another step in making the global code of conduct an integral part of our culture. The Hotline provides a means for:

- KPMG International employees
- Partners, employees and clients of member firms and
- Other third parties

to confidentially report possible illegal, unethical or improper conduct in violation of the global code of conduct. Concerns may be reported by phone, the mail or a Web-based reporting system found at [www.clearviewconnects.com](http://www.clearviewconnects.com).

### **Our approach to acceptance and continuance of clients and engagements**

Rigorous and consistent client and engagement acceptance and continuance policies and procedures are fundamental to providing quality professional services. KPMG International has established policies and procedures that the member firms must adhere to in evaluating and documenting acceptance and

continuance decisions. Each member firm exercises diligence in making its own determination of whether or not to accept a client or engagement or continue an existing relationship. No member firm can commit another member firm without the latter's consent.

### **Our approach to engagement performance**

KPMG International has established policies and procedures to which member firms must adhere to help ensure that the work performed by member firm personnel meets the professional standards, regulatory requirements and the member firm's quality requirements applicable to their respective Audit, Tax or Advisory services engagements.

### **Our approach to people management**

Individual member firms are responsible for their own people management, or human resources, but they are required to address the following areas:

- Recruitment
- Performance evaluation
- Capabilities
- Competence
- Professional development

- Promotion
- Compensation
- Estimation of personnel needs
- International transfers and assignments
- Partner admission.

KPMG's long-term strategy for each member firm is to be an "employer of choice" for professionals around the world.

### **Our approach to member firm compliance**

Monitoring procedures require ongoing consideration and evaluation of the following areas:

- Relevance and adequacy of policies and procedures
- Design and effectiveness of quality controls, guidance materials and practice aids
- Effective application of policies and procedures so that reports and other deliverables issued by member firms are appropriate in the circumstances
- Effectiveness of professional development activities
- Adherence to professional standards and regulatory and legal requirements.



Member firm compliance is monitored through a comprehensive set of independent reviews that includes:

- Quality Performance Reviews, designed to annually assess the quality and compliance of engagements performed in accordance with relevant professional standards, and quality control and risk management policies (including independence and client and engagement acceptance and continuance policies).
- Risk Compliance Program, designed to annually assess member firm compliance with KPMG International and local risk management policies and procedures.
- Practice and Compliance Reviews, designed to periodically monitor member firm compliance with financial, risk management and independence policies, as well as to share best practices and promote continuous improvement.

Member firms are responsible for evaluating the results of these activities, addressing the issues identified, communicating the results to relevant partners and employees, and developing and implementing action plans. Local practice management, regional leadership and KPMG International monitor the progress of these action plans.

#### **Our commitment to quality**

KPMG pledges to keep pace with the evolution of business and markets. This means we will continue our substantial investment in the research and development needed to maintain audit and other engagement quality, and will stay abreast of developments resulting from changing public expectations and regulatory oversight. To strengthen and enhance quality control, we will continue to provide training and technology-based tools and methodologies that contribute to high-quality engagements.

For the full version of the KPMG International Transparency Report please go to [www.kpmg.com.review2006](http://www.kpmg.com.review2006)

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