OUR INVESTMENT IN AUDIT QUALITY

DECEMBER 2015
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KPMG LLP, the audit, tax and advisory firm (www.kpmg.com/us), is the U.S. member firm of KPMG International Cooperative (KPMG International). KPMG International’s member firms have 162,000 professionals, including more than 9,000 partners, in 155 countries.
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We are pleased to share our views about audit quality and to discuss our values and the actions we are taking to enhance and promote it as central to what we do at KPMG.

At KPMG, our multidisciplinary structure of audit, tax and advisory strengthens our ability to deliver a quality audit. Access to a wide range of disciplines enriches the knowledge we can bring to our work. Further, our industry-focused experience and the firm’s global reach enhance our ability to evaluate the most complex areas of today’s multinational organizations. As businesses and markets evolve, we pledge to deliver quality by investing in innovation and by monitoring and responding to the changing needs of the audit environment.
A MESSAGE FROM KPMG LEADERSHIP

The 8,500 professionals serving in our U.S. audit practice, supported by our U.S. tax and advisory practices, understand that our foremost responsibility is to serve the public interest through integrity, professionalism and high performance. Quality is the cornerstone of all we do at KPMG; it is the foundation upon which our firm was built more than a century ago and the very essence of our audit practice.

In these pages, you will read about the standard of excellence and our continuous improvement mindset that guide our efforts relating to audit quality. In an increasingly complex global marketplace and regulatory environment, we are investing significantly and steadily in people, technology and programs to promote audit quality to the benefit of both the capital markets and the profession.

We take pride in the quality of our audits. Quality is a direct result of our ongoing quest for top talent, supportive training and mentoring programs, and the cultural imperative we have established that emphasizes and demands excellence.

Innovation is critical to sustaining relevance and value. In January 2014, we launched our Future of Audit strategy which outlines to our people a strategy for continually delivering quality, insight and value to our stakeholders, while providing dynamic opportunities for our professionals. The strategy also contains a vision for the future as to how we embrace technology and potential new services to meet the needs of the capital markets. We have implemented many components of the strategy, and will continue our efforts as we build on our competencies, invest in our capabilities, monitor our progress and promote and protect our values.

We remain dedicated to regular and productive engagement with our regulators and to improving our system of audit quality control. We are confident that our culture and tone at the top, the commitment of our partners and professionals, and our structure, policies and procedures are all working in concert to support delivery of high quality audits in an independent, objective and ethical manner worthy of public and stakeholder confidence.

Lynne Doughtie
U.S. Chairman and CEO

Scott Marcello
U.S. Vice Chair, Audit, and Regional Head of Audit, Americas
Our promise of professionalism to the capital markets we serve, to our people, and to the organizations we audit is the foundation for everything we do at KPMG.

KPMG’s system of audit quality control encompasses:

- Leadership responsibilities for quality within the firm (“tone at the top”)
- Engagement performance
- Relevant ethical requirements including integrity, objectivity, independence and confidentiality
- Personnel management
- Acceptance and continuance reviews of entities and specific engagements
- Monitoring

Details of these elements are included in the Appendix.
At KPMG, our role is to provide quality audits with independence, integrity and objectivity.

KPMG’s focus on audit quality is intrinsically linked to its commitment to promoting trust in the capital markets and serving the public interest. It is reflected in our culture of integrity and professionalism.

COMMITMENT TO THE PUBLIC INTEREST

Our audit reports directly and indirectly shape financial and business practices, and influence investment decision-making in the capital markets. We acknowledge this is a significant responsibility; it drives our constant improvement mindset and is supported by our core values. Our audits deliver information and insights that impact financial, operational and risk-management decisions. Individual and institutional investors rely on our opinions, which are vital to the sound function of the markets. A quality audit provides credibility that contributes to a growing and vibrant economy.

At KPMG, we transform our pledge of audit quality into action through our dedication to objectivity and independence, transparent and ongoing dialogue with stakeholders, and investments in our people and the tools and resources that support their work. Senior leadership designs and sets the tone at the top, and has built a culture that makes clear that audit quality is not just a priority; it is an imperative.

We monitor internal communications to measure the degree to which messaging is unambiguous, consistent and broadly distributed. More than 90 percent of surveyed partners and professionals in 2014 reported that KPMG’s quality objectives have been clearly communicated.

Clear, consistent and ongoing communication is key. In addition to cascading leadership’s tone at the top, operational and cultural messaging is reinforced at the national, regional and business unit levels. This instills and reinforces to engagement teams our goal of improving audit quality, which, in turn, improves decisions they make and actions they take every day.

Throughout KPMG, each of our people has important responsibilities for quality control, independence, risk management, and ethics and compliance. Policies and procedures are to be followed by all employees, at all times.

Seven core values unite our focus as a global organization:

1. We lead by example
2. We work together
3. We respect the individual
4. We seek the facts and provide insight
5. We are open and honest in our communication
6. We are committed to our communities
7. Above all, we act with integrity
KPMG’s Professional Judgment Framework was awarded the 2013 American Accounting Association/Deloitte Wildman Award, which recognizes work considered “the most significant contribution to the advancement of the practice of public accountancy” published within the most recent five years. The Framework and its underlying concepts continue to be incorporated into our internal training curriculum, and are an important part of executing an effective audit. The Framework and its related training are intended to elevate the quality of students’ judgment and professional skepticism, and to provide a common vocabulary that facilitates implementation and mentoring on professional judgment.

KPMG’s Professional Judgment Framework focuses on five elements of critical thinking in the professional judgment process, including:

1. **Clarify Issues and Objectives**
   What is the problem to be solved?

2. **Consider Alternatives**
   What is the planned course of action?

3. **Gather and Evaluate Information**
   Has attention been paid to both the negative and positive implications of the facts?

4. **Reach Conclusions**
   Does the conclusion make sense in the context of the audit and other audit evidence?

5. **Articulate and Document Rationale**
   Is the reasoning sound and have we documented all relevant factors that were considered?
We identify areas of focus and direct our investments where they will have the greatest impact on quality.

Our system of audit quality control is embedded throughout our audit-engagement process, which encompasses the methodology, supervision, consultation, documentation, review and communication of audit results. It delineates a common approach to describe what we believe drives audit quality, and highlights how every professional at KPMG contributes to its delivery.

INVESTING IN HIGH PERFORMANCE

Paramount to achieving audit quality is attracting and retaining talented professionals, supporting their development and competency through training and coaching, providing the tools and processes to succeed, and creating a work environment focused on excellence.

KPMG’s robust learning programs adjust to meet the evolving needs and requirements of our audit process. We deliver a combination of in-person, instructor-led coursework and on-demand, virtual self-paced modules tailored to precise work phases. Our professionals receive the right training, at the right level, at the right time. Additionally, KPMG training specialists have designed a performance-support system that recommends relevant guidance, resources and training materials based on the audit phase and experience levels.

Our partners and professionals have the experience and knowledge required to successfully execute our audits and, at all levels, are enhanced by coaching, tools and monitoring of systems. We support our professionals by providing the leadership and training to perform their various roles and to facilitate a culture that embraces independence, professional skepticism and objectivity in the performance of audits. Additionally, KPMG’s Professional Judgment Framework fosters effective judgment and decision-making skills. It includes a five-step process, providing techniques for reducing or overcoming the potential for bias. It encourages consideration of alternative views and contradictory evidence as a means to cultivate professional skepticism, and stresses the role of mindset, coaching and reflection in the judgment process. The principles, techniques and processes are embedded throughout the KPMG training curriculum for all levels of professionals.

Training and professional development are key to audit quality. We have increased the average training hours per full-time audit professional by more than 25% from 2013 to 2015.

2013: 102 hours
2015: 127 hours

In 2015, a survey reported that 91% of our professionals believe KPMG provides strong “opportunities for learning and professional development.”
Our root cause analysis process provides meaningful insights for quality enhancement.

Audit quality is a dynamic process that requires constant evaluation. Root cause analysis (RCA) is a fundamental part of our change-management and continuous improvement process. In our audit practice, it has led to meaningful insight, helping us identify key areas of focus for investment. We conduct a thorough examination of our system of audit quality control on an ongoing basis and have targeted seven areas where we believe innovative changes and programs will significantly impact delivery of quality audits.

**AREAS OF FOCUS AND RELATED ACTIONS**

1. **EFFECTIVE AND TIMELY PLANNING**
   - **ACTION 1:** Accelerating Audit Execution is a planning and execution initiative introduced in 2015 that establishes benchmarks and monitoring for timing and sequence of key engagement activities related to the effective execution of integrated audits, including mandating flowcharting for certain processes. We have accelerated select audit tasks out of the traditional January to March “busy” season to improve audit quality and optimize workflow, and have set milestones to monitor compliance and effectiveness.

2. **TOOLS AND TRAINING**
   - **ACTION 2:** New project management tools have been implemented to assist our teams in effectively managing their engagements and workloads. In-person and virtual training modules stress industry-specific as well as broad marketplace intelligence, and workshops enhance coaching capabilities.

3. **PERFORMANCE MANAGEMENT**
   - **ACTION 3:** Audit quality is a seminal part of goal-setting and partner and employee performance reviews.

4. **INTERNAL INSPECTIONS**
   - **ACTION 4:** To enhance the internal inspections process, we are transitioning to a larger group of full-time, dedicated resources, supplemented by field personnel committed to the inspections process for longer periods than in prior years. We have also increased training for all personnel performing inspections.

5. **ROOT CAUSE ANALYSIS**
   - **ACTION 5:** We have devoted significant new partner and professional resources to our Root Cause Analysis program in 2015, with particular focus on expanding the data expertise of the core team. Other key enhancements to the program in 2015 include expanding the number, scope and depth of engagement team interviews to enhance identification of causal factors, including the evaluation of qualitative and quantitative data introducing a new methodology that incorporates the evaluation of qualitative and quantitative data and increasing the structure and formality of processes related to data collection and analysis.
ACTION 6:
Professional Practice Group (PPG) resources support our field professionals through accounting and auditing consultations, development and deployment of audit-quality initiatives and guidance, and monitoring. PPG permanent and rotational staffing increased by nearly 40 percent in 2015, including the increased inspections resources noted in Action 4.

ACTION 7:
We are investing significant resources in our processes and technology to enhance audit quality. For example, data and analytics (D&A) capabilities are enabling our professionals to better identify risks and enhance audit quality, as well as provide valuable insights to audit committees and management.
PCAOB findings provide an independent perspective on important matters relating to the quality of our audits. Together with our internal inspection outcomes, these findings help us design a detailed road map for our strategy and quality-control efforts.
Our Quality Performance Review program undertakes ongoing, rigorous internal inspections to promote continuous improvement in audit quality. To further amplify the consistency and effectiveness of our internal inspections, we are transitioning to a larger full-time, dedicated group of inspectors and reducing the number of field professionals performing inspections to better apportion the time commitment, focus and objectivity integral to the review process. We are also involving supplemental field professionals for longer periods during the annual inspection cycle to promote consistency, leverage their experience and training, and further support the quality and objectivity of the process.

External inspections performed by the Public Company Accounting Oversight Board (PCAOB) also play a valuable role in helping guide enhancements in audit quality. Beginning with their identification in the inspection process, we conduct a thorough evaluation of all matters ultimately identified in our PCAOB Inspection Reports. PCAOB findings provide an independent perspective on important matters relating to the quality of our audits. Together with our internal inspection outcomes, these findings help us design a detailed road map for our strategy and quality control efforts.

Throughout the past year, and following our root cause analysis of both internal and external inspection findings, we took action to address those matters that may negatively impact audit quality. Notable substantive changes include:

- Remedial action with respect to our professionals’ evaluation of contrary evidence and their exercise of professional skepticism.
- Changes to our internal Quality Performance Review inspection process. Chief among these is an emphasis on the importance of consistent, objective review procedures and evaluation of the quality of the audit procedures executed and documented by our audit professionals. In addition, we improved the clarity, consistency and quality of our written comments to give a clearer and more precise indication of areas for improvement for our teams and our root cause analysis.
- Communication of mandatory milestones related to planning, risk assessment, consideration of fraud and testing internal controls to address recurring areas of deficiency. These milestones should drive work to be performed earlier in the audit cycle and better sequencing of the work performed.
- Updates to our root cause analysis process, including expanding the scope and depth of interviews and introducing a new methodology that incorporates the evaluation of qualitative and quantitative data. In recognition of the value and utility of root cause analysis, during 2015, we are significantly increasing the partners and professionals dedicated to performing and interpreting these analyses.
- Additionally, we retooled our monitoring of remediation activities.
PCAOB Inspections

Part I Findings
The PCAOB’s inspections process plays an important role in assisting us as we identify areas where we can continue to enhance our performance and strengthen our system of audit quality control. The PCAOB annually delivers a report in two parts on its inspections of audit firms. In the report covering the inspections performed in 2014, the latest available, the board in Part I of its report inspected 52 KPMG audits and identified deficiencies in 28 audits. By comparison, the number of audits identified in Part I of the board’s report in the two prior years were 23 of 50 audits inspected in 2013 and 17 of 50 audits inspected in 2012.

We are always mindful of our responsibility to the capital markets, and we are committed to continually improving the quality of the audits performed by our firm and to working constructively with the PCAOB to improve audit quality. We accept the report as constructive in improving audit quality for the companies we audit.

External inspections may also help to identify areas requiring financial statement restatement or revision of previously issued opinions on Internal Controls of Financial Reporting (ICOFR). Of the 152 KPMG audits inspected during the three years in question, one audit in 2012 required a financial restatement and two required revision of the ICOFR opinion.

Part II Findings
The PCAOB report also includes a non-public portion, commonly known as Part II. In Part II, the PCAOB provides commentary on issues it has identified through its inspections related to quality control within the firm. As part of its process, the PCAOB keeps that information confidential for a period of 12 months to allow firms time to remediate the identified issues. If the PCAOB determines that the issue has not been remediated to their satisfaction within that 12-month period, the PCAOB may decide to make public the portion of Part II that discusses that particular issue.

Our remediation plans related to our inspection reports through 2009 and for 2012 have been accepted by the PCAOB.

In October 2014, the PCAOB determined it was appropriate to make public a portion of Part II of our 2010 and 2011 Inspection Reports relating to the evaluation of contrary evidence. As a result, the PCAOB reposted our 2010 and 2011 inspection reports to make public that portion of each report. In connection with the release of Part II of each report, the PCAOB has determined we have satisfactorily addressed all other criticisms regarding our system of audit quality control set forth in Part II of the 2010 and 2011 inspection reports.
In 2015, a survey reported that 91% of our professionals believe KPMG provides strong “opportunities for learning and professional development.”

PASS: KPMG’s system of audit quality control for its nonpublic company accounting and auditing practice is not subject to PCAOB inspection. Instead, it is subject to external peer review triennially. In December 2014, PricewaterhouseCoopers LLP issued a peer review report on KPMG’s system of quality control for the accounting and auditing practice not subject to PCAOB permanent inspection for the year ended March 31, 2014. KPMG received a peer review rating of pass, the highest rating.

“To further amplify the consistency and effectiveness of our internal inspections, we are transitioning to a larger full-time, dedicated group of inspectors and reducing the number of field professionals performing inspections to better apportion the time commitment, focus and objectivity integral to the review process.”
KPMG continues to make significant investments in technology and data and analytics capabilities. We have a workforce of more than 500 dedicated D&A professionals globally and more than 100 in the United States. We also have designated lead champions with a significant time commitment to D&A, and hundreds of champions within the United States trained to support D&A. We also have built a technology infrastructure that empowers KPMG professionals to share knowledge and communicate effectively, and introduced software that enables collaboration among KPMG professionals around the world and with our clients online in a secure environment.

A 2015 survey by KPMG and Forbes Insights reinforces our commitment to innovation as the key to quality. A diverse group of respondents, including audit committee chairs and members, corporate executives and academics, was polled and revealed the following:

- 93% believe the audit profession must evolve to keep pace with technology and corporate needs.
- 58% or a majority of respondents, said technology will have the greatest impact on the audit profession in the next three to five years, providing tools for more sophisticated analysis and greater efficiency to the process.
We pledge to promote technology, talent and quality support processes that enhance the value of the audit.

KPMG has taken a leadership role in advancing the audit quality conversation, both within our firm and in the marketplace. The audit process, rigorous by definition and in practice, must keep pace with the complexities of global business and economic environments, regulations, accounting standards, and changes in risk and control. Shareholders, audit committees and management are seeking even broader assurances and deeper insights from auditors. We understand these stakeholder needs and are meeting them head on.

FUTURE FORWARD FOR THE AUDIT

We continue to explore audit quality indicators and seek the greater insight and value implicit in a quality audit. In January 2014, we launched within our firm our Future of Audit strategy, which identifies and encourages innovation as key to the evolution of the audit profession.

It is clear that digitization and advanced data and analytics capabilities are revolutionizing operations at many of the companies we audit, while also influencing the audit process. Audits of past eras relied on detailed analysis of relatively small samples of a company’s transactions. Advances in digitization and D&A competencies allow review of nearly all of a company’s transactions, and isolation of anomalies to better identify risks. This results in insights that can strengthen auditor judgments and help audit committees and management improve processes and decision-making.

From this perspective, the role of technology in the audit is to empower auditors to bring their skills, experience and professional judgment to bear in new and more impactful ways. This added value contributes to quality audits.

In order to harness the power of a technology-enabled audit, the profession also must evolve to embrace new competencies beyond the traditional boundaries of audit and accounting skills. The auditor of the future requires deeper investigative financial skills, experience in client industries, and ability to manage specialists, such as data and analytics specialists, who can contribute significantly to execution of the audit.

To further prepare our auditors, we have advanced our training in disciplines such as forensics and information technology. Additionally, we provide the resources to enable our professionals to streamline their workload on routine tasks in order to focus on higher risk areas as they execute a quality audit. We have also increased use of coaching and project management, providing our team leaders with skill sets to help them mentor and guide our audit professionals, with additional emphasis on managing engagement execution.

These skills are now highly desirable as we recruit and hire talent, and are influencing career development and learning programs.

KPMG is continuing to pursue academic and technology partnerships, strategic alliances and recruitment of top talent to provide high quality audits, while paving the way for enriched career paths for our audit professionals.

As we look to the future, we are investing in our audit quality support process to reinforce our belief that inspections—from within and by our peers and regulators—are a constructive, continuous improvement opportunity. We are dedicated to comprehensive and introspective analysis of our work performance to address areas of improvement. We believe these activities serve to increase the competence and confidence of our professionals, and enhance the execution of quality audits.

Retaining Our Professionals

KPMG focuses on being an Employer of Choice for those entering the profession and for experienced hires. We have significant recognition programs for exemplary work, have a strong mentoring program, and provide developmental training for those who manage teams and individuals.

We provide frequent updates throughout the year to our Audit teams on our plans for hiring and our resource management needs to perform high quality audits and meet the high standards of our clients.

Our retention of Audit professionals has been exceptionally strong.

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<tr>
<th>Fiscal Year</th>
<th>Retention Rate</th>
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<tr>
<td>FY15:</td>
<td>83.4%</td>
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<tr>
<td>FY14:</td>
<td>82.9%</td>
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<tr>
<td>FY13:</td>
<td>78.8%</td>
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<td>FY12:</td>
<td>78.0%</td>
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<tr>
<td>FY11:</td>
<td>77.1%</td>
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Our emphasis is on quality.

At KPMG, we are committed to ensuring that our role and related services remain relevant to the capital markets we serve, to our people, and to the companies we audit. We are continuously evaluating how we can ensure the work we perform addresses those areas that are important to our key stakeholders. In this regard, KPMG is dedicated to remaining at the forefront of the discussion about the evolution of the auditor’s report. Dialogue among public company boards, regulators, investors and members of the audit profession to appropriately set expectations and manage concerns is ongoing. This “new normal” for auditing is a continuous journey that will bring substantial benefits in the quality, insights and value of the audit.

Additional Resources


The KPMG 2014 PCAOB inspection report was released on November 10, 2015. It is available at http://pcaobus.org/Inspections/Reports/Documents/2015-KPMG.pdf. The PCAOB also reposted KPMG’s 2011 and 2010 inspection reports, including certain information from Part II of the original reports.
APPENDIX A: Our System of Audit Quality Control

KPMG’s system of audit quality control encompasses the following elements:

- **Leadership responsibilities for quality within the firm** (the “tone at the top”)
- **Engagement performance**
- **Relevant ethical requirements, including ethics and integrity, objectivity, independence, and confidentiality**
- **Personnel management**
- **Acceptance and continuance reviews of entities and specific engagements**
- **Monitoring**

**Leadership responsibilities for quality within the firm**

KPMG has established a culture that reflects an absolute commitment to audit quality. One of the main drivers of this culture is the assignment of responsibility for audit quality to top management of the firm. KPMG LLP’s chairman and CEO establishes the strategies and direction of the firm, including its ethical culture and promise of professionalism to investors and other participants in the capital markets, regulators, clients and our partners and employees. Under the direction of the chairman and CEO, the firm has established core values, which include, above all, acting with integrity, to guide its decision making and business conduct, including compliance with applicable laws, regulations, and professional standards.

Our vice chair of Audit, who reports to the chairman and CEO and the deputy chairman and COO of the firm, has ultimate responsibility for our Audit practice, including our system of audit quality control. Our national managing partner of Audit Quality and Professional Practice, who reports to the vice chair of Audit, is responsible for the day-to-day operation of our system of audit quality control and our processes to continuously improve audit quality.

Audit Quality and Professional Practice consists of a comprehensive network of partners, managing directors, senior managers, and other professionals in the Department of Professional Practice (DPP), the Audit Quality and Process Monitoring Group, the Inspections Group, the Audit Quality Support Program, and our regional and business unit professional practice network. These groups support the firm’s professionals in meeting their responsibilities in the areas of auditing and attestation, accounting and financial reporting, SEC reporting matters, root cause analysis and continuous improvement in audit quality, and internal and external inspections.

**Engagement performance**

Engagement performance encompasses all aspects of the design and execution of an audit engagement, including the firm’s audit methodology and the supervision, consultation, documentation, review, and communication of audit results. Our global audit quality framework assists every KPMG partner and employee in concentrating on the skills and behaviors needed to deliver an appropriate independent audit. In addition, the firm’s training includes programs designed to enhance professionals’ ability to make judgments by employing a framework that addresses how biases impact decision making and how to recognize and overcome biases in making judgments and applying appropriate professional skepticism.

KPMG International’s Global Services Centre comprises professionals who develop and regularly update the methodologies that constitute the global audit process, in cooperation with KPMG International’s International Standards Group and the U.S. firm’s DPP.

The KPMG Audit is, where applicable, an integrated audit model, which incorporates both the audit of the financial statements and the audit of internal control over financial reporting. Our integrated audit is enhanced through timely communications with the audit committee and management throughout the audit process.

We use our knowledge and experience to identify a number of different risks (e.g., inherent risk, control risk, fraud risk, and risk of failure of a control), and assess risks within a continuous range from lower to higher. The higher the risk, the more persuasive the audit evidence needs to be to mitigate that risk. We exercise professional skepticism throughout the audit in gathering and objectively evaluating the sufficiency and appropriateness of audit evidence obtained, which includes evidence that is confirming as well as disconfirming.

Our audit methodology is enhanced through eAudIT, KPMG’s electronic audit tool. eAudIT is an activity-based work flow and electronic audit file that integrates our methodology, guidance, industry knowledge, and tools needed to facilitate the audit process.

The KPMG Audit addresses both manual and automated controls and includes integration of the firm’s information technology professionals and other specialists into the core audit engagement team when appropriate. Our audit also includes procedures aimed at identifying and responding to fraud risks.

The KPMG Audit also guides the conduct of audits of financial statements comprising two or more components (group audits) and clearly delineates responsibilities relative to managing group audits and the involvement of the group audit engagement team in the work performed by the component auditor. Our audit methodology includes policies and guidance related to those matters that merit special consideration in performing group audits, including:

- Performing the group risk assessment
- Identifying significant component(s)
- Identifying significant accounts/disclosures and relevant assertions at the group level
- Evaluating groupwide controls
- Establishing group and component(s) materiality
- Communicating with the component auditor(s)
- Being involved in the risk assessment for significant component(s)
- Evaluating the results and findings of all work performed and considering whether sufficient appropriate audit evidence has been obtained
Supervision, review, and support for the engagement team
Supervision entails directing the efforts of professionals who are involved in accomplishing the objectives of the audit and determining whether those objectives were accomplished. Elements of supervision include instructing and guiding professionals, keeping informed of significant issues, reviewing the work performed, addressing issues, and agreeing on appropriate conclusions.

Consultation and differences of opinion
The firm has established protocols for consultation and documentation regarding significant accounting, reporting and auditing matters, including procedures to resolve differences of opinion on engagement issues. Consultation within KPMG is encouraged and, in certain circumstances, required. Technical support for each engagement team comes from a network that includes DPP as well as the professional practice partners.

Differences of opinion may arise within the engagement team, with those consulted, or between the lead audit engagement executive, which may be a partner or managing director, and engagement quality control reviewer. In circumstances when an engagement team member does not agree with the resolution of the difference of opinion, even after appropriate consultation, and believes it necessary to be disassociated from the matter, we require that individual to document the matter, including the basis for resolution, in the audit documentation and consult with DPP. Where partners or managing directors involved in the audit are unable to resolve an issue, the matter may be elevated for resolution by DPP. In any case, we do not issue the auditors’ report(s) until differences of opinion are resolved, and the resolution is implemented and documented.

Engagement quality control review
An engagement quality control review is an important element of KPMG’s system of quality control that is designed to provide reasonable assurance that, among other things, the entity’s financial statements comply with applicable accounting and reporting standards and relevant regulatory requirements and that the auditors’ report(s) is appropriate. The engagement quality control review responsibility is assigned to a partner, or where permitted, a managing director, who has no involvement on the engagement other than that relating to performing a review of the financial statements, auditors’ reports, and certain audit documentation. Engagement quality control reviewers are expected to maintain their objectivity throughout their review, and if it is concluded that the reviewer’s objectivity is impaired, another engagement quality control reviewer is appointed.

The engagement quality control reviewer meets certain qualifications and criteria to perform an engagement quality control review for a particular engagement. Partners who perform engagement quality control reviews of public company audits are provided incremental internal training; these individuals are the firm’s most experienced technical partners and are knowledgeable and experienced in SEC accounting and reporting matters and PCAOB professional standards (including, specifically, PCAOB Auditing Standard No. 7, Engagement Quality Review).

Our firm’s policies require some level of engagement quality control review prior to the report release date of the related report(s) for audit and review engagements.

Engagement documentation
Our audit documentation is completed and assembled according to the timeline established by firm policy, and we have implemented administrative, technical, and physical safeguards designed to protect the confidentiality and integrity of audit entity and firm information.

The firm’s document retention policies govern matters such as the retention period for audit documentation and other records relevant to an engagement in accordance with the relevant SEC and PCAOB rules as well as other applicable standards and regulations.

Relevant ethical requirements

Ethics and integrity
Our culture is built on the principle that every individual must take personal responsibility for ethics and compliance. Our Code of Conduct (the Code) is the cornerstone of our ethics and compliance program. It helps us to articulate our standards of professionalism and integrity expected of all KPMG partners and employees. At the time of hire, and each year thereafter as part of an annual confirmation process, every one of our people is asked to confirm in writing that he or she has reviewed the Code, understands it, and agrees to adhere to our core values, shared responsibilities, global commitments, and promises.

Objectivity
Independence, integrity, ethics, and objectivity are the pillars of our firm. Thus, we work diligently to avoid an actual impairment or even the appearance of an impairment of our independence. KPMG personnel are vigilant to recognize actual and potential conflicts of interest, identifying them at the earliest opportunity to resolve, manage, or avoid the conflict. Conflicts of interest may preclude KPMG from accepting an entity as a client or a specific engagement.

Independence
KPMG’s independence policies require that the firm, its partners and management group, and the personnel assigned to each audit engagement be free from financial interests in and prohibited relationships with the entity we audit and its affiliates, its management, its directors, and its significant owners. The firm requires adherence to applicable independence requirements and ethical standards, which meet or exceed the standards promulgated by the PCAOB, SEC, AICPA, Government Accountability Office (GAO), and all other applicable regulatory bodies. These policies and procedures, which cover areas such as personal independence, postemployment relationships, rotation of certain engagement personnel, and approval of audit and non-audit services, are monitored continuously.

Confidentiality
KPMG has policies and processes in place to help ensure that any nonpublic information that comes to the attention of our personnel as a result of their association with the firm (confidential information) is treated confidentially, in accordance with applicable laws, professional standards, and contractual requirements. All KPMG personnel are trained on the firm’s confidentiality policies
when they join the firm and confirm their understanding of and adherence to KPMG’s confidentiality policies at the time of hire and annually thereafter.

**Personnel management**

**Recruitment and hiring**

Candidates for professional positions are interviewed and are subject to background checks where the information provided is verified through independent sources. Prior to their start date, candidates are provided access to the firm’s independence guidelines to ascertain and confirm their independence. Situations involving independence or conflicts of interest are to be resolved before the individual can begin employment. Upon joining the firm, personnel are also required to complete training programs on independence, ethics, respect and dignity, protection of confidential information, document retention, and security, in addition to any practice-related training programs.

**Assignment of engagement teams**

Individuals are assigned to specific engagements based on their skill sets, relevant professional and industry experience, the nature of the engagement or engagement, and available capacity. Lead audit engagement executives and engagement quality control reviewer assignments are approved by business unit leadership and also may be approved by regional and national leadership based on the individual characteristics of the entity we audit.

The lead audit engagement executive considers that the engagement team collectively has the appropriate competencies and capabilities, including capacity to perform the audit engagement in accordance with firm policies, professional standards, and applicable legal and regulatory requirements, to enable an appropriate auditors’ report to be issued.

**Professional development**

Our professionals are required to maintain their technical competence and to comply with applicable regulatory and professional requirements regarding continuing professional education (CPE). The firm provides learning opportunities to help our professionals meet these requirements, as well as their own professional development goals. KPMG maintains a system that helps professionals and the firm monitor compliance with the requirements.

KPMG requires that client service professionals who are eligible to hold a certified public accountant (CPA) license (i.e., who have passed the CPA exam and met applicable state educational and experience requirements) be licensed to practice in the state where their principal place of business is located and meet all CPA licensing requirements in any other state(s) in which they practice public accounting. The firm closely monitors license expiration and renewal for its professionals using a database that automatically generates a notification prior to license expiration.

**Performance evaluation, advancement, and compensation**

The firm’s professionals, including partners, are subject to annual goal-setting and performance evaluations conducted by people management leaders, who are trained in the KPMG performance management process and are familiar with the professionals’ performance. Each professional is evaluated on his or her attainment of agreed-upon goals, demonstration of skills/behaviors, and adherence to the firm’s values. The results of the annual performance evaluation directly affect compensation and advancement of KPMG personnel, including partners, and in some cases, their continued association with the firm.

Our process for admission to the partnership is rigorous and thorough. Each candidate for the partnership, whether a direct-entry hire or internal nomination, undergoes a background check and is interviewed by several members of firm leadership and a Board member. Furthermore, an extensive review for each internal partner candidate is completed by a number of departments, and all recommendations for admission to the partnership must be approved by an affirmative vote of two-thirds of the Board.

Audit partner compensation is determined annually by Audit leadership and approved by the Management Committee and Board. The professional practice partners have significant involvement in evaluating Audit partner performance and compensation.

All partners are compensated from the distributable profits of the firm. The determination of the profits available for distribution is based on the results of the firm as a whole and is not dependent directly on the performance of any particular line of business or function. Partner compensation is composed primarily of a pre-determined proportion of the profits for the year, which is based, in part, on the seniority and experience of each partner.

Audit quality performance is the central factor in evaluating and compensating Audit partners and Tax and Advisory partners who participate in audit engagements.

**Acceptance and continuance reviews of entities and specific engagements**

KPMG recognizes that rigorous entity and engagement acceptance and continuance policies are vitally important to the firm’s ability to provide high-quality professional services, and the firm has established policies and procedures for deciding whether to accept or continue a professional relationship and whether to perform specific services for a particular entity. KPMG uses a tool, known as CLEAS (Client/Engagement Acceptance and Setup), to manage, control, and document its entity and engagement acceptance and continuance processes.

**Prospective entity/engagement evaluation processes**

Prior to accepting an audit engagement with a new audit entity, firm policies require an evaluation of the entity and its principals, its business, and engagement-related matters, as appropriate. This evaluation typically includes a background investigation of the entity and selected senior management personnel. Factors considered during the acceptance process include, but are not limited to: the character and competency of management and the audit committee; business-related matters; service-related matters; and independence-related matters.

Prospective audit engagement evaluations require approval of the professional practice partner and the business unit partner-in-charge. New SEC audit engagements require additional approvals by the regional professional practice partner, and certain other entities also require the approval of Risk Management—Audit and Independence.
Independence and conflict check system
Engagement teams proposing to perform a new audit engagement are required to perform a series of procedures, including a review of non-audit services provided to the potential entity to be audited. KPMG’s Sentinel system is used to identify and manage potential independence and other conflicts of interest within and across member firms in KPMG’s global network. When a potential conflict of interest is identified, a member of Risk Management determines how to resolve the potential conflict after appropriate consultations, if needed, with the Office of General Counsel, and the resolution of all matters is documented.

If a potential independence issue or conflict cannot be resolved satisfactorily in accordance with professional and firm standards, the prospective entity or engagement is declined.

Continuance process
Lead audit engagement executives are required to review and evaluate their existing audit and attestation engagements with their professional practice partner at least annually. The objective of these reviews is to identify those engagements where the firm should consider implementing additional safeguards to address audit risk and those instances where we should discontinue our professional association with the entity. Among the factors considered that require additional evaluation procedures to be conducted include, but are not limited to: new legal, regulatory or professional requirements that alter our reporting responsibilities and professional risks; significant changes in the entity’s business, ownership or management; significant adverse changes in the entity’s financial performance or in the perceived integrity of management or the principal owners; particular audit findings such as material weaknesses in internal control or restatement of the financial statements; and results of an investigation of the entity by a regulatory body or its audit committee involving a current member of management.

Monitoring
Monitoring of the firm’s system of audit quality control involves ongoing consideration and evaluation by the firm of the following matters:

- Relevance and adequacy of the firm’s policies and procedures
- Appropriateness of the firm’s guidance materials, tools, and practice aids
- Effectiveness of professional development activities
- Compliance with professional and firm standards, policies, and procedures
- Effectiveness of action plans developed to address systemic findings related to audit engagement performance identified by internal and external monitoring activities

Internal inspection processes
Along with other monitoring activities previously described, KPMG meets the profession’s monitoring requirement through the implementation of our internal inspection processes, including the annual Quality Performance Review and Risk Compliance Programs.

Regulatory external reviews
KPMG is subject to annual inspection by the PCAOB. Because the PCAOB plays an important role in improving audit quality, the PCAOB’s inspection process serves to assist us in identifying areas where we can improve our performance and strengthen our system of audit quality control. The 2014 PCAOB inspection report on KPMG is the firm’s most recent inspection report and is accessible through our Web site at http://www.kpmg.com/US/en/about/Pages/regulatory-peer-reviews.aspx.

External peer review
To comply with licensing requirements of state boards of accountancy and the GAO and membership in the AICPA, KPMG undergoes a triennial external peer review conducted by another Big Four firm. The firm’s most recent peer review report was issued by PricewaterhouseCoopers LLP in December 2014 on KPMG’s system of audit quality control for its nonpublic entity accounting and auditing practice. The firm received a peer review rating of pass. The peer review report and the AICPA’s acceptance letter are accessible through our Web site at http://www.kpmg.com/US/en/about/Pages/regulatory-peer-reviews.aspx.

Complaints and allegations (Ethics and Compliance Hotline)
To further our commitment to integrity and an ethical culture, KPMG maintains an Ethics and Compliance Hotline that allows both phone and Web reports to be made through an independent third-party provider by calling the toll-free number, 1-877-576-4033, or by submitting a report via the Web at www.kpmgethics.com. The firm encourages use of the hotline when KPMG partners and employees feel uncomfortable reporting concerns about possible illegal, unethical, or improper conduct through normal channels or when the reporter desires to remain anonymous. The hotline is available to external parties as well, including personnel at entities we serve, vendors, and professionals from other KPMG International member firms. Reports filed through the hotline are directed to the firm’s chief compliance officer for review and, if necessary, assignment of appropriate firm resources for investigation and resolution. All reports are handled confidentially (to the extent allowable by law and consistent with the needs of a thorough investigation) and anonymously, if requested, and retaliation for good-faith reporting or for otherwise participating in an investigation is prohibited.