



# Our System of Audit Quality Controls

February 2018

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# This is our Purpose: Inspire confidence. Empower change.

## THESE ARE OUR VALUES

Lead by example. Respect the individual. Work together. Communicate openly and honestly. Seek the facts and provide insight. Improve communities. Act with integrity.

## THIS IS OUR VISION: TO BE THE CLEAR CHOICE

Our people are extraordinary. Our clients see a difference in us. The public trusts us.

## THIS IS OUR STRATEGY

We will drive a relentless focus on quality and excellent service. Take a long-term, sustainable view. Act as a multi-disciplinary firm, collaborating seamlessly. Invest together in our chosen global-growth priorities. Continuously improve quality, consistency and efficiency. Maintain a passionate focus on our stakeholders. Deploy globally our highly talented people. Bring insights and innovative ideas. Build public trust.

## THIS IS OUR PROMISE

With passion and purpose, we work shoulder-to-shoulder with you, integrating innovative approaches and deep expertise to deliver real results.

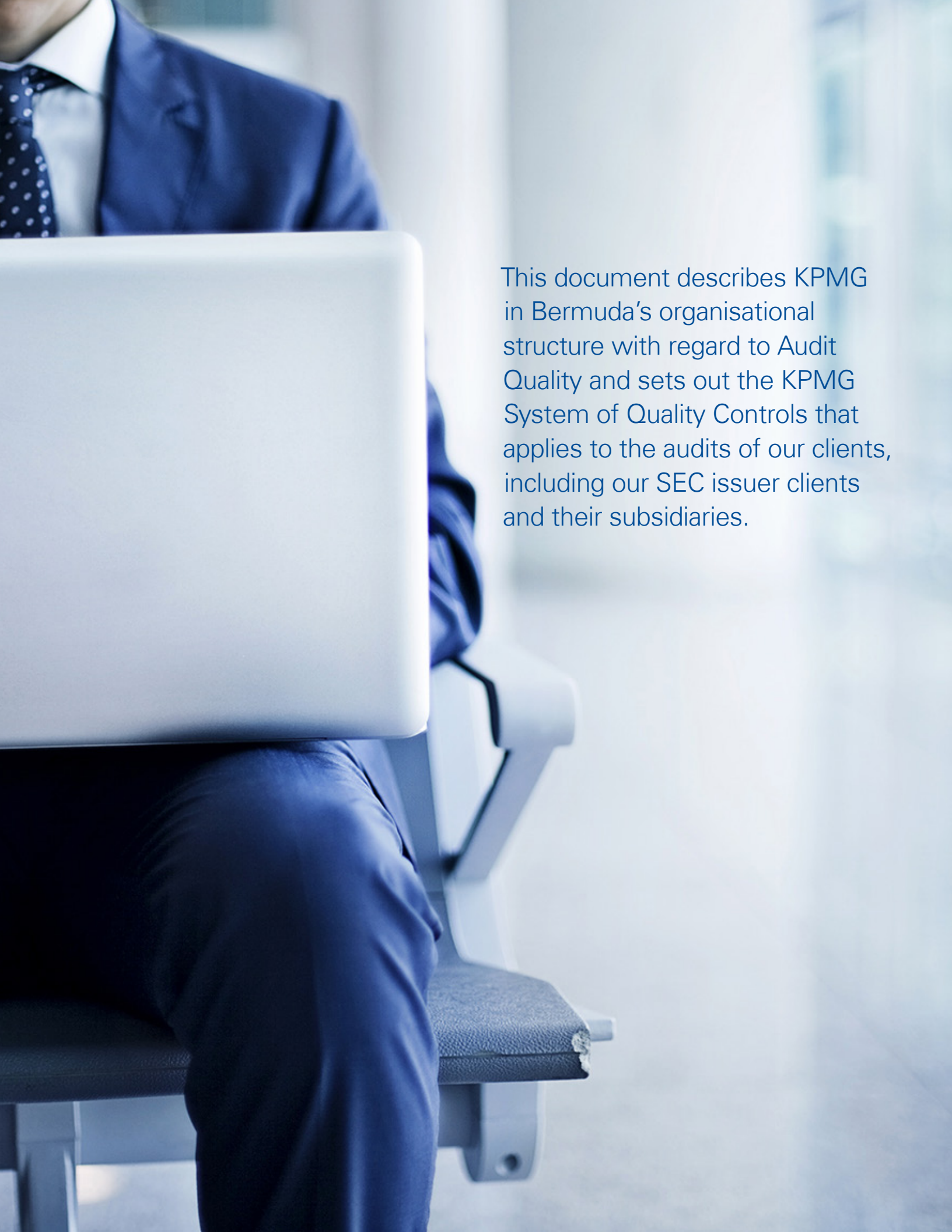
## WHAT THIS MEANS FOR OUR AUDIT CLIENTS

We are passionate about audit quality and committed to providing independent assurance on what matters to stakeholders. We approach all matters in an audit with objectivity and professional skepticism, and work in close collaboration with the audit committee and management. To us, real results mean the execution of the highest quality audit, the sharing of relevant insights and candid communication of the results of our work.







A person wearing a blue suit and a dark tie with white polka dots is seated at a desk. A silver laptop is open in front of them, and their hands are resting on their lap. The background is a bright, out-of-focus office space with large windows.

This document describes KPMG in Bermuda's organisational structure with regard to Audit Quality and sets out the KPMG System of Quality Controls that applies to the audits of our clients, including our SEC issuer clients and their subsidiaries.

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# Our Quality Statement

Independent, quality work is the most important factor in serving the public interest and it is critical to retaining the confidence of our constituents.

For more than sixty years, KPMG in Bermuda has provided its clients with independent, quality audit work, earning a reputation for independence, integrity, ethical behaviour and objectivity. This is due in large part to our highly developed system of quality controls, which has been critical to our success.

The key components of KPMG in Bermuda's quality control system are:

- Our Code of Conduct, which defines the values and standards by which KPMG in Bermuda does business;
- Documented risk management and quality control policies and procedures;
- Technical guidance and support on complex accounting and audit issues that cannot be resolved within the firm is available through resources which include access to the Department of Professional Practice within the KPMG member firm in the USA or the International Financial Reporting Group based in London;
- The oversight of professional performance, including engagement quality control reviews, and our internal Quality Performance Review Programme, which provides for the review of audit work for quality and compliance with KPMG and professional standards;
- Independence policies supported by integrated, web-based systems that help our professionals maintain and monitor their compliance with independence requirements;
- Developed methodologies, manuals and training courses to support the delivery of our audit services;
- The appointment of the Head of Risk Management who is responsible for risk and regulatory matters and the appointment of a Quality and Risk Management Group that monitors developments and provides guidance to all staff with regard to risk management, ethics and independence, and professional policies and procedures;
- The appointment of the Head of Ethics and Independence who is responsible for ethics and independence matters. The appointment of a dedicated Ethics and Independence Manager to assist in the monitoring of policies and procedures concerning ethics and independence; and
- The appointment of a Compliance Senior Manager who reports to the firm's Head of Risk Management and who oversees the testing of the firm's compliance with its stated policies and procedures on an ongoing basis.

# Our Internal Quality Control Systems and Procedures

KPMG in Bermuda maintains a system of quality control for its audit practice that is designed to meet or exceed the requirements of Bermuda law, the rules of the Chartered Professional Accountants of Bermuda (CPA Bermuda), International Ethics Standards Board for Accountants (IESBA), and the rules and standards issued by the Public Company Accounting Oversight Board (PCAOB) and the American Institute of Certified Public Accountants (AICPA).

## Background and Organisation

KPMG's system of quality control applicable to its audit practice, encompasses the following elements:

- Leadership responsibilities for quality within the firm ("tone at the top");
- Engagement performance;
- Relevant ethical requirements;
- Human resources;
- Acceptance and continuance of client relationships and engagements; and
- Monitoring of audit quality.

Our Head of Audit, who reports directly to our firm's Chairman, has responsibility for our audit practice, which includes our system of quality control. Our Head of Audit is supported by our Technical Committee and our Audit Quality Committee. The Technical Committee monitors developments in accounting and auditing standards, provides tailored training programmes to our staff and provides guidance to engagement teams on complex accounting and auditing issues.

## Risk Management and Quality Control Structure

KPMG in Bermuda's Head of Risk Management leads quality and risk management for the firm. Risk management and quality control are also considered the responsibility of every KPMG Audit Engagement Managing Director, Director, Manager and member of staff. Inherent in this responsibility is understanding and adhering to KPMG in Bermuda's policies and associated procedures as well as exercising vigilance in their application. The following groups are part of the firm's risk management structure.

## Key contacts:



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### Quality and Risk Management Group

The risk management working group consists of the firm's Head of Risk Management and other professionals who are charged with monitoring developments and ensuring the firm's compliance with risk management, ethics and independence and professional policies and procedures. Each of our lines of business (Audit, Advisory and Tax) also has a dedicated senior member of the management team who is responsible for the risk management in that department. These individuals are responsible for providing risk management and quality leadership in their respective business units and for directing adherence to firm policy and professional standards. Their roles are; (1) to assimilate information pertaining to the professional risks of the firm; (2) to take steps to provide reasonable assurance that risks are being managed and firm and professional policies are being followed and; (3) to suggest ways that we may improve firm policies.

### Ethics and Independence Team

The Ethics and Independence Team consists of the firm's Head of Ethics and Independence and a dedicated Ethics and Independence Manager who collectively have responsibility for communicating the firm's ethics and independence policies and procedures and for ensuring the independence of the firm's professionals.

### Compliance Senior Manager

The Compliance Senior Manager reports directly to the firm's Head of Risk Management and he has responsibility for overseeing the testing of the firm's compliance with certain policies and procedures on an ongoing basis.



# The audit quality imperative at KPMG

**Quality is engrained in our values and our mindset. We have deliberately designed and nurtured a culture that supports and promotes audit quality at KPMG. It establishes sustainable audit quality as our highest strategic and operational priority, inseparable from our culture.**

Our leaders stress quality work and monitor our progress toward consistently getting it right, from our incoming classes of interns to our most senior managing directors. Quality is integrated into our engagement performance, ethics guidance and training, personnel management and client acceptance-and-continuance reviews. We also view innovation as essential to continuous improvement.

Leadership tone establishes and reinforces the quality imperative. Our firm leadership follows through by directing investment in our people and those processes supporting our audit quality vision. Achieving quality is consistently communicated throughout the firm. We hold ourselves accountable for audit quality at all times.

We invest in our commitment to audit quality. We have created a blueprint for building auditor skills and advancing technologies to meet the needs of an evolving, increasingly complex business landscape.

To further promote audit quality, we have established policies, clearly articulated ethical guidance, hired and trained outstanding candidates in the profession, and implemented reward structures that promote quality work and integrity. KPMG's leaders - firmwide and especially in our Audit, Tax and Advisory practices - reinforce our culture which demands the highest quality work at all times. Our audit engagement teams, including both audit professionals and specialists deployed from our tax and advisory practices, know and understand our focus on audit quality.

We are always seeking to do better. We actively solicit suggestions from our professionals and value input from our regulators. We undertake rigorous root-cause analyses to assess and remediate deficiencies.

To augment "tone at the top," our communications process has improved content and delivery of our messages that guide and hold accountable our people at every level of the firm. Our DPP Bulletin communicates critical audit and accounting policy, guidance, tools and reminders.

# Audit Quality Control Elements

Professional practice, risk management, and quality control are the responsibilities of everyone who works at KPMG. All our professionals are expected to understand, apply and adhere to KPMG's policies and procedures at all times. Our policies reflect individual quality control elements to help everyone at KPMG act with integrity and objectivity, perform their work with diligence, and comply with applicable laws, regulations, and professional standards.

## Independence, Integrity, Ethics, and Objectivity

To ensure KPMG in Bermuda's independence, integrity, ethics, and objectivity, the firm, and all professionals assigned to each engagement, must be free from financial interests in and prohibited relationships with the client, its management, its directors, and its significant owners. Our policies help ensure that everyone at KPMG acts with integrity and objectivity, performs their work with diligence, and complies with applicable laws, regulations, and professional standards at all times.

KPMG in Bermuda has established processes that communicate independence policies and procedures to personnel. We require our personnel to adhere to applicable independence requirements and ethical standards at all times and we monitor compliance through an integrated, web-based, automated independence compliance system, as well as through a compliance audit process. This system contains an inventory of all publicly traded entities and the securities they have issued. Publicly traded audit clients of all member firms in the KPMG International network are marked "restricted" in the system. Before purchasing a security or securing a loan or entering into another financial relationship, professionals use the independence search engine to determine if the entity is restricted. Engagement leaders and managers are required to report all of their investments in the tracking system, which automatically notifies professionals if their investments become restricted.

Our independence policies meet the standards promulgated by local laws, CPA Bermuda and the professional requirements promulgated by IFAC, the PCAOB, SEC, and the AICPA.

## Independence Monitoring

KPMG in Bermuda monitors compliance with its independence policies through an integrated, web-based, automated independence compliance system (KICS). This system contains a global inventory of KPMG's public audit clients and their affiliates and the securities they have issued. The inventory also includes firm investments, and other financial and business relationships. This is also used as a tool to monitor compliance with investment policies. Audit engagement teams must confirm that their publicly traded audit clients, all affiliates thereof, and all related securities are recorded on the independence system and are appropriately categorised as restricted investments.

Before purchasing a security, all members of the management team must use KICS to determine if the investment is restricted. All new individual investment holdings and disposals must be recorded in the system within 14 days of making an investment transaction. If a security becomes restricted at a later date, individuals who have reported holdings of such securities receive automatic notification that they must sell the restricted investment within five business days. This process is monitored by the Compliance Senior Manager.



The web-based system is also available to be searched before a loan is obtained to ensure a loan is not obtained from a prohibited lender. Likewise, the system includes information on restrictions surrounding other financial relationships, such as prohibited brokerage companies.

The firm requires all professionals to affirm their independence annually using an electronic affidavit system. This affidavit is completed upon joining the firm, every year thereafter and upon termination of employment. In addition, the affidavit is used to confirm the individual's compliance with, and understanding of, KPMG's independence policies. The firm's independence team review and resolve questions and any apparent violations that are reported on the affidavits.

The firm's compliance senior manager also oversees the audits, on a quarterly basis, of selected independence affidavits and the information reported in KICS. Individuals selected for audit must submit certain personal financial information (such as statements from brokerage accounts, bank statements, tax returns, etc.) as part of this audit.

The firm's policies also address disciplinary actions in the event of individual non-compliance with its independence policies. Such actions vary based on the event and severity of the violation and could include dismissal.

#### Approval of Audit and Non-Audit Services

To ensure we do not provide prohibited services to our public audit clients and their affiliates and to ensure we obtain pre-approval of all permitted services from the client's audit committee, KPMG has developed a conflict checking system called Sentinel. Sentinel facilitates compliance with these policies and is also used to identify and manage potential conflicts of interest within and across member firms in the KPMG International network. Together with our policies, Sentinel helps the firm resolve any potential conflicts of interest, prevent the provision of prohibited services to SEC and certain public interest audit clients, and determines that permitted services are properly pre-approved.

#### Rotation of Senior Audit Personnel

Under the Sarbanes-Oxley Act and the SEC's independence

rules, senior audit personnel are subject to specific rotation requirements that limit the number of years an individual may provide services to a client. To comply with these requirements, the firm monitors the rotation of its Audit Engagement Partners and Engagement Quality Control Reviewers (EQCR) who provide services to publicly held clients. Our monitoring system also aids in the development of timely transition plans that help the firm deliver consistent quality service to our clients. The process of monitoring and tracking service time and rotation is subject to compliance testing as part of our Quality Performance Review Programme.

#### Post-Employment Policies

KPMG professionals are required to report promptly to the firm's Head of Ethics and Independence any discussions or contacts between them and an audit client regarding possible employment.

Any professionals engaged in discussions or negotiations regarding possible employment with an SEC audit client in an accounting or financial reporting oversight role are immediately removed from the audit engagement.

If a professional accepts employment with a client, the ongoing engagement team gives active consideration to the appropriateness or necessity of modifying the audit procedures to adjust for risk of circumvention by the former professional of the firm. Under the Sarbanes-Oxley Act and the SEC's rules, the firm's independence from an SEC audit client would be impaired if a former engagement team member is employed by an audit client at the issuer level (e.g., parent company) in a financial reporting oversight role within the "cooling-off" period. The firm has established policies that require former professionals to observe the cooling-off period before they join an SEC audit client.

#### Ethics and Integrity

KPMG is committed to doing the right thing, in the right way, for our people, for our clients and for the capital markets we serve. It is this commitment that underlies our values-based compliance culture, in which individuals are encouraged to raise their hands to voice concerns when they see behaviours or actions that are inconsistent with our values or professional

responsibilities. In this culture, they know that the concern will be constructively reviewed and considered, and then appropriate action will be taken.

The firm's Code of Conduct is the central tool that articulates the values and principles embodied in KPMG's policies and underscores KPMG's commitment to ethics and integrity. The Code of Conduct details the values and standards of behaviour expected of all KPMG professionals. All employees complete stand-alone ethics training on the relevant Code of Conduct topics, and each year acknowledge that they understand and agree to comply with the firm's Code.

A KPMG International Hotline also is available for all KPMG employees and clients of KPMG International member firms; and other parties to confidentially report possible illegal, unethical, or improper conduct in violation of KPMG International's Code of Conduct.

### Objectivity

Independence, integrity, ethics and objectivity are the central pillars of our firm and we work diligently to avoid even the appearance of a conflict of interest.

KPMG in Bermuda's personnel are alert to actual and potential conflicts of interest, identifying them at the earliest opportunity and resolving, managing, or avoiding the conflict. Conflicts of interest may preclude KPMG in Bermuda from accepting a client or an engagement.

The firm's proprietary system, Sentinel, is used to identify and manage potential conflicts of interest within and across member firms in the KPMG International network. When we become aware of a potential conflict of interest, it is discussed with the Head of Risk Management or the Head of Ethics and Independence. Depending on the nature of the potential conflict, the discussions may also involve the Chairman of the firm and, potentially, the Office of General Counsel. If the engagement is accepted, it may be necessary to establish "ethical dividers" with respect to the professionals assigned. If a potential conflict cannot be resolved or managed appropriately, the engagement or prospective client is declined.

### Client Confidentiality

KPMG in Bermuda's policies require its personnel to maintain the confidentiality of all clients and former clients. The firm also requires its professionals to affirm their understanding of the relevant professional body and firm rules governing treatment of confidential client information at the commencement of employment, and annually thereafter, in an affidavit. Business relationships, suppliers and financial relationships.

Our firm has policies and procedures in place that are designed to ensure that business, supplier, and financing relationships are identified, assessed and maintained in accordance with applicable independence standards. Compliance with these policies and procedures is monitored by the Ethics and Independence Team.

### Personnel Management

The firm's personnel management system encompasses the areas of:

- Recruiting and hiring;
- Assignment, evaluation, and advancement;
- Performance evaluation and compensation;
- Development and training; and
- Supervision.

### Recruitment and Hiring

All candidates for professional positions submit résumés, are interviewed, and are subject to background checks during which information provided is verified through independent sources. Potential candidates are informed of the firm's independence policies and are required to confirm their independence prior to joining us.

Potential candidates are advised to contact Human Resources or the Head of Ethics and Independence should there be any potential independence or conflict of interest situations, so that they can be resolved before the individual begins employment with KPMG in Bermuda.

Newly hired professionals are also required to complete a computer-based training programme on ethics and independence within one month of joining the firm.



KPMG requires that all client service professionals are professionally qualified or are enrolled in a student programme that leads to an appropriate qualification.





### Determining Capabilities and Competencies

The appropriate capabilities and competencies of an audit engagement team as a whole include the following:

- An understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation;
- An understanding of professional standards, regulatory standards and legal requirements;
- Appropriate technical knowledge, including knowledge of relevant information technology;
- Knowledge of relevant industries in which the client operates;
- Ability to apply professional judgment; and
- An understanding of KPMG's quality control policies and procedures.

KPMG requires that all client service professionals are qualified or are enrolled in a student programme that leads to an appropriate accountancy qualification. The vast majority of our professionals are fully qualified Chartered Professional Accountants, Certified Public Accountants or Chartered Certified Accountants depending on their country of origin. Professional qualifications are checked as part of our background checking procedures at the time of hiring.

The firm's Learning and Development department track and maintain records of all continuous professional education (CPE) hours recorded by our professionals and ensure that the relevant CPE requirements of the various institutes, state licensing authorities or equivalent bodies are adhered to on an annual basis.

Our process for promotion to senior levels of management is rigorous and thorough, involving the appropriate members of KPMG leadership. Each candidate for the role of Managing Director or Director, whether via potential direct entry hire or internal nomination, is reviewed and interviewed by several members of firm leadership, including the relevant department leader, Head of Risk Management and the Chairman.

Potential candidates must also take part in a managing director candidate profiling assessment conducted by an external consultancy based in the United Kingdom and must undergo a panel interview process conducted by several senior KPMG managing directors from outside the Bermuda firm.

### Assignment of Engagement Teams

Individuals are assigned to specific audit engagements based on their skill sets, relevant professional and industry experience and the nature of the assignment or engagement. Engagement Partner and EQCR assignments for SEC audit clients are approved by the Head of Audit and the Head of Risk Management.

The audit engagement leader 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 and to enable an appropriate auditors' report(s) to be issued.

### Performance Evaluation and Compensation

All professionals undergo annual goal setting and performance evaluations conducted by performance managers who are familiar with their performance. Each professional is evaluated on his or her attainment of agreed-upon goals, demonstration of skills/behaviours, and adherence to KPMG values. Skills/behaviours evaluated included quality focus and professionalism, technical knowledge, accountability, business and strategic focus, leading and developing people, continuous learning, and relationship building.

The firm's performance evaluation model has been developed to provide a consistent framework by which leadership and performance management leaders may discuss performance relative to goals and objectives and career development aspirations. The results of the annual performance evaluation directly affect compensation of all KPMG personnel and, in some cases, their continued association with the firm.

Compensation for our senior personnel is determined annually by our Compensation Committee, made up of the firm's Chairman and a member of the firm's Executive Committee. The Head of Risk Management has significant involvement in evaluating performance and compensation. Audit quality is an important factor in evaluating and compensating Audit staff, EQCR's and Audit Directors.

The achievement of appropriate audit related professional practice goals is considered in the compensation of those tax and advisory professional who participate in audit engagements. Our policies for setting compensation amounts will not allow an Audit Engagement Leader, as defined by the SEC, to be compensated for the sale of non-audit services to his or her SEC audit client.



### Development and Training

The firm's professionals meet their CPE requirements through various professional development courses, including local office and CPA Bermuda training courses. We have established policies to ensure that all professional members of the firm maintain their professional competence and meet all regulatory and professional standards.

To assist individuals in meeting these requirements as well as the relevant local legal and professional requirements, the firm annually offers courses at all professional levels and has an annual process for setting individual professional development goals. The firm provides all professionals with annual training in ethics and independence. KPMG in Bermuda also supports the individual learning requirements of professional staff through attendance at various external training courses in Bermuda and other locations such as the UK and the U.S.

We also have annual experience and training requirements relating to U.S. GAAP/GAAS & IFRS assignments. These requirements help to ensure that the engagement team collectively has the necessary capabilities and competence to perform the audit engagement in accordance with the relevant professional standards and regulatory and legal requirements. Audit quality is continually emphasised to our professionals through timely training and communication of accounting, auditing, and reporting matters. We also encourage our professionals to stay abreast of technical updates by attending internal and external industry specific training programmes and conferences as well as reviewing pertinent bulletins and periodicals.

### Prospective Client Evaluation Process

Prior to acceptance of an audit client, we perform an evaluation of the client and its principals, its business, and other service-related matters. This evaluation includes a background investigation of the entity and selected senior management personnel.

Factors considered during the client acceptance process include, but are not limited to:

- Client-related matters (financial strength, reputation, and character and integrity of management personnel);
- Business-related matters (industry, products, and competitors);
- Service-related matters (specialist skills, technical requirements and risk associated with services requested); and

- Independence-related matters (employment-related matters, financial relationships, investments, loans, and non-audit services).

In addition to conducting public background checks on the prospective client and on influential individuals employed by the client, the firm also investigates and evaluates any potential independence and conflict of interest issues. Any potential independence issues and conflicts identified are resolved in consultation with other parties, and the resolution of all matters is documented. Resolution of potential conflicts requires approval from a second party, which could include the Head of Ethics and Independence, Sentinel resolver, or the functional Head of Risk Management. If a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional and firm standards, the prospective client or engagement is declined.

All prospective client evaluations require approval of the Business Unit Head. In addition, all prospective clients evaluated as medium risk or higher also require further approval by the Head of Risk Management. Prospective clients that are SEC registrants also require approval from an SEC Reviewing Partner.

### Continuance Process

Each year we embark upon a formal client continuance assessment process, whereby we evaluate all existing audit clients and discuss them with the Business Unit Head, the Head of Risk Management and, where applicable, the firm's Chairman. The objective of these annual reviews is to identify those clients that may require additional evaluation procedures and those instances where we should discontinue our professional association with the client.

Factors that might indicate additional evaluation procedures are necessary include, but are not limited to:

- New legal, regulatory, or professional requirements that alter our reporting responsibilities and professional risks;
- A significant change in the nature, size, or structure of a client's business; and
- A significant change in management, directors or principal owners.

KPMG in Bermuda uses its electronic Client and Engagement Acceptance and Continuance (CEAC) tool, which requires multiple levels of approval based on the risk profile of the client, to manage and control its client re-evaluation and continuance process.

### **Acceptance and Continuance of Clients and Engagements**

KPMG in Bermuda recognises that rigorous client acceptance and continuance policies are vitally important to the firm's ability to provide high-quality professional services. We have established policies and procedures for deciding whether to accept or continue a client relationship, and whether to perform a specific engagement for that client. Some of our criteria include:

- A change in our perception of the adequacy of fee levels against the risk of the engagement;
- Particular adverse audit findings (e.g., material control weaknesses or material adjustments to financial statements);
- A restatement of financial statements;
- An existing non-public audit client which is planning a public offering; and
- Investigation of the client by a regulatory body or its audit committee.

KPMG in Bermuda uses its electronic Client and Engagement Acceptance and Continuance (CEAC) tool, which requires multiple levels of approval based on the risk profile of the client, to manage and control its client re-evaluation and continuance process.





# Engagement Performance

KPMG in Bermuda has established policies and guidance to ensure that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality.

Engagement performance encompasses all phases of the design and execution of an engagement, including the firm's audit methodology and the review, supervision, consultation, documentation, and communication of audit results.

## The KPMG Audit

KPMG International's Global Service Center comprises professionals who develop and regularly update the methodologies that constitute the audit process in cooperation with KPMG International's Global Quality and Risk Management and International Standards Groups. The KPMG Audit Manual (KAM) serves as the foundation of our integrated audit model and is produced by our Global Services Centre by a group of Engagement Partners, directors and managers who provide training and guidance on audit methodology to engagement teams in the firm.

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.

Our methodology encompasses the following workflow:

## Risk assessment

- Obtain an understanding of the entity and its environment, including internal control (i.e., evaluate the design and implementation of relevant controls);
- Perform risk assessment procedures and related activities;
- Identify and assess risks of material misstatement; and
- Design audit responses to address the assessed risks of material misstatement.

## Testing

- Test operating effectiveness of selected controls; and
- Plan and perform substantive procedures.

## Completion

- Perform completion procedures, including overall review of financial statements;
- Document significant findings and issues;
- Consider if audit evidence obtained is sufficient and appropriate;
- Form an audit opinion; and
- Communicate to the audit committee, or those charged with governance, our responsibilities under applicable auditing standards, an overview of the planned scope and timing of the audit, and significant findings from the audit.

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 of two or more components (group audits) and clearly delineates responsibilities relative to managing group audits and the involvement of the group 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 identifying significant components, evaluating group-wide controls, evaluating aggregation risk, establishing group and component materiality, and communicating with the component auditor.

### 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 have been met. Elements of supervision include instructing and guiding professionals, keeping informed of significant issues, reviewing the work performed, resolving issues, and agreeing on appropriate conclusions. KPMG's supervision, review, and consultation guidelines for audit work include:

- Considering the capabilities and competencies of individual members of an engagement team;
- Tracking the progress of an engagement;
- Identifying matters for consultation or consideration by more experienced engagement team members during an engagement;
- Reviewing and approving engagement planning and risk assessment prior to the start of significant fieldwork;
- Reviewing all working papers by a professional other than the preparer. The Engagement Partner's responsibilities include review of audit documentation related to critical areas of judgment, significant findings and issues, and significant risks at the financial statement level and the relevant assertion level with respect to significant accounts and disclosures, including work performed by KPMG specialists relative to these significant risks;
- Preparing Planning and Completion Documents that summarise significant issues, which are approved by various parties, including the Engagement Partner and EQCR; and
- Performing in-depth technical reviews in certain situations.

### 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, the engagement team has appropriately identified significant risk(s) in the audit, including fraud risk(s), and designed and executed audit procedures to address those risks, and that the auditors' report(s) is appropriate. The engagement quality control review responsibility is assigned to a Managing Director who has

no involvement on the engagement other than that relating to performing a review of the financial statements, auditor's 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.

### Integrity, Accessibility and Retrievability of Engagement Documentation

KPMG's policies and Code of Conduct require its personnel to maintain the confidentiality of client or former client information, including privacy of personally identifiable information, and to affirm their compliance with the appropriate professional and firm rules governing the treatment of confidential client information at commencement of employment, annually thereafter and upon leaving the firm. Additionally, the firm mandates privacy training for all employees. Furthermore, to help protect the confidentiality of the client information and KPMG proprietary data, the firm has installed encryption software on its personal computers to prevent unauthorised access to computer files or data.

In addition, our audit professionals are required to apply appropriate and reasonable control to:

- Clearly determine when and by whom audit documentation was created, changed, or reviewed;
- Protect the integrity of information at all stages of an audit, especially when the information is shared within the audit team or transmitted to other parties via electronic means;
- Prevent unauthorised changes to audit documentation; and
- Allow access to documentation by an audit team and other authorised parties, when deemed appropriate to properly discharge their responsibilities.

### Retention of 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.

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The firm's formal document retention policy governs matters such as the retention period for audit working papers and other records relevant to an engagement in accordance with the relevant SEC and PCAOB rules, as well other applicable professional and regulatory bodies' standards and regulations.

### Consultation and Differences of Opinion

Internal consultation with others is encouraged and, in certain circumstances, required. Technical support for each engagement team comes from a network that included the Department of Professional Practice in Bermuda and within the KPMG U.S. member firm and the International Financial Reporting Standards Group.

The firm has established protocols for consultation and related documentation regarding significant accounting, auditing and financial reporting matters, including procedures to resolve differences of opinion on engagement issues. Consultation with a team member at a higher level of responsibility than either of the differing parties usually resolves such differences. In circumstances where professionals involved in the audit are unable to resolve an issue, the matter may be elevated through the chain of responsibility for resolution by the Head of Risk Management or Head of Audit.

### Monitoring

Monitoring procedures involve 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 and practice aids;
- Effectiveness of professional development activities;
- Compliance with professional and firm standards, policies, and procedures; and
- Effectiveness of action plans to address any findings related to all engagement reviews (Quality Performance Reviews (QPR) and Risk Compliance Programme (RCP)), CPA Bermuda peer review and PCAOB inspections.

### Internal Inspection Processes

KPMG in Bermuda meets the profession's quality control standards and monitoring requirements through the implementation of its internal inspection process, the Quality Performance Review Programme (QPRP) and Risk Compliance Programme (RCP).

Components of the programme include:

- Annual reviews of selected individual Engagement Partners and Directors;

- Reviews by teams that are led by Partners or Managing Directors and comprise individuals who have industry-specific knowledge;
- Reviews by teams which are led by individuals from a geographical location other than the location of the office or area under review;
- Reviews of general and functional controls, including independence, client acceptance and continuance, personnel evaluations, continued professional education, compliance, licensing, and workpaper retention;
- Timely feedback of results from the review with the requirement that an action plan be prepared and implemented based on the results;
- Review and approval of firmwide results and action plans by the Head of Risk Management; and
- Training and guidance that communicates common inspection findings, those areas where audit quality can be improved, and where appropriate, the tools needed to achieve improvements in audit quality.

For the year ended September 30, 2017, our Quality Performance Review Process did not identify any issues considered to have a material effect on the conduct of our audit practice. Consistent with most quality review programmes, we identify areas for continuous improvement and disseminate the findings to our professionals through written communications, internal training seminars and periodic departmental and staff meetings. These areas are also followed up in subsequent years to gauge the extent of continuous improvements.

### Compliance Testing

The Compliance Senior Manager is responsible for overseeing the testing and monitoring the firm's compliance with certain firm policies, such as those related to independence, continuing professional education, and licensing.

### Global Compliance Reviews

KPMG in Bermuda is subject to a cross-functional Global Compliance Review (GCR) once every three years. This GCR is designed by KPMG International and performed by individuals in KPMG International's Global Compliance group. Participation in this programme is a condition of ongoing membership in the network. The overall objectives of the GCR are to assess the firm's controls and its compliance with selected KPMG International risk management and various other policies and procedures expected to be implemented by KPMG International member firms.



KPMG remains steadfast to its commitment to performing consistently high-quality audits. Internal and external inspections are essential to identifying opportunities to improve audit execution and our system of audit quality control at KPMG. We consider the inspection process an integral extension of our high-performance culture and critical to our ongoing mission to achieve quality in everything we do.



### Regulatory External Reviews

KPMG in Bermuda is subject to inspection by the Public Company Accounting Oversight Board (PCAOB), the Bermuda Public Accountability Board (BPAB) and the Chartered Professional Accountants of Bermuda (CPA Bermuda). External inspections performed by the PCAOB provide an independent perspective and play a valuable role in helping us set a course for audit quality. We respond to PCAOB Inspection Reports by conducting a thorough evaluation of identified issues. Using our root-cause analysis methodology, we take action to address any and all matters that are impediments to audit quality. We will continue to invest in audit quality in order to further our goal of achieving the highest levels of quality possible.

External inspections additionally help identify areas requiring financial statement restatement or revision of previously issued opinions on Internal Controls Over Financial Reporting (ICOFR).

Always mindful of our responsibilities to the capital markets, we are committed to improving the quality of audits performed by our firm and to working constructively with the PCAOB to improve audit quality.

The most recent PCAOB inspection report on KPMG in Bermuda is accessible through the PCAOB's Web site at:

<http://www.pcaobus.org/Inspections/Reports/Pages/default.aspx>.

The BPAB was created to provide a comprehensive, independent and transparent system of oversight of public accountants that audit Public Interest Entities ("PIE"). In accordance with the provisions of the Bermuda Public Accountability Act 2011, BPAB conducts inspections of PIE public accountants.

The most recent BPAB inspection was conducted by the Canadian Public Accountability Board (CPAB) on behalf of BPAB in March, 2016 and the results were satisfactory.

### External Peer Review

KPMG in Bermuda is subject to an external peer review once every three years, which is overseen by CPA Bermuda. The reviewers are qualified persons appointed by the Chartered Professional Accountants, Canada.

The most recent review was conducted in September, 2015 and the results were satisfactory. Minor recommendations for improvements were made by the review team and these recommendations were implemented at that time.

# Conclusion

We are confident that our firm's tone at the top, structure, policies and procedures support our professionals and enable them to provide a high level of audit quality in an independent, objective and ethical manner, thereby maintaining public and stakeholder confidence.

As businesses and markets evolve, we pledge to keep pace by continuing our substantial investment in the research and development needed to maintain audit quality and by keeping abreast of changing public and regulatory expectations in the audit environment.

KPMG will continue to provide our professionals with training, technology-based tools, and audit methodologies that contribute to high-quality audits.

We encourage you to call or contact our firm's Chairman, Neil Patterson, at [neilpatterson@kpmg.bm](mailto:neilpatterson@kpmg.bm) with any comments or questions you may have.







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