



metrics

Investment returns analysis from various sources
resulting from the use of different asset
management strategies. The chart shows
the performance of different asset management
strategies over time. The chart shows
the performance of different asset management
strategies over time. The chart shows
the performance of different asset management
strategies over time.

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|------------------|------|------|------|------|------|------|------|
| Asset Management | 10.5 | 12.2 | 11.8 | 13.1 | 14.5 | 15.2 | 16.8 |
| Real Estate | 8.2 | 9.1 | 10.3 | 11.5 | 12.8 | 13.5 | 14.2 |
| Private Equity | 15.1 | 16.3 | 17.5 | 18.2 | 19.1 | 20.3 | 21.5 |
| Commodities | 6.8 | 7.5 | 8.2 | 9.1 | 10.3 | 11.5 | 12.8 |
| Fixed Income | 5.2 | 5.8 | 6.5 | 7.2 | 8.1 | 9.2 | 10.1 |
| Equity | 12.3 | 13.1 | 14.2 | 15.1 | 16.2 | 17.3 | 18.4 |

Enhancing audit quality

December 2016

kpmg.com

At KPMG, we are proud that our culture has been recognized by many organizations, including:



Fortune has consistently recognized KPMG among the 100 Best Companies to Work For. In 2016, we were ranked No. 1 among the Big Four for the second straight year.

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Additional Resources

The [*KPMG Transparency Report*](#) outlines our legal structure, governance, and the system of quality controls we employ within our audit practice. The [*KPMG Code of Conduct*](#) defines the values and standards by which KPMG conducts business.

The KPMG [*2015 PCAOB Inspection Report*](#) was released on December 6, 2016. The [*2014 PCAOB Inspection Report*](#) is also available.



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 MESSAGE FROM LEADERSHIP

At KPMG, we seek to make an impact on society through the work we do. By focusing on what matters, by reflecting on our purpose and by serving as stewards for the current and next generations, we encourage confidence and empower change. Through our work, we inspire the confidence of our clients and their investors, strengthening the capital markets and economies in which they operate.

Quality is a fundamental goal; it is the foundation upon which our firm was founded more than a century ago, and it is the essence of our audit practice. We believe audit quality results from well-developed programs and world-class processes and technologies. In our 2016 audit quality report, we have chosen to focus on three essential drivers of quality: culture, people and innovation.

KPMG's attention to audit quality results from our culture of integrity and professionalism, as defined by our core values. Our more than 30,000 professionals are

united by a set of beliefs that underpin everything we do. KPMG's culture is defined and reinforced by our tone at the top and ongoing monitoring of established audit quality indicators.

Paramount to achieving audit quality is attracting and developing extraordinary people. At KPMG, we are passionate and purpose-led; curious, courageous and challenge-seeking. We are relentlessly focused on audit quality and committed to providing independent assurance, with objectivity and professional skepticism.

KPMG is committed to innovation that addresses the changing business landscape and markets. We are investing in methodologies, technologies and strategic alliances with leading technology companies that we believe will have a transformative impact on the auditing process and profession. Our innovative mindset amplifies the processing power and analytical capabilities of advanced applications, including cognitive

technology and data analytics. These are part of an effort at KPMG to develop a cognitive ecosystem that advances our commitment to enhance audit quality, increases our insights, and fosters innovation for the benefit of our stakeholders.

We are dedicated to ongoing and productive engagement with our regulators and to improving our system of audit quality control. KPMG audit quality results from our actions, decisions, objectivity, independence, transparency and ongoing dialogue with stakeholders.

Lynne Doughtie
U.S. Chairman and CEO



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 partners. 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.

Recently, KPMG established a detailed, specific, quantifiable set of Audit Quality Indicators (AQIs) for the practice and our leaders. These are delineated through quality-indicator dashboards, with target metrics assigned to each indicator. This data is compiled, analyzed and distributed on a continuing basis to help us make ongoing improvements.

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.

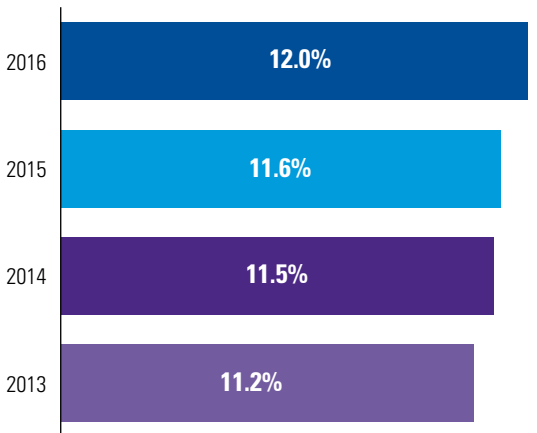
We are always seeking to do better. We actively solicit suggestions from our professionals and value input from our regulators. We undertake rigorous root-cause analyses to assess and remediate deficiencies.

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. Practice-wide messages to our teams are distributed via our *Audit Digest*. Our *DPP Bulletin* communicates critical audit and accounting policy, guidance, tools and reminders. An enhanced Audit Portal centralizes mission-critical information for audit professionals and teams.

“Audit quality is all about getting it right. I hold myself and my team to high standards of performance and ethics. We work hard to meet quality indicators, and are focused on building a culture of quality in everything we do.”

—**Ashley Marshall** Senior Manager, Audit

Percentage of audit engagement hours supported by specialists



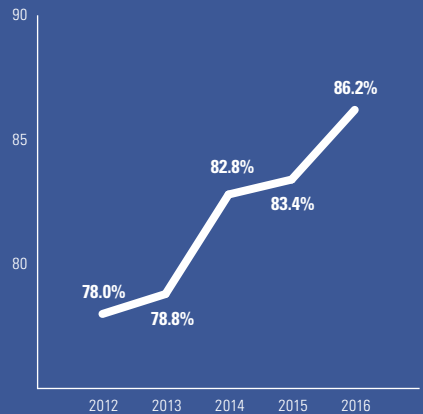
93%

According to a firmwide survey, 93 percent of KPMG Audit professionals believe there is strong commitment to quality from leaders and partners.

92%

92 percent of Audit employees say management delivers consistent messaging around the importance of quality.

Audit practice retention rates



“My engagement team takes personal responsibility for audit quality because we know our leadership expects it from each audit professional. From the CEO to associates, it’s loud and clear that everyone contributes to a strong and ethical audit practice at KPMG.”

—**Justin Lane** Senior Associate, Audit



Additional Resources

[*KPMG Seven Core Values*](#)

[*How an Accounting Firm Convinced Its Employees They Could Change the World*](#)

OUR COMMITMENT TO THE PUBLIC INTEREST

Starting in 2014, KPMG employees engaged in a series of firmwide initiatives that highlighted our “higher purpose,” encouraging all to look beyond their everyday tasks and consider the broader impact of our work. Our commitment to the public interest is a significant component of KPMG’s “higher purpose” and vision. A quality audit provides essential credibility that supports a growing and vibrant economy. It influences financial and business practices, as well as investment decision-making in the capital markets. Our independence, professional skepticism, technical acumen and deep knowledge of today’s complex audit, accounting and regulatory requirements are the foundation for the audits we perform. Companies and investors around the globe rely on these to make informed financial, operational and risk-management decisions.

KPMG’s culture of integrity and professionalism is the foundation of our commitment to quality. We fulfill our pledge of audit quality through our dedication to objectivity and independence, transparent and ongoing dialogue with stakeholders, and investments in people and the tools and resources that support their work. Senior leadership designates and sets the tone at the top, and shapes the culture that makes clear that audit quality is not just a priority; it is an imperative.



Our audit culture is built on interconnected priorities

- ▶ We will consistently deliver *market-leading audit quality*
- ▶ We will attract, develop and retain *outstanding people*, and help them reach their full potential
- ▶ We will drive, embrace and leverage *leading innovation*
- ▶ We will *do business with companies we can serve best*
- ▶ We will always seek to achieve and sustain *operational excellence*

DEFINING AND MEASURING AUDIT QUALITY

We have introduced a rigorous system to evaluate quality against measurable standards. Our Audit Quality Indicators are categorized between engagements and leadership. Engagement AQIs measure aspects that contribute directly to the quality of individual engagements, such as tracking Business Unit and partner, manager and staff hours relative to engagement hours and specialist hours. We also measure utilization, time phasing and on-site supervision, among other factors. Practice AQIs focus on audit-leadership evaluations based on important indicators such as turnover, business unit and practice-wide utilization, utilization by industry and the nature and frequency of communications.

OUTSTANDING PEOPLE

We seek to hire the best candidates. Our award-winning training programs help our people maintain the highest, most up-to-date levels of technical knowledge.

We underwrite professorships that pair KPMG technical teams with academics to enhance our collective knowledge of the marketplace and the regulatory environment, fostering a better understanding of the demands on our professionals and approaches to learning as well as the evolution of the profession. They then take these experiences back to the classroom to share with future generations of auditors.

In 2016, we expanded our training initiatives by establishing a KPMG Master of Accounting with Data and Analytics Program at The Ohio State University Max M. Fisher College of Business and at Villanova School of Business. It combines an integrated data and analytics curriculum, funding and hands-on experience preparing auditors for the age of data. The first cohort of students, who plan to work at KPMG upon graduation, will start in the fall of 2017. This program will give us an edge in identifying high-achieving students that we can recruit to serve the companies we audit.

To best align with the marketplace, every client-facing partner and managing director and more than 90 percent of other audit professionals have identified a designated industry with which they are associated, creating clear areas of focused knowledge and experience. This allows targeted

training that deepens insights and experiences we bring to an engagement.

EMBRACING INNOVATION

Innovation is key to sustaining and evolving our profession. At KPMG, we're focused on innovation through our approach to our work, the tools we use, and how we recruit and train our people.

An innovative culture, technologies and tools drive operational excellence, which we continually review and refine. We are exploring use of cognitive platforms that mine large amounts of data, helping our professionals gather and analyze audit evidence and expand our ability to address insights, patterns and relationships that enhance audit quality. In early 2016, we announced an alliance with IBM Watson to develop this capability. Our array of technical tools allows us to test 100 percent of transactions, versus just a sample.

Innovation has led to new learning technologies and systems at KPMG that, in turn, attract outstanding professionals. Innovative tools help us in our efforts to predict market demand, as well as deliver market-leading capabilities. It expands our scalability of resources through new processes and our Centers of Excellence.

To support and inspire innovation, KPMG has established a full-time, dedicated position of Audit Innovation Leader. Our Innovation Leader is charged with working cross-functionally to advocate "thinking differently," and to motivate and reward our

people who bring forward ideas to improve our practice, as well as direct resources to recognize and celebrate success.

WORKING WITH CLIENTS WE CAN SERVE BEST

In 2016, KPMG introduced a program that integrates critical and interrelated initiatives to align our portfolio and opportunities with our quality objectives. The first phase of the Strategic Portfolio Assessment Framework considers new audit opportunities. The second enlists broader partner participation to expand evaluation of existing accounts and collect information about successes in planning and execution, project management, judgment, and our capacity to meet unanticipated demands. We are focused on serving the capital markets, and view clients and their own commitment to all aspects of the quality of their internal controls and financial reporting processes as key to that effort.

PROCESSES FOR OPERATIONAL EXCELLENCE

In addition to establishing Audit Quality Indicators, we refined the Accelerating Audit Execution (AAE) program introduced last year. AAE represents our new audit operating model. Through specified milestones and milestone monitoring, AAE provides the platform for effective, timely planning and sequencing of key audit activities, moving select audit tasks out of the traditional audit “busy” season. We experienced positive outcomes from our AAE program in our 2015 audits; our teams addressed critical matters earlier in the audit cycle, were better prepared to face the busy season and had a less intense wrap-up period.

Our Centers of Excellence for Asset Management, Venture Capital and Information Risk Management benefit our professionals by

creating a means to share best practices relevant to their work. Through our Centers of Excellence we innovate procedures that drive consistency and efficiencies across engagements, such as time-saving customizable memos and templates, further promoting quality work. Additional Centers of Excellence are in development.

In these instances, engagement teams work with our National Pricing desk to test the valuation of these investments and to evaluate the reliability of the relevant audit evidence. This centralization of testwork over these types of investments allows testing, in many cases, of 100 percent of a portfolio.

Recognizing that project management is key to delivering on our commitment to audit quality, we designed a project management platform that seeks to get the right professionals to the right assignments at the right time. Our Audit Project Management Tool standardizes and streamlines previously stand-alone project management processes and systems. It was introduced midyear following a series of successful pilots.

Digitization and advanced data and analytics capabilities are revolutionizing operations at the companies we audit, as well as the audit process. Technology empowers auditors to apply their skills, experience and professional judgment in new and productive ways, enriching the value and quality of our audits. Advances in digital and analytical competencies allow review of nearly all of a company’s transactions, and isolation of anomalies to identify risks. This brings to the surface insights that strengthen auditor judgments and guide audit committees and management in improving processes, controls and decision making.

KPMG Accelerating Audit Execution

2015 participation

74% of issuer-integrated audits with FYEs between 12/1/15 and 2/1/16

73% of all issuer-integrated audits

2016 participation (expected)

89% of calendar year-ends

87% of issuer-integrated audits

Total hours increased during April to December

+ 5.1% for partners

+15.2% for all professionals

AAE is enhancing our focus on audit quality, having the intended impact on distribution of hours and earlier involvement of partners on audit matters requiring the most judgment and application of professional skepticism. Timeliness and active engagement of audit partners have been achieved.

“Our Strategic Portfolio Assessment initiative supports our commitment to audit quality. It gives us a common platform to discuss and analyze various attributes of our current and future clients. This is important to making critical decisions about where to invest our time and resources.”

—**Tracy K. Kenny** Partner-in-Charge, Audit

A Conversation with KPMG Audit Innovation Leader Shaun Budnik

How does innovation impact audit quality?

Our progressive approach anticipates technology, regulatory, economic and social trends. Our investments refine the audit lifecycle through advanced technologies, nurturing our people and evolving our processes. Data is used to tell stories, sharpen risk assessment and reveal patterns, outliers and insights.

How does KPMG demonstrate its commitment to a culture of innovation?

We embrace a mindset that’s open and questioning and encourages creative thinking, challenging the status quo and embracing innovative concepts and approaches. Crowd sourcing sparks ideas; Innovation Labs and workshops inspire collaboration and idea generation. This fosters a culture which brings innovation to life.

How is innovation reflected in KPMG Audit’s infrastructure?

We turn innovation into success through tools, technology, good governance, clear principles and relevant training. Our Centers of Excellence offer access to specialized skills and knowledge. Our infrastructure helps our people exceed the expectations of clients and, more broadly, the capital markets.

How are Audit’s innovation and quality reflected in the firm’s global mindset?

KPMG’s ability to deliver globally consistent, high-quality audit services is grounded in robust and uniform quality standards, processes and technology. We deploy innovative tools, adjusting for local regulatory, financial and legal environments; our standardized workflow encourages consistent engagement planning and execution around the world.

People + Innovation = Quality

Our quest for quality drives us to do our work better and more efficiently. Our own professionals are our best source of ideas and insights. Innovative tools and resources facilitate and amplify the capacity to do an extraordinary job.

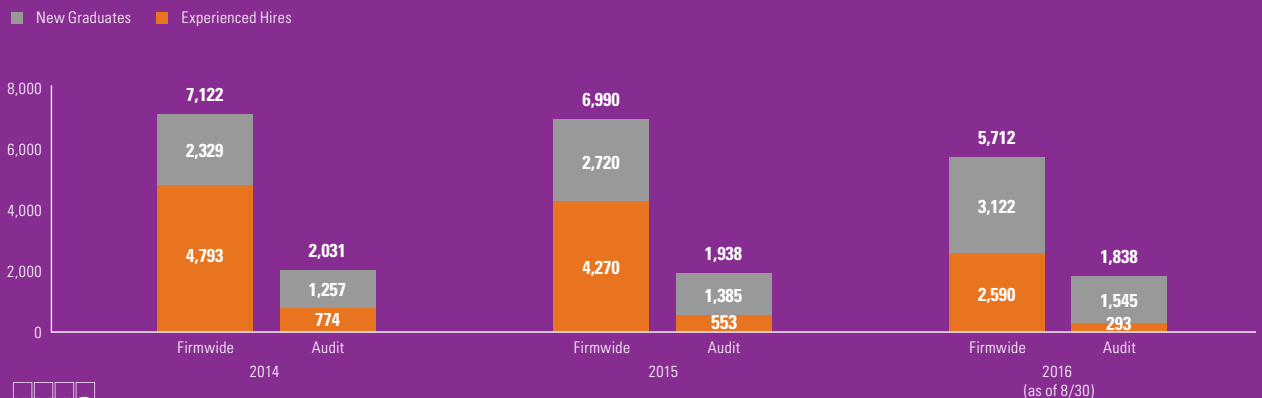
Attracting and retaining the best professionals and support staff are key to audit quality. KPMG supports performance development, offers constructive ongoing feedback and has a well-defined process for evaluation. We invest time and resources into helping our people become extraordinary. Our recruits benefit from frequent and effective feedback and coaching. We've developed an expanded, on-the-go learning portal that targets support where it's needed. We've introduced an enhanced audit engagement review tool that can be

accessed through smart phones, and eliminated outmoded rating systems. In addition to salary increases and a compensation program that links performance and audit quality to evaluated successes, we implemented an Audit Quality Bonus Program last year for engagement teams, recognizing those who play an integral part in performing quality audits.

KPMG employees at all levels are encouraged to take ownership of their careers. Sponsor and mentor programs maximize

personal development. Senior associates and managers are encouraged to expand their knowledge and networks within KPMG. Rotation programs widen horizons, offering assignments in 65 countries around the globe. Audit 90 is just one of several diversity programs. It is focused on our female senior associates in their early careers, embracing the importance of women as auditors, and validating the principle that diversity benefits the firm as a whole.

Average new hires per year firmwide



“Great innovation leaves you wondering, ‘Why didn’t I think of this before?’ KPMG has a culture focused on innovation where we’re constantly asking where the future of audit is headed and how we can improve the quality of the service we provide. We believe that innovation is a contributing factor to audit excellence and helps our clients and our engagement teams contend with the increasing demands and complexities of the marketplace.”

—Craig Lewandowski Senior Manager, Audit

Audit partners and professionals who received audit quality bonuses in 2015

276

Audit partners and professionals who received audit quality bonuses in 2016

414

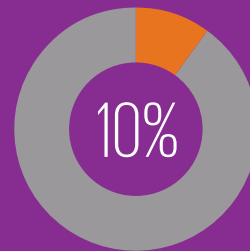
Individuals recognized for exceptional results on CPA exam

In 2016, six KPMG employees were awarded a 2015 Elijah Watts Sells Award for obtaining a cumulative average above 95.5 on the Uniform CPA Exam.

Number of audit hours performed by Global Delivery Center

1.3 M

Percent of total audit hours performed by Global Delivery Center



Annual number of audit training hours required for senior associates increased 12% in 2015

Ratio of partners in audit quality and professional practice to total audit partners



Partner deployment 2016 vs. 2013 in audit quality, professional practice and support



Monitoring quality: Internal and external inspections

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.

INTERNAL INSPECTIONS

Our Quality Performance Review program encompasses ongoing, rigorous internal inspections to promote continuous improvement in audit quality. A full-time, dedicated group of inspectors is responsible for ensuring consistent and effective internal inspections. We rely on supplemental field professionals during the inspection cycle to leverage their experience and trainings and further support the quality and objectivity of the process.

PCAOB INSPECTIONS

External inspections performed by the Public Company Accounting Oversight Board (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 have addressed the PCAOB comments from past inspections and this year saw

an improvement. We will continue to invest in audit quality in order to further our goal of achieving the highest levels of quality possible.

We also participate in triennial peer reviews, which facilitate assessment of our quality by the private entity audit market. In 2017, our peer review will be conducted by PwC. We expect this report to be issued in December 2017.

Part I Findings

We use the PCAOB inspection process to corroborate areas of focus to enhance our performance and strengthen our system of quality control identified in our internal inspections. In the PCAOB annual report covering inspections performed in 2015, the Board inspected 52 KPMG audits and identified deficiencies in 20 of them in Part I. By comparison, the number of audits identified in Part I of the report were 28 out of 52 in 2014 and 23 out of 50 inspected in 2013.

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

Reporting (ICOFR). Of the 154 KPMG audits inspected for 2013 to 2015, no audits required a financial restatement and one required a revision of the ICOFR opinion.

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.

Part II Findings

The non-public portion of the PCAOB report, Part II, offers commentary on issues identified through inspections related to quality control. This information is confidential for a period of 12 months to allow firms time to remediate identified issues. Should the PCAOB determine these aren't satisfactorily remedied within the 12-month period, the PCAOB has the option to make public that portion of Part II that highlights the issue.

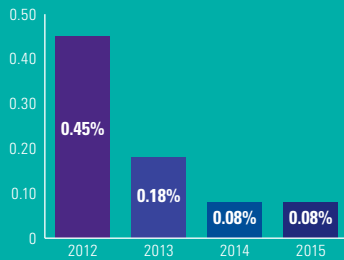
Our remedial responses related to our inspection reports through 2013 have been accepted by the PCAOB.

Our 2016 inspections show improvement. Our overriding goal is continuous improvement.

Engagements inspected in two most recent peer reviews

150

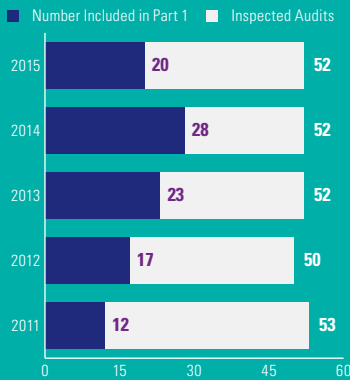
Number of annual restatements as percentage of issuer audit clients



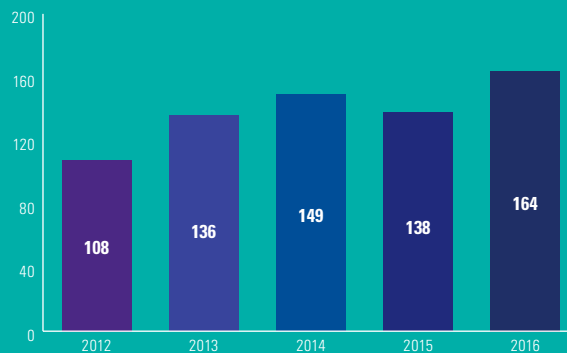
Monitoring, review and support program activities 2014 and 2015



PCAOB-inspected audits/number included in Part I



Number of issuer audit clients subject to internal inspections



APPENDIX:

Our system of audit quality control



KPMG LLP'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; and
- Monitoring

Leadership responsibilities for quality within the firm

KPMG LLP (KPMG or the firm) 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'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 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 Quality Measurement 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 other regulatory 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 professional 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 and assess risks to determine the nature, timing and extent of audit procedures to be performed. The higher the risk, the more persuasive the audit evidence needs to be to mitigate such 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 workflow 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 of our audit clients 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 materiality;*
- *Communicating with the component auditors;*
- *Being involved in the risk assessment for significant component(s); and*
- *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 auditing, accounting and reporting matters, 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 the 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, 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 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 laws.

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 and profession. 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 entities we audit and their affiliates, management, directors, and 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 assignment 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 and to enable an appropriate auditors' report(s) 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 offers a broad range of learning opportunities to help our professionals meet these requirements, as well as their own professional development goals while supporting the firm's commitment to audit quality. 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 states where their principal place of business is located and meet CPA licensing or reciprocity 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. Audit partners and leaders also are evaluated based on an assessment of audit quality indicators. 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 firm's 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, including consideration of audit quality indicators, 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 predetermined 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 issues and 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 structure, messaging, policies, procedures and practices*
- *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 and our system of audit quality control 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, and pre-issuance monitoring 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 corroborating areas of focus with our internal inspection program to enhance our engagement performance and strengthen our system of audit quality control. The 2015 PCAOB inspection report on KPMG is the firm's most recent inspection report and is accessible through our Web site at <https://home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html>.

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. The firm's most recent peer review report was issued by PricewaterhouseCoopers LLP in December 2014 on KPMG's system of audit quality control applicable to engagements not subject to PCAOB permanent inspection (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 <https://home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html>.

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.

