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KPMG INTERNATIONAL

Transparency Report

Supplement to the
2010 KPMG International
Annual Review

kpmg.com





KPMG

Foreword by the Chairman

The quality and integrity of our people and our work is paramount to everything we do at KPMG. Audit committees, investors, regulators, governments, and clients deserve a clear articulation of the steps that KPMG member firms take to uphold our professional obligations and responsibilities. This Transparency Report is an essential element of KPMG's commitment at a global network level to meet this goal.

Increasingly, our member firms' audit practices are subject to independent and rigorous oversight and inspection by their local regulators. We welcome the opportunity to work with our regulators to drive continuous improvement in audit quality. At a global level, we have developed a constructive dialogue with the International Forum of Independent Audit Regulators (IFIAR). The global financial crisis has underlined the importance of transparency and integrity and challenged all stakeholders to reexamine their roles and effectiveness in providing confidence to the investing public and capital markets.

KPMG International's Transparency Report in 2005 was the first produced by any of the global accounting networks and in 2009 it was revised in accordance with the standards set by Article 40 of the European Union Statutory Audit Directive. It outlines the common set of values, global code of conduct, processes and methodologies, and policies and controls that our member firms employ to facilitate globally consistent standards of professionalism, integrity, and technical competence.

KPMG member firms in the EU are required to publish their own Transparency Reports and many from outside the EU also produce equivalent Transparency Reports. KPMG member firms are committed to providing high-quality professional services in an ethical and independent manner. We work very hard to promote consistent quality across all of our member firms. I hope this publication helps you understand the KPMG network, its governance, structure, approach to quality control, and culture of integrity.

If you would like to discuss any aspect of this report or have any questions, the senior partner at any KPMG member firm will be pleased to assist.

Timothy P. Flynn
Chairman, KPMG International

Throughout this Report, 'we,' 'KPMG,' 'us,' and 'our' refer to the network of independent member firms operating under the KPMG name and affiliated with KPMG International, or to one or more of these firms. KPMG International provides no client services.

Transparency Reports, where published, are available on the relevant member firms' Web sites.



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Structure and governance

Legal structure

KPMG is a global network of professional services firms providing Audit, Tax, and Advisory services to a wide variety of public and private sector organizations.

KPMG International Cooperative (“KPMG International”) is a Swiss cooperative which is a legal entity formed under Swiss law. It is the entity with which all the member firms of the KPMG network are affiliated.

KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

Our structure is designed to support consistency of service quality and adherence to agreed values wherever in the world the member firms operate. One of the main purposes of KPMG International is to facilitate the provision by the member firms of high-quality Audit, Tax, and Advisory services to their clients. For example, KPMG International establishes, and facilitates the implementation and maintenance of, uniform policies and standards of work and conduct by member firms and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity that is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture, or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

Unless otherwise stated, the words “member firm” or “KPMG member firm” when used in this Transparency Report includes:

- Those entities that are members of KPMG International as a matter of Swiss law because KPMG International is a Swiss cooperative (i.e., similar to shareholders, albeit that KPMG International has no share capital and, therefore, only has members, not shareholders).
- Those entities (“sub-licensees”) that are not members of KPMG International as a matter of Swiss law but that have still entered into legal agreements with KPMG International and also an entity that is a “member.” Such agreements mean that sub-licensees are member firms of the KPMG network. Generally, the rights and obligations of a sub-licensee as a KPMG member firm are exactly the same as if it had been a member. In particular, all rights and obligations of member firms that are described in this document are rights and obligations of sub-licensees unless otherwise specifically stated. In addition, the member that is a party to the sub-licensee’s agreement with KPMG International is also responsible to KPMG International (but not to any other person or entity) for the sub-licensee’s compliance with its obligations as a KPMG member firm.
- Those entities that are owned, managed, and controlled by an entity that is a member or a sub-licensee. The respective member or sub-licensee is responsible to KPMG International for such controlled entity’s compliance with obligations to KPMG International as if it were a member or sub-licensee.

Name and ownership

KPMG is the registered trademark of KPMG International and is the name by which the member firms are commonly known. The rights of member firms to use the KPMG name and marks are contained within agreements with KPMG International.

Member firms are generally locally owned¹ and managed. Each member firm is responsible for its own obligations and liabilities. KPMG International and other member firms are not responsible for a member firm's obligations or liabilities.

Member firms may consist of more than one separate legal entity. If this is the case, each separate legal entity will be responsible only for its own obligations and liabilities, unless it has expressly agreed otherwise.

Responsibilities and obligations of member firms

Member firms commit themselves to a common set of KPMG values (see Appendix 2). Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global and regional strategies, share resources (incoming and outgoing), service multinational clients, manage risk, and deploy global methodologies and tools. Each member firm takes responsibility for its management and the quality of its work. In accordance with our Global Code of Conduct, partners and professionals working within member firms are required to act with integrity at all times.

Member firms are also required to have the capability to provide certain types of core services and to refer work to other member firms where appropriate (for example, if the engagement concerns work in that other member firm's country and that other member firm has the required capacity and expertise to perform the work).

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the member firms. A firm's status as a KPMG member firm and its participation in the KPMG network may also be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.

KPMG member firms operate in the countries/territories listed in Appendix 1.

Governance structure

The key governance and management bodies of KPMG International are the Global Council, the Global Board, and the Global Executive Team.

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. It performs functions equivalent to a shareholders' meeting (albeit that KPMG International has no share capital and, therefore, only has members, not shareholders). Among other things, the Global Council elects the Chairman for a term of up to four years (renewable

¹ Certain firms in countries which are part of KPMG Europe LLP are ultimately commonly owned by individuals within those countries; further details can be found in the KPMG Europe LLP transparency report which is available at <http://www.kpmg.com/EU/en/Documents/transparency-ellp-final-20101217.pdf>.

once) and also approves the appointment of Global Board members. It includes representation from 55 member firms that are “members” of KPMG International as a matter of Swiss law. Sub-licensees are generally indirectly represented by a member.

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International, and approving policies and regulations. It also admits member firms and ratifies the Chairman’s appointment of members of the Global Executive Team. The Board includes the Chairman and the Chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)). One of the Board members is elected as the lead director by those Board members who are not also members of the Global Executive Team (“nonexecutive” members). A key role of the lead director is to act as liaison between the Chairman and the “nonexecutive” Board members. Set out on pages 5 and 6 is the list of Board members, presented as of October 1, 2010.

The Board is supported in its oversight and governance responsibilities by several committees, including a Governance Committee; an Audit, Finance, and Investments Committee; a Compensation and Nomination Committee; a Risk and Compliance Committee; a Professional Indemnity Insurance Committee; and a Board Process and Evaluation Committee. The lead director nominates the chairs and members of Board committees for approval by the Board.

Key activities of the committees are set out below:

Governance Committee	<ul style="list-style-type: none"> Assessing, and making recommendations to improve, the governance and management structure of KPMG International Recommending policies and regulations in respect of member firm governance to the Board for approval
Audit, Finance, and Investments Committee	<ul style="list-style-type: none"> Overseeing KPMG International’s financial reporting and budget Overseeing any KPMG International investments
Compensation and Nomination Committee	<ul style="list-style-type: none"> Overseeing succession planning and recommending Global Board nominees and the process for the appointment of a Chairman Approving the remuneration of the Chairman and Deputy Chairman and overseeing their annual performance reviews
Risk and Compliance Committee	<ul style="list-style-type: none"> Reviewing and evaluating KPMG International’s quality, risk and compliance policies, processes, and activities Promoting a culture that is committed to the highest standard of ethics and compliance
Professional Indemnity Insurance Committee	<ul style="list-style-type: none"> Recommending the professional indemnity insurance program in which member firms are obliged to participate to the Board for approval
Board Process and Evaluation Committee	<ul style="list-style-type: none"> Working with the Chairman to develop agendas for Board meetings Developing and implementing annual Board evaluation process

The Global Executive Team is the principal management body of KPMG International. The Global Executive Team drives the execution of the strategy approved by the Global Board and establishes processes to monitor and enforce policy compliance. It is led by the Chairman and includes global practice heads, regional leaders, and a number of senior partners of member firms. Set out on page 7 is the list of Global Executive Team members, presented as of October 1, 2010.

The Global Executive Team is supported by Global Steering Groups responsible for executing the approved strategy and business plan in their respective areas. In particular, the Global Quality & Risk Management Steering Group operates under delegated authority from the Global Executive Team. The role of the Global Quality & Risk Management Steering Group is outlined in more detail under *System of Quality Control*.

Each member firm is part of one of three regions (the Americas, ASPAC, and EMA). Appendix 1 lists the countries/territories within each region. Each region has a Regional Board comprising a regional chairman, regional chief operating or executive officer, representation from any subregions, and other members as appropriate. Each Regional Board focuses specifically on the needs of member firms within their region and assists in implementation of KPMG International's policies and regulations within the region.

Global Board members

as of October 1, 2010

Timothy P. Flynn	Chairman Member of the Governance Committee
John Veihmeyer	Americas Chairman Member of the Risk and Compliance Committee
John Griffith-Jones	EMA Chairman Member of the Governance Committee
Carlson Tong	ASPAC Chairman Member of the Governance Committee
Moses Kgosana	Africa Member of the Governance Committee
Michael Andrew	Australia Chair of the Governance Committee, member of the Compensation and Nomination Committee and the Board Process and Evaluation Committee
Pedro Melo	Brazil Member of the Audit, Finance, and Investments Committee
William Thomas	Canada Chair of the Professional Indemnity Insurance Committee and member of the Board Process and Evaluation Committee
Frantisek Dostalek	CEE Member of the Governance Committee
Andrew Cranston	CIS Member of the Audit, Finance, and Investments Committee
Jesper Koefoed	Denmark Member of the Compensation and Nomination Committee
Jean-Luc Decornoy	France Chair of the Audit, Finance, and Investments Committee and member of the Board Process and Evaluation Committee
Rolf Nonnenmacher	Germany Chair of the Risk and Compliance Committee and member of the Board Process and Evaluation Committee
Russell Parera	India Member of the Risk and Compliance Committee

Terence O'Rourke	Ireland Member of the Governance Committee
Domenico Fumagalli	Italy Member of the Risk and Compliance Committee
Hideyo Uchiyama	Japan Member of the Risk and Compliance Committee
Young Gak (Ken) Yun	Republic of Korea Member of the Audit, Finance, and Investments Committee
Guillermo Garcia-Naranjo	Mexico Member of the Compensation and Nomination Committee
Herman Dijkhuizen	The Netherlands Member of the Professional Indemnity Insurance Committee
Sai Choy Tham	Singapore Member of the Quality and Risk Management Committee
John Scott	Spain Chair of Compensation and Nomination Committee and member of the Board Process and Evaluation Committee
Helene Willberg	Sweden Member of the Audit, Finance, and Investments Committee
Hubert Achermann	Switzerland Lead Director Chair of the Board Process and Evaluation Committee and member of the Compensation and Nomination Committee

Global Executive Team members

as of October 1, 2010

Timothy P. Flynn	Chairman
John Veihmeyer	Americas Chairman
John Griffith-Jones	EMA Chairman
Carlson Tong	ASPAC Chairman
Joachim Schindler	Global Head of Audit
Loughlin Hickey	Global Head of Tax
Alan Buckle	Global Head of Advisory
Larry A. Leva	Global Vice Chair, Quality and Risk Management
Rachel Campbell	Global Head of People, Performance, and Culture
Brian M. Ambrose	Global Chief Operating Officer
Shaun Kelly	Americas Chief Operating Officer
Jean-Paul Thill	EMA Chief Executive Officer
Yap Chee Meng	ASPAC Chief Operating Officer
Michael Andrew	Senior Partner – Australia
William Thomas	Senior Partner – Canada
Jean-Luc Decromoy	Senior Partner – France
Rolf Nonnenmacher	Senior Partner – Germany
Terence O'Rourke	Senior Partner – Ireland
Hideyo Uchiyama	Senior Partner – Japan
Herman Dijkhuizen	Senior Partner – The Netherlands

Quality control

System of quality control

The following diagram depicts how the key elements in our system of quality control fit together. At the center of our system of quality control is the tone at the top of our organization (which promotes quality and strong and unequivocal ethical values at all times). All of the other key aspects of our system of quality control then operate within a virtuous circle, with each element of the model reinforcing the others. Each of these key elements of our quality control system is described in more detail below.



KPMG International has policies of quality control that apply to all member firms. These are designed as core standards and encompass the standards issued by the International Federation of Accountants (IFAC), including International Standard on Quality Control 1, relevant to firms that perform statutory audits and other assurance and related services engagements. These policies and associated procedures are designed to assist member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances.

Individual member firms implement KPMG International policies and procedures and adopt additional systems of quality controls that are designed to meet the rules and standards issued by their own national regulator and other regulators as well as local legal and other requirements.

Quality control and risk management are the responsibility of each partner and employee. This responsibility includes the need to understand and adhere to member firm policies and associated procedures in carrying out their day-to-day activities.

KPMG International's policies reflect individual quality control elements to help member firms' partners and employees act with integrity and objectivity, perform their work with diligence, and comply with applicable laws, regulations, and professional standards. This section summarizes those policies and procedures.

The system of quality controls applicable to member firms can be broadly categorized as follows:

- 1 Leadership responsibility for quality – Tone at the top
- 2 Commitment to high ethical standards – Tone at the top
- 3 Rigorous procedures for acceptance and continuance of clients and engagements – Association with the right clients and offer the right services
- 4 Strong personnel management – Recruitment, development, and assignment of appropriately qualified personnel
- 5 Processes that deliver effective engagement performance
 - Clear standards, methodology, and tools
 - Commitment to technical excellence and quality service delivery
 - Performance of effective and efficient engagements
 - Supervision and quality reviews
- 6 Monitoring activities – Commitment to continuous improvement

1 Leadership responsibility for quality

The critical components for an effective tone at the top that provides a clear focus on quality include:

- Culture, values, and code of conduct: clearly stated and demonstrated in the way we work
- Focused and well-articulated strategy: incorporating quality at all levels
- Governance structure and leadership responsibility for quality: skilled and experienced people in the right positions to influence the quality agenda.

KPMG International policies and procedures promoting quality are strengthened by the involvement of experienced leaders within each member firm, up to and including the senior partners. These leaders emphasize the importance of quality control, risk management, and compliance, and stress the requirement that all KPMG member firm personnel must act with integrity to deliver quality services.

KPMG International supports member firm quality through a number of leadership groups.

Global Quality & Risk Management Steering Group

Responsibility for the establishment and monitoring of KPMG's system of quality control and risk management has been delegated to the Global Quality & Risk Management Steering Group.

Under the chairmanship of the Global Vice Chair – Quality & Risk Management, the Global Quality & Risk Management Steering Group has responsibility for approving quality and risk management policies and processes that member firms are required to adopt. This steering group includes representatives of Audit, Advisory, and Tax and the three regional Risk Management partners, the area Quality & Risk Management leaders, as well as the global head of Regulatory Affairs. The steering group reports to the Risk and Compliance Committee of the Global Board.

Global Quality & Risk Management operational groups

Global Quality & Risk Management has operational groups that support Global Quality & Risk Management leadership. These consist of partners and other professionals who are responsible for coordinating the development of KPMG International policy, process, and guidance in relation to quality, risk management, and compliance, including ethics and independence. These groups also monitor compliance with KPMG International quality and risk management policies and procedures through coordination of the three integrated review programs: Quality Performance, Risk Compliance, and the Global Compliance Review.

Regional and national Risk Management partners

Each member firm is part of one of three regions. The regional Risk Management partner provides support to member firms in his or her respective region for risk and quality purposes.

Each member firm has a national Risk Management partner (RMP) who provides risk management and quality leadership in his or her respective firm. Working with the respective business leaders, the RMPs drive adherence to policies, procedures, and professional standards; implement KPMG International quality and risk policies and processes; and add jurisdiction-specific quality controls where required. They are also responsible for compliance activities within the member firm.

Area Quality & Risk Management leaders

In 2010 we instituted a structure of Area Quality & Risk Management leaders, reporting to the Global Vice Chair–Quality and Risk Management, to enhance our ability to proactively monitor and assess the consistency of quality and risk management across member firms. The area Quality & Risk Management leaders are members of the Global Quality & Risk Management Steering Group.

The Audit, Tax, and Advisory functions

The Global Audit, Tax, and Advisory Steering Groups work with Global Quality and Risk Management to optimize the quality assurance and monitoring procedures within their respective function.

International Standards Group and Global Services Centre

The International Standards Group (ISG) is responsible for activities relating to the interpretation of International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA), and other standards issued by International Auditing and Assurance Standards Board, including the development of timely accounting and auditing guidance distributed to member firms in the form of International Standards Alerts and the International Standards Reports Manual. ISG provides support to member firms' Audit functions, to promote the high-quality and consistent application of IFRS and ISA.

The Global Services Centre is responsible for developing and maintaining the KPMG International Audit Methodology in full compliance with ISA.

The Global Services Centre and ISG are key contributors to the drafting of the Audit Quality Performance questionnaire that is used in quality control reviews of member firms to monitor the consistent application of auditing and accounting standards across KPMG member firms.

2 Commitment to high ethical standards

KPMG member firms are committed to achieving a high standard of ethical behavior in everything that they do. KPMG's overarching value is that 'Above all, we act with Integrity.' KPMG's values are communicated to all of our people through the member firms and also embedded into performance appraisal processes.

Member firms maintain compliance with legal, ethical, and professional requirements through a number of mechanisms, including adopting clear policies and procedures and promulgating a Code of Conduct.

Each member firm is required to have a Code of Conduct adopting, or based upon, the KPMG International **Global Code of Conduct** (Code), which defines the standards of ethical conduct that KPMG International requires from member firms and their personnel. The Code sets out KPMG's ethical principles and helps partners and employees to understand and uphold those principles. Member firm codes address in more detail standards to ensure compliance with local laws, policies, and professional standards, as well as resources available for consultation and assistance.

KPMG International has specific policies that require KPMG people to:

- Comply with all applicable laws, regulations, and KPMG policies
- Report any illegal acts whether committed by KPMG personnel, clients, or other third parties
- Report breaches of risk management policies by KPMG firms or people
- Not offer, promise, make, solicit, or accept bribes (whether directly or through an intermediary)

Whistle-blowing hotline

We understand that integrity is a critical characteristic that stakeholders expect and rely on. This commitment underlies our values-based compliance culture where individuals are encouraged to raise their concerns when they see behaviors or actions that are inconsistent with our values or professional responsibilities.

A KPMG International hotline is available for KPMG partners, employees, clients, and other parties to confidentially report concerns they have relating to certain areas of activity by KPMG International itself, its employees, or the senior leadership of a KPMG member firm. A number of member firms have their own hotlines in addition.

Independence and conflicts of interest

To help ensure ethical conduct, including integrity and independence, each member firm, its partners, and the people assigned to each engagement must be free from prohibited financial interests in, and prohibited relationships with, the member firm's audit clients, their management, directors, and significant owners.

KPMG member firms are required to have a disciplinary policy in place that applies to individuals who breach independence rules.

Member firms and KPMG professionals are required to comply with all applicable independence requirements and ethical standards that meet or exceed those set out in the IFAC Code of Ethics and those required by other applicable regulatory bodies (which may include those of a foreign jurisdiction where those requirements apply extraterritorially).

Each member firm has a designated Ethics and Independence partner. In addition, there is a core team of specialists led by the head of Global Independence to help ensure that robust and consistent independence policies, processes, and tools are applied across the network of independent member firms and that these are updated as required. These policies and procedures cover areas such as personal independence, post-employment relationships, partner rotation, and approval of audit and nonaudit services.

Personal independence

Professionals are responsible for making appropriate inquiries to ensure that they do not have any personal financial interests that are prohibited. Member firms use a Web-based independence tracking system to assist partners and managers providing professional services in their compliance with personal independence investment policies. This system contains an inventory of publicly available investment products. Partners and managers providing professional services are required to use this system prior to entering into a financial transaction to identify whether they are able to do so. They are also required to maintain a record of all of their investments in the system, which automatically notifies them if their investments subsequently become restricted. Member firms monitor compliance with this requirement through performing regular audits of a sample of partners and managers.

In addition, in accordance with KPMG International policy, all partners are prohibited from owning securities in an audit client of any member firm worldwide.

Training and confirmations

All member firm partners and client service professionals are required to take annual independence training.

All partners and client service professionals sign an independence confirmation upon commencement of employment at the member firm and every year thereafter. This confirmation is used to evidence the individual's compliance with and understanding of the member firm's independence policies.

Member firms are required to provide anti-bribery and corruption training to all client facing personnel as well as certain other member firm personnel.

Partner rotation

Member firm partners are subject to periodic rotation of assignments on audit clients under applicable laws and regulations and independence rules. These limit the number of years that partners in certain roles may provide audit services to an audit client within the scope of the requirements. KPMG International rotation policies comply with the IFAC Code of Ethics, but member firms adopt additional requirements to comply with other applicable local regulatory requirements. Member firms monitor the rotation of partners, and the rotation monitoring system is subject to compliance testing. The monitoring system also assists member firms to develop transition plans that help them to deliver a consistent quality of service to clients.

Nonaudit services

Many nonaudit services provided by audit firms equip the auditor to perform the audit more effectively, and the skills developed within a multidisciplinary practice are an important part of auditing complex global businesses. KPMG member firms have policies and procedures to strictly monitor the scope of services that can be provided to audit clients so that they are consistent with IFAC principles and locally applicable regulations. These require the consideration by the lead audit engagement

partner of the threats arising from the provision of nonaudit services and the safeguards available to address those threats, thus preventing the provision of non-permitted services to audit clients.

KPMG's proprietary system, Sentinel™, facilitates compliance with these policies. Every engagement entered into by a KPMG member firm is required to be included in the system prior to starting work. The system enables lead audit engagement partners to review and approve, or deny, any proposed service for restricted, publicly traded, and certain other audit clients and their affiliates wherever in the world the proposed service is to be provided and wherever the member firm is based.

Each individual member firm has a policy for admitting and compensating the partners in that firm. To maintain auditor independence, audit partners' remuneration must not include any compensation based on the value of nonaudit services provided to their audit clients.

Conflicts of interest

Conflicts of interest may prevent a member firm from accepting an engagement. Sentinel is also used to identify and manage potential conflicts of interest within and across member firms. Any potential conflict issues identified are resolved in consultation with other parties, and the resolution of all matters is documented. An escalation procedure exists in the case of dispute between member firms. If a potential conflict cannot be resolved, the engagement is declined.

If the engagement is accepted, it may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise or be perceived to arise and to ensure that the confidentiality of all clients' affairs is maintained. Such procedures might, for example, include establishing formal dividers between engagement teams serving different clients and making arrangements to monitor the operation of such dividers.

3 Acceptance and continuance of clients and engagements

KPMG International recognizes that rigorous client acceptance and continuance policies are vitally important to the ability of member firms to provide high-quality professional services and to protect our reputation and brand. KPMG International has established policies and procedures to support member firms in deciding whether to accept or continue a client relationship and whether to perform specific services for a particular client.

Prospective client evaluation process

Prior to accepting a client, a member firm performs an evaluation of the prospective client. This involves an assessment of its background, including its management and ownership, its business, and other matters, as appropriate, to identify risks and determine whether or not to accept the client. There is a specific focus on the integrity of the prospective client.

Prospective client evaluations require approval of the evaluating partner and a second partner. Certain entities require additional approvals by the RMP.

Client continuance process

A client continuance evaluation is undertaken if certain factors are present to identify changing risks and to determine whether to continue to provide professional services to the client. In addition, clients to which audit or assurance services are provided are reevaluated annually.

This reevaluation serves two purposes. Firstly we will decline to act for any client where we are unable to deliver to our expected level of quality or if we would not wish to be associated with the client. Secondly we use the reevaluation to formally consider whether or not any additional risk management or quality control procedures need to be put in place for the next engagement (this would include personnel assignments or the need to involve additional specialists on the audit where appropriate).

Audit engagement evaluation

Prior to accepting any audit engagement, an evaluation is conducted and documented by the prospective engagement leader, in consultation with other senior personnel as required. As part of the overall acceptance process, a range of factors is considered including the competence of the client's financial management team. Depending on the overall risk assessment made, additional safeguards may be introduced into the audit to help mitigate any identified risk factors.

Engagement teams proposing to provide audit services to a new client are required to perform a series of procedures including a review of nonaudit services provided to the potential client and other relationships. Any potential independence issues or conflicts identified are resolved in consultation with other parties, 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 client or engagement is declined.

Similar evaluations are conducted for Tax and Advisory engagements.

4 Human resource management

Our human resource policies, processes, and programs focus on attracting, recruiting, developing, and managing our people to ensure they have the appropriate knowledge, skills, and behaviors for the engagement to which they are assigned.

Member firms' human resource management policies, processes, and programs include the following core areas:

- Recruitment and onboarding
- Accreditation
- Learning and development
- Engagement assignment
- Performance management
- Compensation and promotion
- Partner admissions

Member firms are strongly encouraged to follow leading practice in each of these areas as set out in the Global People, Performance & Culture Manual. As an integral part of the global quality and peer review process, member firm human resource management practices are assessed against these leading practice guidelines.

Recruitment and onboarding

All candidates for professional positions submit an application and are employed following a variety of selection processes, which may include application screening, competency-based interviews, psychometric and ability testing, and qualification/reference checks.

Upon joining a member firm, new personnel are required to participate in a comprehensive onboarding program in their member firm, which includes training in areas such as ethics and independence. This also includes ensuring that any issues of independence or conflicts of interest are addressed before the individual can commence as a partner or employee with a member firm.

Accreditation

KPMG International policies require KPMG professionals to achieve and maintain technical competence and to comply with applicable regulatory and professional accreditation and development requirements, including those of their professional bodies. Member firms provide opportunities to help their professionals meet their continuing professional development requirements (at a minimum, professionals must comply with IFAC requirements) as well as their own personal development goals.

Member firms' policies and procedures are designed to ensure that those individuals responsible for signing audit reports meet the requirements of the appropriate professional bodies.

Learning and development

The Global Audit Learning and Development group delivers learning solutions including Web-based and face-to-face courses for the use of member firms, focusing on the provision of high-quality, technically up-to-date training materials for the ongoing development of audit field professionals. These materials cover the core audit methodology, accounting, specialist, and skills-based courses and help to support globally consistent quality. Technical training is provided in combination with skills training where appropriate. The contents of the courses are regularly reviewed and updated to reflect the ongoing technical competency needs of the professionals, including the level and role of the individual, and the feedback received from course participants. Member firms are in most cases able to tailor the training programs to meet local cultural and business requirements.

Engagement assignment

Member firms have procedures in place to assign both the engagement leader and other staff members to a specific engagement by evaluating his or her skill sets, relevant professional and industry experience, and the nature of the assignment or engagement. Function heads are responsible for the process for allocating particular engagement leaders to clients. Engagement leaders are responsible for ensuring that their engagement teams have appropriate resources and skills. The need for any specialists (e.g., tax, treasury, pensions, forensic) to be assigned to a specific audit engagement is specifically considered as part of the engagement acceptance/continuance process.

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 and regulatory standards and legal requirements
- Appropriate technical knowledge, including knowledge of relevant information technology and specialized areas of accounting or auditing
- Specialization other than accounting and auditing
- Knowledge of relevant industries in which the client operates
- Ability to apply professional judgment
- An understanding of quality control policies and procedures
- Time to perform the engagement

Performance management

All professionals, including partners, undergo annual goal-setting and performance evaluations conducted by performance managers and partners who are in a position to assess their performance. This is achieved through our global performance management process, which is supported by a Web-based application. It provides a framework for guiding and assessing performance and developing people, as well as the tools to carry out this process efficiently and effectively. It also enables member firms to cascade organizational strategic objectives through to team and individual goals to guide performance on the job. Quality is one of the key goals cascaded to our people with the requirement that they monitor and uphold the highest quality of service to clients.

Each professional is evaluated on his or her attainment of agreed-upon goals, demonstration of the KPMG skills and behaviors for their level, and adherence to the KPMG values. Skills and behaviors evaluated include delivering quality service, professionalism, technical knowledge, accountability, business focus, problem solving, building relationships, developing people, feedback and learning, drive and resilience, and making an impact. The annual evaluation and rating of on-the-job performance is completed using a nine-box tool, which looks at two key dimensions of performance; achievement of performance results on one axis, and demonstration of values and skills towards behaviors with a key focus on behaving with integrity and responsibility toward our people, clients, and communities on the other. Both dimensions are essential to success within KPMG.

Compensation and promotion

All member firms are encouraged to have compensation policies that are clear, simple, and linked to the performance evaluation process so that partners and employees know what is expected of them and what they can expect to receive in return. The result of their annual performance evaluation directly impacts their compensation, promotion, and in some cases their continued association with KPMG.

Partner admissions

Each member firm has a process for admission to the partnership that is rigorous and thorough, involving appropriate members of the member firm's leadership. All member firms are required to ensure that the key criteria for admission to partner are consistent with a commitment to professionalism and integrity, quality growth, and being an employer of choice. Measurement of candidates should be against these criteria and aligned to the performance management process.

5 Processes that support effective engagement performance

The quality controls that are embedded throughout KPMG member firms' standard engagement processes are fundamental to the delivery of professional services by member firms. These quality controls include policies and guidance to help ensure that the work performed by engagement personnel meets applicable professional standards, legal and regulatory requirements, and internal standards on quality. The following sections provide more detail specifically as regards statutory audit services.

The Global Services Centre develops and maintains KPMG International's Audit Methodology, which includes all the requirements of the ISA. It is also responsible for developing and maintaining the supporting KPMG International Audit Manual and electronic tools. The KPMG International Audit Manual is adapted by member firms to take account of local legislation and standards and made available to all Audit professionals. Such methodology serves as the foundation of financial statement audits conducted by member firms.

The KPMG International Audit Methodology includes procedures aimed at detecting and responding to the risk of material misstatement resulting from fraud; communications relating to the engagement team's exercise of professional skepticism with respect to potential fraud risk factors, including management bias, have been reinforced and enhanced. The methodology also requires use of information technology professionals and other specialists by member firms in the core audit engagement team when appropriate.

There is a suite of technology tools to support the KPMG International Audit Methodology. These tools promote consistent implementation of the audit process globally and drive audit quality. Leveraging technology to further improve the audit experience for clients and audit professionals is a key component of KPMG International's Audit IT strategy. KPMG International's next-generation audit tool, eAudit, has been globally deployed in 2010.

eAudit is an electronic audit tool that enables KPMG member firms to deliver high-quality audits consistently in an efficient manner. It is a highly technologically enabled tool that can be customized to suit all types of audit engagements, from major international groups to small or medium enterprises. The tool integrates audit methodology, auditing standards, and industry knowledge so that engagement teams have ready access to relevant information at the right time throughout the audit, thereby enhancing efficiency and delivering value to our audit clients.

KPMG International's Audit Methodology comprises the following activities:

Engagement setup

- Engagement acceptance and scoping
- Team selection and timetable

Risk assessment

- Understand the entity and identify and assess risks
- Plan for involvement of specialists
- Evaluate design and implementation of selected controls
- Risk assessment and planning discussion
- Determine audit strategy and planned audit approach

Testing

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

Completion

- Update risk assessment
- Perform completion procedures, including overall review of financial statements
- Perform overall evaluation, including evaluation of significant findings and issues
- Communicate with those charged with governance (e.g., the audit committee) our responsibilities under applicable auditing standards, an overview of the planned scope and timing of the audit, and significant findings from the audit
- Form the audit opinion

Supervision, review, and support for the engagement team

Engagement partners will advise key audit team members as to the objectives of their work, their responsibilities, and the responsibilities of the other partners involved in the engagement. Discussions informing the team of the nature of the entity's business, risks, and possible issues and the detailed audit approach will also take place. This is communicated through planning meetings and a risk assessment and planning discussion with the team.

Supervision includes tracking the progress of the engagement and assessing whether the team members have the time to carry out their work, understand their instructions, and are performing their work in accordance with the audit plan. A key part of supervision is timely review of the work performed so that significant matters are identified and addressed, through consideration by more senior team members or consultation outside the team if necessary, and appropriate conclusions are reached.

The KPMG International Audit Methodology is structured to require appropriate leadership from the engagement leader, starting from risk assessment (e.g., through leading the planning meetings and reviewing planning and other documentation) through review to the completion of the audit.

Consultation and differences of opinion

Internal consultation with others is encouraged and in certain circumstances required to address difficult or contentious matters. The role of member firms' Department of Professional Practice (DPP) or Professional Practice Group is crucial in terms of the support that it provides to the Audit function. They provide technical guidance to client service professionals on specific engagement-related matters and develop and disseminate specific topic guidance on emerging local technical and professional issues.

Technical support available to member firms includes the ISG, as well as (for work on SEC foreign registrants) the U.S. Capital Markets Group based in New York.

The ISG works with Global IFRS topic teams with geographic representation from around the world to promote consistency of interpretation of IFRS between member firms, identify emerging issues and develop global guidance on a timely basis.

Also, there are protocols for consultation regarding significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues.

Engagement quality control review

An engagement quality control reviewer is required to be appointed for the audits of all listed entities and of other engagements identified as high risk. Reviewers are senior and experienced personnel who are independent of the engagement teams, having no engagement responsibilities other than those relating to an objective review of the financial statements and selected audit documentation.

Before the member firm issues its audit report, these individuals review selected audit documentation and client communications, the appropriateness of the financial statements and related disclosures, and the significant judgments the engagement team made and the conclusions it reached with respect to the audit. The audit is completed only when the engagement quality control reviewer is satisfied that all significant questions raised have been satisfactorily resolved.

We are continually seeking to strengthen and improve the role that the engagement quality control review plays in audits as this is a fundamental part of the system of audit quality control. We have taken a number of actions over the last year to reinforce this, including:

- Issuing leading practices guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EQC reviewers
- Incorporating specific procedures in eAuditIT to facilitate effective reviews

Audit reports

The audit opinion is the key deliverable from member firms' audit work. The format and content of the audit opinion is largely dictated by auditing standards and local legislation. Engagement leaders arrive at audit opinions having taken responsibility for all stages of the audit and reviewed the work performed by the audit team.

Communication with those charged with governance

Another important deliverable is the communication of matters relating to the audit to those charged with governance, including matters that are significant and relevant to their responsibility to oversee the entity's financial reporting process.

Client confidentiality, information security, and data privacy

The importance of maintaining standards on client confidentiality is emphasized through a variety of mechanisms including the Code of Conduct, training, and the annual affidavit/confirmation process, which all professionals are required to complete.

Each member firm is required to have a formal document retention policy concerning the retention period for audit documentation and other records relevant to an engagement in accordance with the relevant IFAC rules as well as other applicable regulatory bodies' standards and regulations.

KPMG member firms have clear policies on information security that cover a wide range of areas. Data privacy policies are in place governing the handling of personal information, and associated training is required for all KPMG personnel.

6 Monitoring

KPMG International has an integrated monitoring program that covers all member firms to assess the relevance, adequacy, and effective operation of key quality control policies and procedures. This monitoring addresses both engagement delivery and important KPMG International policies and procedures. The results and lessons from the programs are communicated within each member firm, and the overall results and lessons from the programs are considered at regional and global levels.

The Quality Performance (QP) Program assesses quality at the engagement level at each member firm in the Audit, Tax, and Advisory functions. The reviews are tailored to the relevant function, performed at a member firm level generally using a nonlocal lead reviewer, and are monitored regionally with benchmarking across the regions to promote consistency. Remedial actions are developed at an engagement and at a member firm level.

Two cross-functional programs, the Risk Compliance Program (RCP) and the Global Compliance Review program (GCR), monitor compliance with KPMG International's policies at a member firm level.

The RCP is a member firm's annual self-assessment program of its compliance with applicable policies and procedures. It is monitored regionally.

GCRs are performed by reviewers external to the member firm led by the Global Compliance Group and are carried out over a three-year cycle. These reviews assess compliance by a member firm with key KPMG International policies and procedures. In the event that a GCR review identifies significant issues that require immediate or near-term attention, a follow-up review will be performed as appropriate.

All three programs require an action plan to be developed by the member firm, and these action plans are followed up to assess action against the plan.

External monitoring

KPMG member firms are subject to review by their local regulatory bodies in those territories that have such requirements.

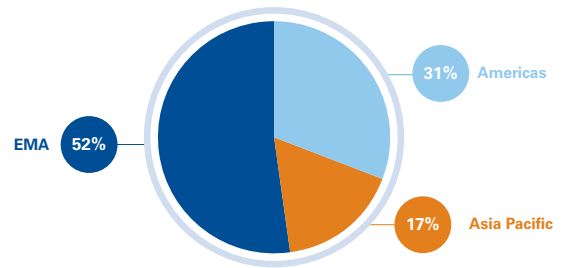
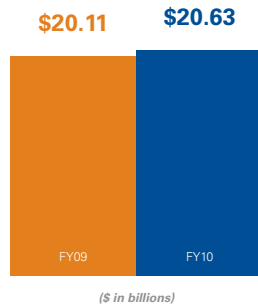
Finance

Combined revenues for KPMG member firms increased to US\$20.63 billion for the fiscal year ended September 30, 2010, versus US\$20.11 billion for the prior fiscal year.

KPMG's combined revenues for fiscal year 2010 represent growth of 2.6 percent in U.S. dollars and growth of 0.1 percent in local currency terms.

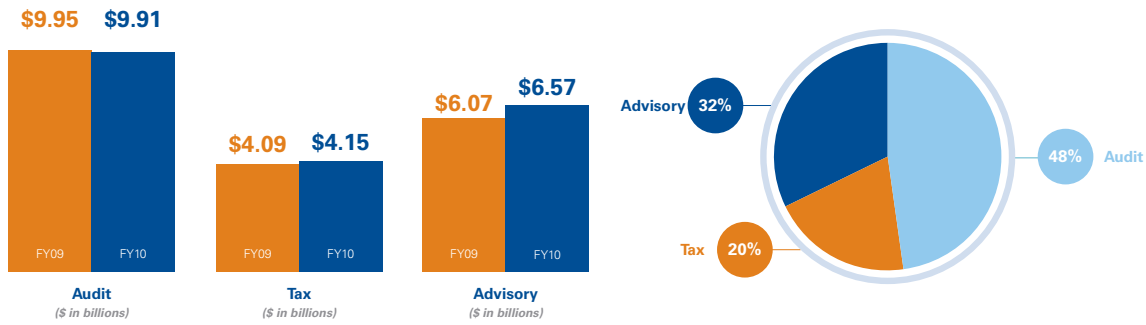
The financial information set forth represents combined information of the separate KPMG member firms that perform professional services for clients. The information is combined here solely for presentation purposes. KPMG International performs no services for clients nor, concomitantly, generates any revenue.

Revenues Global Total Revenues

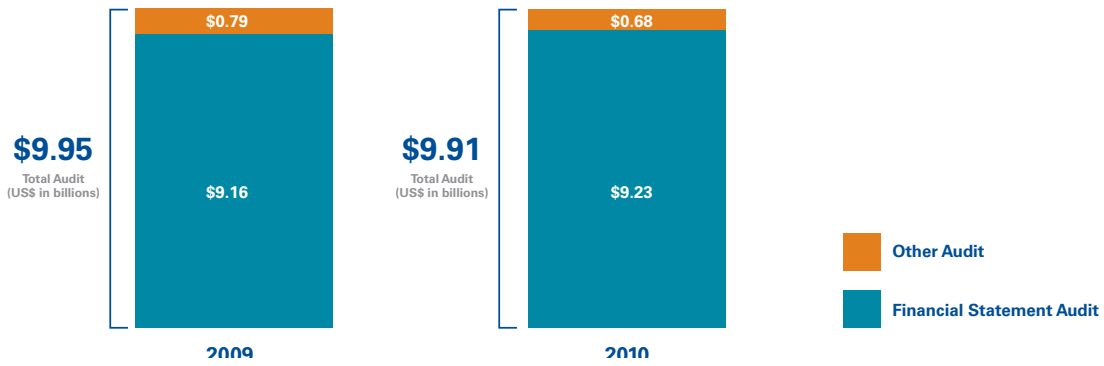


Revenues

Global Revenues by Function

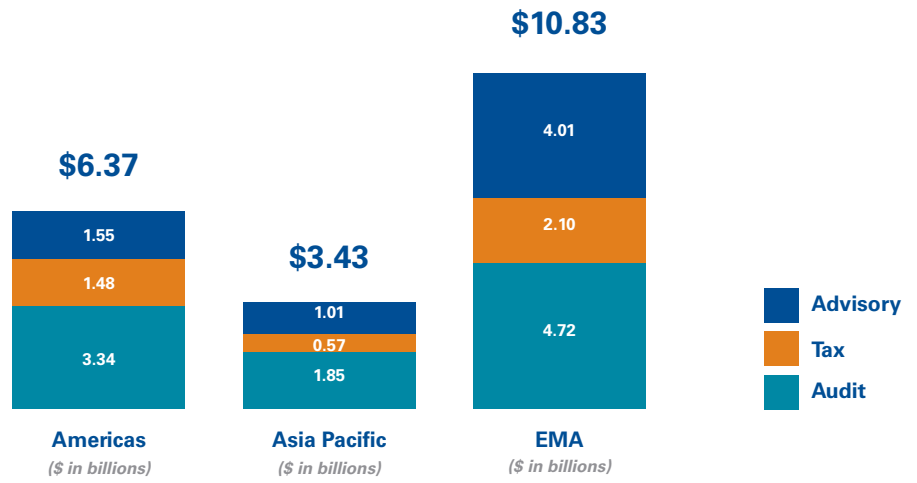


Audit Revenues



Revenues

Global Revenues by Function and Region



Revenues

Global Revenues by Industry

Line of Business	FY10	FY09	Local Growth	US\$ Growth
Financial Services	5.48	5.04	5.7%	8.7%
Industrial Markets	4.91	4.94	(3.9%)	(0.7%)
Consumer Markets	2.51	2.60	(6.2%)	(3.5%)
Information, Communications and Entertainment	3.60	3.55	(1.7%)	1.4%
Infrastructure, Government, and Healthcare	4.13	3.98	0.6%	3.7%
Total	20.63	20.11	0.1%	2.6%

Appendix 1

List of countries/territories in which KPMG member firms operate

KPMG member firms can be found in over 145 countries. Collectively, they employ more than 137,000 people across a range of disciplines.

To contact KPMG International, please use the following address: transparencyreport@kpmg.com

KPMG member firms operate in the countries/territories listed below:

Americas

Argentina
Brazil
Canada
Chile
Colombia
Costa Rica
Dominican Republic
Ecuador
El Salvador
Guatemala
Honduras
Israel
Mexico
Nicaragua
Panama
Peru
United States of America
Uruguay
Venezuela

ASPAC

Australia
Brunei Darussalam
Cambodia
China
Cook Islands
Fiji Islands
Indonesia
Japan
Korea (Republic of)
Laos
Malaysia
New Zealand
Papua New Guinea
Philippines

Singapore

Taiwan
Thailand
Vietnam

Europe/Middle East/Africa

Algeria
Angola
Austria
Cameroon
Congo (Democratic Republic of the)
Congo (Republic of the)
Cyprus
Denmark
Finland
France
French Polynesia
Greece
Iceland
India
Ireland
Italy
Ivory Coast
Monaco
Morocco
New Caledonia
Norway
Portugal
Senegal
Sweden
Togo
Tunisia

KPMG Europe LLP

Andorra⁺
Armenia⁺
Azerbaijan
Belgium^{+∞}
Georgia
Germany[#]
Kazakhstan
Kyrgyzstan
Liechtenstein
Luxembourg
Netherlands*
Russia⁺
Spain[†]
Switzerland
Turkey[†]
Ukraine⁺
United Kingdom

Africa subregion

Botswana
Ghana
Kenya
Malawi
Mauritius
Mozambique
Namibia
Nigeria
Rwanda
Sierra Leone
South Africa
Swaziland
Tanzania
Uganda
Zambia
Zimbabwe

⁺ Certain entities in these jurisdictions are not wholly owned by KPMG Europe LLP.

[∞] KPMG Europe LLP has no legal ownership of the Belgian KPMG Audit practice but has a call option.

[#] KPMG Rechtsanwalts-gesellschaft mbH, which provides legal services in Germany, is owned by certain members of the Board of KPMG Wirtschaftsprüfungsgesellschaft.

^{*} Netherlands does not include the KPMG Tax practice in that country.

[†] The Audit practice in Spain, KPMG Auditores S.L., became part of KPMG Europe LLP on 1 December 2010.

^{††} KPMG Europe LLP has no legal ownership of some of the entities that are part of the Turkish firm but has a call option. KPMG İş ve Yönetim Danışmanlığı A. is fully owned by KPMG Europe LLP.

Central and Eastern Europe subregion

Albania
Belarus
Bosnia and Herzegovina
Bulgaria
Croatia
Czech Republic
Estonia
Hungary
Latvia
Lithuania
Macedonia
Moldova
Montenegro
Poland
Romania
Serbia
Slovakia
Slovenia

Middle East and South Asia subregion

Afghanistan
Bahrain
Bangladesh
Egypt
Jordan
Kuwait
Lebanon
Maldives
Oman
Pakistan
Qatar
Saudi Arabia
Sri Lanka
Syria
United Arab Emirates
Yemen

The Offshore Group subregion


Anguilla
Antigua and Barbuda
Aruba
Bahamas
Barbados
Bermuda
British Virgin Islands
Cayman Islands
Curaçao[&]
Gibraltar
Guernsey
Isle of Man
Jamaica
Jersey
Malta
St. Lucia
St. Maarten[&]
St. Vincent and the Grenadines
Surinam
Trinidad and Tobago
Turks and Caicos Islands

[&] Political changes in respect of the Netherlands Antilles after 1 October 2010 have been reflected on this list.

Appendix 2

KPMG's global values

We lead by example	At all levels we act in a way that exemplifies what we expect of each other and our clients.
We work together	We bring out the best in each other and create strong and successful working relationships.
We respect the individual	We respect people for who they are and for their knowledge, skills and experience as individuals and team members.
We seek the facts and provide insight	By challenging assumptions and pursuing facts, we strengthen our reputation to provide insight as trusted and objective business advisers.
We are open and honest in our communication	We share information, insight and advice frequently and constructively and manage tough situations with courage and candor.
We are committed to our communities	We act as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities.
Above all, we act with integrity	We are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

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