



INSURANCE

# State Compensation Insurance Fund Audit Committee Meeting

March 17, 2011 (Open Session Item #5)

AUDIT



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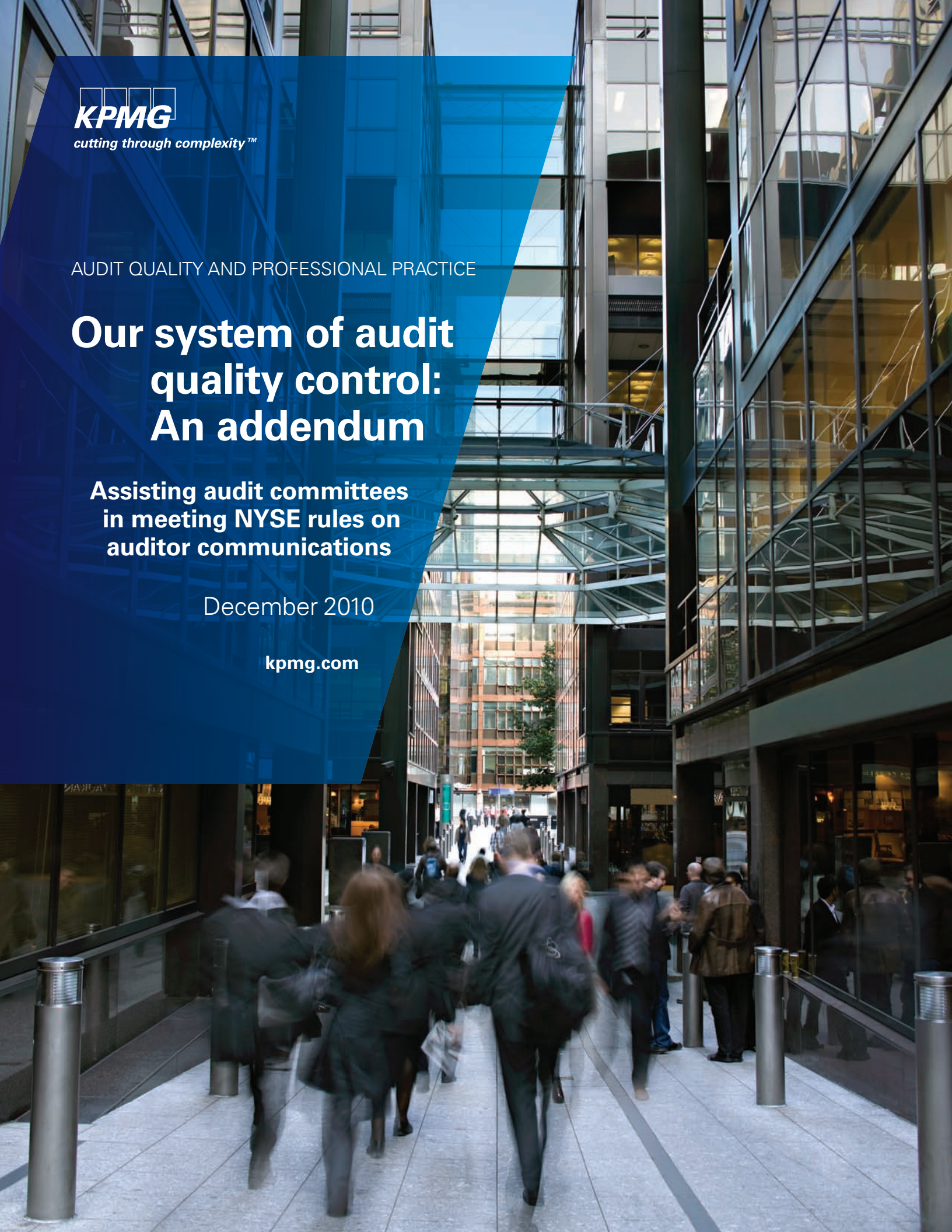
AUDIT QUALITY AND PROFESSIONAL PRACTICE

# Our system of audit quality control: An addendum

Assisting audit committees  
in meeting NYSE rules on  
auditor communications

December 2010

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# Our system of audit quality control: An addendum

## Quality control

KPMG LLP (KPMG) maintains a system of audit quality control that is designed to meet or exceed the requirements of applicable professional standards issued by the Public Company Accounting Oversight Board (PCAOB) and the American Institute of Certified Public Accountants (AICPA). The accompanying document, *Our system of audit quality control: Serving the public interest through independence, integrity, ethics, objectivity, and quality performance*, describes that system and encompasses:

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

KPMG continuously reviews its policies and practices to respond to changes in regulatory and professional requirements.

## Regulatory external reviews

The enactment of the Sarbanes-Oxley Act (the Act) in 2002 resulted in the creation of the PCAOB, the mission of which is to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports. To assist it in fulfilling its mission, the PCAOB conducts periodic inspections of registered firms.

Since its inception, the PCAOB has completed eight periodic inspections, including a limited inspection in 2003, of KPMG. The status of the four most recent inspections follows.

For its 2010 inspection, as in prior inspections of KPMG, the PCAOB selected a cross-section of audit engagements to review. In addition, the PCAOB performed and completed certain procedures relating to KPMG’s executive and national offices. KPMG has not yet received the PCAOB’s report on its 2010 inspection.

On October 5, 2010, the PCAOB released its final report on its 2009 inspection of KPMG. The public portions of the report are available on the PCAOB’s Web site, [http://pcaobus.org/Inspections/Reports/Documents/2010\\_KPMG\\_LLIP.pdf](http://pcaobus.org/Inspections/Reports/Documents/2010_KPMG_LLIP.pdf).

The PCAOB released its final report on its 2008 inspection of KPMG in June 2009. The public portions of the report

are available on the PCAOB’s Web site, [http://pcaobus.org/Inspections/Reports/Documents/2009\\_KPMG\\_LLIP.pdf](http://pcaobus.org/Inspections/Reports/Documents/2009_KPMG_LLIP.pdf).

The public reports issued by the PCAOB do not include those sections of the reports that are, under the Act, nonpublic. Although KPMG does not publicize nonpublic portions of PCAOB inspection reports, the firm would be pleased to discuss with our clients significant information contained in the reports.

In October 2010, the Board determined that KPMG had addressed the quality control criticisms in the nonpublic portion of the 2007 report to the PCAOB’s satisfaction for purposes of Section 104(g)(2) of the Act. As a result, under the Act, the PCAOB did not make public any of its comments on the firm’s quality control policies included in the nonpublic portion of the 2007 report.

## Internal quality reviews

KPMG conducts an annual internal review of its auditing practice through its Quality Performance and Compliance Program (QPCP). The QPCP is designed to meet the quality control element of monitoring as required by professional standards promulgated by the PCAOB. For the five-year period ended December 31, 2010, our QPCP did not identify any issues considered to have a material effect on the conduct of the firm’s accounting and auditing practice. Like most companies with quality review programs, we identify areas for continuous improvement and address our findings through enhancement of policies and guidance, where appropriate; other written communications to our professionals; internal training; and periodic partner, manager, and staff meetings. These areas also are emphasized in subsequent years of the QPCP to assist our audit quality function in assessing our continuous improvement goals.

## External peer review

KPMG’s system of quality control for its accounting and auditing practice for our nonpublic clients is subjected to peer review triennially.

PricewaterhouseCoopers LLP issued its report on our most recent external peer review in December 2008. The firm received a peer review rating of *pass* for the year ended March 31, 2008. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*.

The most recent peer review report and the AICPA’s acceptance letter of our peer review are public documents and are accessible through the AICPA’s peer review public file Web site, <http://peerreview.aicpa.org/publicfile/DocDefault.aspx>.




### **Review action plans**

As part of KPMG's continuous improvement and quality control efforts, the firm has a dedicated audit quality function that participates in the development of remedial action plans and monitors the timely implementation, execution, and effectiveness of those plans.

### **Governmental or other inquiries related to our Audit practice**

Currently, KPMG is not aware of any inquiry or investigation by governmental or regulatory authorities against the firm or any of its partners that might have a material adverse effect on the firm's operations or our ability to fulfill our obligations as independent auditor to our clients.

In the last five years, KPMG believes that inquiries or investigations by governmental or regulatory authorities related to our firm's Audit practice have not resulted in material revisions to its audit-related quality control or other procedures.



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