



# Transparency Report 2020

**Dedicated to trust.  
Committed to quality.**

Updated February 2021  
[read.kpmg.us/auditquality](https://read.kpmg.us/auditquality)



**Audit quality** is fundamental to maintaining public trust and is the key measure on which our professional reputation stands.

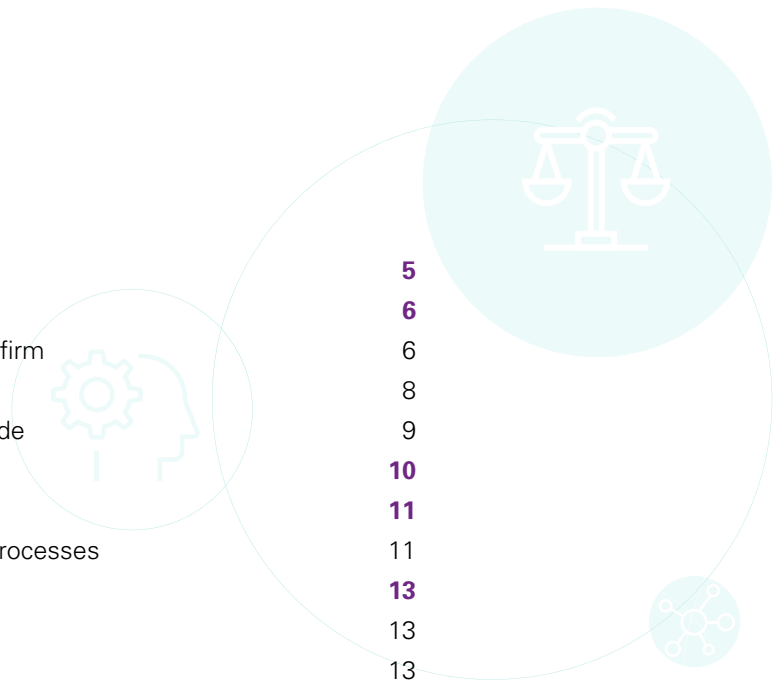
We define “audit quality” as the outcome when audits are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls.

All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.



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# Letter to our stakeholders

2020 was not the year we expected. It challenged us in many ways, and uncertainty became the norm. But we pivoted quickly, and we couldn't be prouder of how our firm came together to continue to serve clients and operate effectively every day.

The COVID-19 pandemic, ongoing economic uncertainty and social unrest playing out across the globe have created a new reality. As everything seemed to shift, our culture and purpose grounded us and ultimately strengthened our resolve. Responding to today's needs is making us stronger for tomorrow – finding solutions that will have enduring benefits for the firm and for audit quality.

This 2020 Transparency Report provides details on our commitment to continually enhance audit quality; outlines KPMG LLP's structure, governance and approach to audit quality; and discusses how the firm aligns with the requirements and intent of applicable professional standards. Our [2020 Audit Quality Report](#)  supplements this report by outlining key initiatives of the firm that underpin our commitment to audit quality.

KPMG is committed to providing high-quality professional services, including audit services, in an ethical manner for all of our constituents, including entities that are listed on capital markets around the globe. In addition to complying with the high standards of our U.S. regulators, KPMG complies with the applicable requirements of audit regulators outside of the United States where entities we audit have listings or are otherwise subject to regulation. This report and its supplemental documents cover fiscal year ended September 30, 2020, and are published in accordance with the provisions of the New York Stock Exchange Listed Company Manual Section 303A.07 and Article 13 of the European Union's Regulation No. 537/2014.

We have a duty to serve the public interest, which is a responsibility we take seriously. We are proud of our achievements in 2020, and we are deeply committed to all of our stakeholders as we continually monitor and improve our system of quality control and invest in the future of audit.




**Paul Knopp**  
U.S. Chairman & CEO




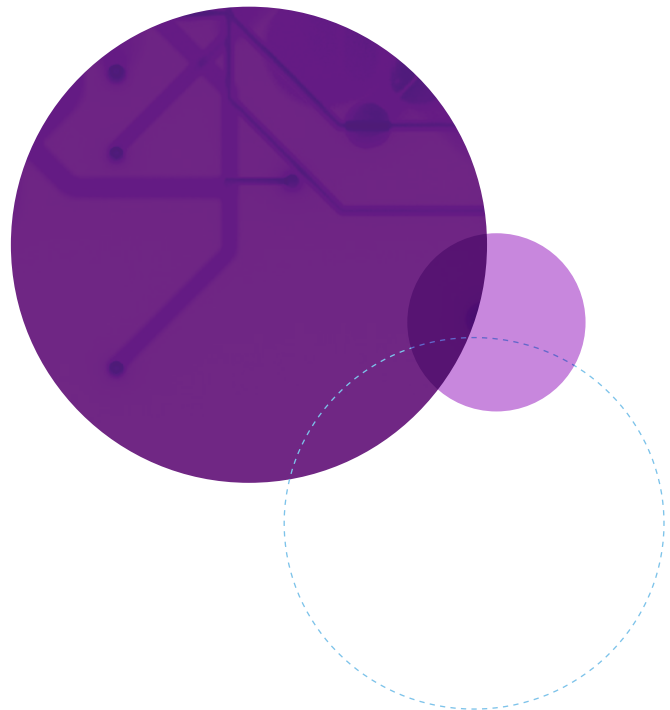
**Scott Flynn**  
Vice Chair—Audit



# Our business, structure and ownership

KPMG LLP (KPMG or the firm) provides audit, tax and advisory services to a broad range of domestic and international entities. Our U.S. firm operates from more than 100 offices with more than 38,000 employees and partners. KPMG operates as a Delaware limited liability partnership, and we are wholly owned by our more than 2,200 partners and principals (referred to collectively as partners).<sup>1</sup> Full details about the services we offer can be found at [home.kpmg/us/en/home.html](https://home.kpmg/us/en/home.html) .

Prior to October 1, 2020, KPMG and the other independent member firms of the KPMG network were affiliated with KPMG International Cooperative (KPMG International), which is a legal entity formed under Swiss law. On October 1, 2020, KPMG LLP and all other KPMG firms entered into new membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organization became members in, or have other legal connections to, KPMG International Limited, an English private company limited by guarantee. KPMG member firms operate in 147 countries and territories, collectively employing more than 219,000 people, serving the needs of business, governments, public-sector agencies, not-for-profits, and the capital markets. More information about KPMG International, including the U.S. firm's relationship with it for the financial year ended September 30, 2020, is set out in the [Transparency Report – Supplement: Additional Information Required by Article 13 of EU Regulation 537/2014](#) .



<sup>1</sup> Partners and principals have essentially the same rights under the firm's partnership agreement except that principals are not licensed as certified public accountants under the laws of any of the various states or territories of the United States.



# Tone at the top

The tone at the top of any organization drives its culture and accepted behaviors and is an important part of a firm's system of quality control.

We strongly believe that tone at the top enables the right attitude and behavior throughout the firm through a focused and consistent voice. There are a number of critical components to effective tone at the top, including:

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

Our system of quality control is designed to meet applicable regulatory standards over quality control for a CPA firm. While this report is intended to cover our fiscal year ended September 30, 2020, we have highlighted throughout this document our progress of ongoing or upcoming initiatives in the coming year and our continuous approach to monitoring and enhancing our system of quality control.

Our culture and values are a critical part of audit quality. While each of us shares the responsibility to nurture and strengthen our KPMG culture, our collective commitment calls for deliberate and full-time leadership to ensure that culture remains foundational to our strategy and long-term success. Given its strategic importance, the firm's Chief Culture Officer is a member of the firm's Management Committee, which further reaffirms to our people, our clients, our regulators and other stakeholders how we see culture as a strategic imperative for the firm.

## Leadership responsibilities for quality within the firm



Our Chair and Chief Executive Officer (CEO) establishes the firm's strategies and direction, including our commitment to audit quality, ethical culture and our promise of professionalism to investors and other participants in the capital markets, regulators, clients and our partners and employees.

In an effort to reinforce our audit quality agenda, our structure closely aligns our leadership with our audit quality foundation:

- Our Vice Chair – Audit, who reports to the Chair and CEO and Deputy Chair and Chief Operating Officer (COO) as a member of the Management Committee, has responsibility for our Audit practice, including driving certain aspects of our system of quality control.
- Our National Managing Partner – Audit Quality and Professional Practice (AQPP), who reports to the Vice Chair – Audit, leads our Department of Professional Practice (DPP) and the firm's regional and business unit professional practice partners, and is also responsible for driving and supporting certain monitoring activities within our system of quality control.
- Our National Managing Partner – Audit Operations and Execution, who reports to the Vice Chair – Audit, is responsible for implementing quality control initiatives that facilitate engagement performance, resource management, talent development, and growth and financial strategies and also is responsible for supporting certain aspects of the firm's system of quality control.



We define and document the key roles and responsibilities associated with each of the quality control elements outlined in the standards – i.e., Public Company Accounting Oversight Board (PCAOB) QC Section 20, “System of Quality Control for a CPA Firm’s Accounting and Auditing Practice” and American Institute of Certified Public Accountants (AICPA) QC Section 10, “A Firm’s System of Quality Control (Redrafted).” We evaluate our leaders on their achievement of these responsibilities during the partner year-end review process.

Beyond the executive level, several important leadership bodies carry KPMG culture across the firm’s Audit practice.

Our nationally managed Audit practice is supported by East and West regional leadership teams, each with a designated regional managing partner and regional professional practice partner. The regional managing partners report to the National Managing Partner – Audit Operations and Execution to assist in his responsibilities for audit quality with respect to certain aspects of the firm’s system of quality control. The regional professional practice partners, reporting to the National Managing Partner – AQPP, provide professional practice and audit quality leadership and direct adherence to firm policies, procedures and professional standards within their respective regions. They are supported by a network of professional practice partners and the professional practice support team, which assists with our monitoring systems and supports our professionals in meeting their risk management and professional practice responsibilities, all of which help to reinforce a strong system of quality control.

### Professional practice partners

KPMG professional practice partners in each geographical business unit:

- Report to a regional professional practice partner
- Support and advise partners, managing directors and engagement teams on entity-specific technical accounting and audit matters
- Assimilate information pertaining to professional practice and risk management
- Monitor compliance with firm policies, our system of quality control and professional standards

- Review policies and processes to continuously improve audit quality
- Provide performance feedback related to audit quality for Audit partners and managing directors in the business unit
- Assign the partner or managing director to lead each engagement as well as evaluate the ongoing capacity of partners, managing directors and managers to serve the client portfolio
- Evaluate new clients and new and continuing audit and attestation engagements along with the respective lead audit engagement partner or managing director to address audit risks and association or continued association with the client.

### DPP personnel

DPP comprises a broad network of partners, managing directors, senior managers and other professionals who support our people in meeting their professional responsibilities in accordance with firm policies and the requirements of the PCAOB, the U.S. Securities and Exchange Commission (SEC), the AICPA, and other regulatory oversight organizations. Additionally, DPP oversees root-cause analyses and audit-specific training.

### Chief Auditor and Chief Accountant

Our Chief Auditor and Chief Accountant, both of whom report to the National Managing Partner – AQPP, develop and disseminate topic-specific guidance on emerging technical and professional auditing, accounting, reporting and regulatory matters. Under the supervision of the Chief Auditor and Chief Accountant, DPP professionals develop and present KPMG positions on current topics being addressed by the SEC, PCAOB and other regulatory and standard-setting bodies<sup>2</sup>. In addition, DPP professionals actively liaise with KPMG International’s International Standards Group (ISG), located in London, on international accounting and auditing standards matters.

The Chief Auditor is responsible for our Audit Quality Support Partner (AQSP) program, which comprises select Audit partners who recently completed a rotation in DPP and have returned to a local office. Each AQSP goes through an annual accreditation

<sup>2</sup> Financial Accounting Standards Board, the Governmental Accounting Standards Board, the Emerging Issues Task Force, the Auditing Standards Board, and other boards and committees of the AICPA, the International Auditing and Assurance Standards Board, and other similar organizations.



process and works closely with local and national audit leaders to provide direct audit quality coaching and support to engagement teams. The Chief Auditor leads an annual planning process and directs AQSPs to those areas where coaching will have the most significant effect on audit quality.

The Chief Accountant is involved in the nomination and annual accreditation process of partners designated as SEC Reviewing Partners (SECRPs), who are select Audit partners who meet certain qualifications and criteria to perform engagement quality control reviews of audits of issuers. Further information on the types of the firm's quality control reviews can be found in the "Quality control review" section of this report.

### Chief of Integrated Inquiries

One of DPP's central functions is to provide technical accounting and auditing guidance to teams through consultations on engagement-related issues. In 2019, we reorganized DPP to bring together into one integrated group our resources that respond to accounting and audit consultations. The Chief of Integrated Inquiries, which is a role created last year, reports to the National Managing Partner – AQPP and leads this group of partners, managing directors and senior managers in providing this support to engagement teams.

### National Business Leader of DPP

The National Business Leader of DPP reports to the National Managing Partner – AQPP and drives the execution of audit quality enhancement initiatives, ensuring that these efforts are resourced and prioritized appropriately. The National Business Leader also has responsibility for root-cause analyses, the system of quality control assessment activities, audit-related training and the operations of DPP.

The Root Cause and Collaboration Group (RCCG) is instrumental to enhancing our ability to identify, analyze and address findings to continually improve our system of quality control and engagement performance. The RCCG and root cause analysis are discussed further in the "Commitment to Monitoring Quality and Continuous Improvement" section.

The System of Quality Control (SoQC) Group plans and conducts an annual assessment of the effectiveness of our system of quality control. As part of that assessment, the SoQC Group performs certain testing over the policies, procedures, processes and controls that comprise the firm's system of quality control. The SoQC Group also considers the

results of the firm's monitoring procedures, including its internal inspection program and its evaluation of external regulatory and peer reviews and the development of any necessary corrective actions to continually improve the firm's system of quality control.

### PCAOB Standards Group (PSG)

The global PCAOB Standards Group (PSG) comprises a dedicated group of professionals with a background in PCAOB auditing standards who promote consistency of interpretation of PCAOB auditing standards applied globally in KPMG firms' audits of foreign private issuers and non-U.S. components of U.S.-based issuers. The PSG also provides input into the development of training for auditors outside of the U.S. firm who work on PCAOB audit engagements and, where practicable, facilitates delivery of such training.

### Ethics and integrity



Ethics, integrity, independence and objectivity are the pillars of our firm and of the profession. We take our obligations to all of the stakeholders of the capital markets seriously and, as required by the standards that bind us, are committed to protecting the confidentiality of our clients' sensitive information.

Our environment is built on the principle that every individual must take personal responsibility for the ethical culture of the firm. As individuals, we live our values – integrity, excellence, courage, together, for better – by doing what is right, continually learning and improving, thinking and acting boldly, respecting one another and drawing strength from our differences and doing what matters. We expect those who manage others to act as role models; enhance understanding; set appropriate goals; and be responsive, responsible, fair and accountable.

The firm's Code of Conduct (the Code) is the cornerstone of our ethics and compliance program. It helps us articulate our standards of professionalism and integrity expected of all KPMG partners and employees. The Code sets forth our values, shared responsibilities, channels of communication and key policies and protocols, and provides a roadmap to guide how our individual and collective commitments to professionalism and integrity should be manifested and maintained. This approach supports and positively impacts how





we achieve our strategic priorities, as we look to grow our business by working with companies that share our values and by recruiting and retaining professionals who take pride in the positive contributions they make to our ethical culture.

When they join the firm, and each year thereafter as part of an annual confirmation process, every one of our people is asked to confirm that they have read the Code, understand it and agree to comply with it, which includes adhering to our values, shared responsibilities, commitments and promises.

### 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](http://www.kpmgethics.com). We encourage use of the hotline when KPMG professionals feel uncomfortable reporting concerns about possible illegal, unethical or improper conduct through normal channels or when they want 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 our Chief Compliance Officer for review and, if necessary, for 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). Retaliation for good-faith reporting or for otherwise participating in an investigation is strictly prohibited, and the firm has a monitoring process designed to protect individuals who disclose their identities when raising their concerns and witnesses who participate in an investigation.

## Commitment to enhancing audit quality worldwide



The Global Audit Quality Committee of the Global Board (principal governance and oversight body of KPMG International) is designed to achieve greater accountability and consistency among member firm senior partners and Audit leaders for audit quality. It comprises senior partners (i.e., Chair and CEO or their equivalents) from large member firms and is led by a dedicated Global Head of Audit Quality, who reports to the committee.

Global steering groups, such as the Global Audit Steering Group, Global Audit Quality Council, and Global Quality and Risk Management Steering Group, work with regional and member firm leadership to promote audit quality in each region and member firm. More information about these global groups can be found in section 1.4.4 of the [EU supplement](#) to this report.



# Audit quality

Audit quality is fundamental to maintaining public trust in the capital markets and is the key measure on which our professional reputation stands.

We define “audit quality” as the outcome when audits are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls.

And all of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We continuously monitor our approach to audit quality to enhance our system of quality control and our audit methodology. Our firm’s system of quality control is based on PCAOB and AICPA standards and is documented and assessed annually. Additionally, we are in the process of analyzing the impact that the new international quality control standards, issued by the International Auditing and Assurance Standards Board (IAASB), as well as the project by the PCAOB to enhance its existing quality control standards, will have on our system of quality control.

KPMG International developed the Global Audit Quality Framework, based on International Standards on Quality Control (ISQC) 1<sup>3</sup>, issued by the IAASB, and on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which apply to professional services firms that perform audits of financial statements. KPMG International’s framework provides a common language for member firms to describe what drives audit quality and to help highlight to their audit professionals how they contribute to the delivery of audit quality.

Tone at the top is fundamental to the core of the Global Audit Quality Framework’s seven drivers, and as a driver itself, guides the right behaviors across the firm. All of the other drivers are presented within a continuous circle because each driver is intended to reinforce the others.



**Our Global Audit Quality Framework**

<sup>3</sup> In September 2020, the IAASB approved the new International Standard on Quality Management (ISQM) 1, which will replace ISQC 1 and is expected to be effective from December 2022. ISQM 1 requires each KPMG firm to design, implement and operate a system of quality management to consistently deliver quality audits and to evaluate the effectiveness of the system on an annual basis.



# Association with the right clients

Rigorous entity and engagement acceptance and continuance policies are important to our ability to provide reasonable assurance that our firm:

- Minimizes the likelihood of association with an entity whose management lacks integrity
- Undertakes only those engagements that we can reasonably expect to complete with professional competence
- Considers the risks associated with providing professional services in particular circumstances.

Risk Management develops risk management policies for the Audit practice, including those relating to client and engagement acceptance and continuance. Risk Management reports outside of the Audit practice to the Vice Chair – Risk Management, and oversees relevant risk management systems, including CLEAS (Client/Engagement Acceptance and Setup) and the Partner Rotation System, which helps the firm to monitor compliance with the SEC independence rules on partner rotation as well as the firm's rotation requirements.

KPMG has established policies and procedures for evaluating new and continuing professional relationships and whether to perform specific services for a particular entity. CLEAS is used to manage, control and document the firm's acceptance and continuance processes. Our policies and procedures are designed to prohibit engagement teams from beginning work on an engagement or setting up an engagement code in the firm's financial system before potential risks are evaluated, any applicable safeguards are put in place and approval is obtained from appropriate leaders, including those in Risk Management.

## Prospective entity and engagement evaluation processes



Before accepting an audit engagement with a new entity, we require an evaluation of the entity, its principals and its business. This typically includes a background investigation of the entity and select members of senior management.

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

- Client-related matters (reputation, character and integrity of the management and owners of the prospective client, as well as internal controls considerations and accounting policy and reporting matters)
- Business-related matters (risk of potential litigation, whether association with the prospective client may harm the firm's professional reputation)
- Service-related matters (whether the engagement team possesses adequate knowledge, skills and experience to respond to the engagement risks, fulfill our professional obligations and provide appropriate professional services).

## Independence and conflict check system

With the assistance of the national Independence Group, engagement teams proposing to perform a new audit engagement conduct a review of relationships that the firm or certain individual professionals may have with the prospective client and its affiliates. The review also includes consideration of any nonaudit services we may provide or have provided. We use our proprietary tool, Sentinel™, to identify potential independence issues and other conflicts



of interest within and across member firms in the KPMG International network. If a potential independence issue or conflict cannot be resolved satisfactorily, in accordance with professional and firm standards, we decline the prospective engagement.

### **Continuance and reevaluation process**

Lead audit engagement partners and managing directors are required to review and evaluate their existing audit and attestation engagements with their professional practice partner at least annually. An engagement continuance evaluation is a process of formal approvals by various parties, generally including the business unit professional practice partner and, in certain situations, the regional professional practice partner and Risk Management. The objective of these reviews is to identify those engagements where the firm should consider implementing additional

safeguards to address audit risk or those instances where the firm should discontinue its professional association with the entity. In addition, certain factors that may alter the risk profile of the engagement, such as a significant change in the nature, size, structure, ownership or management of an entity's business, prompt evaluation procedures applicable to the situation, such as independence clearance and background checks, to be conducted before the annual continuance process.

### **Withdrawal process**

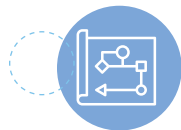
When we obtain information that indicates we should withdraw from an engagement or from a client relationship, we consult internally and identify any required legal, professional and regulatory responsibilities. We also communicate as necessary with those charged with governance and any other appropriate bodies or authorities.



# Policies and effective audit tools

Engagement performance, including KPMG audit methodology, encompasses all aspects of audit design and execution in accordance with auditing standards, including supervision, consultation, documentation, review and communication of audit results. Our system of quality control includes policies and procedures that prepare every KPMG professional performing audits with the information, tools, skills and behaviors needed for their assigned responsibilities. Our professionals above the associate level, including those in the Advisory and Tax practices supporting audit engagements and as determined by Tax and Advisory, also receive training on incorporating the KPMG judgment framework that addresses how to recognize and overcome biases in making judgments and applying appropriate professional skepticism.

## Audit methodology

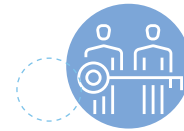


The KPMG audit methodology is based on the requirements of the PCAOB and AICPA, as well as the International Standards on Auditing. The KPMG audit methodology is set out in the KPMG Audit Manual (used with eAuditIT) and in the KPMG Audit Execution Guide (used with the new KPMG Clara workflow, described below) and emphasizes applying appropriate professional skepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence.

Enhancements to the audit methodology, guidance and tools are made regularly to maintain compliance with standards and address emerging auditing areas of focus and audit quality expectations.

As a result of the COVID-19 pandemic, many companies are experiencing significant financial uncertainty. We have issued guidance to our auditors on conducting audit procedures in a remote-working environment, raised awareness of key audit risks, such as going concern<sup>4</sup> and impairments<sup>5</sup>, and provided reminders of the importance of exercising professional skepticism, including taking appropriate actions if information is identified that is unexpected or unusual and may be indicative of potential management bias, a fraud risk, or fraud.

## Effective audit tools



We are implementing a phased deployment of the KPMG Clara workflow, which is replacing our existing electronic audit tool, eAuditIT. Limited deployment of the new KPMG Clara workflow in the U.S. took place during 2019, with additional engagement teams using the KPMG Clara workflow in 2020 and full deployment in the U.S. expected in 2021 (year-end audit dates after December 14, 2021). The KPMG Clara workflow includes a redesigned workflow linked to our revised methodology included in the KPMG Audit Execution Guide. The workflow includes a robust risk assessment that enables the auditor to understand the company, its processes and financial reporting risks and tailor the audit response to drive quality. The methodology and workflow are designed to build quality into the process and allow us to enhance our monitoring of the audit prior to issuance of the audit report. They are intended to deliver enhanced knowledge and guidance to engagement teams, allowing the auditor to read and understand the standards and how the KPMG methodology drives compliance with those standards. This will further standardize our audit approach.


<sup>4</sup> An accounting assumption that a business will stay in operation, with no threat of ceasing its operations and liquidating its assets.

<sup>5</sup> An accounting term that describes a reduction in the value of a company's asset, typically a fixed asset or an intangible asset.



The KPMG Clara workflow also provides powerful data and analytics capabilities. For example, enhanced functionality facilitates the performance of planning and risk assessment activities and substantive procedures, and includes capabilities that:

- Enable the analysis of account balances and journal entry data
- Automate “period on period” balances comparison and “time series” evolution information
- Enable the analysis of subledger, transactional data over business processes and accounts.

Over 2,200 professionals have advanced training in data visualization technologies for use on audits, and 500 are upskilled in data extraction and transformation technologies. More information on our capabilities, technology, and support, including the development of audit quality indicators, can be found in our [2020 Audit Quality Report](#). 

## Quality control review



KPMG continually seeks to strengthen and improve the role that the quality control reviewer plays in audits, as this is a fundamental part of the system of quality control. Each KPMG audit involves either an engagement quality control review or a limited-scope quality control review (collectively, a quality control review). The type of quality control review depends on the type of audit.

An engagement quality control review, performed for such audits as financial statement audits of entities that have a high public profile and audits of internal control over financial reporting, includes an evaluation of significant judgments made by the team and related conclusions reached in forming the overall conclusion on the engagement. A limited-scope quality control review is performed for audits that do not meet the criteria for an engagement quality control review. These reviews provide reasonable assurance that, among other things, the entity’s financial statements comply with applicable accounting and reporting standards and relevant regulatory requirements and that the auditor’s report is appropriate. All quality control reviewers must be independent of the entity and maintain integrity and objectivity.

Reviewers meet certain qualifications, training, and experience

criteria to perform a quality control review for a particular engagement. Partners who perform engagement quality control reviews of public company audits receive additional internal training and are knowledgeable and experienced in SEC accounting and reporting matters and PCAOB standards (including, specifically, PCAOB Auditing Standard No. 1220, Engagement Quality Review).

KPMG requires a quality control review before the release date of the reports for financial statement audits, integrated audits, financial statement reviews, reviews of interim financial information, audits or reviews by component auditors (with certain exceptions) and other reports (except compilation reports) that may be used by more than one KPMG International member firm or relied upon by other parties.

In general, quality control reviewers discuss significant engagement matters with the lead audit engagement partner or managing director, review documentation related to significant judgments and conclusions, review the appropriateness of the financial statements and related disclosures, review the reports to be issued and, for engagement quality control reviews, evaluate the audit engagement team’s response and conclusions with respect to significant risks. In an integrated audit, the engagement quality control review includes review of management’s report on internal control over financial reporting and the related auditor’s report. Our report is not released until completion of the quality control review.

## 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 to protect the confidentiality and integrity of client and firm information.

KPMG policy requires engagement teams to clear all review notes before the report release date and initiate file closure within two business days of the report release. We also require engagement teams to submit physical documentation files to our records center within five business days after the release of the report<sup>6</sup>. To make it easier for engagement teams to file and retain documentation, we automated previously manual aspects of the archiving and file closeout process.

<sup>6</sup> PCAOB auditing standards require that a complete and final set of audit documentation be assembled for retention within 45 days after the report is released.



Our audit professionals are trained on the documentation assembly and record retention process in connection with this policy, process and technology.

In accordance with the relevant SEC and PCAOB rules, as well as other applicable standards, laws and contractual requirements, the firm's document retention policies set forth the retention period for audit documentation and other records relevant to an engagement as well as related matters.



## Independence

Our independence policies require that our firm, partners, management group and the people assigned to each audit engagement be free from financial interests in and prohibited relationships with the entities we audit, their affiliates, individuals in key positions, directors and significant owners. We require adherence to applicable independence requirements and ethical standards, which meet or exceed the standards promulgated by the SEC, PCAOB, AICPA, Government Accountability Office (GAO), and other applicable regulatory bodies.

Our national Independence Group, which is a dedicated group of experienced partners and employees reporting to the National Partner in Charge, Risk Management – Audit and Independence, is responsible for our independence policies, processes and controls in the areas outlined below.

### Personal independence

Each professional has ultimate responsibility for maintaining personal independence.

In addition to policies prohibiting any professional or employee from trading on inside information, our partners, managing directors, managers and those providing professional services to an entity we audit or its affiliates (collectively, restricted entities) may not have direct or material indirect investments in that restricted entity, regardless of whether they are in possession of inside information about such entities.

The KPMG Independence Compliance System (KICS) contains an inventory of SEC registrants and other entities from which we must be independent, along with the securities issued by those entities. These entities and securities are marked as "restricted" in KICS. Before purchasing a security, securing a loan, or initiating another financial relationship, partners, managing directors and managers are required to use KICS to determine whether the entity is restricted. Additionally, acquisitions and disposals of investments and loans must be

reported in KICS, which automatically notifies professionals if a previously permissible investment or loan becomes "restricted." Other compliance monitoring processes also identify noncompliant activity (e.g., late reporting of an investment acquisition). For most investment activity, all managers and above are required to use brokers that link to and automatically feed into our professionals' KICS accounts, to enable timely reporting of investments and identification and disposal of potentially prohibited investments.

Certain firm professionals may also be subject to limitations related to other financial relationships (e.g., credit cards, insurance products and bank accounts) with restricted entities. In addition, certain firm professionals may not have a close family member in an accounting or financial reporting oversight role with an audit client or, in certain cases, its affiliates.

### Postemployment relationships

KPMG professionals are required to report promptly to the firm any discussions or contacts regarding possible employment that they may have with an audit client or its affiliates.

Firm professionals engaged in possible employment negotiations who are members of that entity's audit engagement team are immediately removed from the engagement. Their work is reviewed to assess whether the professional exercised appropriate skepticism and, when appropriate, the work may be reperformed.

If a former KPMG professional accepts employment with an audit client or with certain affiliates, then the engagement team considers the appropriateness or necessity of modifying the audit procedures to adjust for the risk that the former professional's prior knowledge of the audit plan could reduce audit effectiveness.

For SEC issuer entities we audit, a former member of the audit engagement team may not accept employment in a financial reporting oversight role at such entity until the required "cooling-off" period, which in most cases is more than 12 months, has expired.

### Rotation of audit partners

To comply with the Sarbanes-Oxley Act of 2002 and SEC independence rules, the firm's lead audit engagement partners and certain other partners and managing directors are subject to specific rotation requirements that limit the number of consecutive years certain individuals may provide services to an SEC-registered entity we audit. The firm's policies also limit the number of years certain individuals may provide services for audit clients not subject to SEC independence rules. To monitor compliance with these requirements, the firm uses its Partner



Rotation System, which assists in monitoring assignments of certain personnel and initiating personnel changes on entities we audit. Additionally, Risk Management must approve any proposed change of a lead audit engagement partner of an SEC registrant if the change is for any reason other than required partner rotation or normal partner retirement. Our monitoring system also aids in the development of timely transition plans that help the firm to deliver consistent quality service to the entities we audit. The process of monitoring and tracking service periods and rotations is subject to compliance testing as part of various monitoring functions.

### **Firm financial independence**

Our Independence Group reviews all new firm financial transactions, including direct investments in firm pension and employee benefit plans, for potential independence issues and conducts monthly reviews of firm investments and loans to confirm that there are no investments in, or loans from, restricted entities. We test ownership threshold levels to help ensure that any indirect financial interest in an entity we audit is not material.

KPMG also uses KICS to record its own direct investments in listed entities and funds (or similar investment vehicles) as well as in nonlisted entities or funds. This includes investments held in pensions and employee benefit plans.

Additionally, we are required to record in KICS all firm borrowing and capital financing relationships, as well as custodial, trust, and brokerage accounts that hold member firm assets.

### **Clearance of prospective audit clients**

KPMG follows specific procedures to evaluate the firm's independence related to prospective audit clients. These procedures, also referred to as "the independence clearance process," must be completed before accepting any audit or attestation engagement. A dedicated team within the Independence Group leads the independence clearance process for all prospective audits of SEC-registered entities.

### **Approval of audit and nonaudit services**

Lead audit engagement partners and managing directors are required to reflect the legal and ownership structures of audit clients and their affiliates in the firm's Sentinel™ system. Additionally, KPMG International member firms must enter every proposed engagement (and the client for which it relates) into the Sentinel™ system before starting work. The Sentinel™ system will identify if the proposed service is for an audit client or any affiliate of an audit client. When the

engagement is for an audit client or affiliate, an evaluation of the permissibility of the service, including potential threats and safeguards, is required to be included in the Sentinel™ submission. This allows for the lead audit engagement partner or managing director to receive notification of all services to be provided to their audit client or its affiliates. For all services proposed for SEC-registered and certain nonpublic entities we audit, the lead audit engagement partner or managing director reviews and approves or denies the service. For approved proposed services, Sentinel™ designates a timeframe during which the approval remains valid. Upon expiration of the established timeframe, the services are required to be complete or be re-evaluated for permissibility; otherwise, the services are required to be exited.

For SEC-registered entities, the audit partner or managing director obtains preapproval of permitted services from the audit committee prior to providing the service. For engagements subject to GAO standards, the lead engagement partner or managing director must approve nonaudit services before they begin.

Our policies and Sentinel™ system help us prevent the provision of prohibited nonaudit services to audit clients, facilitate audit committee preapproval of permitted services (as required) and allow us to identify and manage potential conflicts of interest.

### **Business relationships, suppliers and financial relationships**

Firm policies and procedures help ensure that our business, supplier and financing relationships with audit clients are identified, assessed and maintained in accordance with applicable independence standards. The Independence Group monitors compliance with these policies and procedures.

### **Business acquisitions and investments**

If KPMG is in the process of considering the acquisition of, or investment in, a business, we perform due diligence procedures on the prospective target to identify and address any potential independence and risk management issues before closing the transaction.

### **Training and confirmations**

KPMG has established processes to communicate independence policies and procedures to our people. We require all professionals to complete annual independence training and affirm their independence when they join the firm and at least annually thereafter.





## Independence monitoring

We monitor compliance with our independence policies related to personal financial interests through KICS as well as a personal independence compliance audit process. All partners are subject to independence compliance audits every five years and leadership<sup>7</sup> is subject to independence compliance audits every three years. Client service employees are subject to independence compliance audits on a sample basis. Annually, the firm conducts approximately 1,000 independence compliance audits of its partners and professionals. For all new partners, principals and audit managing directors, we conduct detailed procedures before they join the firm or are promoted into such roles, to identify financial interests and relationships that would become impermissible in those roles. This allows the financial interest or relationship to be terminated or modified to prevent a violation prior to their joining the firm or the effective date of their promotion.

Through participation in the Audit, Advisory and Tax Quality Review Programs, the Independence Group evaluates a sample of audit engagements to determine compliance with independence requirements and related firm policies, including those pertaining to partner rotation; fees outstanding at commencement of the audit; maintenance of group legal, affiliate and ownership structures in Sentinel™; audit committee preapproval of services; required independence communications; and former partners in an accounting or financial reporting oversight role. A sample of nonaudit services provided by Advisory and Tax to SEC-registered audit clients is also reviewed to determine compliance with engagement setup and contracting requirements and to ensure permissibility under the SEC independence rules and PCAOB audit committee preapproval rules.

## Sanctions for independence violations

All professionals are required to report a potential independence violation as soon as it comes to their attention. Any violations of auditor independence regulations are reported to the audit committee or those charged with governance at the audit client.

KPMG has an established and documented disciplinary policy in relation to independence violations, with multiple sanction levels (including financial penalties) that correspond to the significance of the violations. A failure to comply with our independence policies, whether self-reported or identified through a personal independence compliance audit or other compliance monitoring process, is subject to discipline. A panel

of firm leaders is charged with overseeing the imposition of sanctions for independence violations.

## Compliance with laws, regulations, and anti-bribery and corruption



Compliance with laws, regulations and standards is expected of everyone at KPMG. In particular, we have zero tolerance for bribery and corruption. We also do not tolerate bribery by third parties, including by our clients, suppliers or public officials.

For each audit report issued for a U.S. issuer, the firm is required to submit a Form AP in accordance with PCAOB Rule 3211. To assist engagement teams in completing these forms accurately, we recently implemented changes to our process and tool, developed new training and required engagement teams to consult internally in certain circumstances.

## Objectivity



We are committed to maintaining our objectivity and avoiding undue influence. We accept only those engagements we can perform consistent with our high-quality standards and without conflict of interest. Firm personnel are trained to be alert to conflicts of interest between the firm and our clients or among our clients and are careful to identify and evaluate actual and potential conflicts of interest to resolve, manage or avoid the conflict timely. If significant threats to objectivity cannot be reduced to an acceptable level, a conflict of interest may preclude the firm from accepting a relationship or a specific engagement.

## 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 and required to confirm their understanding of and adherence to the firm's confidentiality policies when they join the firm and at least annually thereafter.

<sup>7</sup> Members of the Board of Directors and Management Committee



# Recruitment, development and assignment of appropriately qualified people

One of the key drivers of quality is ensuring that our professionals have the appropriate skills and experience, integrity, passion and purpose to deliver a high-quality audit. This requires appropriate recruitment, development, training, promotion and assignment of professionals.

## Recruitment and onboarding



The interview process includes recruiting individuals to regularly updated job descriptions and having technical experts participate in the interview process to assess an applicant's skill sets and knowledge base.

Before receiving an offer of employment, all experienced applicants receive the firm's independence guidelines to ensure they understand these requirements early in the recruiting process. Campus hires receive this information at the time of offer. Anyone who accepts an offer must complete an authorization for release of information, which allows the firm to conduct a background investigation that verifies certain information through independent sources. Upon joining the firm, new hires complete required training programs on independence, ethics, respect and dignity, protection of confidential information, document retention and security, in addition to any applicable practice-related training. Situations involving independence or conflicts of interest are resolved before the individual can begin employment.

## 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). To support our commitment to audit quality, as

well as our commitment to the growth and development of our professionals, we continuously evaluate and improve upon our methods of instruction by assessing results gathered through course evaluations, focus groups, testing, and follow-up surveys. Recent changes include:

- Continued expansion of our performance support learning library, which includes various resources, such as microlearnings (short instructional videos and web-based training courses), and job aids to provide our professionals with quick access to knowledge and learning resources at the point of need. This includes the continued development of Contextual Guidance microlearning assets, which provide learning at the time of need related to audit methodology topics directly associated with specific tasks within the KPMG Clara workflow activity screen.
- Implementation of new design methodologies that consistently incorporate advanced design techniques to drive greater learner motivation, engagement with the content and retention of skills and knowledge. The most significant new design methodology is the learning Roadmaps, which delivers content divided into many short microlearnings and activities. The microlearnings are associated with activities that our professionals are asked to complete to enhance and apply what was learned, such as reading a related audit standard or speaking to members of their engagement team about the current year audit approach for that topic. The content in the Roadmaps involves the professional in the KPMG Clara workflow, which is grounded in the auditing standards and reinforces the professional's responsibilities to perform an audit in accordance with these standards. The Roadmaps are deployed to our audit professionals over a time period that is responsive to their time of need. This new way of providing learning opportunities allows our professionals to focus on the key concepts, practice using resources that are used on a day-to-day basis on their engagements and put the content into practice in a meaningful and immediate way.



Client service professionals who are eligible to hold a certified public accountant (CPA) license (i.e., those who have passed the CPA exam and meet applicable state educational and experience requirements) must be licensed to practice in the state where their principal place of business is located and meet CPA licensing or reciprocity requirements in any other state in which they practice public accounting. We monitor license expiration and renewal for our professionals using a database, which generates a notification before license expiration. Professionals who are deficient in meeting our CPA licensing requirements may be subject to disciplinary action.

Our Ethics and Compliance Group tests and monitors compliance with firm policies related to CPE and licensing.

### Audit continuous improvement



As part of our focus on audit quality, we maintain a team of process improvement professionals with extensive experience in improving the audit process. Our Continuous Improvement (CI) program helps audit teams improve project planning and management and apply process improvement techniques related to engagement execution. Engagement teams learn to improve audit quality, while driving operational excellence and enhancing the experience for our clients and people. The CI team supports our system of quality control through design and implementation of response initiatives. The CI program is deployed through several modes including workshops with engagement teams alone or with their client, better practices and solution sharing via the CI portal, and coaching provided by the local office CI champion network.

### Diversity and inclusion



Diversity and inclusion (D&I) is a longstanding commitment and foundational component of our firm's values and strategy. It is top-of-mind to leadership and driven by the firm's Chief Diversity & Inclusion Officer, National Diversity and Inclusion Center of Excellence, and functional business leaders, with the support of seven Business Resource Groups that engage more than a third of our people firmwide.

This year, we announced a renewal of that commitment through a targeted, but bold effort, Accelerate 2025. This effort – aligned to our leadership team's five-year tenure – will help ensure that more individuals from underrepresented groups choose KPMG as their employer of choice, build careers at KPMG, and advance to leadership positions within our firm and within the profession.

We are proud of our work and this effort, but recognize that there is always more to do. Part of this effort is committing to greater transparency on delivering against those objectives. At the end of fiscal 2020, the firm's workforce is represented by 62 percent of underrepresented groups, 36 percent at the partner and managing director level. Women represent 46 percent of our workforce and 24 percent of partners and managing directors. People of color represent 34 percent of our workforce and 16 percent of partners and managing directors.

Our goal is to be a role model for the professional services industry, with the most diverse representation and engagement at all levels of the organization. We want to compel and inspire others – including clients, vendors and communities – to partner, collaborate, share best practices and lead. We look forward to sharing more information through an in-depth D&I report on our efforts and progress.

### Performance measurement, advancement and compensation



All partners and employees participate in annual expectation setting and semiannual performance evaluations. Our performance measurement model provides a consistent framework by which leadership and people management leaders may discuss performance relative to goals and objectives and career development aspirations. In addition to considering adherence to our firm's values, we evaluate each professional on skills and behaviors that include a focus on quality, compliance with professional standards and firm policies, technical competencies, engagement execution, leading and developing people and continuous learning. Annual performance evaluation results directly affect compensation and advancement of personnel, including partners, and in some cases, their continued association with our firm.

KPMG has compensation and promotion policies that are informed by market data and linked to the performance review process. This helps our employees know what is expected of them and what they can expect to receive in return. The connection between performance and reward is achieved by assessing relative performance across a peer group to inform reward decisions. Reward decisions are based on consideration of both individual and firm performance.

Our partnership admission process is thorough. Each candidate, whether a direct-entry or internal nomination, undergoes a due diligence process that includes a background check,



independence review, ethics and compliance review and consultation with the Office of General Counsel. Candidates are interviewed by several members of firm leadership, including a professional practice or risk management partner and a member of the Board of Directors. Each internal partner candidate also undergoes an extensive review by a number of departments, including Risk Management. All recommendations for admission to the partnership must be approved by our Board of Directors.

Audit partner compensation is determined annually by Audit leadership and approved by our Management Committee and Board of Directors. The professional practice partners have significant involvement in evaluating Audit partner performance, including consideration of audit quality indicators and compensation recommendations. Additionally, one of the factors considered in the compensation of Tax and Advisory partners who participate in audit engagements is their performance relative to audit quality.

Our policies for setting compensation amounts do not allow Audit partners (and certain other partners meeting the definition of an Audit partner for purposes of this policy) to be compensated for obtaining nonaudit service engagements to an entity that they audit.

All partners are compensated out of the firm's profits, which are based on the firm's results as a whole and are not dependent directly on the performance of any particular line of business or function. Individual partner compensation is set considering sustained quality, performance, roles and responsibilities and leadership values and behaviors.

## Assignment of engagement teams



We assign people 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 partners and managing directors, and quality control reviewers' assignments are approved by business unit leadership and may also be subject to regional and national leadership approval, including Risk Management, based on the individual characteristics of the specific engagement.

The lead audit engagement partner or managing director considers whether the engagement team collectively has the appropriate competencies and capabilities, including time, to perform the audit engagement in accordance with professional standards, applicable legal and regulatory requirements, and firm policies. This may include involving specialists from our own firm, other KPMG member firms or external experts. Engagement team competencies and capabilities include:

- An understanding of professional standards and legal and regulatory requirements
- Technical skills, including in specialized areas of accounting or auditing, such as tax, actuarial and valuation
- Ability to apply judgment and professional skepticism
- An understanding of KPMG quality control policies and procedures
- An understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation
- Knowledge of relevant industries in which the audit entity operates.

## Partner and employee surveys



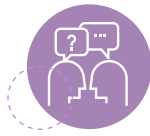
Throughout the year, partners and employees are invited to participate in independent surveys that measure their overall level of engagement with the firm. The results provide leadership with information about drivers of business performance, employee engagement and motivation; enable leadership to see how the firm is progressing against strategic priorities; and provide metrics that identify potential areas that may require leadership attention.



# Commitment to technical excellence and quality service delivery

All professionals are provided with the technical training and support they need to perform their roles. This includes access to employed KPMG specialists and DPP – which is made up of senior professionals with extensive experience in auditing, reporting and risk management – either to provide resources to the engagement team or for consultation. Within our network of KPMG member firms are other KPMG professionals who have a variety of skills and experiences and who are available for additional support or collaboration should the need arise.

## Consultation and differences of opinion



We have established protocols for consultation regarding significant accounting, reporting and auditing matters, including procedures to resolve differences of opinion on audit engagement issues. Consultation within the firm is encouraged and, in certain circumstances, required. Technical support for each engagement team comes from the DPP group and a network of specialists in topics such as tax, valuation, technology and other business areas, as well as from our Professional Practice Partners.

Differences of opinion may arise within the engagement team, with those consulted, or between the lead audit engagement partner or (for certain private clients) managing director and the quality control reviewer. When an engagement team member does not agree with the resolution of a difference of opinion, even after appropriate consultation, and believes it necessary to be disassociated from the matter, the individual documents

the matter, including the basis for resolution, in the audit documentation and consults with relevant partners, which may include those in DPP. If there are disagreements within DPP over the conclusions reached, the alternative view, with input from the dissenting DPP professional, is fully documented and the Chief Accountant or Chief Auditor (or his/her delegate), as well as the National Managing Partner – AQPP, are consulted. We also do not issue the auditor’s report until differences of opinion are documented and the final conclusion is implemented and documented.

## Access to specialist network



Engagement teams have access to a network of highly skilled KPMG specialists employed locally and at other KPMG member firms, if needed. Engagement partners are responsible for ensuring that their engagement teams have the appropriate resources and competencies.

The need for and assignment of specialists to a specific audit engagement is considered throughout the audit engagement, including at acceptance and continuance. Specialists who are assigned to serve the engagement team have the competencies and objectivity to appropriately fulfill their role. Training on audit concepts is provided to these specialists.



# Performance of effective audits

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 audit committees and company 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. The higher the risk, the more persuasive the audit evidence needs to be to mitigate such risks. We exercise professional skepticism throughout the audit by gathering and objectively evaluating the sufficiency and appropriateness of audit evidence, which includes both confirming and disconfirming evidence.

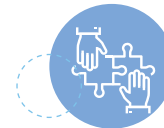
The KPMG audit addresses our clients' manual and automated controls. We integrate our Information Technology and Tax professionals and specialists into the core audit engagement team, when appropriate, and incorporate procedures to identify and respond to fraud risks.

The KPMG audit also guides the conduct of audits of financial statements consisting of 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. We have policies and guidance related to matters that merit special consideration in group audits, including:

- Performing the group risk assessment, including obtaining an understanding of the group, its components and their environments
- Identifying significant components
- Identifying significant accounts/disclosures and relevant assertions at the group level
- Evaluating group-wide controls

- Establishing group and component materiality
- Communicating with component auditors
- Being involved in the component auditors' work
- Evaluating the results and findings of all work performed and considering whether sufficient appropriate audit evidence has been obtained.

## Timely partner and manager involvement



The engagement partner is responsible for the direction, supervision and performance of the engagement and therefore responsible for the overall quality of the audit engagement.

Involvement and leadership from the engagement partner during the planning process helps set the appropriate scope and tone for the audit and helps the engagement team obtain maximum benefit from the partner's experience and skill. Timely involvement of the engagement partner at other stages of the engagement allows the engagement partner to identify and appropriately address matters significant to the engagement, including critical areas of judgment and significant risks.

Accelerating planning and risk assessment procedures is key to proper audit sequencing and achieving sustained audit quality. Engagement teams participating in the KPMG Clara deployment are subject to milestones and project management deadlines that are built into the workflow. As we conduct our final audits using eAudIT, our Accelerating Audit Execution framework focuses on a properly sequenced audit aligning with our KPMG Clara methodology and workflow.

The engagement partner is responsible for the final audit opinion and reviews key audit documentation, including documentation in particular relating to significant matters



arising during the audit and conclusions reached. The engagement manager assists the partner in meeting these responsibilities and in the day-to-day liaising with the client and team, building a deep business understanding that helps the partner and team deliver a quality audit.

### Critical assessment of audit evidence with emphasis on professional skepticism



The nature and extent of the audit evidence we gather is responsive to the assessed risks. We consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence. Further, each team member is required to exercise professional judgment and maintain professional skepticism throughout the audit engagement.

Professional skepticism involves a questioning mind and alertness to contradictions or inconsistencies in audit evidence. Professional skepticism features prominently throughout the auditing standards, and the KPMG audit emphasizes the importance of maintaining an attitude of professional skepticism throughout the audit.

Our professional judgment framework recognizes the need to be aware of, and alert to, biases that may pose threats to good judgment. We require engagement teams to follow a structured approach to auditing areas that require significant judgment, which involves:

- Identifying and evaluating estimates that contain a risk of material misstatement
- Performing retrospective reviews of the above identified estimates as well as those that were a risk of material misstatement in the prior year but are no longer considered a risk of material misstatement
- Explicitly documenting the sufficiency and appropriateness of audit evidence obtained for all estimates, in light of the risk assessment, the procedures performed, and any contradictory, inconsistent or other disconfirming evidence identified.

The use of the professional judgment process and the application of professional skepticism is reinforced through coaching and training, acknowledging that judgment is a skill developed over time and with different experiences.

### Supervision, review and support for the engagement team

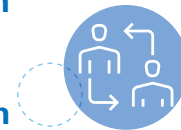


Supervision entails directing the efforts of professionals who are involved in meeting the objectives of the audit and determining whether those objectives were accomplished. Supervision includes instructing and guiding professionals; keeping informed of significant issues; reviewing work; addressing auditing, accounting and reporting matters; and agreeing on appropriate conclusions.

#### Appropriate involvement of the quality control reviewer

Although the engagement partner is ultimately responsible for the resolution of financial reporting and accounting and auditing matters, the quality control reviewer must be satisfied that all significant questions raised have been resolved before an audit can be considered complete and the related report issued.

### Insightful, open and honest two-way communication



Effective two-way communication between the auditor and the audit committee is key to audit quality and is a key aspect of reporting and service delivery.

At KPMG, we stress the importance of keeping the audit committee informed of issues arising throughout the audit. We achieve this through a combination of reports and presentations, attendance at audit committee, and, as appropriate, board meetings, ongoing discussions (formal and informal) with management and, when appropriate, members of the audit committee.

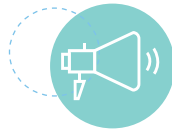
The firm provides templates to engagement teams to facilitate the relevance, timeliness, and quality of the communications between the auditor and audit committee in a manner consistent with the rules and regulations established by policymakers.



# Commitment to monitoring quality and continuous improvement

KPMG is committed to continually improving the quality, consistency and efficiency of our audits. Our quality monitoring and root-cause programs enable us to identify quality deficiencies, perform root-cause analysis and develop, implement and report remedial action plans, both in respect of individual audit engagements and our system of quality control. The following paragraphs discuss other elements of our commitment to continuous improvement.

## Monitoring

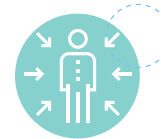


Our monitoring procedures include our firm's internal inspection program (Quality Performance Review or QPR), our internal independence and compliance monitoring processes, preissuance monitoring programs and other activities described in this report. We continuously evaluate our monitoring results, as well as the results of external regulatory inspections and peer reviews. We conduct ongoing consideration and evaluation of the following matters:

- Relevance and adequacy of the firm's messaging, policies, procedures and practices
- Appropriateness of firm guidance materials, tools and practice aids
- Effectiveness of professional development activities
- Results of external reviews, including by the PCAOB, other regulators and governmental bodies and our peer review firm
- 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 quality control.

## Internal reviews



### Inspections Group

We reinforce our commitment to audit quality through our Inspections Group, which is comprised of highly skilled professionals whose function is to monitor our audit and attest engagements and interact with external inspectors and peer reviewers.

The Inspections Group executes our annual internal inspection program for the Audit practice by performing both pre- and postissuance audit quality inspections and liaising closely with the RCCG. The group also coordinates and acts as the principal interface for external audit quality reviews, including the annual PCAOB inspection of the firm and the AICPA peer review program.

To further enhance the objectivity of those who conduct internal reviews and interact with external inspectors and peer reviewers, our Inspections Group is part of Risk Management. The Vice Chair – Risk Management reports directly to the Chair and CEO and has no audit operational responsibilities. This ensures that the group's internal inspections of the firm's audits are objective and free from influence or pressures from engagement partners or Audit leadership.





## Internal inspection processes

Through our QPR program, which implements an aspect of the monitoring element of the quality control standards set by the PCAOB and AICPA, we review a selection of audits conducted during each annual audit cycle. We identify areas for improvement and use the findings to continuously enhance our audit process, guidance to our professionals and training. During the inspections planning phase, the QPR program considers areas for improvement that were previously identified to assess our progress in those areas.

Our QPR program components include:

- The core Inspections Group, consisting of partners, managing directors, executive directors, directors and senior managers, supplemented by other firm professionals with applicable industry and technical knowledge
- Systematic reviews of individual partner and managing director audit engagements of public and nonpublic entities
- Systematic reviews of audit engagements of selected managers in a lead role for an SEC-registered entity
- Reviews of audit engagements using risk-based selection criteria
- Reviews of audit engagements on a random basis
- Frequent, timely reporting of inspection results
- Identification of common inspection findings, including those areas where audit quality can be improved, which are provided to the RCCG for consideration in its root-cause analysis.

## Root-cause analysis

The role of the RCCG is to respond to engagement and firm-level audit quality control matters raised through internal and external inspections or through other channels by (1) gathering information associated with audit quality matters, identifying the root causes of those deficiencies, and supporting the development of remedial action plans designed to enhance audit engagement performance or quality controls; and (2) enhancing the firm's overall processes to build audit quality considerations into operational and business initiatives through ongoing collaboration with other Audit practice groups. The RCCG analyzes root causes associated with audit quality matters through a process tailored to specific circumstances,

which involves defining the problem, collecting and analyzing data, and identifying root causes. To address root causes, the RCCG also helps develop, implement and monitor remedial actions that are selected by the senior Audit leadership team in conjunction with other Audit practice groups and audit professionals.

## Risk compliance program (RCP)

The firm is subject to an annual RCP as a condition of ongoing membership in KPMG International. The RCP is a cross-functional self-review program designed to provide KPMG firms with a consistent process to document, assess and monitor their system of quality control and compliance with Global Quality and Risk Management (GQ&RM) policies, underlying processes and their related procedures, which include the requirements of ISQC 1. The RCP results are considered during our annual assessment of our system of quality control. Where findings are identified during the RCP, we are required to develop appropriate action plans and monitor the status of each action item through to completion.

## Global compliance reviews

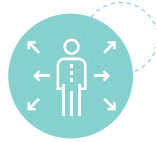
As a condition of ongoing membership in the KPMG International network, we are also subject to a cross-functional global compliance review (GCR), at various intervals based on identified risk criteria. KPMG International's GCR team, which is external to KPMG LLP, performs the reviews and is objective and knowledgeable of GQ&RM policies. GCRs assess compliance with select KPMG International policies and procedures and share best practices among member firms. The GCR provides an independent assessment of the firm's:

- Commitment to quality and risk management (tone at the top) and the extent to which our overall structure, governance and financing support and reinforce this commitment
- Compliance with KPMG International policies and procedures
- Effectiveness in performing our own RCP.

We develop action plans to respond to all GCR findings that indicate improvement is required and agree these with the GCR team, which monitors our progress on these plans. Results are reported to the Global Quality and Risk Management Steering Group and to appropriate KPMG International and regional leadership.



## External reviews



### Regulatory

The PCAOB oversees auditors of U.S. public companies to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. The PCAOB conducts periodic inspections of registered public accounting firms, and we are subject to annual inspection. The PCAOB plays an important role in improving audit quality and the results of its inspection process provide areas of focus to enhance our engagement performance and strengthen our system of quality control.

KPMG has been subject to 17 annual PCAOB inspections (excluding a limited inspection in 2003). In each PCAOB inspection, certain of our public company audit engagements were selected for review and certain procedures relating to the activities and responsibilities of our executive and national offices were performed. As initially published, the PCAOB's inspection reports include a public portion (Part I), which describes the PCAOB's observations related to the particular audits it inspected, and a nonpublic portion (Part II) that includes the PCAOB's criticisms or potential defects in the firm's system of quality control. The quality control observations remain nonpublic if the firm demonstrates to the PCAOB's satisfaction that it has made substantial, good-faith progress toward remediating the quality control observations in the report within the 12 months following the initial publication of the report.

The status of the five most recent PCAOB inspections follows.

The PCAOB has not yet released its 2020 KPMG inspection report.

On February 2, 2021, the PCAOB released its 2019 KPMG inspection report. The public portions of the report are available on our website: [home.kpmg/us/en/home/about/regulatory-and-peer-reviews.html](https://home.kpmg/us/en/home/about/regulatory-and-peer-reviews.html). We will submit our response to the nonpublic portion of this report no later than December 2021.

In June 2020, the PCAOB issued its 2018 KPMG inspection report. The public portions of the report are available on our website: [home.kpmg/us/en/home/about/regulatory-and-peer-reviews.html](https://home.kpmg/us/en/home/about/regulatory-and-peer-reviews.html). We will submit our response to the nonpublic portion of this report no later than April 2021.

During January 2019, the PCAOB issued its 2016 and 2017 KPMG inspection reports. The public portions of the report are available on our website: [home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html](https://home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html). We submitted our response to the nonpublic portion of these reports in January 2020.

KPMG does not publicize otherwise nonpublic portions of PCAOB inspection reports. However, we would be pleased to discuss with our clients significant information contained in the reports and the areas of focus for audit performance improvements.

### Peer review

To comply with licensing requirements of state boards of accountancy, the GAO and membership in the AICPA, we undergo external peer review every three years. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. The firm's most recent peer review report on our system of quality control applicable to engagements not subject to permanent PCAOB inspection (nonpublic entity accounting and auditing practice) for the year ended March 31, 2020 was issued with a *pass* rating by PricewaterhouseCoopers LLP in December 2020.

Our most recent peer review report and the AICPA's acceptance letter are public documents that are accessible through our website at [home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html](https://home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html).

### Continuous improvement

We have taken a number of specific steps to improve our audit quality foundation, which are described in more detail in our most recent [2020 Audit Quality Report](#). We invite our interested stakeholders to review that report as well.



# KPMG actions in 2020

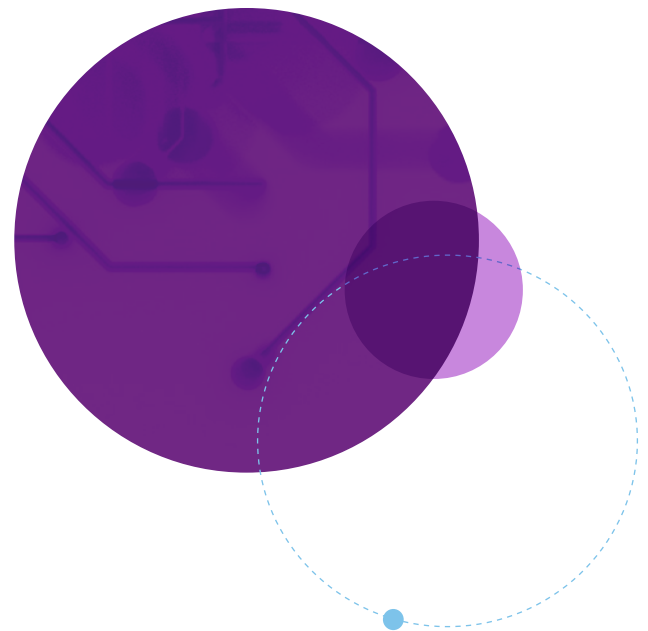
These key actions had a direct bearing on audit quality, which remains our highest priority.





# Statement of effectiveness of the system of quality control

As set forth earlier in this report, KPMG is committed to providing high-quality professional services, including audit services, in an ethical manner for all of our constituents, including entities that are listed on capital markets around the globe. Maintaining an effective system of quality control is paramount to achieving this commitment and the consistent performance of high-quality audits. The Audit practice performs an annual evaluation of the policies and procedures and operation of its system of quality control. The system of quality control includes, among other components, monitoring the results of the Audit practice internal inspection program as well as evaluating the results of external regulatory and peer reviews. The results of these activities, together with other activities described in further detail in the “Monitoring” section of this report, are reviewed on a recurring basis to determine and develop corrective actions, as needed, to continually improve the firm’s system of quality control. Such evaluations have provided the basis to conclude that the overall system of quality control for the Audit practice is operating effectively.



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