



Transparency Report 2019

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

January 2020

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

Audit quality is foundational to instilling confidence and public trust in the capital markets. It has been, and always will be, KPMG’s fundamental promise to investors, companies, audit committees, communities and other stakeholders that we serve.

This 2019 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 [2019 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, 2019, 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 2019, 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.



Lynne Doughtie
U.S. Chairman & CEO



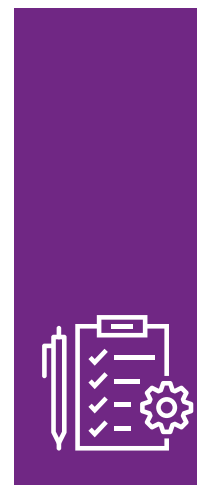
Frank Casal
Vice Chair—Audit



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).¹ Full details about the services we offer can be found at home.kpmg/us/en/home.html .

KPMG is the U.S. member firm of KPMG International Cooperative (KPMG International), which is a legal entity formed under Swiss law. KPMG member firms operate in 147 countries, 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, is set out in the Transparency Report — Supplement: Additional Information Required by Article 13 of EU Regulation 537/2014.



¹ 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 forms 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, 2019, we have highlighted throughout this document our progress of ongoing or upcoming initiatives in the coming year to further strengthen and support our system of quality control.

We make it clear that audit quality is a critical part of our culture and values. To that effect, the firm created a new role, Chief Culture Officer. 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 role of

Chief Culture Officer has been added to 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 Chairman 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 Chairman and CEO and Deputy Chairman 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, 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’s 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 professional practice partner who reports to the National Managing Partner—AQPP. These two senior partners 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
- Annually evaluate continuing audit and attestation engagements along with the respective lead audit engagement partner or managing director to address audit risks and 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 and reporting matters. Under the supervision of the Chief Auditor and Chief Accountant, DPP professionals develop and present KPMG’s positions on current topics being addressed by the SEC, PCAOB and other regulatory and standard-setting bodies². 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 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.

² 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.



The Chief Accountant is involved in the nomination and annual accreditation process of certain of the firm’s engagement quality control reviewers, including the SEC Reviewing Partner (SECRP) program, which comprises select Audit partners who meet certain qualifications and criteria to perform engagement quality control reviews. 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 guidance to teams through consultations on engagement-related issues and assist in communications with audit committee members and management on those issues. In October of 2019, we reorganized DPP to bring together into one integrated group our resources that respond to accounting and audit consultations. We have a newly created role – the Chief of Integrated Inquiries – who reports to the National Managing Partner—AQPP and who 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, audit-related training and resourcing 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 Continuous Improvement” section.



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 act as role models; enhance understanding; set appropriate goals; and are 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 directly contributes to the success of 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.

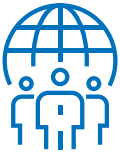
When they join the firm, and each year thereafter as part of an annual confirmation process, every one of our people is asked to confirm that he or she has read the Code, understands it and agrees to comply with it, which includes adhering to our values, shared responsibilities, commitments and promises.

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. 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., Chairman 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 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.

KPMG International developed the Global Audit Quality Framework, based on International Standards on Quality Control (ISQC) 1, issued by the International Auditing and Assurance Standards Board, 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. In the United States, we consider this framework and further incorporate the quality control standards set forth by the PCAOB, AICPA and other legal and regulatory requirements, as applicable, and perform an annual assessment of our system of quality control.

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. Tone at the top is discussed at the beginning of this report, and the other six drivers are described in more detail in the following sections of this report.



Our Global Audit Quality Framework



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 and 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 selected 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 authorities.



Clear standards and effective audit tools

Engagement performance, including KPMG’s 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 also receive training on incorporating KPMG’s judgment framework that addresses how to recognize and overcome biases in making judgments and applying appropriate professional skepticism.



Consistent audit methodology

The KPMG audit methodology, developed by the KPMG Global Solutions Group, is based on the requirements of International Standards on Auditing, as well as the auditing standards of the PCAOB and AICPA. The KPMG audit methodology is set out in the KPMG Audit Manual and emphasizes applying appropriate professional skepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence. Key topics addressed by the methodology include risk identification, assessment and response; accounting estimates; audit sampling; and group audits.

Enhancements to the audit methodology, guidance and tools are made regularly to remain in compliance with standards, emerging auditing areas of focus and audit quality expectations. Considerable enhancements, in particular, are underway to implement a new audit methodology and workflow delivered through KPMG Clara, our global smart audit platform, that is in the process of deployment. This will

further reinforce alignment with PCAOB and AICPA auditing standards and drive greater consistency across our global network of member firms. The new methodology will provide a clearer, more user-friendly process for audit execution.



Effective audit tools

The KPMG audit methodology is currently facilitated through eAudit, our electronic audit tool. eAudit is an activity-based workflow and electronic audit file that integrates our methodology, guidance, industry knowledge and tools needed to facilitate the audit process for audit execution.


Significant investments are underway to enhance our audit tools. The KPMG Clara workflow will replace eAudit and include a redesigned workflow linked to the new methodology referenced above. It is designed to deliver enhanced knowledge and guidance to engagement teams, allowing the auditor to read and understand the standards and how KPMG’s methodology drives compliance with those standards. This will further standardize our audit approach.

The KPMG Clara workflow will also bring powerful data and analytics capabilities together in a unified digital interface. For example, through KPMG Clara, engagement teams will be able to provide insights in the context of the audit to the audit committee. KPMG Clara provides a central view of status, results and findings, accessible through an on-demand engagement portal that also helps establish and track milestones, helping to keep both KPMG and clients accountable for audit progress.

The KPMG Clara workflow is being rolled out globally in stages. The KPMG Clara workflow was piloted in 2018,



with limited global deployment in 2019 and 2020 and full global deployment beginning in 2021.

We also enhanced other tools, technology and support. More information on this topic, including the development of audit quality indicators, can be found in our [2019 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, provides reasonable assurance that the team has appropriately identified significant risks, including fraud risks, and has designed and executed audit procedures to address them. A limited-scope quality control review, performed for audits that do not meet the criteria for an engagement quality control review, provides 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 and 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 release³. We also require engagement teams to submit physical documentation files to our records center within five business days after the release of the report. To make it easier for engagement teams to file and retain documentation, we automated previously manual aspects of the archiving and file closeout process. Our audit professionals are trained on the documentation assembly and record retention process in connection with these recent policy, process and technology changes.

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.

³ 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.



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, management, 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 may not have direct or material indirect investments in that entity or its affiliates (collectively, restricted entities), regardless of whether they are in possession of inside information about such entities. Other financial relationships with restricted entities (e.g., loans, credit cards, insurance products and brokerage accounts) may be prohibited or subject to limitations for certain firm professionals.

The KPMG Independence Compliance System (KICS) contains an inventory of SEC registrants and other entities that we must be independent of, along with the securities they have issued. 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 if the entity is restricted. Additionally, acquisitions

and disposals of personal investments must be reported in KICS, which automatically notifies professionals if an investment becomes “restricted.” The system and supporting compliance monitoring processes report other non-compliant activity (i.e., late reporting of an investment acquisition). For most investment activity, we require all managers and above to use only brokers that link to and automatically feed into our professionals’ KICS accounts to better ensure timely identification and disposal of potentially prohibited investments.

Close family members of certain KPMG professionals may not hold 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 between them and an audit client or its affiliates regarding possible employment.

Firm professionals engaged in possible employment negotiations with an audit client or its affiliates who are on that entity’s audit engagement team are immediately removed from the engagement. Their work is then reviewed to assess whether the professional exercised appropriate skepticism.

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 risk of circumvention by the former firm professional.

For SEC-registered entities that we audit at the issuer level, a former member of the audit engagement team may not accept employment in a financial reporting oversight role at such an entity until the required “cooling-off” period 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 non-listed 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.

Approval of audit and nonaudit services

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 SEC audit clients.

With respect to nonaudit services, lead audit engagement partners and managing directors are required to monitor 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. When the engagement is for an audit client, an evaluation of potential threats and safeguards also 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 his or her audit client or its affiliates. For SEC-registered and certain nonpublic entities we audit, the lead engagement partner or managing director reviews and approves or denies any proposed service. For SEC-registered entities, this partner 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 compliance audit process. All partners are subject to independence compliance audits every five years and leadership⁴ 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 more than 1,000 independence compliance audits of its partners and professionals. We audit all new partners and principals before they join the firm or are promoted into the partnership, to proactively identify potential independence issues and resolve them before they become violations.

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 communications; and former partners in an accounting or financial reporting oversight role. A sample of nonaudit services provided by Advisory and Tax to SEC-restricted audit entities is also reviewed to determine compliance with engagement setup and contracting requirements and to ensure permissibility under the SEC independence rules and audit committee preapproval of such services.

Independence breaches

All professionals are required to report a potential independence breach as soon as it comes to their attention. In the event of failure to comply with our independence policies, whether identified in the compliance review, self-declared, or otherwise, all violations are evaluated and individuals are assigned categories of discipline by a panel of firm leaders.

KPMG has a documented and communicated disciplinary policy in relation to breaches of independence, incorporating incremental sanctions (including financial sanctions) reflecting the seriousness of any violations. Those who fail to comply with independence policies are referred to a leadership panel for review, remediation and disciplinary actions, as required. Any breaches of auditor independence regulations are reported to the audit committee or those charged with governance at the audit client.

⁴ Members of the Board of Directors and Management Committee



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.



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, 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

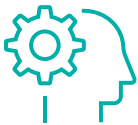
professional requirements regarding continuing professional education (CPE). To support our commitment to audit quality, as well as our commitment to the growth and development of our professionals, we continuously evaluate and improve upon our methods of instruction by assessing results gathered through 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 micro learnings (short instructional videos and web-based training courses), job aids and instructor-led course materials, to provide our professionals with quick access to knowledge and learning resources at the point of need
- Beginning the use of adaptive learning technologies that customize the learning experience in real time to address the unique needs of each learner
- Implementation of new design methodologies that consistently incorporate advanced design techniques for both in-person and virtual classroom environments to drive greater learner motivation, engagement with the content and retention of skills and knowledge
- The opening in January 2020 of KPMG Lakehouse, a place where KPMG professionals come to learn and renew skills, connect with colleagues, build and strengthen KPMG culture, and grow their careers. It is designed to offer unique, carefully curated, and immersive learning experiences that purposefully foster innovative, positive and people-centric culture and values.



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.



Developing business understanding and industry knowledge

KPMG provides industry-specific training for all levels, with certain instructor-led audit courses employing industry-specific breakout sessions, facilitated by instructors from the industry to enhance auditor performance and execution with industry-specific examples. Networking with peers in these industry trainings enables discussion of how to address audit challenges. Select manager and partner courses also provide opportunities to interact with outside speakers and internal panels concerning current industry trends, issues, and economic matters.



Audit continuous improvement training

As part of KPMG's focus on audit quality, we have invested in a team of experienced professionals with an established track record of improving processes to develop and train our professionals on time-tested process improvement principles from across numerous industries. Our Continuous Improvement (CI) training program is uniquely tailored for audits and also supports our internal process to improve our system of quality control. CI workshops led by a CI facilitator trained in Six Sigma principles are designed to help engagement teams build quality into the audit during the planning and coordination phases with their clients, ultimately driving sustained audit quality and a better client experience. Although we encourage engagement team members at all levels to attend these workshops, which

occur throughout the year, all of our Audit professionals have access to CI resources and guidance via our CI portal and local office CI champion network. The CI methodology is embedded in our core training curriculum for all partners and employees.



Inclusion and diversity

Inclusion and diversity (I&D) are foundational to the firm's values and are part of our strategic priorities. We recognize that diverse and inclusive teams create stronger work environments for our people and lead to more innovative perspectives that we can in turn provide to our clients. I&D is top of mind for the firm's senior leaders and each professional at the firm is personally responsible for helping us to advance I&D. In addition, we have a strong infrastructure to ensure that our focus remains steadfast and on point, supported by the firm's Chief Diversity & Inclusion Officer and the National Inclusion & Diversity Team. We have over 600 professionals who, as part of their responsibilities, are involved with leading I&D efforts locally across our national offices. With our people fully engaged and our priorities aligned around I&D as a core focus area, we are confident in our ability to remain an employer of choice for our professionals and a service provider of choice for our clients.



Performance measurement, advancement and compensation

All partners and employees participate in annual goal 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 partners and employees know what is expected of them, and what they can expect to receive in return. The connection between performance and reward is achieved through calibration meetings where relative performance across a peer group is discussed and used 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 DPP and Risk Management. All recommendations for admission to the partnership must be approved by an affirmative vote of two-thirds of 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's 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 engagement survey

Annually, all partners and employees are invited to participate in an independent survey that measures 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 the support they need to perform their roles. This includes access to internal specialists and DPP – which is made up of senior professionals with extensive experience in audit, 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 with a variety of skills and experiences that are available for additional support or collaboration should the need arise.



Consultation and differences of opinion

We have established protocols for consultation and documentation 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 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 their delegates), 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 local KPMG specialists and can collaborate with highly-skilled professionals in other KPMG member firms if needed. Engagement partners are responsible for ensuring that their engagement teams have the appropriate resources and skills.

The need for specialists (e.g., Information Technology, Tax, Actuarial, Forensic, Valuation) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process and throughout the audit. Specialists who are members of an audit team and have overall responsibility for specialist involvement on an audit engagement have the competencies, capabilities 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 in 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 own Information Technology professionals and other 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. For those engagement teams not participating in the limited KPMG Clara deployment, which is subject to separate milestones and project management deadlines, our Accelerating Audit Execution (AAE) framework reinforces the importance of appropriate sequencing and timing of audit procedures. As we conduct our final audits using eAudit, having a properly sequenced audit will align with and help us implement our new 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 liaison 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 all estimates
- 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 or inconsistent 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.

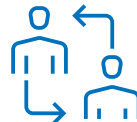


Supervision, review and support for the engagement team

Supervision entails directing the efforts of professionals who are involved in meeting the objectives of the audit and determining whether those objectives were accomplished. This 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

Two-way communication with those charged with governance of the entities we audit, often identified as 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 those charged with governance informed of issues arising throughout the audit and the need to listen to and understand their views. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings and, when appropriate, ongoing informal discussions with management and members of the audit committee.

The firm provides templates to engagement teams to facilitate communication with audit committees of U.S. issuer audit clients, in particular inquiring about their knowledge of the risks of material misstatement, including fraud risks, and disclosing the participation of other independent public accounting firms that performed audit procedures in current period audits.



Commitment to continuous improvement

KPMG is committed to continually improving the quality, consistency and efficiency of KPMG audits. Our quality monitoring and root-cause programs enable us to identify quality deficiencies and to 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 testing processes, pre-issuance monitoring programs and other activities described in this report. We evaluate our monitoring results, as well as the results of external regulatory inspections and peer reviews, continuously. 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 seek to reinforce our commitment to audit quality through our Inspections Group, a group of highly-skilled professionals dedicated to monitoring our audit and attest engagements and who 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 post-issuance audit quality inspections (QPR program) 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 Chairman and CEO and has no audit operational responsibilities. This ensures that the group's internal inspections of the firm's audits are free from influence or pressures from engagement partners or Audit leadership.

Internal inspection processes

Through our QPR program, which implements 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. The QPR program also emphasizes areas for improvement that were identified in prior periods to determine whether we are improving in those areas.



Our QPR program components include:

- The Inspections Group, which consists 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
- 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
- Reviews of general and functional controls
- 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)

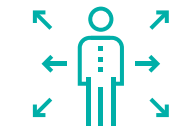
The firm is subject to an annual RCP as a condition of ongoing membership in KPMG International. The RCP is a cross-functional self-review program designed to help KPMG International member firms document, assess and monitor the extent of compliance of their system of quality control with Global Quality and Risk Management policies, underlying processes and their related procedures, which include the requirements of ISQC 1. The RCP is considered as part of our annual assessment of our system of quality control that provides the basis for KPMG LLP to evaluate that the firm and its personnel comply with relevant professional standards and applicable legal and regulatory requirements. Where deficiencies are identified, we are required to develop appropriate action plans and monitor the status of each action item.

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) once every three years. KPMG International's Global Compliance Group, which is external to KPMG LLP, performs these GCRs to assess compliance with selected 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 and the GCR team 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, to help ensure we take timely remedial actions.



External reviews

Regulatory

The PCAOB oversees auditors of 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 16 periodic PCAOB inspections (excluding a limited inspection in 2003). In each PCAOB inspection, certain of KPMG's public company audit engagements were selected for review and certain procedures relating to the activities and responsibilities of KPMG's 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 observations related to the firm's system of quality control. The quality control observations remain nonpublic if the firm demonstrates to the PCAOB's satisfaction that the firm has made substantial, good-faith progress towards remediating the quality control matters identified 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 KPMG's 2018 or 2019 inspection reports.

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. KPMG submitted our response to the nonpublic portion of these reports in January 2020.

On December 6, 2016, the PCAOB released its 2015 KPMG inspection report. The public portions of the report are

available on our website: home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html. KPMG submitted our response to the nonpublic portion of this report to the PCAOB in November 2017.

During January 2019, the PCAOB determined to repost the firm's 2015 inspection report to make public certain quality control criticisms in Part II of that report. In doing so, the PCAOB determined that the firm had not satisfactorily addressed certain quality control criticisms within the 12-month period after the publication of the report (which ended on November 9, 2017). The PCAOB's determination, KPMG's response and the expanded inspection report are available on our website: home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html. Our response details the actions we have taken to remediate these matters and the investments we are making to improve audit quality.

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 and 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 or deficiencies, or fail. The firm's most recent peer review report was issued by PricewaterhouseCoopers LLP in March 2018 on our system of quality control applicable to engagements not subject to PCAOB inspection (nonpublic entity accounting and auditing practice). KPMG received a peer review rating of pass with deficiency for the year ended March 31, 2017.


The rating indicates that our system of quality control has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects, with the exception of a certain deficiency. The deficiency cited in the report is based on conduct, identified by KPMG nearly three years ago, when former KPMG personnel used or failed to report that the firm was in possession of confidential inspection selections from the PCAOB. As the firm pointed out in its response, the risk that



was identified in the peer review report was addressed and fully remediated by KPMG in an appropriate, decisive and timely manner. The AICPA's acceptance letter notes that further remedial action is not required.

KPMG's most recent peer review report, KPMG's response, and the AICPA's acceptance letter are public documents and are accessible through our website at 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 [2019 Audit Quality Report](#) . We invite our interested stakeholders to review that report as well.



KPMG actions in 2019

Enhanced system of quality control

Expanded the use of enabling technologies through new audit tools

Evaluated our Audit training curricula and the elements necessary to support our objectives and execution

Refreshed KPMG values worldwide

Advanced efforts to develop Audit Quality Indicators

Implemented culture action items

Further standardized audit documentation

Implemented program related to Critical Audit Matters in the auditors' report

Opened KPMG Lakehouse (January 2020), our \$450 million investment in transformational learning, development and innovation

Established a plan to invest a further \$5 billion globally on digital leadership in professional services over the next 5 years

KPMG Clara, our smart audit platform, is coming online

Increased centralized service delivery through Global Delivery Centers and Centers of Excellence

Introduced Audit Core Competency Framework

Expanded Audit Quality Support Partner program



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. In performing the evaluation, the practice also considered the June 17, 2019, SEC Order. 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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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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