



Audit Quality Report 2019

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

Updated June 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.

We are proud to present our 2019 Audit Quality Report, highlighting how we are harmonizing efforts across all areas of our business to continuously support and reinforce audit quality within a strong system of quality control.

Our dedication to audit quality begins with leadership and the tone set at the top. We understand that words matter, but our actions matter even more.

In 2017 and 2018 our firm was challenged in ways that led us to reexamine how we operate, and to rethink what we needed to do as a firm. Those opportunities for introspection have formed the backbone of the fundamental changes we have been making over the last two years, which will continue as we invest in the future of audit. In 2019 we settled the Order related to these matters, allowing us to focus firmly on the future.

At the heart of all aspects of our evolution as a firm has been a resolute commitment to our cultural foundation. In 2019

we continued our culture journey as a deliberate and intentional undertaking — ensuring all of our people know who we are, what we stand for, and the role we each play in setting the standard for cultural excellence.

Innovation sits at the core of our actions to drive audit quality through the data and insights it provides, how a new generation thinks and engages, and how they work. KPMG expects to spend \$5 billion globally over the next five years, investing in technology, people and innovation to enhance our leadership position in the digital transformation of public accounting and professional services.

Our most important technology initiative focused directly on driving audit quality is our global smart audit platform, KPMG Clara. It transforms the audit experience for our professionals and our clients — enabling us to provide an even higher quality audit by increasing our ability to focus on the issues that matter.



We take pride in our extraordinary people. We know that audit quality depends on how we nurture talent, and on the support and infrastructure that allows us to bring our best selves to work and to do our best work. An inclusive environment in which we celebrate our unique skills, backgrounds and experiences plays a critical role in meeting those objectives.

We have introduced a new auditor performance and behavioral framework that supports consistency and transparency, clarifying and standardizing expectations for our audit professionals. The skill set of the future auditor is expanding, and we continue to invest in recruitment, training, technology and innovation that will sustain our commitment to audit quality.

The award-winning KPMG Master of Accounting in Data & Analytics, offered in partnership with nine universities, is now in its third year. In January 2020 we opened KPMG Lakehouse, the culmination of our \$450 million investment in a transformational learning, development and innovation center, where we will strengthen and share the best of KPMG culture, values, brand and expertise.

Our promise of instilling confidence and public trust is not complete without our commitment to citizenship. In particular, our support of education and lifelong learning is a reflection of the deep passion of our people toward the communities that we touch.

Powered by innovation and fueled by our values, we strive to be recognized for audit quality and to provide a differentiated, valued service and experience — for all of our stakeholders.



Lynne Doughtie
U.S. Chairman & CEO



Frank Casal
Vice Chair—Audit



KPMG actions in 2019

Enhanced system of quality control

Implemented culture action items

Further standardized audit documentation

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

Advanced efforts to develop Audit Quality Indicators

Refreshed KPMG values worldwide

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

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

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

Expanded Audit Quality Support Partner program

Expanded the use of enabling technologies through new audit tools

KPMG Clara, our smart audit platform, is coming online

Introduced Audit Core Competency Framework



Committed to audit quality

Audit quality remains our highest priority and is critical to fulfilling our role in the capital markets. To deliver on our audit quality commitment, we are focused on consistently executing our audits, in line with the requirements and intent of applicable professional standards within a strong [system of quality control](#).

All of our [2019 actions](#) concentrated on the drivers of audit quality, starting with deliberately prioritizing the tone set at the top and ensuring that it cascades throughout our organization. This includes being associated with the right clients, which requires clear client acceptance and continuance policies.

Our audit performance is driven by all aspects of audit design and execution in accordance with auditing standards, including risk assessment, supervision, consultation, documentation, review and communication of audit results. Our professionals need the appropriate skills and experience, integrity, passion and purpose to deliver a high quality audit. And they need the right technical training and support to perform their roles.

Nothing remains static. KPMG is committed to continually improving the quality, consistency and efficiency of our audits, enabled by our technology. Our quality monitoring and root-cause programs drive the cycle of improvement — for both individual audit engagements and our overall system of quality control.

“I am incredibly proud of the focus our teams place on audit quality and delivering that through an exceptional client experience. Our collective efforts to leverage technology and employ continuous improvement principles are allowing us to make significant progress on the audit quality actions we put into place.”

Jackie Daylor

National Managing Partner—Audit Quality & Professional Practice





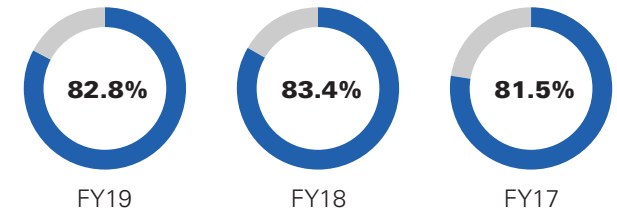
Our Audit practice

Audit professionals

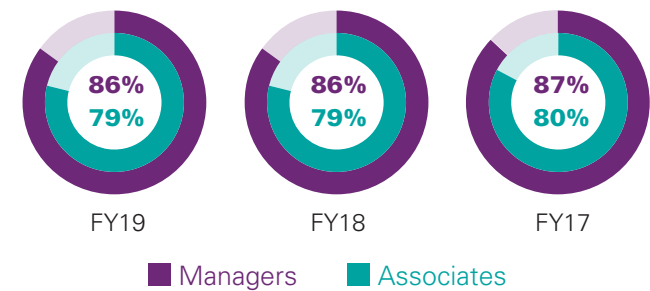
	FY19		FY18		FY17	
Partners/Managing Directors	1,022	21	977	22	971	23
Managers	2,164		2,108		2,100	
Associates	5,794		5,410		5,150	
Total	8,980		8,495		8,221	

■ Number of core professionals
 ■ Average years of experience

Audit utilization rates



Audit retention rates



Audit hiring

Campus hires



Based on calendar year to better align with varying graduation dates

Experienced hires



Of the total FY19 experienced hires, over 30% were referred by existing partners and staff

For outstanding performance on the Uniform CPA Examination® in 2018, **20 KPMG employees** were Elijah Watt Sells Award winners.



We use technology to advance audit quality,

create greater consistency in the performance of audits and strengthen the monitoring of engagements.

We believe audit quality is best achieved when the power of smart technology is matched with inquiring minds and professional skepticism, and our tools support exactly that.



Audit today and tomorrow

Technology — with the explosion of data, disruptive technologies and digital labor — is one of the dynamic forces changing the global business environment, but it is not the only one. Regulatory environments are changing, and a new generation is transforming the way that we think, including how we engage as consumers and how we work.

KPMG’s commitment to audit quality demands that we anticipate and continually drive change within our own profession through innovative ideas, processes and tools. But innovation is not simply about technology — it’s about people and managing change, and how we think and act in the day to day.

As the following pages explain, we are upskilling our professionals by continuing to invest in new competencies and nurturing innovation from within. We are harmonizing efforts across all areas of our business as we improve our agility, act quickly and decisively, and proactively pilot, test and iterate on new ideas.

Above all, to maintain our highest commitment to audit quality, we strive for operational excellence and solutions that are simple, intuitive and reliable — always designed through the lens of the user.

“Standing still is not an option. We are always thinking about the future, and the continuous cycle of improving what we do and how we do it. Our role is to look forward so we deliver an exceptional experience for our clients and our next-generation auditors.”

John Farrell
Chief Innovation Officer—Audit

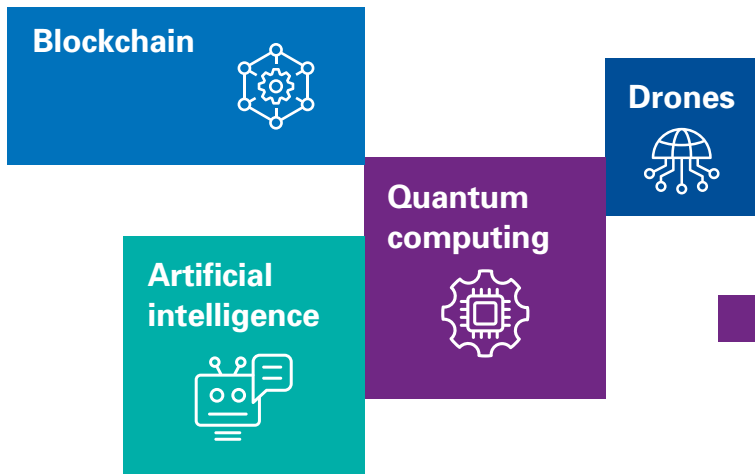




Investing in the future

KPMG expects to spend \$5 billion globally over the next five years, investing in technology, people and innovation to enhance our leadership position in the digital transformation of public accounting and professional services.

The starting point for investing in the future of audit includes the strategic research we conduct as part of KPMG’s Sensory Advantage Ecosystem, a global network that helps to proactively identify early marketplace trends. Research areas include the following:



All areas of our business are engaged as we seek solutions that provide synergies, and are scalable and global — the attributes needed to sustain the highest levels of audit quality. We don’t expect every investment of our time and resources to lead to a deployable solution; the key is that we remain flexible.

At our Ignition Centers, we apply design thinking in Innovation Labs to explore data-driven technologies, emerging trends and the latest analytic solutions. Our objective is to strengthen audit quality by uncovering more robust insights. Learn more about [KPMG Ignition](#)





KPMG Clara coming online

KPMG Clara, our global smart audit platform, is our most important technology initiative focused directly on driving audit quality. Designed with data security as a critical building block, it transforms the audit experience for our professionals and helps our clients understand the work we are doing in a timely way.

When fully deployed, KPMG Clara will house advanced, predictive analytics capabilities within a single, cloud-based source, and can seamlessly adopt the latest cognitive and artificial intelligence solutions. This allows our professionals to tap into advanced technologies that can bring clients a greater range and depth of insights into risks and anomalies.

KPMG Clara is already being used by certain engagement teams, with deployment continuing through fiscal 2020.

Benefits



Audit transparency

Alerts, dashboards and critical matter resolution



Information sharing

Digital platform to facilitate data supply chain to drive accountability



Operational effectiveness

Tech-enabled project management and workflow to reduce audit support burden



Maximize data and enabling technologies

Understand systems structure and work with IT to extract necessary data to support testing and provide insights

“KPMG Clara creates a differentiated experience for our audit professionals and clients. It’s a single, integrated platform, and the foundation for bringing together our technology and providing additional digital options for the performance of audits.”

Matt Bishop

Chief Technology Officer—Audit



Learn more about [KPMG Clara](#)



Tools, technology, support

In 2018 we enhanced our risk assessment methodology, deployment and support. In 2019 we built on that groundwork by further standardizing documentation and introducing new processes for the audit — ahead of the full deployment of [KPMG Clara](#).

We provided training, aligned our operating procedures to improve our process understanding and audit risk assessment, and supported implementation through supervision and review. We expanded our approach of partners helping partners, with coaching assignments and more partners serving in our [Audit Quality Support Partner program](#).

We strengthened our processes by accelerating our archiving and file closeout processes. And we enhanced our audit committee communications.

We also expanded the use of our online engagement management tools and milestone tracking, and our learning curriculum includes our project management competencies program. Facilitators trained in Six Sigma principles run workshops that are tailored specifically to audits; and provide engagement teams with proven solutions for critical self-review, active and upfront coaching, and improved project management and monitoring.

In addition to the deployment of Microsoft [PowerBI](#) for data visualization, these are some of the automation tools that our audit professionals are using:

Lease Recalculation Tool

helps our auditors by automating the calculation of operating lease assets and liabilities under the new lease accounting standard

Automated Vouching Tool

reduces routine tasks by automating invoice vouching procedures

Commercial Mortgage Loan Application Tool

saves time and increases consistency by extracting and presenting data from loan files in a dynamic workflow

Journal Entry Insight Dashboard

provides insights into complex data through an interactive dashboard

All of our strategic changes drive value in three ways: they transform the audit experience for our audit professionals and clients; they capitalize on data visualization and analysis tools, to drive a more data-enriched audit; and they feature automation tools, to bring greater productivity to core work activities.



Audit quality indicators

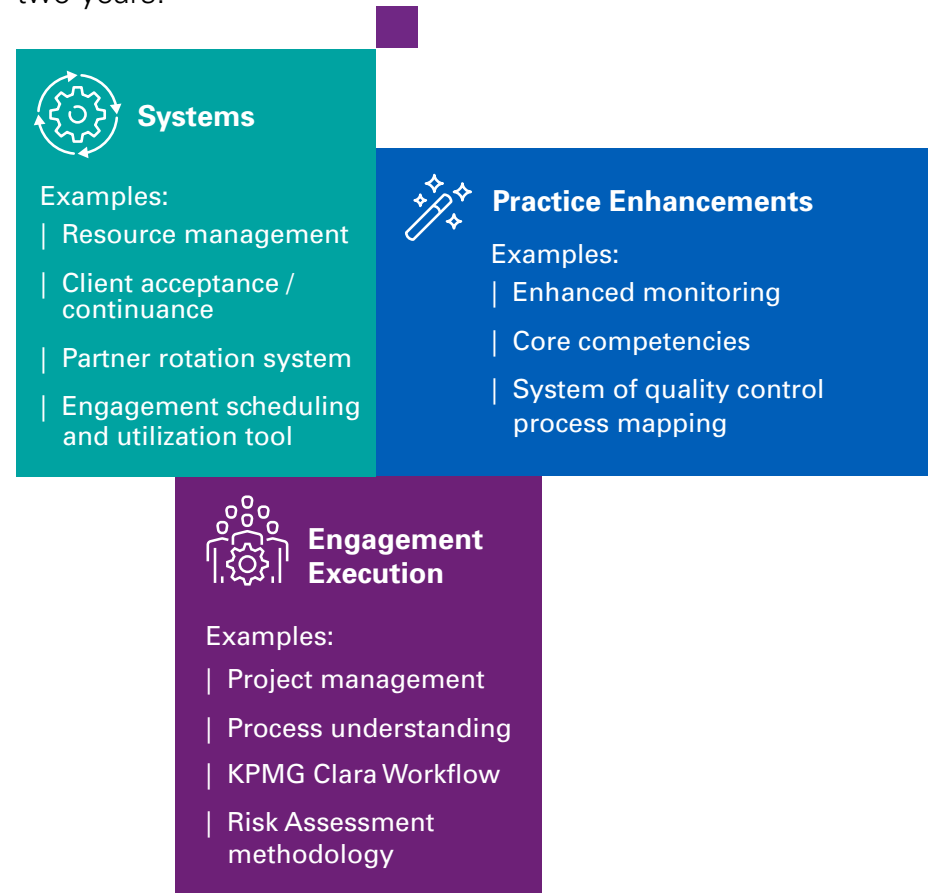
In 2019 we advanced our efforts to develop audit quality indicators, which will apply machine learning and predictive analytics to observable engagement information. Audit quality indicators can help auditors, audit committees and clients with a framework to identify risks and evaluate audit quality.

The initiative, which is designed to be fully integrated with our [system of quality control](#), has four key components:

- | **Identify** engagement-level data that may have a bearing on audit quality.
- | **Acquire** data on a real-time basis, using integrated systems and interfaces.
- | **Analyze** data analytics to evaluate relationships, correlations and other parallels within the data.
- | **Apply** insights to engagement teams, leadership and other stakeholders to proactively improve processes and controls and overall audit quality.

We believe that no single data element is determinative, but the combination of the underlying data will produce meaningful indicators.

The core systems that underlie how we manage our Audit practice provide engagement-level data that has a bearing on audit quality. This information is enhanced by new insights arising from our practice- and engagement-level initiatives over the last two years.





National readiness and support

Our Department of Professional Practice (DPP) is a national team dedicated to providing real-time [support for audit teams](#), covering both audit and accounting technical requirements.

In 2019 we implemented the second phase of the new standard on the auditors' report, and prepared for the new requirements on auditing accounting estimates and using the work of specialists. And accounting change continued with the new standards on revenue, leases and credit impairment.

Here are two examples of how DPP supports audit engagement teams:

Accounting-based thought leadership for our audit engagement teams and our clients underpins the knowledge base and robust insights facilitated by [KPMG Clara](#).

Specialists provide updates and in-depth guidance on the latest standard-setting developments — monitoring implementation issues and staying abreast of practice developments.

Learn more at [KPMG Financial Reporting View](#)

Our Audit Quality Support Partner program, overseen by KPMG's Chief Auditor, provides real-time engagement team support. The program was expanded in 2019 and now includes 42 accredited partners. Each partner in the program has completed a recent rotation in DPP, to enhance technical auditing and accounting skills in the most critical aspects of audit execution.

PCAOB standards now require auditors to identify **Critical Audit Matters** and to communicate such CAMs to client management, audit committees and investors.

We created a central team in 2018 to provide the necessary tools, guidance and training to audit engagement teams, and to run a pilot and dry-run CAM program that included targeted training and coaching. We developed our smart technology tool, CAM Analyzer, to help evaluate our disclosures.

As we moved into implementation in 2019, our engagement teams were prepared to implement the standard — fully supported by our central team.



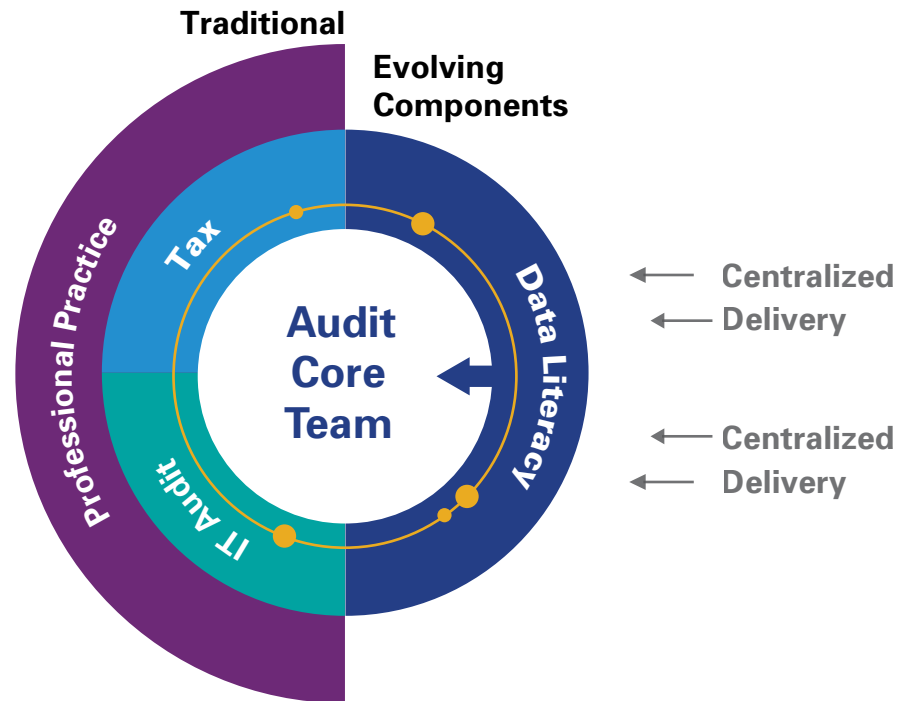
Evolving skills and delivery

Tomorrow’s audit is evolving to use a more dynamic, more diversely skilled engagement team, including data literacy skills, and a changing service delivery model that incorporates greater levels of centralized delivery.

The future auditor is more data-centric, with skills in data mining, analysis and visualization. However, data for its own sake can be meaningless, and success depends on the ability to communicate and use data strategically as part of the audit. KPMG is using Microsoft PowerBI as our visualization tool to dissect data sets into consumable components using data elements that auditors may not have traditionally considered.

In addition, using Global Delivery Centers and Centers of Excellence, we increasingly centralize resources that standardize and promote the consistency of our work product, and improve audit quality. For example, our National Pricing Desk enables audit engagement teams and valuation specialists to efficiently analyze a large number of investment securities and focus effort on those securities that present higher valuation risk.

These developments in our audit model are in addition to the support traditionally provided by Tax and IT Audit professionals (in fiscal 2019, providing over 15% of total audit hours on public company engagements), and specialists in our [Department of Professional Practice](#) (in fiscal 2019, over 10% of Audit partners and managing directors were dedicated to providing support).



Learn more about KPMG’s [transformation to a technology-enabled audit](#)



A culture based on quality, integrity and ethics

is essential in an organization that carries out audits and other services on which stakeholders and investors rely.

Each of us shares the responsibility to nurture and strengthen our culture.

Our collective commitment requires deliberate and full-time leadership to ensure that culture remains foundational to our strategy and long-term success.



Strengthening our culture

Culture underpins the environment and mindset that supports our [system of quality control](#), drives audit quality, and ultimately supports our promise of public trust. It starts with the tone set at the top, and is exhibited throughout the organization in our decisions, words and actions.

We know that strengthening our culture depends on the commitment and action of every individual across KPMG.

In our 2018 culture assessment, we identified a number of areas where we could take meaningful, measurable action toward a culture that further supports our values and vision. 2019 has been a year of actions to address those areas, beginning a very deliberate and intentional culture journey.

Consistency in our culture starts with everyone knowing who we are and what we stand for, and then taking personal responsibility for protecting our culture every day. We are equipping our people to shift mindsets and model our values, and we are putting in place the infrastructure to reinforce our values, support a shift in behaviors and measure our progress.

“We are working to ensure our culture brings out the best of KPMG and translates to a positive experience for our people, our clients and our communities. This is a critical element supporting our commitment to audit quality and maintaining public trust.”

Claudia Saran
Chief Culture Officer





Heads Up thinking

We are committed to Heads Up thinking ... To being bold and looking forward ... To setting the standard for cultural excellence and trust, by living our values every day and unleashing the full power and passion of our people.

These are KPMG's refreshed values:

Our values
What we believe

Integrity

We do what is right.

Excellence

We never stop learning and improving.

Courage

We think and act boldly.

Together

We respect each other and draw strength from our differences.

For Better

We do what matters.



Living Heads Up

Our Culture Team is the catalyst for our culture journey, facilitating initiatives, providing updates and information, soliciting input and feedback on culture plans and progress, and more generally equipping people to activate positive culture change locally.

Within that framework, our Culture Champions Network was launched in 2019 — a diverse and voluntary firmwide network supported by the Culture Team. Now with over 3,400 members, the network is designed to engage and empower our people to help drive the culture change to which we aspire.

In addition to establishing an online hub of information and updates, we are working to review and enhance employee programs and processes, such as:

- | **Employee onboarding** where values are more overtly taught and brought to life, and where auditors first acquire a clear understanding of our purpose serving the capital markets.
- | **Performance management** where adherence to values, and an understanding of our purpose, is more clearly assessed.
- | **Recognition and rewards** where exemplary values-based behavior is highlighted.



We aim to sustain a consistent and positive culture experience. Key to that objective is the experience of our young audit professionals, including the increasing integration of work and life, and their career development.

Two of the specific actions we've taken are the introduction of our first wellness curriculum at [KPMG Lakehouse](#) and the launch of our [Audit Core Competency Framework](#).



Measuring culture progress

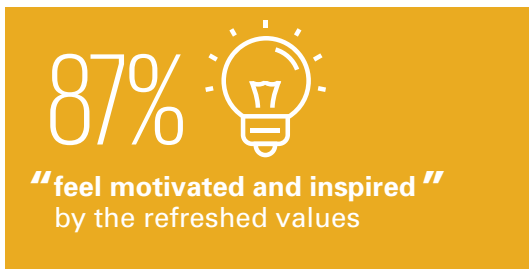
Our culture journey is our enduring promise to meet our culture commitments, deepen our common purpose, and sharpen the connection between our values and our everyday actions.

Success means establishing a long-term sustainable culture framework to continually support and embed desired values and cultural attributes that drive our vision for audit quality. Achieving success depends on a robust system of monitoring and measuring progress.

The infrastructure we are putting in place includes:

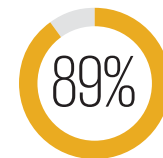
- | **Engagement and pulse surveys** to provide trends over time.
- | **Descriptive analytics** to understand themes in qualitative data.
- | **Predictive analytics** to anticipate potential vulnerabilities and to improve risk awareness and agility.
- | **Lead, lag, qualitative, quantitative, internal and external metrics** to inform our success and tell our culture story.

From a firmwide pulse survey taken after the launch of our refreshed values:



From 2019 Audit employee and partner surveys:

Employees



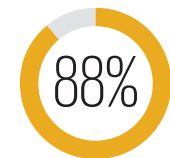
There is a strong commitment to quality from leaders and partners



The people I work for demonstrate honest and ethical behavior

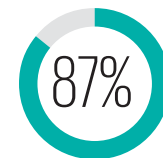


Overall, I would say this is a great place to build my career

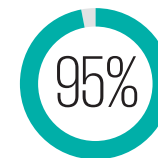


Partners support inclusion and diversity in the workplace, recognizing and respecting the value of differences

Partners



KPMG's commitment to quality is apparent in what we do on a day-to-day basis



I am willing to put in a great deal of extra effort to help KPMG succeed



Our extraordinary

people drive audit quality

. They need

the appropriate skills and experience, passion and purpose, to deliver the highest quality in audit.

Our success relies on diversity of thought and skills, technical aptitude, professional skepticism, personal accountability, and the courage to prevent biases or blind spots from compromising our work.



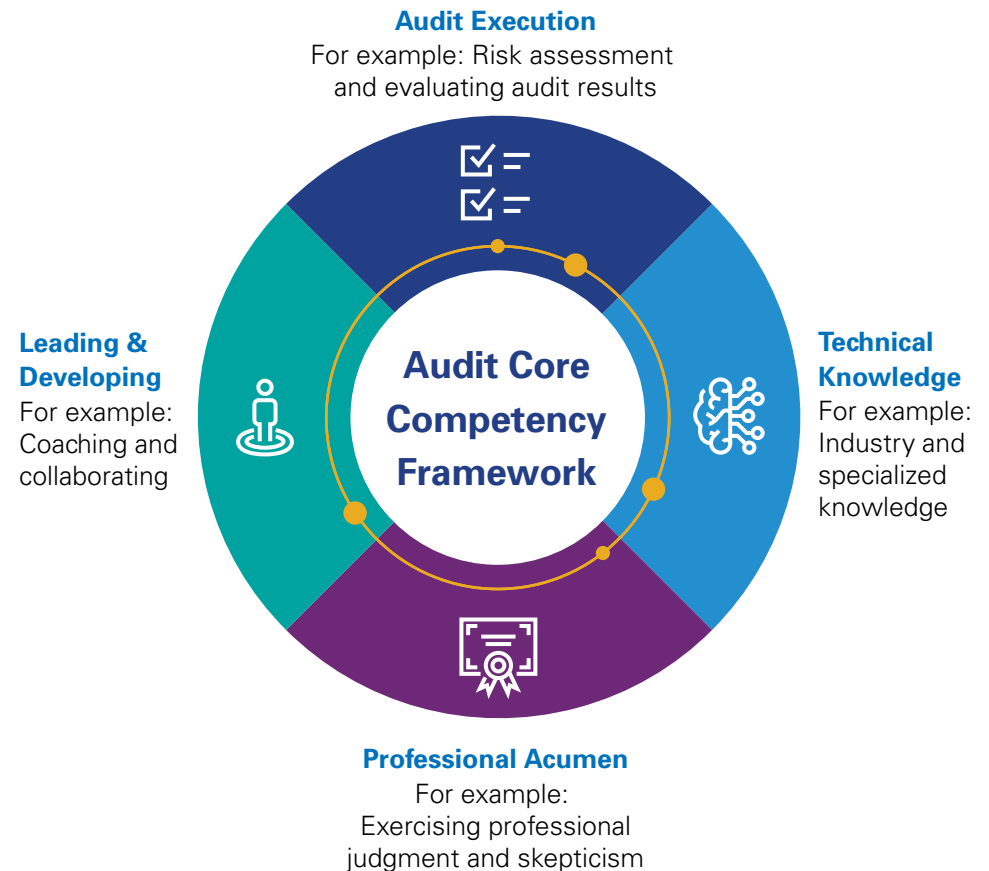
Nurturing our talent

As part of our [culture journey](#), we have made a fundamental change to professional development. Our objective is to drive audit quality through increased accountability and measured performance.

Our new Audit Core Competency Framework establishes defined performance expectations grounded in professional standards and linked to performance evaluations. Our new professional development process connects goals, performance expectations and our audit strategic initiatives — while providing clarity and focus on developmental opportunities.

We are focused on values, competencies, contributions and long-term development to inform promotions and compensation. Central to this, we have positioned Audit professionals to own their careers by encouraging them to seek development opportunities that allow professional growth structured around and defined by the Framework.

The overall effect is to create consistency, transparency and the standardization of performance expectations within our [system of quality control](#).





Next generation, new ideas

As we invest in the future of audit, innovation is becoming an increasing part of how we recruit and the opportunities we provide.

Our internship programs offer a consistent national training experience for all audit, tax and advisory interns — and provide one-on-one mentorship to inspire and guide. In 2019 we provided nearly 1,700 internships in Audit, and 87% of [Audit campus hires](#) completed an internship before joining full-time.

Opportunities before student candidates are eligible for an internship include Future Diversity Leaders, our annual summer leadership conference focused on preparing high-achieving diverse students to be the business leaders of tomorrow; a three-day local Leadership Program that includes job shadowing; and our international Global Advantage Program that focuses on certain key attributes of a successful KPMG professional in a global marketplace. We also host the KPMG Ideation Challenge, inviting candidates to solve the problems of tomorrow using their business, technology, and data and analytics knowledge.

Looking at the broader community, the [KPMG James Marwick Professor in Residence program](#) provides audit faculty with an opportunity to work with our Audit Innovation Group. Participants obtain up-to-date industry knowledge and a better understanding of how emerging technologies are affecting the audit and the profession.

Within the firm, KPMG hosts the annual Bright Idea Challenge, which supports audit quality by fostering the innovative culture needed for success. Teams across the firm are given a challenge to solve, and they have the opportunity to pitch their business cases to a panel of judges.

Now in its third year, KPMG partners with nine universities to sponsor the KPMG Master of Accounting with Data & Analytics (MADA) Program. To date, we have welcomed nearly 200 graduates as associates to the firm.

Learn more about [Opportunities at KPMG](#)

Participating schools (MADA)

Arizona State University
W.P. Carey School of Business

Baylor University
Hankamer School of Business

University of Southern California
Leventhal School of Accounting

University of Georgia
Terry College of Business

University of Mississippi
Patterson School of Accountancy

University of Missouri
Robert J. Trulaske, Sr. College of Business

The Ohio State University
Fisher College of Business

Villanova University
Villanova School of Business

Virginia Tech
Pamplin College of Business



Introducing KPMG Lakehouse

The centerpiece of our commitment to excellence and lifelong learning is KPMG Lakehouse — our professional learning, development and innovation center that opened in January 2020.

For several years, KPMG has worked to raise the bar on active, collaborative learning, giving our professionals opportunities to try out new skills and receive real-time coaching.

We have redesigned our courses to create greater engagement in the classroom and greater impact down the road. We have empowered our facilitators to coach and guide learners toward applying their knowledge to add greater value. And now, with KPMG Lakehouse, we have created an environment that will help us take sharing and collaboration to the next level.

At Lakehouse and throughout the year, we promote a culture of continuous learning that will help our professionals develop the full range of critical professional skills defined in KPMG’s [Audit Core Competency Framework](#).

Learn more about [KPMG Lakehouse](#)

#KPMGLakehouse



“Lakehouse is more than a building — it’s a testament to the importance of learning at KPMG. It anchors our strategy of continuous learning. The highly engaging experiences we deliver at Lakehouse are designed to inspire our people to drive their development throughout the year.”

Corey Muñoz
Chief Learning Officer



Learning and leadership

All of our audit professionals are required to maintain their technical competence and to comply with applicable regulatory and professional continuing professional education (CPE) requirements. These requirements and licensing are monitored, and our online system helps professionals track their own compliance activities.

Our training curriculum focuses on delivering the skills that an auditor needs at each stage of development, delivered in a variety of formats: classroom training, with redesigned courses being offered at [KPMG Lakehouse](#); web-based training, both live and in playback; workshops; and our on-demand library of over 400 microlearning resources and short instructional videos.

In fiscal 2019, on average each audit professional completed 90 CPE hours of training. Included in this overall average were the 52 to 87 hours that we required for each associate, and the 26 hours that we required for each manager, managing director and partner. Key areas of training included ethics and independence, new auditing requirements and new accounting standards. We also delivered training on innovation, data and analytics, and emerging technologies.

Training on independence matters is supported by our national Independence Group, which is dedicated to our independence policies, processes and controls, including personal independence and monitoring.

An external training consultant evaluated our Audit training curricula and the elements necessary to support our objectives and execution — with a view toward building on initial changes made during the year. This action builds on the commitments made with our [culture journey](#), the introduction of our [Audit Core Competency Framework](#) and the opening of [KPMG Lakehouse](#).

Here are examples of programs designed to cultivate the next generation of leaders:



Audit 90

An 18-month experience for women whose next step is promotion to manager — focused on leadership skills



Leadership Insights Summit

A program for managers in our African American, Asian, Pacific Islander and Hispanic Latino population — focused on leadership skills and networking



Leadership in Action

A simulation-based program for senior professionals whose next step is promotion to partner or managing director — focused on decision-making



Inclusion and diversity are foundational to the firm's values and are part of our strategic priorities. Our commitment to sustainability is part of our culture and who we are as a firm.

Our promise of instilling confidence and public trust is not complete without the

lasting impact

we continue to make in our communities.



Inclusive and diverse

Across the country, we have over 220 local Business Resource Group chapters and Inclusion Councils that comprise over 12,600 members, including: African American BRG, Abilities in Motion Network, Asian Pacific Islander BRG, Hispanic Latino BRG, KPMG Network of Women, pride@KPMG, Veterans BRG.

We view diversity as a key part of the success of our [culture journey](#) and the [evolving skills and delivery](#) of the audit. At the end of fiscal 2019, our population of Audit professionals at manager level and above was 46% women and 24% people of color; and our population of Audit associates was 49% women and 30% people of color. In addition, promotes to manager level and above at the end of fiscal 2019 were 46% women and 25% people of color.

As acknowledgment of our efforts to foster an inclusive and diverse workplace, we are proud to be recognized by these organizations:



“We empower our leaders to embed inclusion and diversity into all of their business- and people-related strategies and processes. We hold them accountable for advancing inclusion and diversity at every level of our organization. We all recognize that it is the collective power of our diversity and experiences that will allow us to thrive in the market as an employer and service provider of choice.”

Michele Meyer-Shipp
Chief Diversity & Inclusion Officer





Our community impact

Together, for better, we do what matters.

We believe that Lifelong Learning is a journey of growth where knowledge and skills make all the difference. Building on our legacy to transform and enrich lives, we drive innovative programs and initiatives that positively impact our communities and reflect the causes most important to our people.

Learn more about our [Citizenship in Action: Commitment and Impact](#)

These are the resources that we committed in fiscal 2019:



We remain keenly aware of our impact on the environment and the role we must play to reduce our **carbon footprint**. KPMG now operates on 100% renewable energy through the purchase of renewable energy certificates, fulfilling our commitment to be a champion of clean energy. We will also continue to support our nonprofit collaborator, GRID Alternatives, who works to make renewable energy technology and job training accessible to underserved communities.

KPMG Lakehouse follows the Leadership in Energy and Environmental Design (LEED) guidelines as a framework and with a goal to achieve LEED Silver certification. The main building will use 28% less energy than similar projects by optimizing mechanical systems and by using integrated building-design technologies. All irrigation on the property will come from non-potable water sources. Learn more about [KPMG Lakehouse sustainability](#)



Monitoring audit quality

Audit quality remains our highest priority and is critical to fulfilling our role in the capital markets. All of our actions are concentrated on the drivers of audit quality and delivering high quality audits. External inspections and our own internal monitoring are essential to identifying opportunities to improve audit execution and strengthen our system of quality control.

This section includes highlights of our work in response to internal and external quality monitoring that we believe has improved our system of quality control.

Tone at the top

In 2018 we undertook an enterprise-wide culture assessment with external experts in organizational ethics and culture change, and we appointed a Chief Culture Officer to lead this pivotal area in February 2019. In addition, we added two independent directors to our Board of Directors in 2018.

During 2019 our leaders and directors continued to focus on our culture, and on our quality-focused investments and audit quality actions, underscoring our commitment to audit quality. This ongoing initiative included the global refresh of our values and our commitment to Heads Up thinking.

PCAOB inspection results

The 2018 results are from Part I.A of the 2018 report

INSPECTION YEAR	AUDITS INSPECTED	AUDITS IN WHICH PART 1 DEFICIENCIES IDENTIFIED
2016	51	22
2017	52	26
2018	52	19

Restatements and reissuances as a result of PCAOB inspections

REPORT	FINANCIAL STATEMENT RESTATEMENTS DUE TO PCAOB INSPECTION	NUMBER OF WITHDRAWN/REISSUED ICFR REPORTS DUE TO PCAOB INSPECTION
2016	-	1
2017	-	-
2018	-	-

All public audits that required financial statement restatements

Source: Audit Analytics Report as of February 25, 2019 for the years reported



2016



2017



2018



Internal control and estimates

We made significant investments in a new audit methodology and the related workflow technology to support the execution of our audits. These investments include a specific focus on auditing internal controls over financial reporting and estimates. More broadly, they will ensure a clear alignment of our audit methodology with the auditing standards and the facilitation of audit execution through a new technology platform.

Certain elements of the methodology were accelerated into 2018 to expedite improvement in the auditing of internal controls over financial reporting and estimates. In 2019 we accelerated implementation of additional elements of the methodology, capitalizing on opportunities to further improve the quality, consistency and efficiency of our audits.

Professional skepticism, supervision and review, and engagement quality control review

We recognize the importance of our responsibilities related to professional skepticism, supervision and review, and engagement quality control reviews. In 2018 we increased training, clarified roles, modified processes and enhanced accountability to ensure improved execution in these areas. In 2019 we introduced additional partner supervision and review requirements relative to process activities and the flow of an entity's transactions to bring essential expertise and a critical viewpoint to the audit work.

We also introduced new requirements around the application of professional skepticism to drive greater consistency in the execution of audit procedures relating to estimates.

Accountability

Responsibilities for audit quality have been clearly defined for roles from the engagement partner to the Chairman and CEO, which provides a framework to ensure accountability for audit quality beyond the engagement team.

In 2019 we introduced an Audit Core Competency Framework, which establishes defined performance expectations grounded in professional standards and linked to performance evaluations. Our training curricula and promotional processes will align directly to this framework.

Continuous improvement

Globally KPMG defines 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 control. Because the quality of each audit rests on our foundational quality controls, we will continually evaluate our overall system of quality control and our implementation of the quality control standards applicable to our work. This continual evaluation, together with our keen attention to addressing inspection findings, has been — and will continue to be — a powerful catalyst driving our audit quality actions.



Internal monitoring

Our Inspections Group reports outside of our Audit practice and up to our Vice Chair—Risk Management. The group serves no engagement support role, ensuring that activities are directed solely to a critical assessment of our professionals' performance. The output of our own monitoring and the results of external inspections are synthesized through our root-cause analysis to ensure we develop remedial actions that are responsive to our control deficiencies and meet the standards required of those actions.

PCAOB inspection

In June 2020 the PCAOB released its 2018 report (primarily on the inspection of KPMG's 2017 calendar year-end public company audits). Nineteen of the 52 Issuer audits reviewed in 2018 were included in Part I.A of the 2018 report. By comparison, the number of audits identified in Part I of our prior PCAOB reports were 26 out of 52 reviewed in 2017, and 22 out of 51 reviewed in 2016. The 2018 deficiencies primarily related to the firm's testing of controls over and/or substantive testing of revenue and related accounts, inventory and business combinations.

External inspections may identify areas requiring the restatement of financial statements or the revision of previously issued opinions on internal controls over financial reporting (ICFR). Of the 155 KPMG audits inspected from 2016 to 2018, no audits required a restatement and one of the audits inspected in 2016 required a revision of the ICFR opinion.

The nonpublic portion of the PCAOB report, Part II, offers observations related to a firm's system of quality control. This information is confidential for 12 months following release of the report to allow firms time to address identified matters. We remain committed to working constructively with the PCAOB to demonstrate that we have made substantial, good-faith progress toward remediating the quality control observations in our 2018 report.

Peer review

The firm is subject to peer review every three years under the AICPA peer review program; this review considers our system of audit quality control applicable to engagements not subject to PCAOB permanent inspection (nonpublic entity accounting and auditing practice). Our latest peer review is discussed in our [2019 Transparency Report](#).



Our system of quality control

This report highlights the steps we have taken in 2019 to evolve and enhance our Audit practice and our firm. It provides an overview of how we are strengthening our culture, continuing to invest in our people, and the new technologies that will enable our workforce. All of these efforts are carried out and connected within the framework of our system of quality control — a system that ensures our performance meets the highest professional standards.

Read about KPMG’s system of quality control in our Transparency Report and accompanying supplements.

Visit our website: read.kpmg.us/auditquality

[2019 Transparency Report and Supplements](#)



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