



# Transparency Report



January 2019

[kpmg.com/us/audit](http://kpmg.com/us/audit)

# Letter to our stakeholders

This 2018 Transparency Report provides details on our commitment to continually enhance audit quality and the decisive actions we have taken that demonstrate our journey of progress through change. The report outlines KPMG LLP's (KPMG) structure, governance, and approach to audit quality within a strong system of quality controls, and discusses how the firm works in line with the requirements and intent of applicable professional standards. KPMG has also issued its 2018 Audit Quality Report to provide audit committees and others with additional information on how we are making progress through change and investments we are undertaking to strengthen our firm and deliver audit quality.

KPMG is committed to providing high-quality professional services in an ethical manner to 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 certain of the entities we audit have listings or are otherwise subject to regulation. This report and its supplemental documents cover fiscal year ended September 30, 2018 and are published in accordance with the provisions of the NYSE Listed Company Manual Section 303A.07 and Article 13 of the European Union's (EU) Regulation No. 537/2014.

Publishing this report provides the firm with another opportunity to demonstrate that we take seriously our obligations and responsibilities to the investors, capital markets, and regulators in the countries where the securities of the entities we audit are listed. All of us at KPMG respect and appreciate the importance of our work, and we are deeply committed to the role we serve as guardians of the capital markets.



**Lynne Doughtie**  
U.S. Chairman & CEO



**Frank Casal**  
Vice Chair, Audit



# Contents

<b>Our Business, Structure, and Ownership</b>	<b>4</b>
<b>Tone At The Top</b>	<b>6</b>
Leadership responsibilities for quality within the firm	6
Ethics and integrity	8
Commitment to enhancing audit quality worldwide	9
<b>Audit Quality</b>	<b>10</b>
<b>Association with the Right Clients</b>	<b>12</b>
Prospective entity and engagement evaluation processes	12
<b>Clear Standards and Robust Audit Tools</b>	<b>14</b>
Consistent audit methodology	14
Robust audit tools	14
Quality control review	15
Engagement documentation	16
Independence	16
Compliance with laws, regulations, and anti-bribery and corruption	20
Objectivity	20
Confidentiality	20
<b>Recruitment, Development, and Assignment of Appropriately Qualified Personnel</b>	<b>22</b>
Recruitment and hiring	22
Professional development	22
Lifetime learning strategy	23
Developing business understanding and industry knowledge	23
Audit continuous improvement program	23
Inclusion and diversity programs	23
Performance measurement, advancement, and compensation	23
Assignment of engagement teams	24
Partner and staff engagement survey	25
<b>Commitment to Technical Excellence and Quality Service Delivery</b>	<b>26</b>
Consultation and differences of opinion	26
Access to specialist network	26
<b>Performance of Effective and Efficient Audits</b>	<b>28</b>
Timely partner and manager involvement	30
Critical assessment of audit evidence with emphasis on professional skepticism	30
Supervision, review, and support for the engagement team	31
Insightful, open, and honest two-way communication	31
<b>Commitment to Continuous Improvement</b>	<b>32</b>
Monitoring	32
Internal reviews	32
External reviews	34
<b>Statement of Effectiveness of Audit Quality Control</b>	<b>38</b>

# 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. Domestically, our firm operates from more than 100 offices with more than 35,000 employees and partners. KPMG operates as a Delaware limited liability partnership, meaning we are wholly owned by our more than 2,200 partners and principals (referred to collectively as partners).<sup>1</sup> Full details about the services we offer can be found at [www.kpmg.com](http://www.kpmg.com).

KPMG LLP 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 153 countries, collectively employing more than 207,000 people, serving the needs of business, governments, public-sector agencies, not-for-profits, and the capital markets. More information about KPMG International, including our relationship with it, is set out in the Transparency Report – Supplement: Additional Information Required by Article 13 of EU Regulation 537/2014.

---

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



# Tone at the top

The tone at the top of any organization drives its culture and accepted behaviors.

We make it clear that audit quality is a critical part of our culture and values and therefore nonnegotiable. Tone at the top enables the right attitude and behavior throughout the firm through a focused and consistent voice. It is the core of our Audit Quality Framework.

There are a number of critical components to an 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.

---

## 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 as follows:

- Our vice chair of Audit, who reports to the chairman and CEO and the deputy chairman and chief operating officer (COO), has responsibility for our Audit practice, including our system of audit quality control.
- Our national managing partner of Audit Quality and Professional Practice (AQPP), who reports to the vice chair of Audit, is responsible for the day-to-day operation of our system of audit quality

control and our processes to continuously improve audit quality and leads our AQPP group, including the firm's regional and business unit professional practice partners.

- Our national managing partner of Audit Operations, who reports to the vice chair of Audit, is responsible for implementing quality initiatives at the engagement level, resource management, talent development, and marketing and growth initiatives.

As part of our efforts to clarify audit quality roles and responsibilities for our leadership team and develop an audit quality accountability framework, we recently formally defined and documented the key roles and responsibilities associated with each of the quality control elements outlined in Public Company Accounting Oversight Board (PCAOB) QC Section 20, "System of Quality Control for a CPA Firm's Accounting and Auditing Practice." Our leaders were evaluated on their achievement of these roles and responsibilities during the partner FY18 year-end review process.

Beyond the executive level, several important

leadership bodies carry KPMG’s culture across the firm.

Our nationally managed Audit practice is supported by two regional leadership teams, each with a designated regional professional practice partner who reports to the national managing partner of AQPP. These two senior partners provide professional practice and audit quality leadership and direct adherence to firm policies 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.

### Professional practice partners

KPMG professional practice partners in each 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
- Monitor compliance with firm policies 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.

### AQPP Personnel

The AQPP group is comprised of 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 or Commission), American Institute of Certified Public Accountants (AICPA) and other regulatory oversight organizations. Additionally, the AQPP group oversees root-cause analysis and audit-specific training.

### Chief auditor and chief accountant

Our chief auditor and chief accountant, both of whom report to the national managing partner of AQPP, provide technical guidance to teams on engagement-related issues and assist in communications with audit committee members and management on those issues. They also develop and disseminate topic-specific guidance on emerging technical and professional auditing, accounting, and reporting matters; and consult on and assist with firm and individual audit engagement matters pertaining to compliance with regulatory and professional standards. Through liaisons with the SEC and the PCAOB, as well as active support for the standards-setting processes at various organizations AQPP professionals develop and present KPMG’s positions on current topics being addressed by regulatory and other standard-setting bodies.<sup>1</sup> In addition, AQPP professionals actively liaise with KPMG International’s International Standards Group (ISG), located in London, on international accounting and auditing standards matters.

Our Audit Quality Support Partner (AQSP) program comprises select Audit partners who recently completed a rotation in AQPP and have returned to a local office. These AQSPs provide direct audit quality coaching and support to engagement teams. The Chief Auditor leads an annual planning process of the Audit practice and directs the AQSPs to those areas where coaching will have the most significant effect on audit quality. We have worked to enhance the program by increasing the number of AQSPs by one-third, significantly increasing the number

---

<sup>1</sup> Financial Accounting Standards Board, the Governmental Accounting Standards Board, the Emerging Issues Task Force, the Auditing Standards Board, and other boards and committees of the AICPA, the International Auditing and Assurance Standards Board, and other similar organizations,

of coached engagements, formalizing roles and responsibilities, and instituting an AQSP accreditation process.

### National business leader of AQPP

We recently established a new role—national business leader of AQPP—that reports to the national managing partner of 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 analysis and audit-related training.

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 audit quality control and engagement performance. The RCCG and root-cause analysis is discussed further in the Commitment to Continuous Improvement section.

### Issue Council

The Issue Council shares information among members and provides counsel to the national managing partner of AQPP on current and emerging auditing, accounting, and audit quality control matters, which facilitates decisions and enhances activities to achieve audit quality. Issue Council members include professionals with responsibilities over key aspects of our audit quality control system. The Issue Council considers both internally and externally generated information associated with audit quality matters.

### 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 take ownership, stay informed, lead by example, consult with others, stand firm, and raise our hands when we see something that is inconsistent with our values or professional responsibilities. 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), updated in 2018, 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 in clear, conversational prose 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.

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

### Complaints and allegations (Ethics and Compliance Hotline)

To further our commitment to integrity and an



ethical culture, KPMG maintains an Ethics and Compliance Hotline that allows both phone and web reports to be made through an independent third-party provider by calling the toll-free number, 1-877-576-4033, or by submitting a report via the web at [www.kpmgethics.com](http://www.kpmgethics.com). We encourage use of the hotline when KPMG professionals feel uncomfortable reporting concerns about possible illegal, unethical, or improper conduct through normal channels or when they want to remain anonymous. The hotline is available to external parties as well, including personnel at entities we serve, vendors, and professionals from other KPMG International member firms. Reports filed through the hotline are directed to our chief compliance officer for review and, if necessary, for assignment of appropriate firm resources for investigation and resolution. All reports are handled confidentially (to the extent allowable by

law and consistent with the needs of a thorough investigation). Retaliation for good faith reporting or for otherwise participating in an investigation is strictly prohibited.

### **Commitment to enhancing audit quality worldwide**

KPMG International has introduced a number of changes as we strive for continuous improvement. These include the creation of the Global Audit Quality Committee of the Global Board (principal governance and oversight body of KPMG International), comprising senior partners from the largest member firms and the appointment of a dedicated Global Head of Audit Quality who reports to the committee. Through these changes, there is greater accountability among member firm senior partners and Audit leaders.



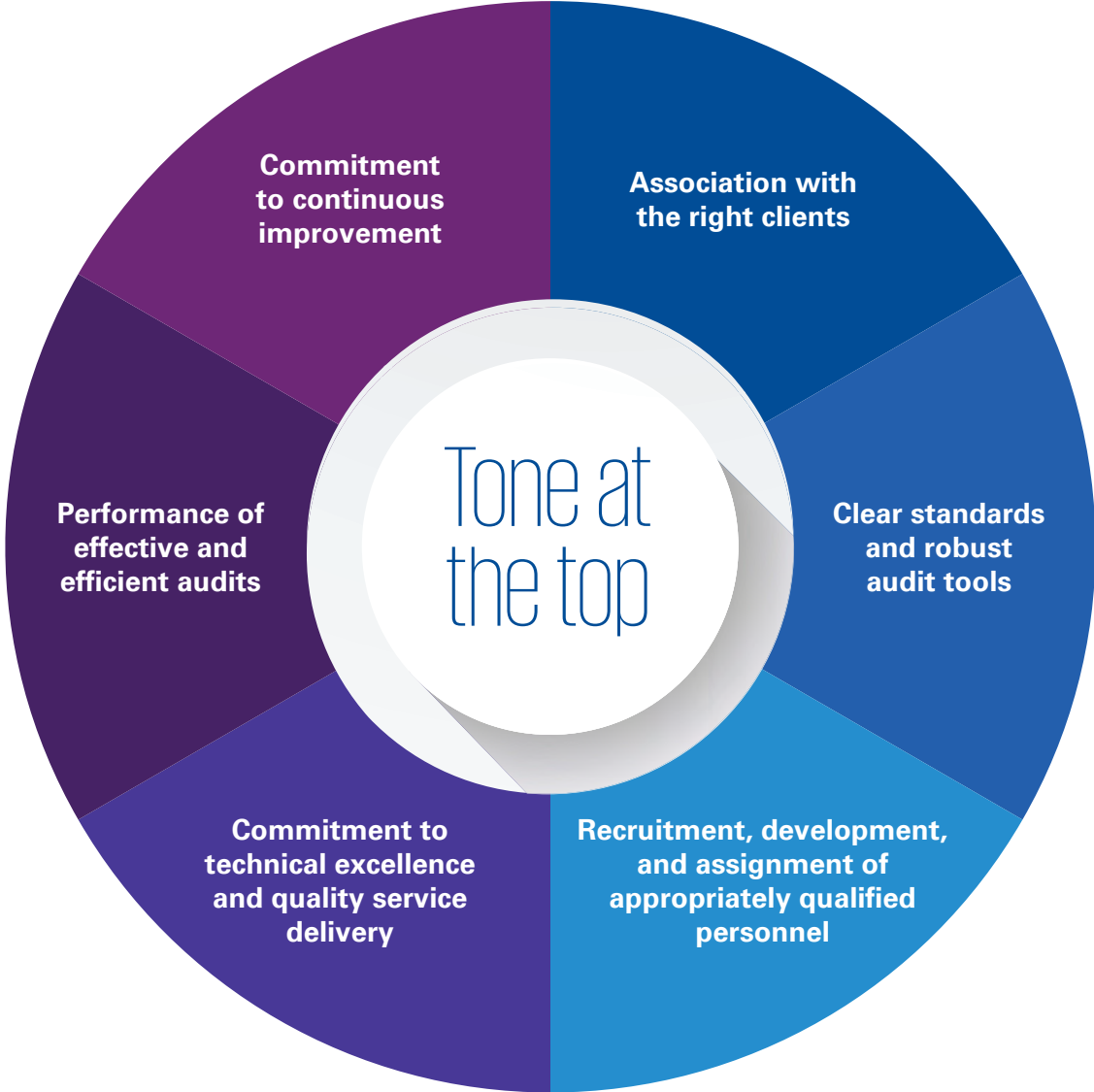
# Audit quality

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.

At every level, we have been reevaluating our approach to audit quality, and that work continues.

Globally, we view audit quality as having seven key drivers. Each KPMG member firm uses this framework to describe, focus on, and enhance audit quality. Tone at the top is fundamental to the core of the Audit Quality Framework’s seven drivers and drives 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. Each of the seven drivers is described in more detail in the following sections of this report.

**Our 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.

KPMG has established policies and procedures for evaluating new and continuing professional relationships and whether to perform specific services for a particular entity. Our tool, CLEAS (Client/Engagement Acceptance and Setup), facilitates management, control, and documentation of acceptance and continuance processes. Our controls are designed to prevent 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, appropriate safeguards are put in place, and approval is obtained from appropriate leaders, including those in Risk Management–Audit.

Risk Management–Audit develops risk management policies for the Audit practice, including those relating to entity and engagement acceptance and continuance. Risk Management–Audit reports outside of the Audit practice to the vice chair of Legal, Risk, and Regulatory, and oversees relevant risk management systems, including CLEAS and the Partner Rotation System, which monitors compliance with the SEC independence rules and the firm's rotation requirements.

---

## Prospective entity and engagement evaluation processes

Prior to 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)
- 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 KPMG International member firms

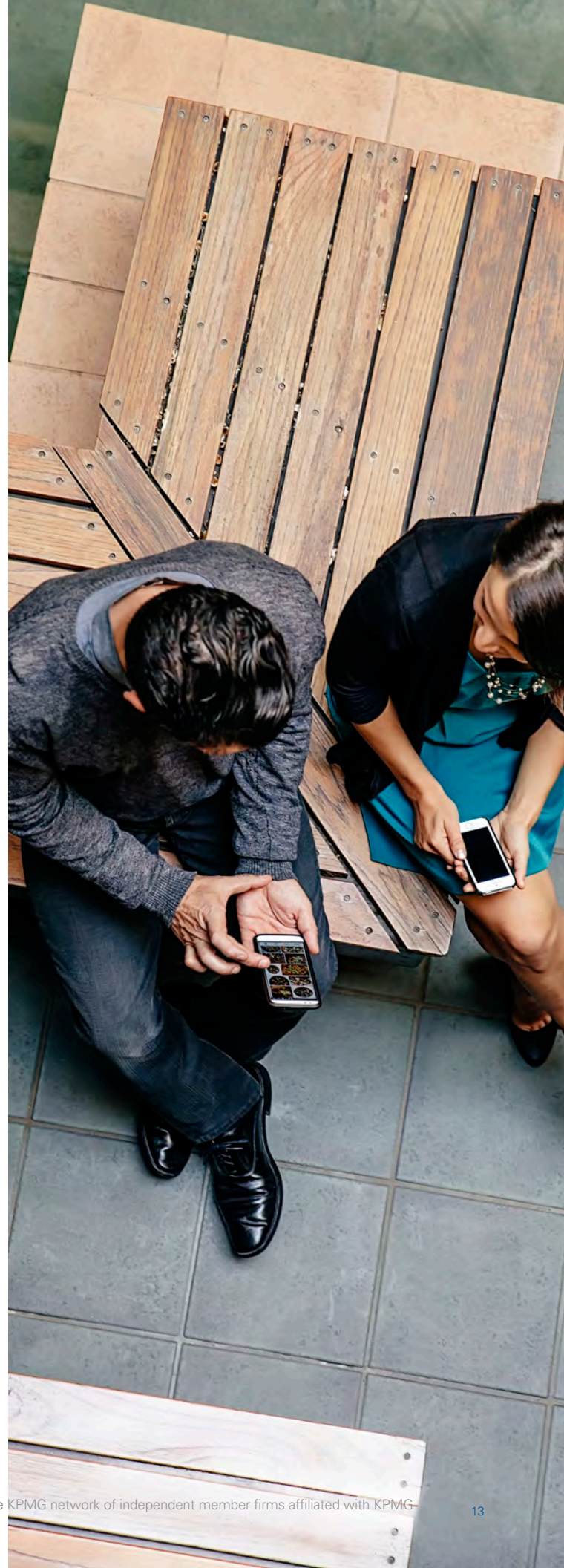
in the KPMG International network. If a potential independence issue or conflict cannot be resolved satisfactorily, in accordance with professional and firm standards, we decline the prospective engagement.

### Continuance/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, including the regional professional practice partner in certain situations. The objective of these reviews is to identify those engagements where the firm should consider implementing additional safeguards to address audit risk and/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, require additional evaluation procedures, such as independence clearance, background checks, etc., to be conducted prior to the annual continuance process.

### Withdrawal

When we obtain information that indicates that 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 robust audit tools

Engagement performance encompasses all aspects of audit design and execution in accordance with auditing standards (including KPMG’s audit methodology) and the supervision, consultation, documentation, review, and communication of audit results. Our global audit quality framework assists every KPMG professional in concentrating on the skills and behaviors needed to deliver a quality audit. 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 KPMG Global Solutions Group (formerly Global Services Centre), is based on the requirements of International Standards on Auditing (ISAs) as well as the auditing standards of the PCAOB and AICPA. The KPMG audit methodology is set out in the KPMG Audit Manual (KAM) and includes additional requirements that go beyond the auditing standards, which KPMG believes enhance the quality of the audit. The methodology 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 assessment, accounting estimates, internal control over financial reporting, revenue recognition, audit sampling, and group audits. Enhancements to the audit methodology, guidance, and tools are made regularly to be in compliance with standards, emerging auditing areas of focus, and audit quality results (internal and external). Considerable enhancements, in particular, are underway to implement a new audit methodology and workflow delivered through KPMG Clara, our smart audit platform. This will further reinforce alignment with audit standards and drive greater consistency across our global network of member firms. The enhanced methodology will provide

a clearer, more user-friendly process. As part of these enhancements, engagement teams are being provided with additional tools to assist with risk identification and assessment.

## Robust audit tools

The KPMG audit methodology is 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.

Significant investments are under way to enhance our global audit quality and consistency. The KPMG Clara Workflow will include a new methodology, a redesigned workflow, enhanced knowledge and guidance delivered through KPMG Clara. We believe the KPMG Clara Workflow will further standardize our audit approach and it will empower our partners to focus on aspects of an engagement where they can add the greatest value in audit quality, direction, judgment, and decision making.

Rooted in KPMG’s enhanced global audit methodology, the KPMG Clara Workflow will also bring powerful data and analytics capabilities together in a unified digital interface. It will allow audit teams to work smarter while providing an intuitive client experience by communicating with

clients in real time to provide greater transparency into an audit.

The KPMG Clara Workflow is being rolled out globally in stages. Pilots were initiated during the summer of 2018, and positive feedback was shared about its user-friendly interface, intuitive and logical architecture, and thorough audit knowledge. Through KPMG Clara Workflow, member firms will be able to provide insights to clients on a real-time basis. The workflow will provide a singular view of status and results/findings, accessible through an on-demand engagement portal that also helps establish milestones, helping to keep both KPMG and clients accountable. The KPMG Clara Workflow limited deployment will commence in 2019 in over 100 countries on select engagements, with full deployment across the entire network targeted for 2020.

## Quality control review

KPMG is continually seeking to strengthen and improve the role that the quality control reviewer plays in audits, as this is a fundamental part of the system of audit quality control. Each KPMG audit involves either an engagement quality control review or a limited scope quality control review—hereinafter referred collectively as “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 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 auditors’ report is appropriate. Partners, or where permitted, managing directors, who perform a quality control review of the financial statements, auditors’ reports, and certain audit documentation have no other responsibilities on that engagement. All quality control reviewers must maintain objectivity, and if a reviewer’s objectivity may be impaired, another quality control reviewer is appointed.

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 professional standards (including, specifically, PCAOB Auditing Standard No. 1220, Engagement Quality Review).

KPMG requires a quality control review prior to 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 auditors’ report. Completion of a quality control review is documented when the reviewer determines that the significant questions raised have been satisfactorily resolved.



## 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.

In 2018, to facilitate timely completion of audit engagement activities, we launched new policy regarding accelerated file closure which requires engagement teams to clear all review notes before the report release date and initiate file closure within two business days of the report release.

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

## Independence

Our independence policies require that our firm, partners and 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 fully dedicated group of resources that reports to the national partner in charge—Risk Management—Audit and Independence, is responsible for our independence policies, processes and controls in the following areas.

### Personal independence

Each professional is ultimately responsible for maintaining his or her 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.

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, 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 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-Audit 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 time 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 the KPMG Independence Compliance System (KICS) to record its own investments in SEC entities and affiliates (including funds), locally listed companies and funds, and direct investments held in pensions and employee benefit plans (including nonpublic entities and funds).

Additionally, we are required to record in the system all firm borrowing and capital financing



relationships, and 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 prior to accepting any audit or attestation engagement. The independence clearance process is led by a dedicated team within the Independence Group for all prospective SEC audit clients.

With respect to non-audit 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 prior to starting work. 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 non-public 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 non-audit services before they begin.

Our policies and Sentinel help us prevent the provision of prohibited non-audit 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 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 prior to 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 every year thereafter.

### **Independence monitoring**

We monitor compliance with our independence policies related to personal financial interests through the KPMG Independence Compliance System (KICS) as well as a compliance audit process.

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, personal investments must be reported in KICS, which automatically notifies professionals if an investment becomes "restricted." For most investment activity, we required 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.

In fiscal year 2018, we enhanced our processes and the resources dedicated to auditing individuals subject to the independence requirements allowing us to double the number of audits we perform on an annual basis (now over one thousand per year). We now audit all new partners and principals prior to their joining the firm or being 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. A sample of audit engagements are reviewed to determine compliance with independence requirements, 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 are 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.

### **Breaches of independence policy**

All personnel 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, professionals are subject to an independence disciplinary policy.

KPMG has a documented disciplinary policy in relation to breaches of independence. The disciplinary policy is communicated to all professionals and applies to all breaches of independence, incorporating incremental 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. Breaches of independence are factored into our promotion and compensation decisions.

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

Compliance with laws, regulations and standards is expected of all personnel. In particular, we have zero tolerance of bribery and corruption. We prohibit involvement in any type of bribery—even if such conduct is legal or permitted under applicable law or local practice. We also do not tolerate bribery by third parties, including by our clients, suppliers, or public officials.

### **Objectivity**

We strive to be objective in all we do. Firm personnel are vigilant to recognize actual and potential conflicts of interest, identifying them at the earliest opportunity to resolve, manage, or avoid the conflict. If significant threats to objectivity cannot be reduced to an acceptable level, a conflict of interest may preclude the firm from accepting an entity as a client 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 annually thereafter.



# Recruitment, development and assignment of appropriately qualified personnel

One of the key drivers of quality is ensuring that our professionals have the appropriate skills and experience, 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 applicant's skill sets and knowledge base.

Prior to 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 the 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:

- Expanding our performance support library by offering a variety of microlearnings (short instructional videos) to provide knowledge to our professionals at the point of need
- Incorporating new physical space design methodologies in our traditional classroom environments to foster greater participation and engagement.

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 closely monitor license expiration and renewal for our professionals using a database, which generates a notification prior to 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.

### **Lifetime learning strategy**

In addition to the professional development discussed in the section above, our lifetime learning strategy is underpinned by policies requiring all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements. We recognize that learning is not confined to the classroom—rich learning experiences are also available through coaching and just-in-time learning, which is available at the click of a mouse and aligned with job-specific role profiles and learning paths. All classroom courses are reinforced with appropriate performance support to assist auditors on the job.

### **Developing business understanding and industry knowledge**

KPMG provides industry-specific training for all levels, with certain instructor-led audit courses employing industry-specific breakout rooms, 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 program**

KPMG Audit's Continuous Improvement (CI) program brings a Six Sigma approach to the audits of our clients. As part of KPMG's focus on audit quality, we have invested in a team of Six Sigma professionals with years of experience and an established track record of enabling improvement through processes and technology. Using time-tested process improvement principles from across numerous industries, our CI program is uniquely tailored for audits. CI workshops are in-person sessions with engagement teams led by a CI facilitator trained in Six Sigma principles to help teams learn to build quality into the audit from a process enhancement perspective. The workshops are focused on planning and coordination among KPMG engagement teams and with our clients to build a quality focus into the front-end of our audit process, which ultimately drives sustained audit quality. All engagement team members from partner to intern are encouraged to attend these workshops. The workshops occur throughout the year, but all of our Audit professionals have access to CI resources and guidance via our CI portal and local office CI champion network.

### **Inclusion and diversity programs**

We work hard to foster an inclusive culture. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences, and perspectives. In August 2018, we hired a chief diversity officer to continue to advance our firm-wide diversity and inclusion strategies while providing fresh perspectives. The chief diversity officer's role includes promoting employee engagement and meeting client expectations of an inclusive, diverse, and vibrant workforce.

### **Performance measurement, advancement, and compensation**

All partners and staff, participate in annual goal setting and semi-annual 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. Consistent with 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, continuous learning, and relationship building. Annual performance evaluation results directly affect compensation and advancement of personnel, including partners, and in some cases, their continued association with our firm.

Our partnership admission process is rigorous and thorough. Each candidate, whether a direct-entry or internal nomination, undergoes a background check and interviews 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 the Ethics and Compliance Group, AQPP, Risk Management, and the Office of General Counsel. 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 the sale of nonaudit services 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. Partner compensation is composed primarily of a predetermined proportion of the profits for the year, which is based, in part, on each partner's experience and responsibilities.

### 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, quality control reviewers, and limited scope quality control reviewer 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. 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 audit quality control policies and procedures.
- An understanding of, and practical experience



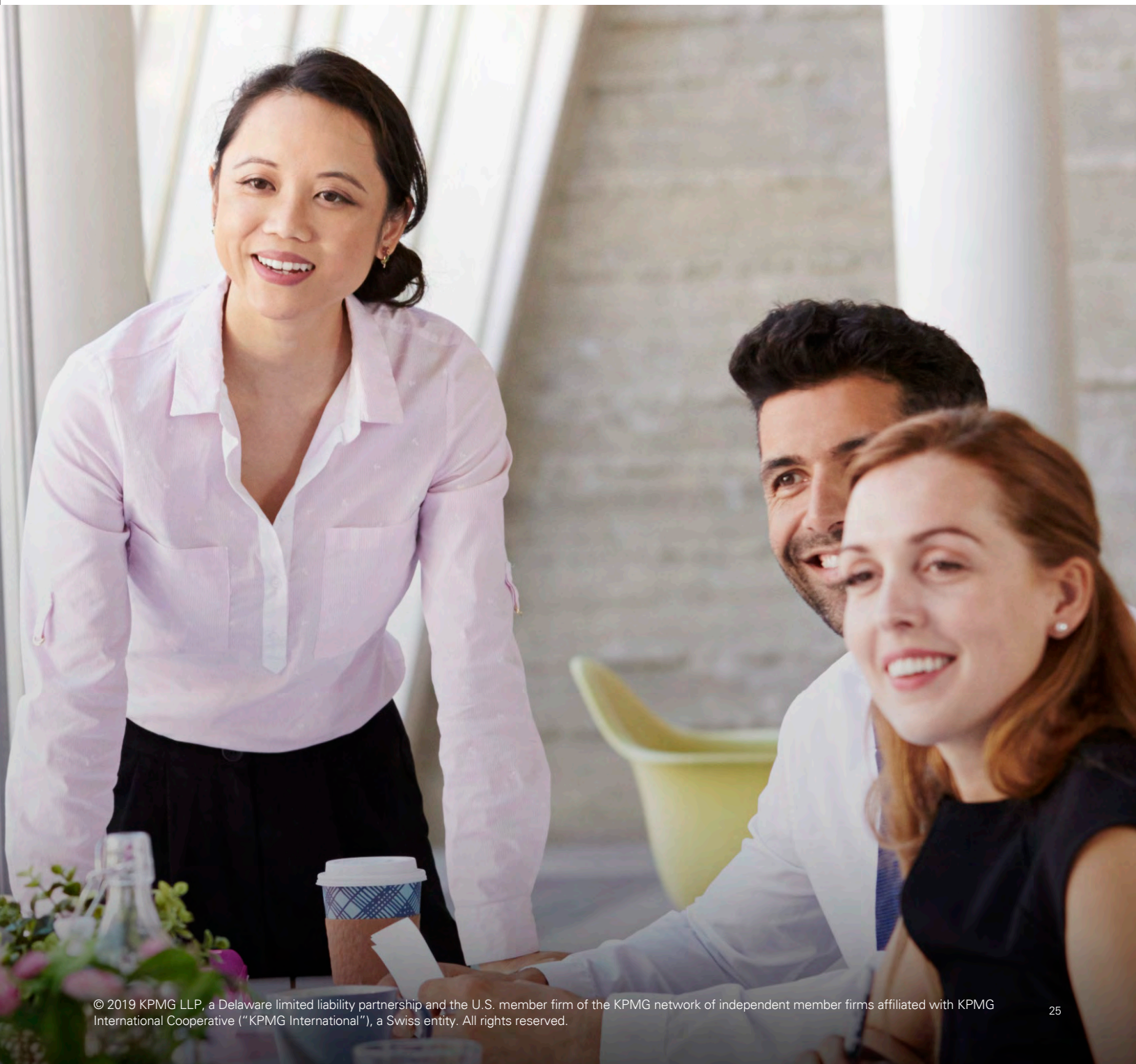
with, audit engagements of a similar nature and complexity through appropriate training and participation

- Knowledge of relevant industries in which the audit entity operates

### **Partner and staff engagement survey**

Annually, all partners and employees are invited

to participate in an independent Global People Survey (GPS), which 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 us to see how we are progressing against strategic priorities; and provide warning indicators if there are areas of concern.



# Commitment to technical excellence and quality service delivery

All professionals are provided with the technical training and the support they need. This includes access to specialists and the AQPP group—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.

---

## 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 AQPP 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 the AQPP group. Where partners or managing directors are unable to resolve an issue, they may elevate it to the AQPP group for resolution. We also do not issue the auditors' report until differences of opinion are resolved and the resolution is implemented and documented.

## Access to specialist network

Engagement teams have access to a network of local KPMG specialists as well as specialists in other KPMG member firms. 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, Treasury, 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 and efficient 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 IT 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
- 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.

We use our Accelerating Audit Execution (AAE) framework to reinforce the importance of appropriate sequencing and timing of audit procedures. Simply stated, performing audit procedures earlier in the audit cycle in the appropriate sequence is more conducive to

performing high-quality audits than an audit performed by compressing audit procedures later in the audit cycle. AAE requires engagement teams to perform key areas of the audit earlier and identify and address audit issues earlier, specifically those that require our partners and engagement teams to exercise professional skepticism.

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 valued insights.

## 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. A structured approach to auditing areas that require significant judgment involves:

- Considering alternatives
- Critically assessing audit evidence by challenging management’s assumptions and following up on contradictory or inconsistent information
- Documenting the rationale for conclusions reached on a timely basis as a means of evaluating their completeness and appropriateness.

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.

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

Two-way communication with those charged with governance, 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.

Communications with audit committees include, but are not limited to:

- An overview of the planned scope and timing of the audit, which includes communicating significant risks identified
- Significant findings from the audit that may include control deficiencies and audit misstatements
- New service approvals
- Matters impacting our independence

Our approach is designed to ensure such communications meet the requirements of professional standards.

# Commitment to continuous improvement

KPMG commits to continually improve 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 (QPR), our internal independence and compliance testing processes, preissuance 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 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 audit quality control.

## Internal Reviews

### Inspections Group

We also seek to reinforce our commitment to audit quality through our Inspections Group, a dedicated group of highly skilled professionals who monitor our Audit professionals' work and interact with external inspectors and peer reviewers.

The Inspections Group executes our annual internal inspection program for the Audit practice; performs preissuance quality inspections; and liaises 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 ensure the objectivity of those who conduct internal reviews and interact with external inspectors and peer reviewers, our Inspections Group began reporting to the firm's vice chair of Legal, Risk and Regulatory (LRR) in 2017. The vice chair of LRR 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 continuous improvement and use the findings to enhance our audit process, audit quality infrastructure, people, and processes; policies, tools, and guidance; other communications to our professionals; internal training; and periodic partner, manager, and staff meetings. 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, executive directors, managing directors, directors, and senior managers, supplemented by other firm professionals with applicable industry and technical knowledge
- Regular reviews of individual partner and managing director audit engagements
- Reviews of audit engagements of selected managers in a lead role for an SEC-registered entity
- Reviews of other audit engagements using risk-based selection criteria
- Reviews of other 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 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; 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, understanding the current state, collecting and analyzing data, and identifying root causes. To address root causes, the RCCG also helps develop, implement, and monitor remedial actions which are selected in conjunction with the senior Audit leadership team and other Audit practice groups. The RCCG is responsible for monitoring the implementation, execution, and effectiveness of the remedial actions. The group also contributes to the initial review and assessment of new audit processes, programs, and initiatives for their potential impact on audit quality and develops and maintains an inventory of ongoing projects for senior Audit leadership prioritization.

## 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 monitor, assess, and document the extent of compliance of their system of quality control with KPMG International's Quality & Risk Management policies, the related quality control standards. We utilize various tools to complete our control descriptions, document compliance testing results, and record resulting action plans.

## 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 key policies and procedures
- Robustness in performing our own risk compliance program (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 & 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. Because the PCAOB plays an important role in improving audit quality, its inspection process guides our firm in corroborating areas of focus with our internal inspection program to enhance our engagement performance and strengthen our system of audit quality control.

KPMG has been subject to 15 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 non-public portion (Part II) that includes the PCAOB's observations related to the firm's system of audit quality control. The quality control observations remain non-public 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.

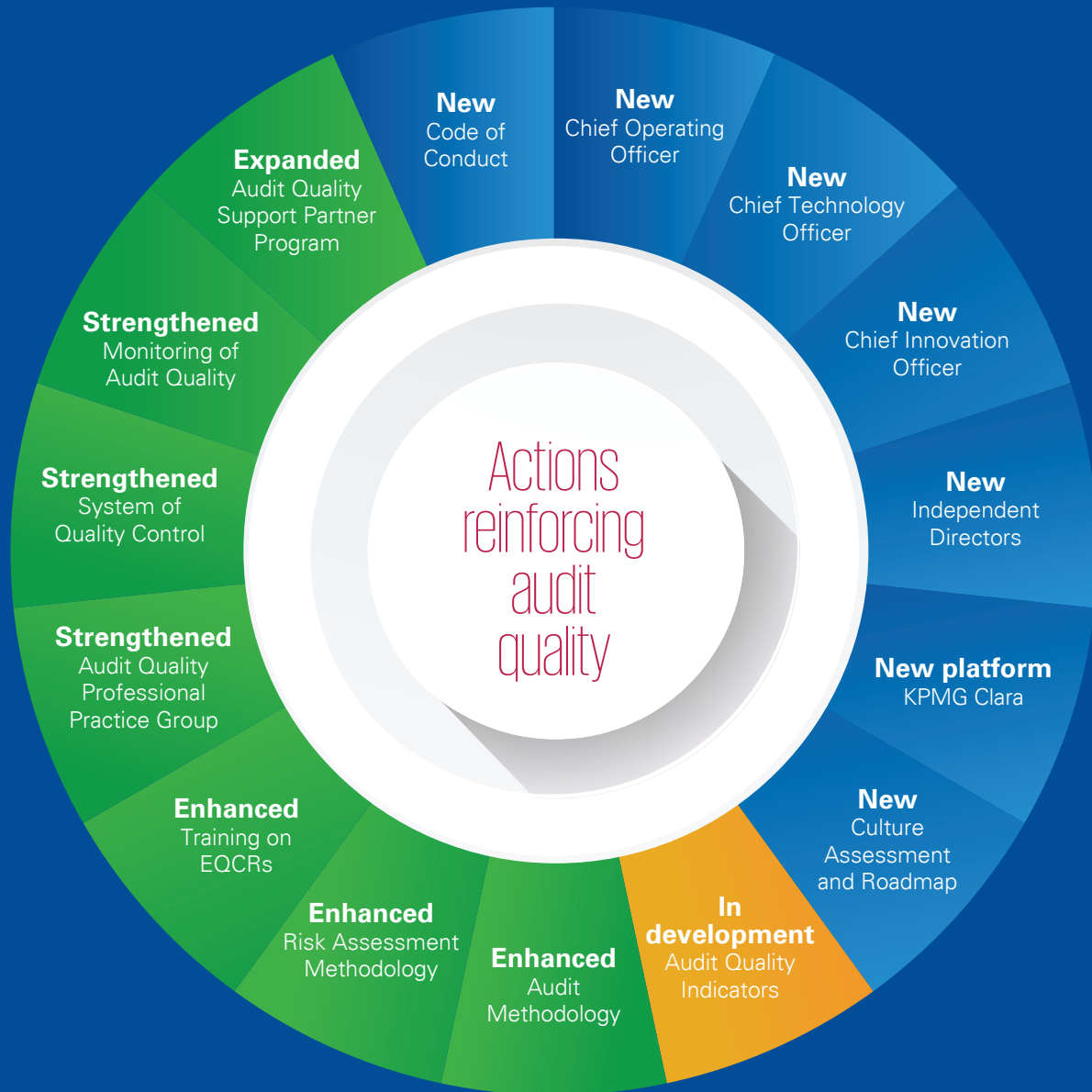
The PCAOB has not yet released KPMG's 2018 inspection reports.

During January 2019, the PCAOB issued its 2016 and 2017 KPMG inspection reports. The public portions of the report are available on our website: <https://home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html>. KPMG will submit 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: <https://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.

The PCAOB released its 2014 KPMG inspection report in November 2015. The public portions of





the report are available on our website: <https://home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html>. KPMG submitted our response to the nonpublic portion to the PCAOB in October 2016.

The PCAOB released its 2013 KPMG inspection report in October 2014. The public portions of the report are available on our website: <https://home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html>. KPMG submitted our response to the nonpublic portion to the PCAOB in September 2015. The PCAOB has determined that the firm satisfactorily addressed the quality control matters in the nonpublic portion of the 2013 inspection report.

During January 2019, the PCAOB determined to repost the firm's 2014 and 2015 inspection reports to make public certain quality control criticisms in Part II of those reports. 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 reports (which ended on October 15, 2016 and November 9, 2017, respectively). The PCAOB's determination, KPMG's response, and the expanded inspection reports are available on our website: <https://home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html>. Our response and our 2018 Audit Quality Report detail 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 Audit Committees and 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 audit quality control applicable to engagements not subject to PCAOB permanent 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 two 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 <https://home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html>.

### Continuous Improvement

We recently have taken a number of specific steps to improve our audit quality foundation, which are described in more detail in our 2018 Audit Quality Report. We invite our interested stakeholders to review that report as well.

# Statement of effectiveness of audit quality control

As set forth earlier in this report, the vice chair of Audit has responsibility for our Audit practice, which includes our system of audit quality control, and the national managing partner of AQPP is responsible for the day-to-day operation of our system of audit quality control. These individuals regularly review the operation and results of the firm's internal inspection program as well as the results of the external regulatory and peer reviews. Based on their review of these matters, the vice chair of Audit and the national managing partner of AQPP confirm with a reasonable level of assurance that KPMG's system of audit quality control has operated effectively throughout the past year.



© 2019 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International. NDPPS 734095

