
2020 Inspection KPMG LLP

(Headquartered in New York, New York)

September 30, 2021

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

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(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

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EXECUTIVE SUMMARY

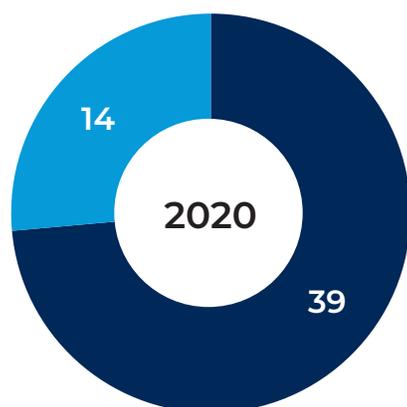
Our 2020 inspection report on KPMG LLP provides information on our inspection to assess the firm’s compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of:

- Part I.A of the report, which discusses deficiencies (“Part I.A deficiencies”) in certain issuer audits that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer’s financial statements and/or internal control over financial reporting (ICFR); and
- Part I.B of the report, which discusses deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

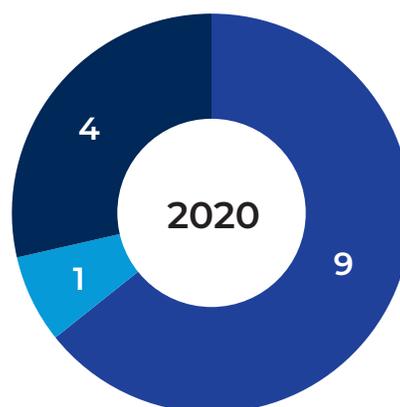
If we include a deficiency in this report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer’s financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. If we include a deficiency in Part I.A or Part I.B of this report, it does not necessarily mean that the firm has not addressed the deficiency.

Overview of the 2020 Deficiencies Included in Part I

Fourteen of the 53 audits we reviewed in 2020 are included in Part I.A of this report due to the significance of the deficiencies identified. The identified deficiencies primarily related to the firm’s testing of controls over and/or substantive testing of revenue and related accounts, investment securities, goodwill and intangible assets, and the allowance for loan losses.



■ Audits without Part I.A deficiencies
■ Audits with Part I.A deficiencies



■ Deficiencies in both financial statement and ICFR audits
■ Deficiencies in the financial statement audit only
■ Deficiencies in the ICFR audit only

The most common Part I.A deficiencies in 2020 related to testing the design or operating effectiveness of controls selected for testing, identifying controls related to a significant account or relevant assertion, testing controls over the accuracy and completeness of data or reports used in the operation of controls, and in some cases the resulting overreliance on controls when performing substantive testing.

Other deficiencies identified during the 2020 inspection that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s), which appear in Part I.B, related to critical audit matters and audit committee communications.

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2020 INSPECTION

In the 2020 inspection of KPMG LLP, the PCAOB assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review 47 audits of issuers with fiscal years generally ending in 2019. In addition, to gain an understanding of how COVID-19 affected the firm's performance of audits, we selected for review six audits of issuers with fiscal years ending between February 29 and June 30, 2020. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

We also selected for review five reviews of interim financial information ("interim reviews"). Our reviews were performed to gain a timely understanding of COVID-19's effect on firms and their procedures and to determine if we needed to issue guidance or other information to assist firms in completing audits and interim reviews during the pandemic. Although the identification of deficiencies was not the primary objective of these reviews, we did not identify any instances of non-compliance with PCAOB standards related to the interim reviews that we reviewed.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2020 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.
- **Part I – Inspection Observations:**
 - **Part I.A:** Deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.
 - **Part I.B:** Deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.
- **Part II – Observations Related to Quality Control:** Criticisms of, or potential defects in, the firm's system of quality control. Section 104(g)(2) of the Sarbanes-Oxley Act ("Act") restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.
- **Appendix A – Firm's Response to the Draft Inspection Report:** The firm's response to a draft of this report, excluding any portion granted confidential treatment.

2020 Inspection Approach

In selecting issuer audits for review, we use both risk-based and random methods of selection. We make most selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. We also select audits randomly to provide an element of unpredictability.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring

deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed.

Our target team performs inspection procedures in areas of current audit risk and emerging topics and focuses its reviews primarily on evaluating the firm's procedures related to that risk or topic. In 2020, to gain an understanding of how COVID-19 affected how the firm performed its procedures, our target team focused on audits of issuers with fiscal years primarily ending between March 31 and June 30, 2020 and interim reviews of issuers for quarterly periods ending on or before June 30, 2020.¹

For the interim reviews, similar to our approach for reviewing audits, we did not review every aspect of the interim review. Rather, our review procedures focused on a portion of the firm's procedures.

View the details on the [scope of our inspections and our inspections procedures](#).

¹ Refer to [Staff Observations and Reminders during the COVID-19 Pandemic](#) for observations from the target team reviews.

OVERVIEW OF THE 2020 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2020 inspection as well as data from the previous two inspections. We use a combination of risk-based and random methods to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from year to year and firm to firm. As a result of this variation, we caution that our inspection results are not necessarily comparable over time or among firms.

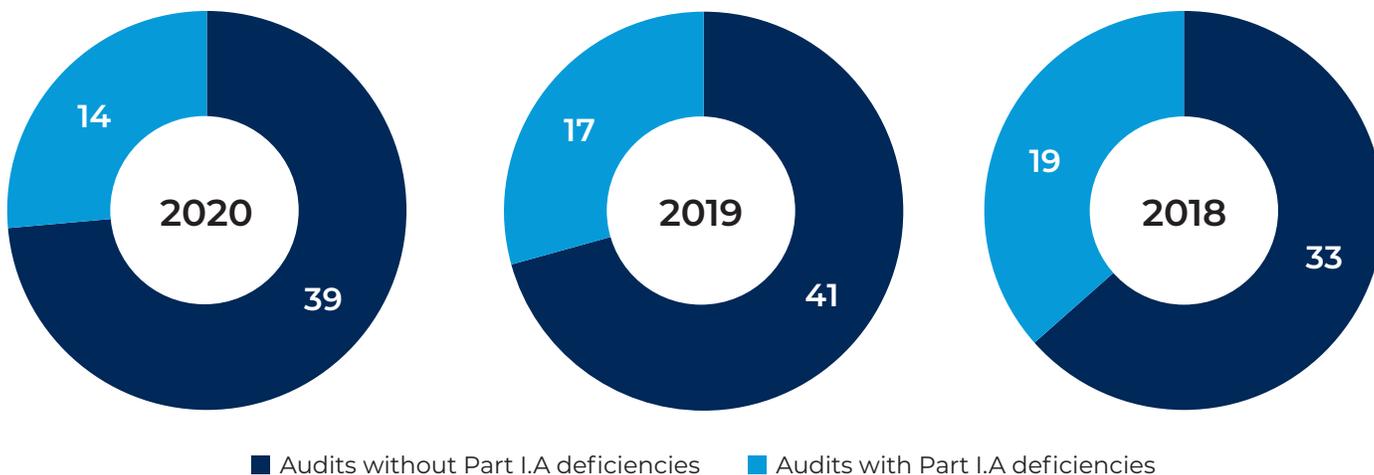
Audits Selected for Review

	2020	2019	2018
Total audits reviewed			
Total audits reviewed	53	58	52
Selection method			
Risk-based selections	37	39	42
Random selections	13	13	10
Target team selections ²	3	6	0
Total audits reviewed	53	58	52
Principal auditor			
Audits in which the firm was the principal auditor	52	55	51
Audits in which the firm was not the principal auditor	1	3	1
Total audits reviewed	53	58	52
Audit type			
Integrated audits of financial statements and ICFR	47	52	51
Financial statement audits only	6	6	1
Total audits reviewed	53	58	52

² For further information on the target team's activities in 2019, refer to that inspection report.

Part I.A Deficiencies in Audits Reviewed

In 2020, nine of the 14 audits appearing in Part I.A were selected for review using risk-based criteria. In 2019, 14 of the 17 audits appearing in Part I.A were selected for review using risk-based criteria. In 2018, 16 of the 19 audits appearing in Part I.A were selected for review using risk-based criteria.

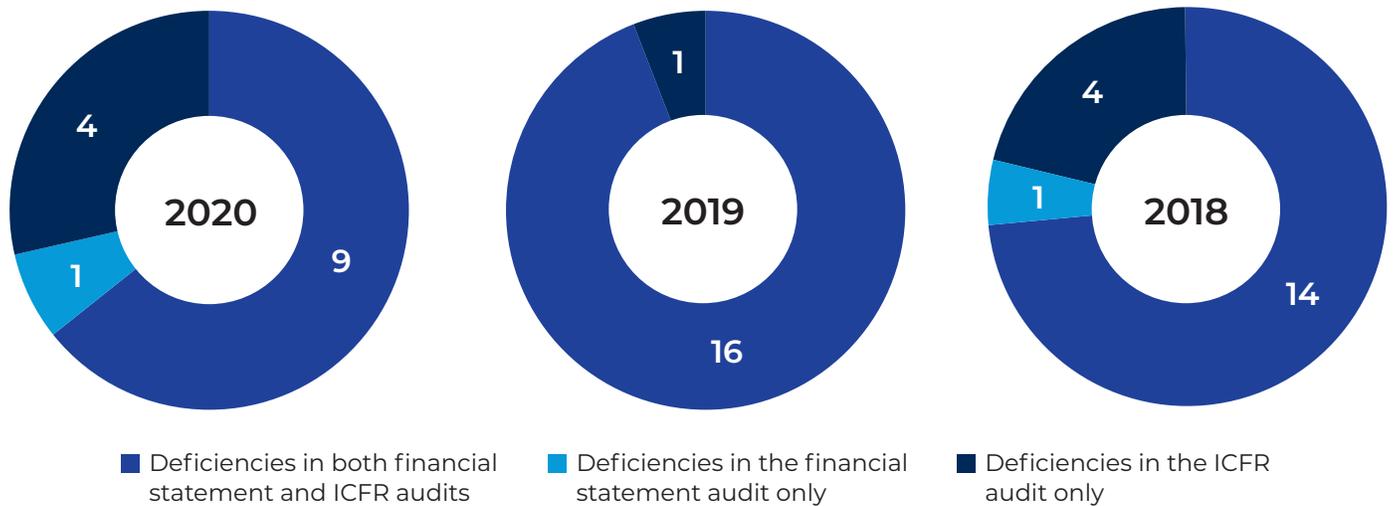


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the issue was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports.

Our inspection normally includes a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

If we include a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

Audits Affected by the Deficiencies Identified in Part I.A



In connection with our 2019 inspection procedures for one audit, the issuer restated its financial statements and the firm revised and reissued its report on the financial statements. In connection with our 2019 inspection procedures for this audit and for one additional audit, the issuers revised their reports on ICFR and the firm revised its opinions on the effectiveness of the issuers' ICFR to express adverse opinions and reissued its reports. In addition, in connection with our 2019 inspection procedures for one audit, the issuer disclosed in a subsequent filing that a material weakness existed as of the date covered by the firm's audit that was subject to our review.

The following tables and graphs summarize inspection-related information, by inspection year, for 2020 and the previous two inspections. We caution against making any comparison of the data provided without reading the descriptions of the underlying deficiencies in each respective inspection report.

Most Frequently Identified Part I.A Deficiencies

Deficiencies in audits of financial statements	Audits with Part I.A deficiencies		
	2020	2019	2018
Did not obtain sufficient evidence as a result of overreliance on controls (due to deficiencies in testing controls)	8	8	8
Did not perform sufficient testing of data or reports used in the firm's substantive testing	3	2	1
Did not perform sufficient testing related to an account or significant portion of an account or to address an identified risk	2	7	4
Did not sufficiently evaluate significant assumptions or data that the issuer used in developing an estimate	2	6	5

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2020	2019	2018
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	9	10	9
Did not identify and test any controls that addressed the risks related to a significant account or relevant assertion	5	12	10
Did not identify and/or sufficiently test controls over the accuracy and completeness of data or reports that the issuer used in the operation of controls	5	3	8

Audit Areas Most Frequently Reviewed

This table reflects the five audit areas we have selected most frequently for review in each inspection year (and the related Part I.A deficiencies). For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2020			2019			2018		
Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies
Revenue and related accounts	36	5	Revenue and related accounts	40	9	Revenue and related accounts	40	10
Business combinations	13	1	Inventory	14	2	Inventory	20	3
Investment securities	12	4	Investment securities	12	2	Income taxes	13	1
Inventory	12	1	Business combinations	11	3	Business combinations	12	3
Long-lived assets	12	0	Allowance for loan losses	11	2	Investment securities	12	0

Audit Areas with Frequent Part I.A Deficiencies

This table reflects the audit areas with the most frequently identified Part I.A deficiencies in each inspection year with the corresponding results for the other two years presented.

Audit area	2020		2019		2018	
	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed
Revenue and related accounts	5	36	9	40	10	40
Investment securities	4	12	2	12	0	12
Allowance for loan losses	2	11	2	11	2	11
Goodwill and intangible assets	2	8	1	9	0	10
Expenses	2	5	1	6	0	1
Business combinations	1	13	3	11	3	12
Inventory	1	12	2	14	3	20

Revenue and related accounts: The deficiencies in 2020, 2019, and 2018 related to substantive testing of, and testing controls over, revenue.

Investment securities: The deficiencies in 2020 and 2019 related to substantive testing of, and testing controls over, investment securities.

Allowance for loan losses: The deficiencies in 2020 related to testing controls over the allowance for loan losses. The deficiencies in 2019 related to substantive testing of, and testing controls over, the allowance for losses. The deficiencies in 2018 primarily related to substantive testing of the data the issuer used to determine the allowance for loan losses and testing controls over the completeness and accuracy of data.

Goodwill and intangible assets: The deficiencies in 2020 primarily related to testing controls over the evaluation of goodwill and intangible assets for possible impairment. The deficiency in 2019 related to testing controls over the evaluation of intangible assets for possible impairment.

Expenses: The deficiencies in 2020 and 2019 primarily related to testing controls over expenses.

Business combinations: The deficiency in 2020 related to evaluating the reasonableness of assumptions used by the issuer to determine the fair value of an asset acquired. The deficiencies in 2019 primarily related to substantive testing of, and testing controls over, acquired loans. The deficiencies in 2018 related to substantive testing of data used to value acquired intangible assets and testing controls, including controls over the accuracy and completeness of data.

Inventory: The deficiencies in 2020 and 2019 related to testing controls over the existence of inventory and the resulting overreliance on controls when performing substantive testing. The deficiencies in 2018 primarily related to testing controls over the accuracy and completeness of data or reports.

Auditing Standards Associated with Identified Part I.A Deficiencies

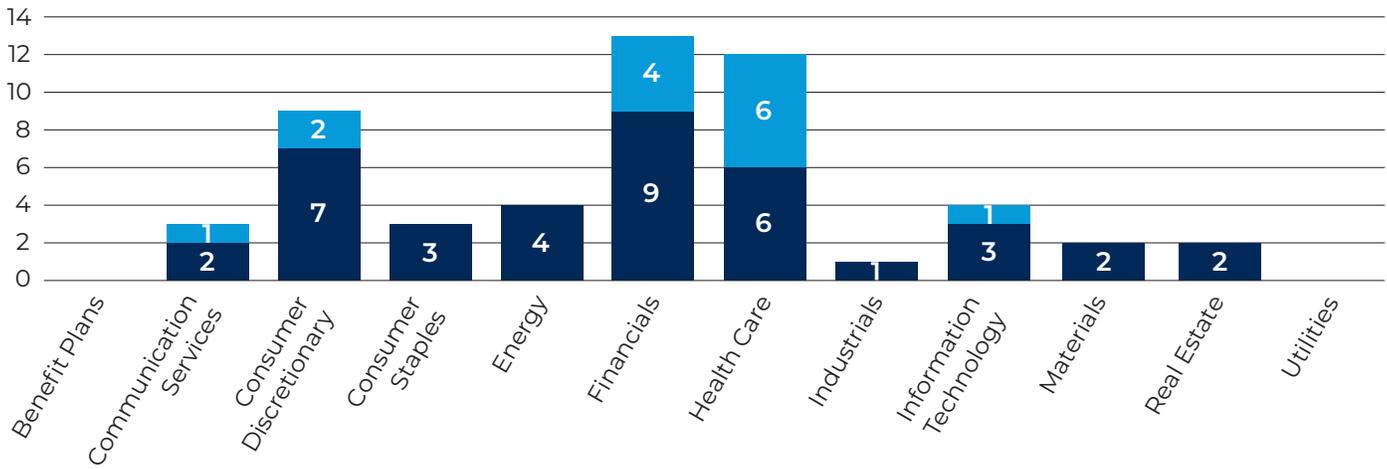
The following lists the auditing standards referenced in Part I.A of the 2020 and the previous two inspection reports and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2020	2019	2018
<i>AS 1105, Audit Evidence</i>	3	3	2
<i>AS 2101, Audit Planning</i>	0	1	0
<i>AS 2201, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i>	32	38	46
<i>AS 2301, The Auditor's Responses to the Risks of Material Misstatement</i>	10	15	13
<i>AS 2305, Substantive Analytical Procedures</i>	0	0	1
<i>AS 2310, The Confirmation Process</i>	0	0	2
<i>AS 2315, Audit Sampling</i>	7	9	9
<i>AS 2401, Consideration of Fraud in a Financial Statement Audit</i>	0	1	0
<i>AS 2501, Auditing Accounting Estimates</i>	0	2	5
<i>AS 2502, Auditing Fair Value Measurements and Disclosures</i>	4	5	5
<i>AS 2503, Auditing Derivative Instruments, Hedging Activities, and Investments in Securities</i>	1	0	0
<i>AS 2510, Auditing Inventories</i>	0	1	0
<i>AS 2810, Evaluating Audit Results</i>	0	1	4

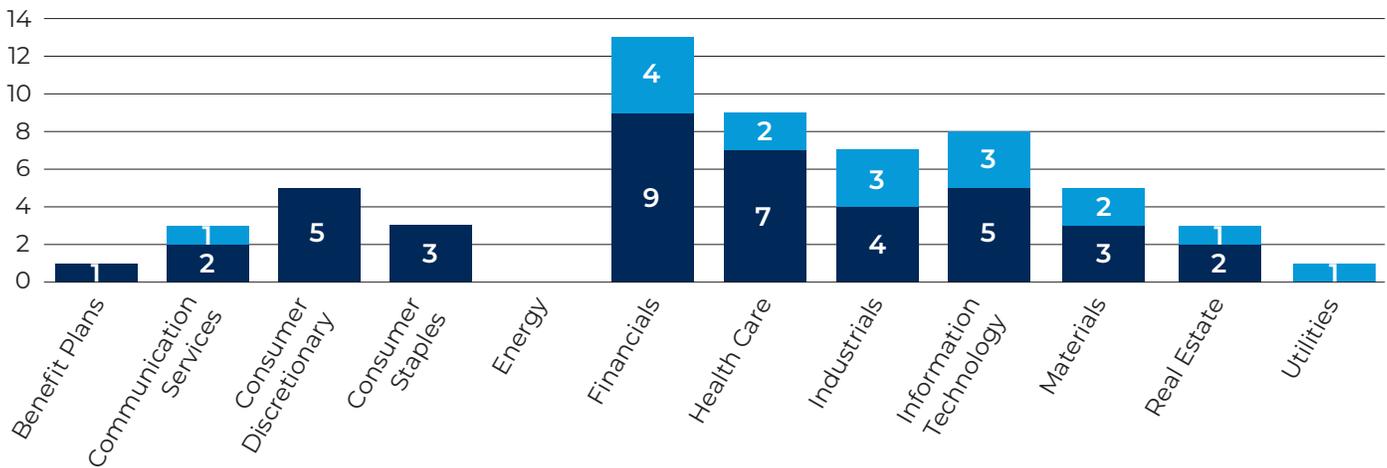
Inspection Results by Issuer Industry Sector

The majority of industry sector data is based on Global Industry Classification Standard (GICS) data obtained from Standard & Poor's (S&P). In instances where GICS data for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data.

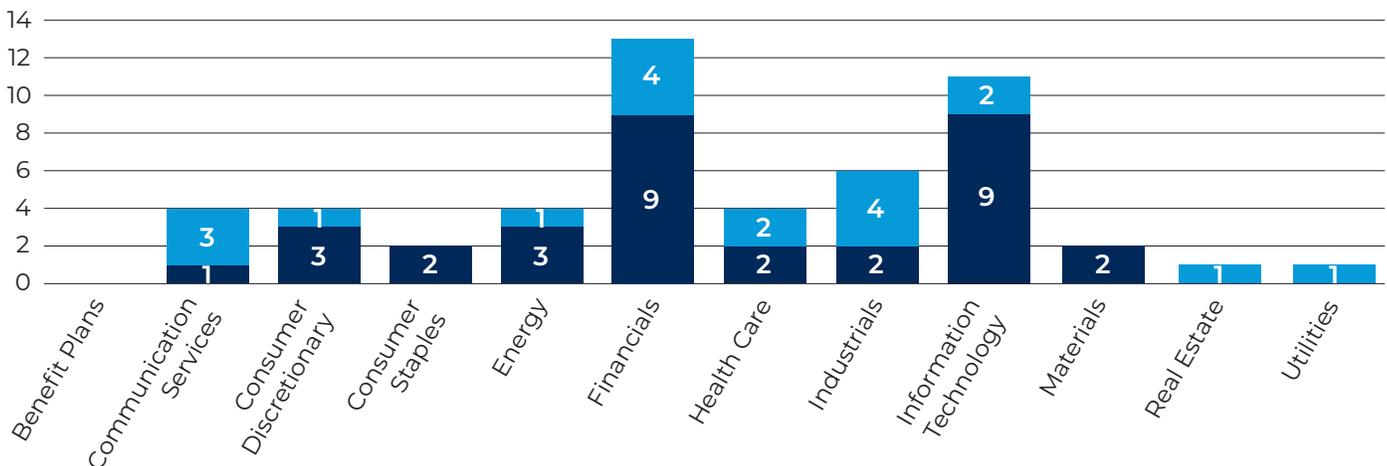
2020



2019



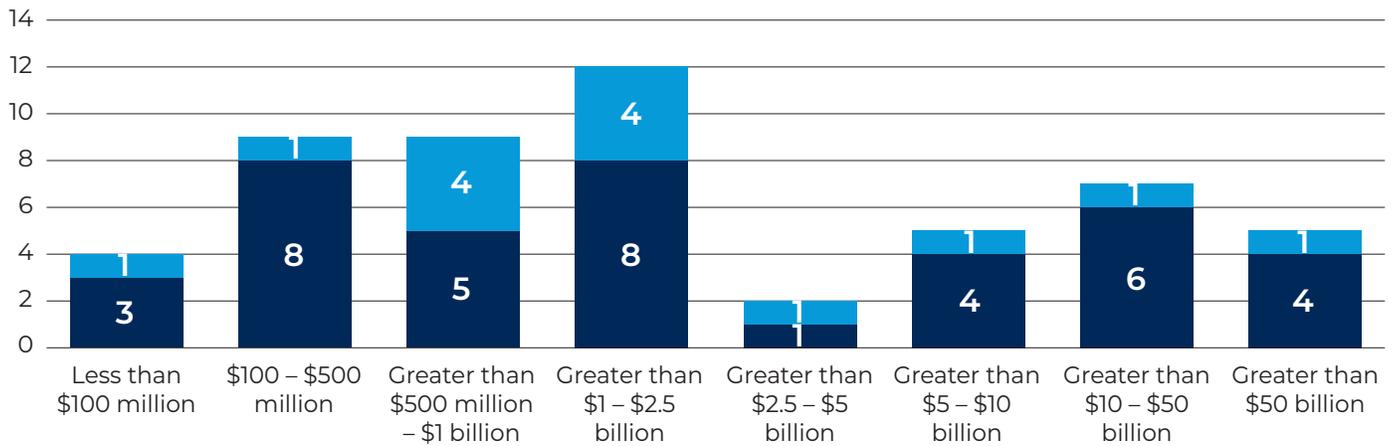
2018



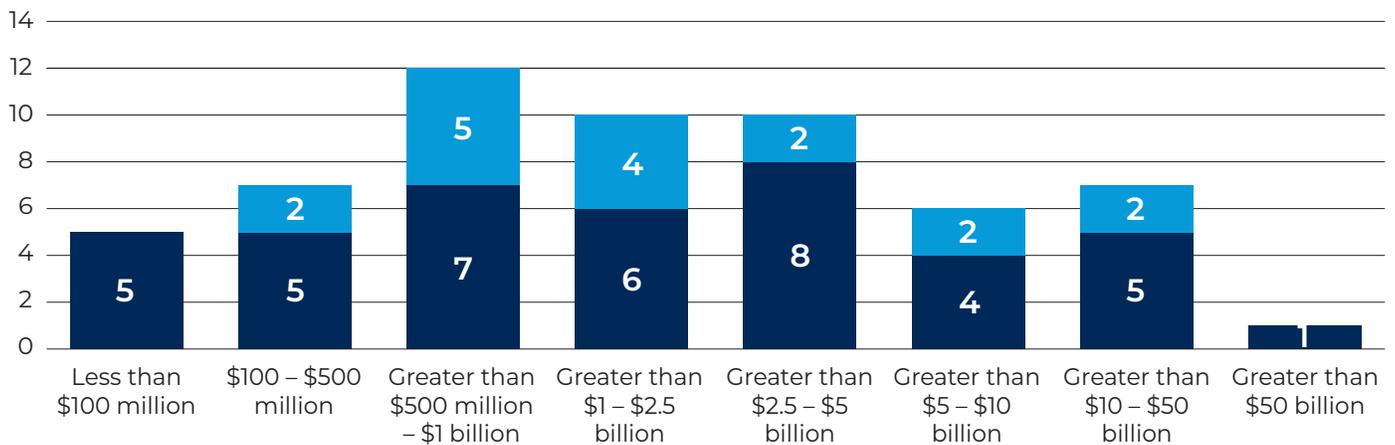
■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

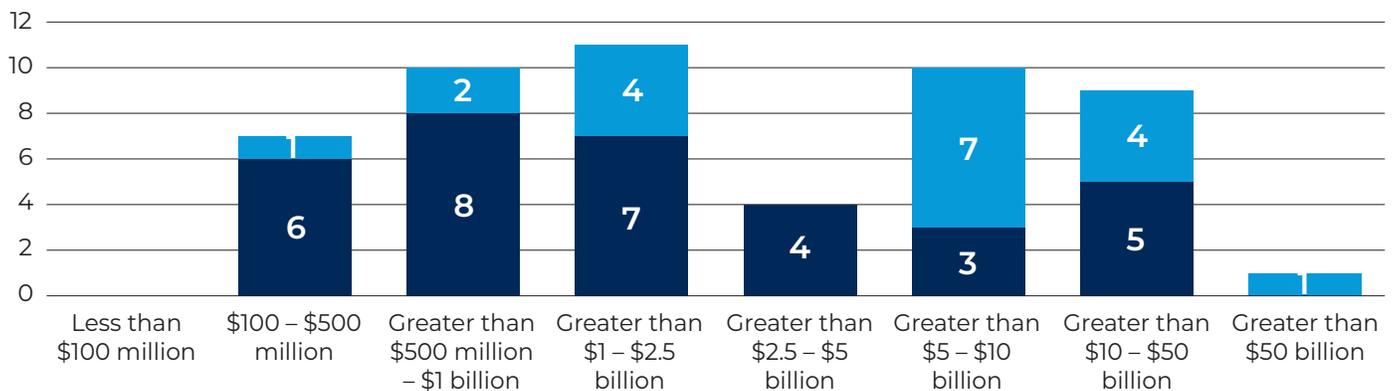
2020



2019



2018



■ Audits without Part I.A deficiencies
 ■ Audits with Part I.A deficiencies

Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The sole purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or revised its report, on ICFR. This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. We include any deficiencies identified in connection with our reviews of these audits in the audits with multiple deficiencies or audits with a single deficiency classification below.

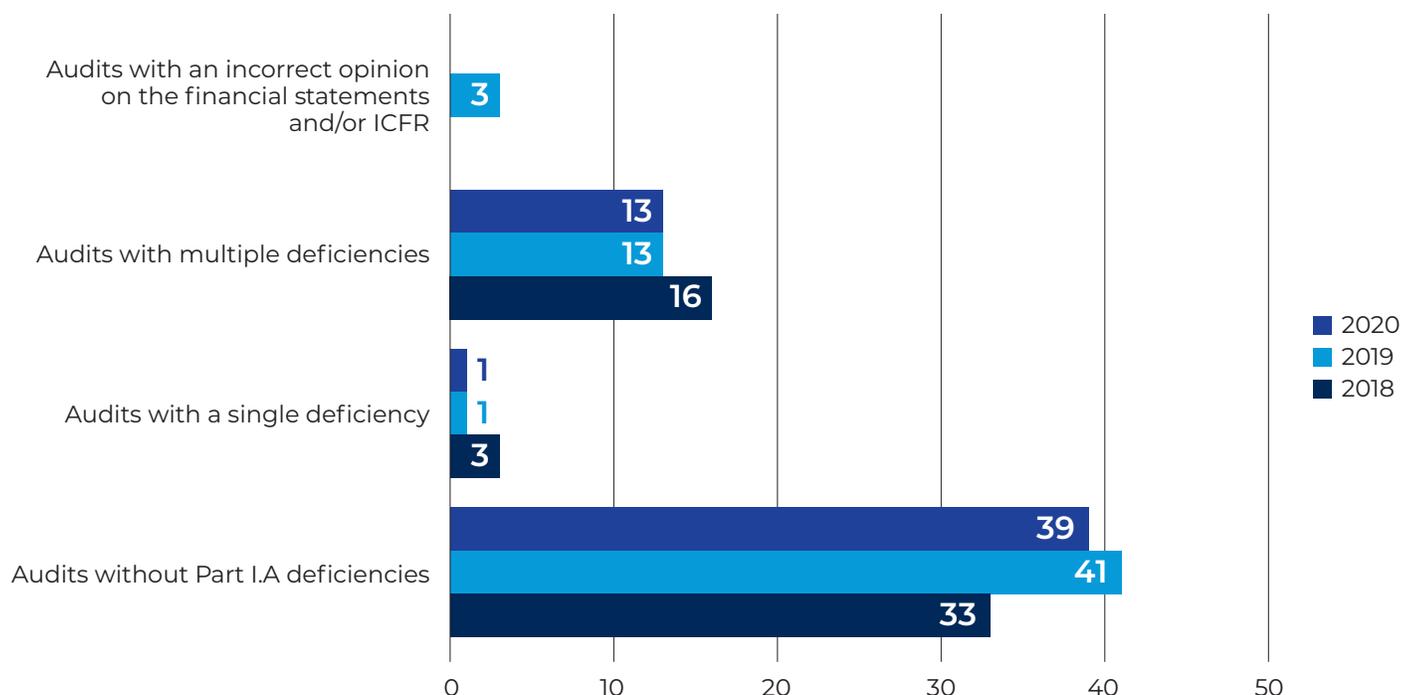
Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

Number of Audits in Each Category



PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR.

Part I.B discusses deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

Consistent with the Act, it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II.

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion on the issuer's financial statements and/or ICFR.

We identify each issuer by a letter (e.g., Issuer A) and industry sector. Each deficiency could relate to several auditing standards, but we reference the PCAOB standard(s) that most directly relates to the requirement with which the firm did not comply.

We present issuer audits below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

Audits with Multiple Deficiencies

Issuer A – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and **Leases**.

Description of the deficiencies identified

With respect to **Revenue**:

The issuer used two information-technology (IT) systems to process and record certain revenue transactions related to services provided to its customers; one of these systems was maintained by an external service organization. The following deficiencies were identified:

- With respect to the IT system that was maintained by an external service organization, the firm selected for testing a control over access by employees of the service organization to this system and identified control exceptions related to inappropriate access for numerous employees. The firm did not sufficiently evaluate the effect of these exceptions on the effectiveness of this control because its evaluation was limited to inquiring of management of the service organization regarding access privileges. (AS 2201.48)
- With respect to the other IT system, the firm selected for testing a control over access by employees of the issuer to this system and identified control exceptions related to inappropriate access for numerous employees. The firm concluded that this control was operating effectively based on its evaluation of these exceptions and the effectiveness of a complementary control, and that the combination of these two controls addressed the risks of inappropriate access. The firm's conclusion was inappropriate because the complementary control was not designed to operate during the fourth quarter of the issuer's fiscal year, and therefore, the two controls discussed above did not address the risks related to inappropriate access to this system as of the date of management's assessment. (AS 2201.48)
- The firm selected for testing certain automated and IT-dependent manual controls over this revenue. The firm's approach to testing these controls depended on effective IT general controls (ITGCs), including controls over access to the systems. Due to the deficiencies in the firm's testing of these controls discussed above, the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2201.46)

The firm used information that was produced by these IT systems in performing certain of its substantive procedures to test this revenue, but did not have a basis to rely on this information due to the deficiencies in the firm's testing of access controls discussed above. The firm did not perform any substantive procedures to test, or (as discussed above) sufficiently test controls over, the accuracy and completeness of this information. (AS 1105.10)

The sample size the firm used in certain of its substantive procedures to test this revenue was too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

With respect to certain **Leases**:

The firm selected for testing two controls that consisted of the issuer's (1) evaluation of its leases for potential implications with respect to the accounting for its leases upon adoption of FASB ASC Topic 842, *Leases* and (2) review of the disclosures related to that adoption. The firm did not evaluate the specific review procedures that the control owner performed to evaluate the completeness of the population of leases that should have been subject to these controls. (AS 2201.42 and .44)

The firm selected for testing a control that consisted of the issuer's quarterly review of its lease contracts for appropriate accounting treatment subsequent to the issuer's adoption of FASB ASC Topic 842, *Leases*. The firm did not test the aspect of this control that addressed the completeness of the population of leases used in the operation of the control. (AS 2201.42 and .44)

The firm selected for testing a control that consisted of a reconciliation of the lease asset and liability balances from the lease sub-ledger to the general ledger. The firm did not identify and test any controls over the accuracy of the lease information included in manually-prepared spreadsheets that the control owners used in the operation of this control. (AS 2201.39)

Issuer B – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and a **Business Combination**.

Description of the deficiencies identified

With respect to **Revenue**:

The issuer recorded certain revenue based on information about the quantities sold and delivery dates that was provided by a third-party administrator. The following deficiencies were identified:

- The firm did not identify and test any controls over the accuracy and completeness of the information provided by the third-party administrator. (AS 2201.39)
- The firm used the quantities sold and delivery date information in its substantive testing of this revenue but did not perform any substantive procedures to test or, in the alternative, identify and test any controls over (as discussed above), the accuracy and completeness of this information. (AS 1105.10)
- The sample size the firm used in certain of its substantive procedures to test this revenue was too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiency in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

The issuer recorded certain other revenue based on the completion of services provided to its customers. The following deficiencies were identified:

- The firm did not identify and test any controls that addressed the risk that revenue was recognized before the performance obligation for these services was satisfied. (AS 2201.39)
- The firm did not perform any substantive procedures to test whether the performance obligation for these services was satisfied before revenue was recognized. (AS 2301.08)

With respect to a **Business Combination**:

During the year, the issuer acquired a business and determined the fair value of an acquired intangible asset using forecasted cash flows that assumed significant revenue growth for the majority of the forecast period. The following deficiencies were identified:

- For certain years within the forecast period, the firm's procedures to evaluate the reasonableness of the revenue growth rates consisted of comparing the issuer's forecasted revenue growth rate to those reported in an industry publication over the same period. The firm did not evaluate significant differences between the issuer's forecasted revenue growth rates and the industry publication's growth rate for these years. (AS 2502.26, .28, .31, and .36)
- For certain other years within the forecast period, the firm did not perform any procedures to evaluate the reasonableness of the forecasted revenue growth rates. (AS 2502.26, .28, and .31)
- The firm did not perform any procedures to evaluate the reasonableness of certain forecasted expenses beyond comparing the current-year forecasted expenses to actual expenses. (AS 2502.26, .28, and .31)

Issuer C – Communication Services

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue**.

Description of the deficiencies identified

For certain revenue related to services that the issuer provided to its customers, the issuer used two IT systems to process and record revenue transactions. The issuer assigned service codes to each customer based on the prices for the services provided and the specific terms of the customer arrangement. These systems calculated and recorded revenue using those service codes. The following deficiencies were identified:

- For certain of this revenue, the firm did not identify and test any controls that addressed the risks that the service codes used to record revenue did not represent the services ordered and terms agreed to by the customer. (AS 2201.39)
- For the remainder of this revenue, the firm selected for testing a control that included an aspect that addressed the appropriateness of the service codes used to record revenue. The firm, however, did not test this aspect of the control. (AS 2201.42 and .44)
- For revenue processed and recorded by one of these IT systems, the firm did not identify and test any controls to address certain other risks related to the accuracy of customer invoices and revenue calculated by this system. (AS 2201.39)

The firm selected for testing certain manual controls over this revenue that used reports that were generated by these IT systems. The firm's testing of these controls was not sufficient due to the deficiencies in testing controls over the IT systems discussed above. (AS 2201.46)

The firm's substantive procedures to test the occurrence and accuracy of this revenue did not provide sufficient appropriate audit evidence because its procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the engagement team's control testing discussed above. (AS 2301.16, .18, and .37)

Issuer D – Financials

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Investment Securities**.

Description of the deficiencies identified

The issuer recorded the fair value of its available-for-sale securities based on prices it obtained from external pricing services. The firm selected for testing a quarterly control over the valuation of these securities that included the issuer's comparison of its recorded prices to prices obtained from another external pricing service and the investigation of securities with price variances that exceeded both a monetary and a percentage change threshold. The following deficiencies were identified:

- The firm did not evaluate whether the monetary threshold the issuer used to identify securities for investigation was sufficiently precise to detect material misstatements. (AS 2201.42)
- In testing the operating effectiveness of this control for the fourth quarter, the firm did not identify that the comparison spreadsheet that the issuer used in this quarter contained a formulaic error such

that the issuer did not properly calculate the price variances for any of its securities. (AS 2201.44)

- For securities for which a comparative price was unavailable, the control owner performed procedures that consisted of comparing the recorded price of these securities to their respective historical prices and investigating securities with price variances that exceeded a monetary threshold. In testing the design of this control, the firm did not evaluate whether historical prices were an appropriate basis to allow the issuer to assess the reasonableness of the recorded fair values for these securities. (AS 2201.42)

The firm selected for testing two controls over the issuer's determination of the categorization of the securities within the fair value hierarchy as set forth in FASB ASC Topic 820, *Fair Value Measurement*. The firm did not identify that these controls were not designed to address whether the pricing inputs used to determine the fair value of certain securities were observable. (AS 2201.42)

The sample size the firm used in certain of its substantive procedures to test the valuation of these securities was too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer E – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue**, **Accounts Receivable**, **Expenses**, and **Accruals**.

Description of the deficiencies identified

The issuer used an IT system to process and record transactions, including those related to product revenue, accounts receivable, and certain expenses and related accruals. This system allowed the issuer to create security profiles for users that the issuer used to assign various levels of access privileges to these users, including administrative access that allowed users to make changes to this system. The following deficiencies were identified:

- The firm selected for testing two ITGCs over administrative access to this system, but as part of that testing, it did not perform any procedures to assess the control owners' (1) evaluation of certain security profiles and (2) determination of whether the access privileges assigned to those profiles were appropriate. (AS 2201.42 and .44)
- The firm selected for testing certain automated and IT-dependent manual controls over transactions related to these accounts. The firm's approach to testing these controls depended on effective ITGCs. Due to the deficiency in the firm's testing of ITGCs discussed above, the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2201.46)

The sample sizes the firm used in certain of its substantive procedures to test product revenue, accounts receivable, and certain expenses and related accruals were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer F – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Investment Securities** and the **Allowance for Loan Losses (ALL)**.

Description of the deficiencies identified

With respect to **Investment Securities**:

The issuer recorded the fair value of its available-for-sale securities based on prices it obtained from an external pricing service. The firm selected for testing a control over the valuation of these securities that consisted of the issuer's comparison of its recorded prices to prices obtained from another external pricing service. The firm did not identify and test any controls over the accuracy and completeness of the list of the issuer's securities used by the control owner in performing the comparison. (AS 2201.39)

The sample sizes the firm used in certain of its substantive procedures to test the valuation of these securities were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiency in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

With respect to the **ALL**:

The firm selected for testing two controls that included the issuer's validation of certain models that the issuer used to estimate the quantitative component of the ALL for loans collectively evaluated for impairment. The firm did not test the aspects of these controls related to the issuer's (1) evaluation of the mathematical logic of the models; (2) verification of the accuracy and completeness of certain data used in the operation of the controls, and (3) tests of the models that included sensitivity analyses and benchmark comparisons to other models. (AS 2201.42 and .44)

Issuer G – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and **Accounts Receivable**.

Description of the deficiencies identified

The issuer used an IT system to record revenue and accounts receivable transactions related to certain services that the issuer provided to its customers. This system recorded revenue transactions using service codes that the system selected based on various inputs into the system. The following deficiencies were identified:

- The firm did not identify and test any controls that addressed whether the system applied the appropriate service codes based on the inputs into the system. (AS 2201.39)
- The firm used these service codes in its substantive testing of this revenue and accounts receivable, but did not perform any substantive procedures to test or, in the alternative, identify and test any controls over (as discussed above), the appropriateness of the service codes. (AS 1105.10)
- The sample sizes the firm used in certain of its substantive procedures to test this revenue and accounts receivable were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiency in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer H – Consumer Discretionary

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Goodwill** and **Intangible Assets**.

Description of the deficiencies identified

The firm selected for testing a control that included the issuer's review of certain assumptions that were used to determine the fair value of the issuer's goodwill and intangible assets for purposes of evaluating these assets for possible impairment. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of these assumptions. (AS 2201.42 and .44)

For one of its reporting units, the issuer used a cash flow forecast to evaluate the goodwill and an intangible asset for possible impairment. Based on this evaluation, the issuer recorded an impairment charge related to these assets. The firm did not sufficiently evaluate the reasonableness of the issuer's forecast because its procedures were limited to comparing certain amounts from the forecast to the corresponding amounts in a forecast prepared earlier in the year and inquiring of management about the variances. (AS 2502.26 and .28)

Issuer I – Consumer Discretionary

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Inventory**.

Description of the deficiencies identified

The firm selected for testing a control over the existence of certain inventory that consisted of the issuer's review of its cycle-count results to assess the reliability of the cycle-count process. The firm did not evaluate the review procedures that the control owner performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

The sample size the firm used in certain of its substantive procedures to test certain of this inventory was too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiency in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer J – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the ICFR audit related to **Goodwill** and **Liabilities for Medical Claims**.

Description of the deficiencies identified

With respect to **Goodwill**:

The firm selected for testing a control that consisted of the issuer's review and approval of its annual budget. The issuer used this budget in its qualitative assessment of goodwill for possible impairment. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

With respect to **Liabilities for Medical Claims**:

For each of its health plans, the issuer recorded an estimated liability for medical claims that included a component for certain factors such as changes in economic and business conditions. The firm selected for testing five controls that included aspects that addressed the risks related to this component. The following deficiencies were identified:

- For three of these controls, the firm did not evaluate whether the criteria that the control owners used to identify items for follow up were appropriate. (AS 2201.42)
- For the two remaining controls, the firm did not identify that these controls were not designed at a level of precision to detect material misstatements. (AS 2201.42)

Issuer K – Financials

Type of audit and related area affected

In our review, we identified deficiencies in the ICFR audit related to **Investment Securities**.

Description of the deficiencies identified

The issuer recorded the fair value of its available-for-sale securities based on prices it obtained from an external pricing service (primary pricing service). The firm selected for testing a control over the valuation of these securities that consisted of the issuer's comparison of its recorded prices to prices obtained from another external pricing service and the issuer's investigation of (1) price variances that exceeded certain thresholds or (2) securities for which prices were not provided by the primary pricing service. The issuer manually entered the securities and prices obtained from both pricing services into a spreadsheet for this comparison. The following deficiencies were identified:

- The firm did not identify and test any controls over a report that the control owner used to assess the accuracy and completeness of the issuer's securities that were manually entered into the comparison spreadsheet. (AS 2201.39)
- The firm did not test an aspect of this control that addressed whether the prices from the primary pricing service were accurately entered into the comparison spreadsheet. (AS 2201.42 and .44)
- For securities that met the issuer's criteria for investigation, the firm did not evaluate the specific review procedures that the control owner performed to evaluate whether the prices used to record the fair values for these securities were appropriate. (AS 2201.42 and .44)

Issuer L – Health Care

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to Investment Securities.

Description of the deficiencies identified

The issuer used an investment adviser to initiate purchases and sales of its investment securities in accordance with the issuer's investment policy. These securities were held by a third-party custodian. The firm did not perform sufficient procedures to test these securities because the firm's procedures

were limited to confirming the recorded balances of these securities with the investment adviser without performing any procedures to evaluate the appropriateness of the information provided by the investment adviser. (AS 2503.21 and .22)

The issuer held certain investment securities that it classified, based on the maturity date of the security, as either cash equivalents or short-term investments in its financial statements. The firm did not perform any substantive procedures that addressed the appropriateness of the classification of these securities. (AS 2301.08)

Issuer M – Health Care

Type of audit and related area affected

In our review, we identified deficiencies in the ICFR audit related to **Expenses**.

Description of the deficiencies identified

The issuer used a service organization to process claims for certain benefits that the issuer provided to its employees. The firm selected for testing a control that consisted of the issuer's review of the service auditor's report for (1) control deficiencies identified by the service auditor and (2) complementary user controls that the issuer needed to have in place in order to achieve the control objectives described in the service auditor's report. The firm did not evaluate the review procedures that the control owner performed, including the procedures to identify matters for follow up and the procedures to determine whether those matters were appropriately resolved. (AS 2201.42 and .44) In addition, the firm did not perform any procedures to evaluate whether the issuer implemented the appropriate complementary user controls as described in the service auditor's report. (AS 2201.39 and .B22)

Audits with a Single Deficiency

Issuer N – Financials

Type of audit and related area affected

In our review, we identified a deficiency in the ICFR audit related to the **ALL**.

Description of the deficiency identified

The firm selected for testing a control that consisted of the issuer's review of the assumptions and qualitative adjustments used to estimate the ALL for loans collectively evaluated for impairment. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of these assumptions and qualitative adjustments. (AS 2201.42 and .44)

PART I.B: OTHER INSTANCES OF NON-COMPLIANCE WITH PCAOB STANDARDS OR RULES

This section of our report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In five of 39 audits reviewed, the engagement team performed procedures to determine whether or not matters were critical audit matters but did not include in those procedures one or more matters that were communicated to the issuer's audit committee and that related to accounts or disclosures that were material to the financial statements. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. These instances of non-compliance do not necessarily mean that other critical audit matters should have been communicated in the auditor's report.
- In one of 10 audits reviewed, the firm did not describe, in writing, to the audit committee the fee structure for certain permissible tax services. Further, for certain of these tax services, the firm did not document the substance of its discussion with the audit committee. In this instance, the firm was non-compliant with PCAOB Rule 3524, *Audit Committee Pre-approval of Certain Tax Services*.

PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

We include deficiencies in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

This report does not reflect changes or improvements to the firm's system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, we will make public any such deficiency.

APPENDIX A: FIRM'S RESPONSE TO THE DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the firm's response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available.

In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.



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September 20, 2021

Mr. George Botic
Director - Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: Response to Part I of the Draft Report on the 2020 Inspection of KPMG LLP

Dear Mr. Botic:

KPMG LLP is pleased to provide our response to the Public Company Accounting Oversight Board's ("PCAOB") Draft Report on the 2020 Inspection of KPMG LLP, dated September 10, 2021 (the "Report").

The PCAOB inspection process provides important perspectives and insights, helping us to meet our shared goal – maintaining integrity in the capital markets through high quality audits. We value and respect this process and have reviewed the observations identified in Part I of the Report. We have taken appropriate actions to address the engagement-specific findings in accordance with PCAOB auditing standards as well as our own policies and procedures.

Importantly, the inspection process also informs how we upskill our auditors, develop and deploy technology, and design and operate our system of quality control to sustainably and continually enhance audit quality, and we have taken and are continuing to take meaningful actions to improve in those areas.

We remain committed to delivering the capital markets high quality audits, grounded in a mindset of continuous improvement and integrity. We are confident our ongoing investments will drive a more technology focused audit, better enabling our auditors to identify and respond to risk in the financial reporting process. Delivering against this expectation is our highest priority.

We respect the commitment of the PCAOB staff, including its professionalism throughout the inspection process. We look forward to continued dialogue with the PCAOB and its staff to continue strengthening the audit process and the reliability of financial reporting more broadly to the benefit of the capital markets and global economy. This year's experience once again affirmed the important role the PCAOB plays in improving audit quality.

Sincerely yours,
KPMG LLP

Paul Knopp
Chair and CEO

Scott Flynn
Vice Chair - Audit

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