2020 Inspection KPMG

(Headquartered in Panama City, Republic of Panama)

March 10, 2022

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

PCAOB

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

PCAOB RELEASE NO. 104-2022-089

TABLE OF CONTENTS

2020 INSPECTION

In the 2020 inspection of KPMG, the Public Company Accounting Oversight Board (PCAOB) assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review three audits of issuers with fiscal years ending in 2019. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2020 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make 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. In certain situations, we may select all of the firm's issuer audits for review.

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.

View the details on the scope of our inspections and our inspections procedures.

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 inspection. We use a risk-based method 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 inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

Firm Data and Audits Selected for Review

	2020	2018
Firm data		
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	1	1
Total issuer audits in which the firm was not the principal auditor	2	2
Total engagement partners on issuer audit work[1]	3	3
Audits reviewed		
Total audits reviewed[2]	3	2
Audits in which the firm was the principal auditor	1	1
Audits in which the firm was not the principal auditor	2	1
Integrated audits of financial statements and internal control over financial reporting (ICFR)	3	0
Audits with Part I.A deficiencies	2	2

[1] The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201) or for the firm's role in an issuer audit during the twelve-month period preceding the outset of the inspection.

[2] The population from which audits are selected for review includes both audits for which the firm was the principal auditor and those where the firm was not the principal auditor but played a role in the audit. The population of issuer audits from which audits are selected for review may differ from the issuer audits at the outset of the inspection procedures due to variations such as new issuer audit clients for which the firm has not yet issued an opinion or issuer audit clients lost prior to the outset of the inspection.

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 may include 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.

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2020 inspection and the previous inspection. 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		2018	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
A significant estimate	2	**Loans and related accounts**	1
Certain assets	2	**Allowance for loan losses**	1
Revenue and related accounts	1	**Revenue and related accounts**	1
Cash and cash equivalents	1	**Deposit liabilities**	1
Long-lived assets	1	**Long-lived assets**	1

PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, (1) 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 or (2) in audit(s) in which it was not the principal auditor, had not obtained sufficient appropriate audit evidence to fulfill the objectives of its role in the audit.

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

Consistent with the Sarbanes-Oxley Act ("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. Section 104(g)(2) of the 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.

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.

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 (1) supporting the firm's opinion on the issuer's financial statements and/or ICFR and (2) in audit(s) in which it was not the principal auditor, to fulfill the objectives of its role in the audit.

We identify each issuer by a letter (e.g., Issuer A). 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

Type of audit and related area affected

In our review of an audit in which the firm played a role but was not the principal auditor, we identified a deficiency in connection with the firm's role in the ICFR audit related to a **Significant Estimate**.

Description of the deficiencies identified

The issuer used various models, methodologies, and assumptions to determine the estimate. The following deficiencies were identified:

- The firm did not identify and test any controls over the monitoring of the models to determine whether the models remained suitable for their intended purpose or if revisions to the models were necessary. (AS 2201.39)

- The firm selected for testing certain controls that consisted of the review of certain methodologies and assumptions used by the issuer to determine the estimate. 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)

- The firm selected for testing change management and user access controls over an application used by the issuer to determine the estimate. The firm did not test, or in the alternative, test any controls over, the completeness of the population of changes that were processed internally by the issuer's IT personnel and that the firm used in its testing of certain controls over change management. (AS 1105.10) In addition, in testing controls over user access, the firm did not perform sufficient procedures to test the access controls because it limited its testing to users with certain access privileges. (AS 2201.42 and .44)

- The firm selected for testing certain automated controls over the calculation and classification of data within the application used by the issuer to determine the estimate. The firm's approach to testing a single instance of each of these controls was dependent on effective information technology general controls. Due to the deficiencies in the firm's testing of the change management and user access controls discussed above, the firm's testing of these automated controls was not sufficient. (AS 2201.46)

- The firm identified deficiencies in the design of controls over certain assumptions used in the determination of the estimate. The firm identified and tested controls that it believed would mitigate these deficiencies. The firm did not identify that the compensating controls tested did not address whether changes to these assumptions were authorized. (AS 2201.68)

Issuer B

Type of audit and related areas affected

In our review of an audit in which the firm played a role but was not the principal auditor, we identified a deficiency in connection with the firm's role in the financial statement and ICFR audits related to **Revenue** and **Accounts Receivable**.

Description of the deficiencies identified

With respect to **Revenue**:

The firm selected for testing controls that consisted of the reconciliation of data from the issuer's revenue input system to its billing systems. The firm did not identify and test any controls over the accuracy of the data used in the operation of these controls. (AS 2201.39)

The firm selected for testing controls that consisted of (1) the approval of new customers and creation of customer accounts in the billing systems and (2) the review and approval of new contracts and sales orders. The firm did not test, or in the alternative test any controls over, the completeness of the reports that the firm used in its testing of these controls. (AS 1105.10)

The issuer reported revenue from multiple sources. The firm did not evaluate whether persuasive evidence of an arrangement existed and delivery of services had occurred as of the date in which certain revenue transactions selected for testing had been recognized. Further, the firm did not perform any substantive procedures to test certain other revenue transactions. (AS 2301.08) In addition, for one source of revenue, the firm did not test, or in the alternative test any controls over, the accuracy and completeness of data used by the issuer to calculate the revenue. (AS 1105.10)

With respect to **Accounts Receivable**:

The firm sent positive confirmation requests to the issuer's customers for a sample of billed accounts receivable. For positive confirmations that were not returned, the firm did not perform alternative procedures that provided sufficient appropriate audit evidence that the recorded amounts of the receivables were accurate as of the confirmation date. (AS 2310.31)

The firm selected certain other billed account receivables and agreed the customer balances to issuer-generated invoices. The firm did not perform any procedures to evaluate the relevance and/or reliability of the invoices it used to test such receivables. (AS 1105.04 and .06)

The firm did not sufficiently test unbilled receivables because the firm did not perform procedures to test such receivables beyond comparing certain unbilled balances as of an interim date to the respective balances at year end. (AS 2301.08)

Audits with a Single Deficiency

None

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

In the 2020 inspection, we did not identify any deficiencies related to other instances of non-compliance with PCAOB standards or rules.

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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October 18, 2021

Public Company Accounting Oversight Board
Mr. George Botic
Director – Division of Registration and Inspections
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Unites States of America

Response to Part I of Public Company Accounting Oversight Board Draft Report on 2020 Inspection of KPMG in Panama

Dear Mr. Botic,

We are pleased to provide our response to Part I of the Public Company Accounting Oversight Board's ("PCAOB") Draft Report on 2020 Inspection of KPMG in Panama dated September 20, 2021 ("Draft Report").

Consistently executing high-quality audits is our top priority. We take findings from the PCAOB inspection process seriously and believe the inspection process serves to assist us in identifying areas where we can continue to improve our performance and strengthen our system of audit quality control. We remain committed to full cooperation with the PCAOB, appreciate the professionalism and commitment of the PCAOB staff and value the important role the PCAOB plays in improving audit quality.

We conducted a thorough evaluation of the matters identified in Part I of the Draft Report and have taken appropriate actions to address the engagement-specific findings in a manner consistent with PCAOB auditing standards and KPMG policies and procedures.

We remain dedicated to evaluating and improving our system of quality control, including monitoring audit quality and implementing changes to our policies and practices in order to enhance audit quality. We understand our responsibility to our policies and practices in order to enhance audit quality. We understand our responsibility to investors and other participants in the capital markets and are committed to continuing to work constructively with the PCAOB to improve audit quality and build confidence in the auditing profession

Yours sincerely,

Milton Ayón
Senior Partner

Kuldip Singh
Risk Management Partner