
2021 Inspection KPMG LLP

(Headquartered in New York, New York)

November 4, 2022

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

PCAOB RELEASE NO. 104-2022-222



EXECUTIVE SUMMARY

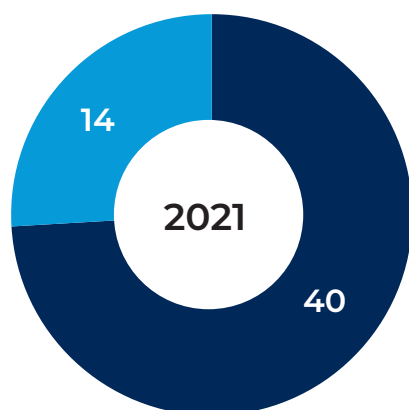
Our 2021 inspection report on KPMG LLP provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of:

- 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(s) 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.

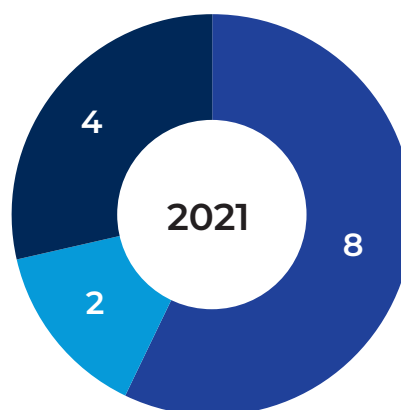
If we include a deficiency in this report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer’s financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. If 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 2021 Deficiencies Included in Part I

Fourteen of the 54 audits we reviewed in 2021 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, allowance for credit losses, inventory, and going concern.



- 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 2021 related to testing the design or operating effectiveness of controls selected for testing, testing controls over the accuracy and completeness of data or reports used in the operation of controls, testing data or reports used in substantive testing, and in some cases the resulting overreliance on controls when performing substantive testing.

Other deficiencies identified during the 2021 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 management representation letters, retention of audit documentation, audit committee communications, and critical audit matters.

CONTENTS

2021 Inspection	4
Overview of the 2021 Inspection and Historical Data by Inspection Year	6
Part I: Inspection Observations	16
Part I.A: Audits with Unsupported Opinions	16
Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules	25
Part II: Observations Related to Quality Control	26
Appendix A: Firm's Response to the Draft Inspection Report	A-1

2021 INSPECTION

In the 2021 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 54 audits of issuers with fiscal years generally ending in 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 two reviews of interim financial information ("interim reviews"). Our reviews were performed to gain a timely understanding of emerging financial reporting and auditing risks associated with issuers that were formed by mergers between non-public operating companies and special purpose acquisition companies (SPACs). 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 2021 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.
- **Part I – Inspection Observations:**
 - o **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.
 - o **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.

2021 Inspection Approach

In selecting issuer audits for review, we use both risk-based and random methods of selection. We make the majority of our 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 2021, our target team focused primarily on audit areas affected by COVID-19, such as fraud and going concern, and on interim reviews of issuers that were formed by mergers between non-public operating companies and SPACs.¹

For the interim reviews, similar to our approach for reviewing audits, our target team did not review every aspect of the interim review. Rather, its 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 [Observations From the Target Team's 2021 Inspections](#) for observations from the target team reviews.

OVERVIEW OF THE 2021 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2021 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.

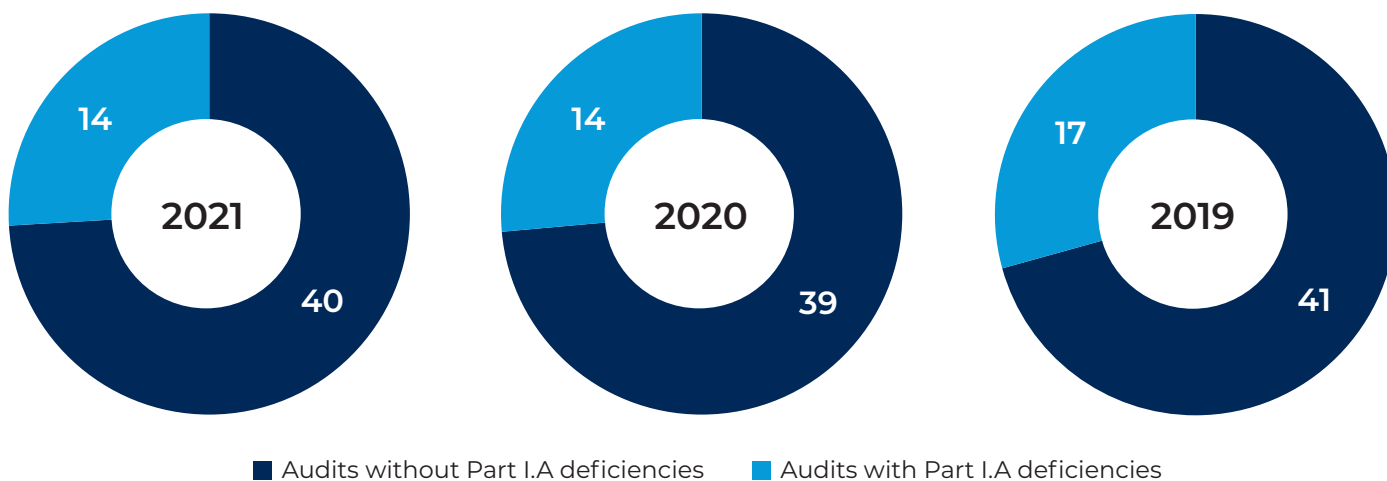
Audits Selected for Review

	2021	2020	2019
Total audits reviewed			
Total audits reviewed	54	53	58
Selection method			
Risk-based selections	25	37	39
Random selections	25	13	13
Target team selections ²	4	3	6
Total audits reviewed	54	53	58
Principal auditor			
Audits in which the firm was the principal auditor	54	52	55
Audits in which the firm was not the principal auditor	0	1	3
Total audits reviewed	54	53	58
Audit type			
Integrated audits of financial statements and ICFR	45	47	52
Financial statement audits only	9	6	6
Total audits reviewed	54	53	58

² For further information on the target team's activities in 2020 and 2019, refer to those inspection reports.

Part I.A Deficiencies in Audits Reviewed

In 2021 and 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.

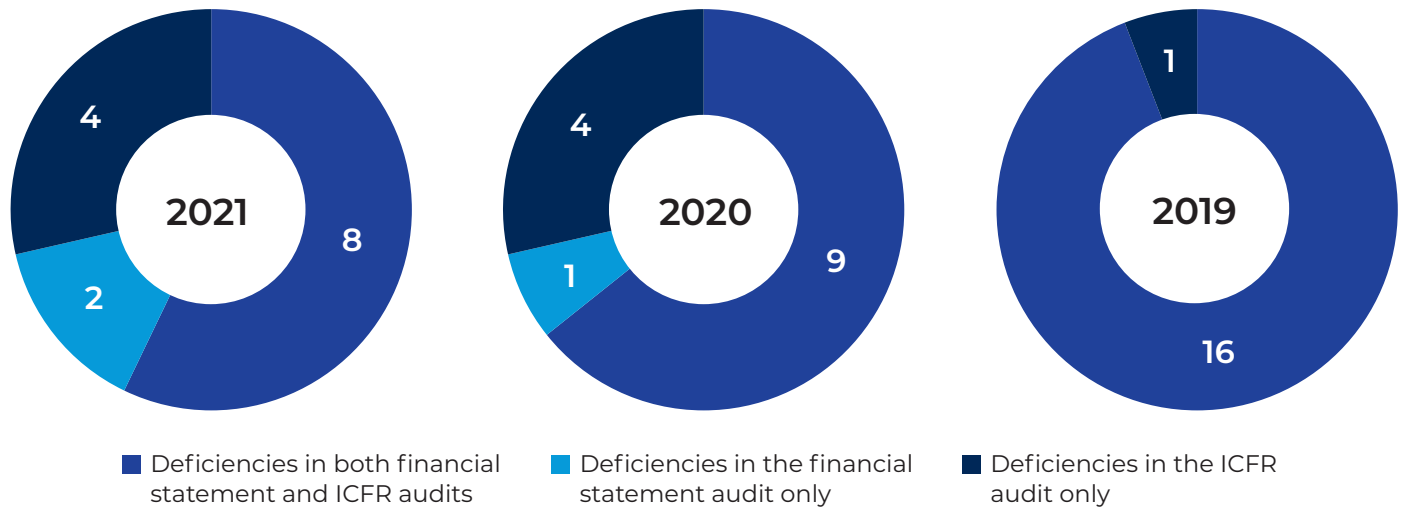


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional 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 2021 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		
	2021	2020	2019
Did not obtain sufficient evidence as a result of overreliance on controls (due to deficiencies in testing controls)	6	8	8
Did not perform sufficient testing of data or reports used in the firm's substantive testing	5	3	2
Did not sufficiently evaluate significant assumptions that the issuer used in developing an estimate	2	2	6

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2021	2020	2019
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	9	9	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	6	5	3
Did not identify and test any controls that addressed the risks related to a significant account or relevant assertion	5	5	12

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.

2021			2020			2019		
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	32	6	Revenue and related accounts	36	5	Revenue and related accounts	40	9
Long-lived assets	15	1	Business combinations	13	1	Inventory	14	2
Debt	12	0	Investment securities	12	4	Investment securities	12	2
Goodwill and intangible assets	11	1	Inventory	12	1	Business combinations	11	3
Cash and cash equivalents	11	0	Long-lived assets	12	0	Allowance for loan losses	11	2

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	2021		2020		2019	
	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	6	32	5	36	9	40
Allowance for credit losses/ Allowance for loan losses	3	9	2	11	2	11
Inventory	2	9	1	12	2	14
Going concern	2	6	0	6	0	0
Investment securities	1	8	4	12	2	12
Business combinations	0	8	1	13	3	11

Revenue and related accounts: The deficiencies in 2021, 2020, and 2019 related to substantive testing of, and testing controls over, revenue.

Allowance for credit losses/Allowance for loan losses: The deficiencies in 2021 primarily related to testing controls over the allowance for credit 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 loan losses.

Inventory: The deficiencies in 2021 primarily related to testing controls over the existence of 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.

Going concern: The deficiencies in 2021 primarily related to substantive testing of the evaluation of an issuer's ability to continue as a going concern.

Investment securities: The deficiency in 2021 related to testing a control over the evaluation of investment securities for possible impairment. The deficiencies in 2020 and 2019 related to substantive testing of, and testing controls over, investment securities.

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.

Auditing Standards Associated with Identified Part I.A Deficiencies

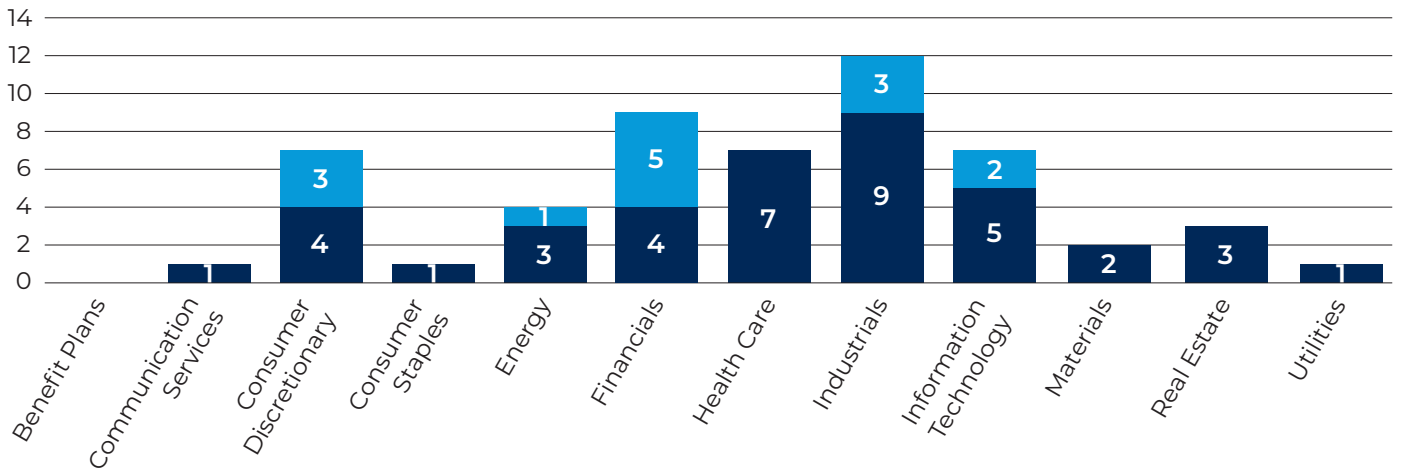
The following lists the auditing standards referenced in Part I.A of the 2021 and the previous two inspection reports, and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2021	2020	2019
AS 1105, <i>Audit Evidence</i>	11	3	3
AS 2101, <i>Audit Planning</i>	0	0	1
AS 2201, <i>An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i>	29	32	38
AS 2301, <i>The Auditor's Responses to the Risks of Material Misstatement</i>	6	10	15
AS 2315, <i>Audit Sampling</i>	5	7	9
AS 2401, <i>Consideration of Fraud in a Financial Statement Audit</i>	0	0	1
AS 2415, <i>Consideration of an Entity's Ability to Continue as a Going Concern</i>	1	0	0
AS 2501, <i>Auditing Accounting Estimates, Including Fair Value Measurements</i> (effective for fiscal years ending on or after December 15, 2020)	2	-	-
AS 2501, <i>Auditing Accounting Estimates</i> (effective for fiscal years ending before December 15, 2020)	1	0	2
AS 2502, <i>Auditing Fair Value Measurements and Disclosures</i> (effective for fiscal years ending before December 15, 2020)	0	4	5
AS 2503, <i>Auditing Derivative Instruments, Hedging Activities, and Investments in Securities</i> (effective for fiscal years ending before December 15, 2020)	0	1	0
AS 2510, <i>Auditing Inventories</i>	1	0	1
AS 2601, <i>Consideration of an Entity's Use of a Service Organization</i>	1	0	0
AS 2810, <i>Evaluating Audit Results</i>	1	0	1

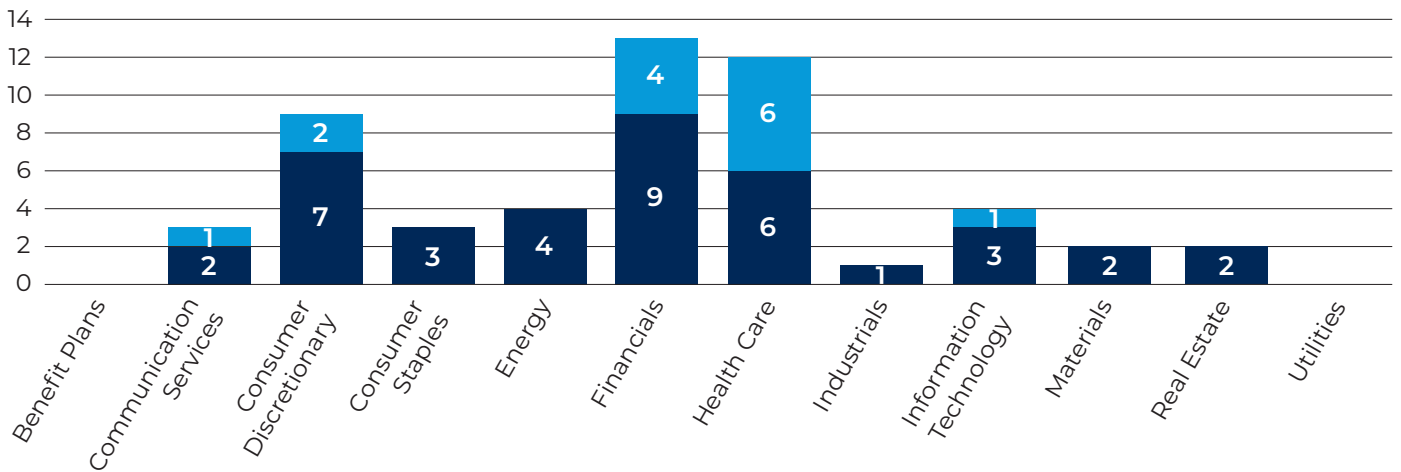
Inspection Results by Issuer Industry Sector

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.

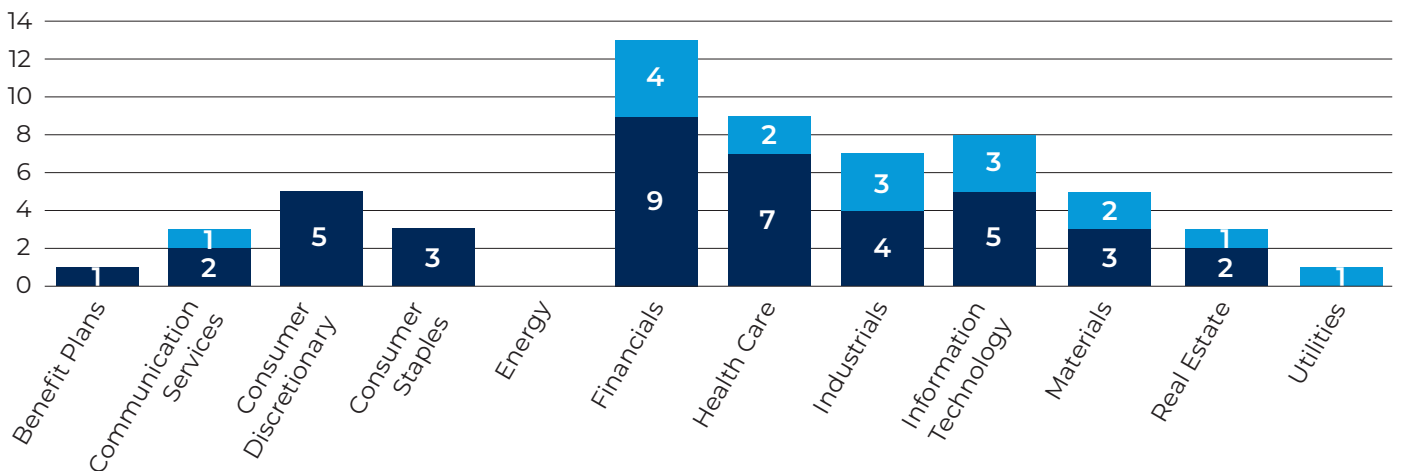
2021



2020



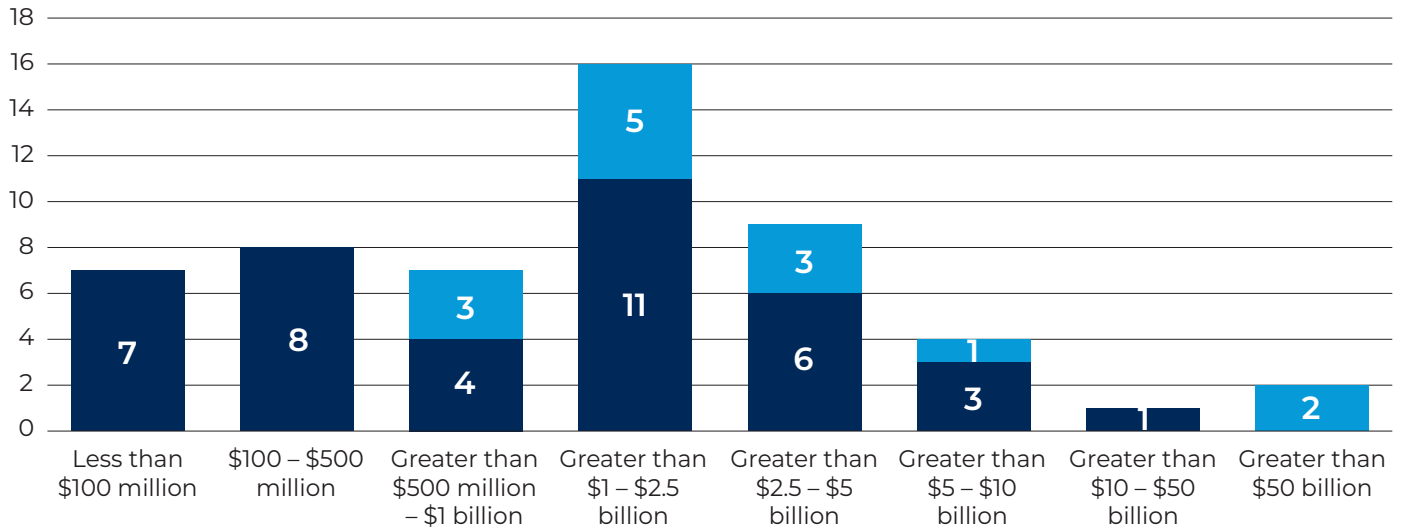
2019



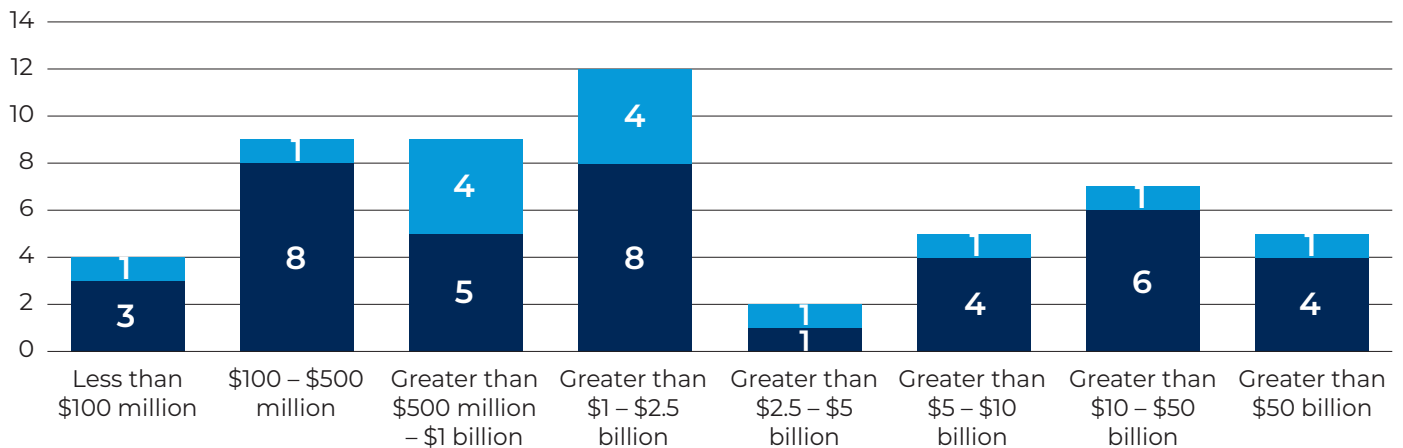
■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

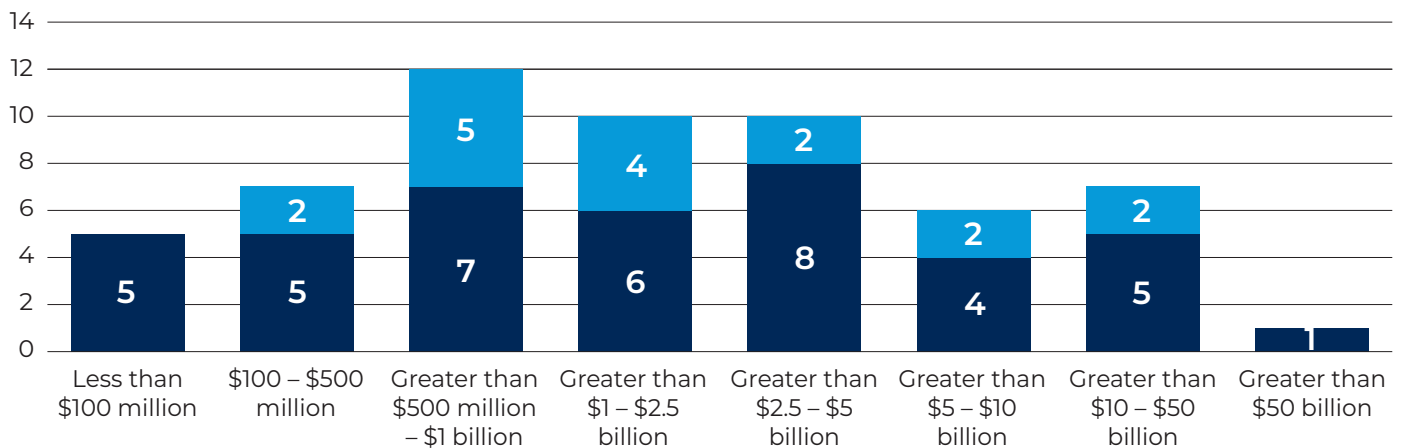
2021



2020



2019



■ 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 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.

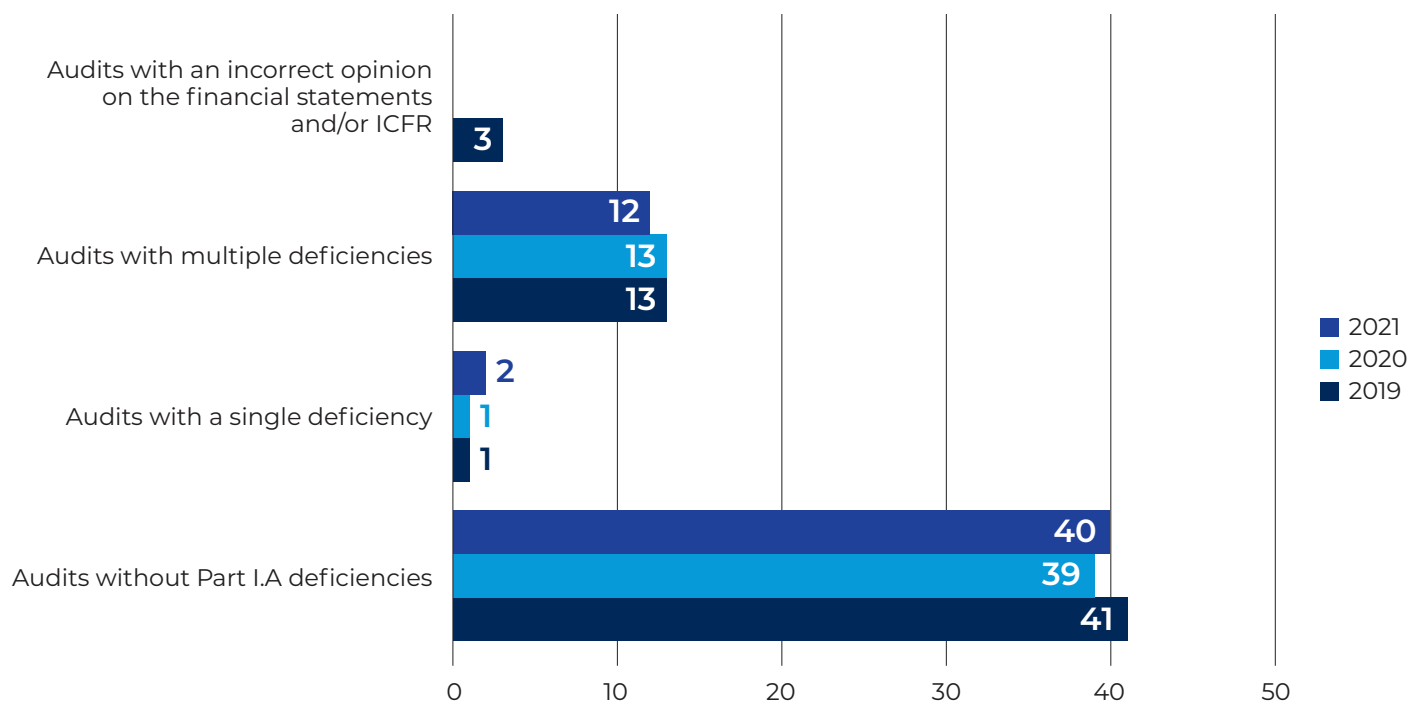
Audits with Multiple Deficiencies

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(s) 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(s) 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 – Consumer Discretionary

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Inventory**:

The issuer accounted for certain of its inventory under the first-in, first-out (FIFO) method of accounting. The firm selected for testing an automated control over the issuer's inventory management system. The firm did not evaluate and test whether this automated control addressed the risk that the inventory management system was appropriately configured to apply the FIFO method of accounting to the inventory. (AS 2201.42 and .44)

The issuer performed cycle counts of inventory at certain of the issuer's locations. The firm selected for testing controls that consisted of the issuer's cycle-count procedures and reviews of reports to monitor the frequency and accuracy of the counts. The firm did not identify and test any controls over the accuracy and/or completeness of the system-generated reports the issuer used in the operation of its cycle-count monitoring controls. (AS 2201.39)

Due to the deficiency discussed above, the firm did not obtain sufficient appropriate audit evidence that the cycle-count procedures the issuer used for this inventory were sufficiently reliable to produce results substantially the same as those that would have been obtained by a count of all items each year. (AS 2510.11)

The firm selected for testing a control that consisted of the issuer's review of the reserve for excess and obsolete inventory. The firm did not identify and test any controls over the accuracy of the system-generated report the issuer used in the operation of this control. (AS 2201.39)

The firm did not perform substantive procedures to test, or in the alternative, identify and test any controls over (as discussed above), the accuracy of the system-generated report that the firm used in its substantive testing of the reserve for excess and obsolete inventory. (AS 1105.10)

With respect to **Revenue**:

For certain revenue, the issuer provided qualified customers with volume rebates that it estimated based on historical sales data. The firm selected for testing a control that consisted of the recalculation, and reconciliation to the general ledger, of these rebates. The firm did not identify and test any controls over the accuracy and completeness of the historical sales data used in the operation of this control. (AS 2201.39)

The firm did not perform substantive procedures to test, or in the alternative, identify and test any controls over (as discussed above), the accuracy and completeness of the historical sales data that the firm used in its substantive testing of the volume rebates. (AS 1105.10)

The sample size the firm used in certain of its substantive procedures to test the volume rebates 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 **Accruals and Other Liabilities**:

The issuer used a service organization to manage its deferred compensation plan. The firm selected for testing a control that consisted of the issuer's review of the service auditor's report on the operating effectiveness of the service organization's controls. The following deficiencies were identified:

- The firm did not evaluate whether the issuer had implemented the appropriate complementary user entity controls to meet the control objectives stated in the service auditor's report. (AS 2201.39 and .B22)
- The firm did not evaluate the specific review procedures that the control owner performed to determine whether the sub-service organizations discussed in the service auditor's report were relevant to the issuer. (AS 2201.42 and .44)
- The firm did not evaluate which, if any, of the subservice organizations discussed in the service auditor's report were relevant to the issuer. (AS 2601.07 - .16)

Issuer B – Energy

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Asset Retirement Obligations (ARO)** and **Oil and Gas Properties**.

Description of the deficiencies identified

With respect to **ARO**:

The firm did not perform any substantive procedures to test the issuer's ARO. (AS 2301.08)

With respect to **Oil and Gas Properties**:

The issuer estimated certain of its oil and gas reserves using information provided by the issuer's specialists. The following deficiencies were identified:

- The firm did not evaluate (1) the knowledge, skill, and ability of one company specialist and (2) the relationship of the issuer to this specialist. (AS 1105.A3 and A4)
- The firm did not perform any procedures to test the accuracy and completeness of certain issuer-prepared data used by another company specialist. (AS 1105.A8a) In addition, the firm did not perform any procedures to evaluate the relevance and reliability of certain data obtained from external sources and used by this specialist. (AS 1105.A8a)

The issuer developed undiscounted cash flows for its impairment analysis of unproved properties using various assumptions. The firm did not evaluate the reasonableness of certain significant assumptions the issuer used to develop these cash flows, including the issuer's intent and ability to execute certain of its plans. (AS 2501.16 and .17) In addition, the firm did not test the accuracy and completeness of certain reports the issuer used to develop these cash flows. (AS 1105.10)

The firm did not evaluate the reasonableness of certain significant assumptions the issuer used to develop undiscounted cash flows for its impairment analyses and calculation of depreciation, depletion, and amortization (DDA) expenses for certain proved properties. (AS 2501.16)

The firm did not evaluate whether another significant assumption the issuer used to calculate DDA was in conformity with FASB ASC Topic 932, *Oil and Gas*. (AS 2810.30 and .31)

Issuer C – Industrials

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 recognized various types of revenue from one of its segments. The following deficiencies were identified:

- For one type of revenue, the firm did not identify and test any controls that addressed whether the performance obligation was satisfied before revenue was recognized. (AS 2201.39)
- The firm selected for testing a control over the annual adjustments to the contract prices that the issuer entered into its revenue system and used to calculate and recognize revenue. The firm did not identify and test any controls over the completeness of certain data that were used in the performance

of this control. (AS 2201.39) In addition, one aspect of this control consisted of the control owner's review of a sample of these pricing adjustments. The firm did not evaluate whether the control was designed to satisfy the issuer's control objective given the high rate of discrepancies the control owner identified in the sample reviewed. (AS 2201.42)

- The firm selected for testing an automated control over the calculation of revenue for this segment by the issuer's billing system. The firm did not test the operating effectiveness of this control for three of the issuer's types of revenue related to this segment. (AS 2201.44)
- The sample sizes the firm used in certain of its substantive procedures to test revenue and accounts receivable for this segment 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)
- For the type of revenue subject to the first deficiency discussed above, the firm's substantive procedures to test revenue and related accounts receivable consisted of performing tests of details. The firm used certain system-generated data to provide evidence related to revenue recognition in its substantive testing. The firm did not perform substantive procedures to test, or in the alternative, identify and test any controls over (as discussed in the first deficiency above), the accuracy of the system-generated data that the firm used in its substantive testing. (AS 1105.10)

Issuer D – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the ICFR audit related to the **Allowance for Credit Losses (ACL)** and **Goodwill**.

Description of the deficiencies identified

With respect to the **ACL**:

For certain loans, the quantitative and qualitative components of the issuer's ACL were calculated using models that relied upon certain current and historical loan data and forecasted macroeconomic scenarios. The following deficiencies were identified:

- The issuer compiled the forecasted macroeconomic scenarios it developed into a spreadsheet and distributed the spreadsheet to various users who had access to make changes to the data in the spreadsheet. The firm did not identify and test any controls over the accuracy and completeness of any changes made by users to the data in the spreadsheet. (AS 2201.39)
- The firm identified and tested controls that consisted of the control owner's recalculation of the qualitative ACL for certain loans. The firm did not identify and test any controls over the accuracy and completeness of the forecasted macroeconomic scenarios used in the control owner's recalculation. (AS 2201.39)
- The firm identified and tested a control that consisted of the issuer's review of its ability to forecast the quantitative component of the issuer's ACL. The firm did not test the aspect of this control that addressed the accuracy and completeness of certain historical loan data and macroeconomic scenarios used in the operation of this control. (AS 2201.42 and .44)

With respect to **Goodwill**:

The firm selected for testing controls that consisted of reviews of significant assumptions underlying the cash-flow forecasts used in the issuer's annual goodwill impairment assessment. 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)

Issuer E – Industrials

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Revenue**:

The issuer entered into contracts with certain customers that required revenue to be recognized over time based on costs incurred to date relative to total estimated costs to complete these contracts. The following deficiencies were identified:

- The firm selected for testing a control that included a preliminary review of certain profit margin metrics by contract to identify items for further investigation. The firm did not identify and test any controls over the completeness of certain data underlying these performance metrics. (AS 2201.39)
- The firm's approach for substantively testing this revenue was to review and test management's process. The firm did not sufficiently evaluate the reasonableness of certain significant assumptions that management used as inputs into its revenue recognition model because its procedures were limited to inquiring of management and performing a retrospective review to determine whether prior projections were consistent with actual results. (AS 2501.09, .10, and .11)³

With respect to **Inventory**:

The issuer performed cycle counts of inventory at certain of the issuer's locations. The firm selected for testing controls that consisted of the issuer's cycle-count procedures and reviews of reports to monitor the accuracy of the counts. The firm did not evaluate the procedures the control owner performed to assess the accuracy and completeness of certain data used in the operation of the issuer's cycle-count monitoring controls. (AS 2201.42 and 44)

Issuer F – Consumer Discretionary

Type of audit and related areas affected

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

Description of the deficiencies identified

The issuer is a franchisor, and its system automatically calculates and records certain types of revenue and one type of expense based on the unique scenarios contained in franchisee-specific contracts and transactional data reported by its franchisees.

³ This citation refers to AS 2501, Auditing Accounting Estimates, which was in effect for this audit. This standard was replaced by AS 2501, Auditing Accounting Estimates, Including Fair Value Measurements, which became effective for audits of financial statements for fiscal years ending on or after December 15, 2020.

The firm selected for testing automated controls over the calculation of these types of revenue and this expense. The firm did not sufficiently test the configuration of these automated controls because it limited its testing to only certain of the contractual scenarios, without addressing the risks of material misstatement associated with the untested scenarios. (AS 2201.42 and .44)

The firm did not identify and test any controls over the transactional data that the franchisees reported to the issuer and that were significant inputs used to calculate these types of revenue and this expense. (AS 2201.39)

The firm used transactional data that the franchisees reported to the issuer in the testing of these types of revenue and this expense. The firm did not evaluate the relevance and reliability of this information. (AS 1105.04 and .06)

The sample size the firm used in certain of its substantive procedures to test one type of 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)

Issuer G – Information Technology

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

The issuer used an internally developed IT system to track the volume of services provided for one type of revenue. In its testing of controls over this revenue, the firm tested various automated and IT-dependent manual controls that used data from this system. The firm selected for testing a control over change management that consisted of a review of activity of certain developers with change access to this system. The firm did not evaluate whether this control was designed to address the risk of material misstatement with respect to developers with change access that were not selected for review. (AS 2201.42) As a result of the deficiency in the firm's testing of the IT general control discussed above, the firm's testing of the various automated and IT-dependent manual controls was not sufficient. (AS 2201.46)

As a result of the audit deficiencies discussed above, the firm did not perform sufficient substantive procedures to test, or sufficiently test controls over, the accuracy and completeness of certain system-generated data it used in its substantive testing of this revenue. (AS 1105.10)

Issuer H – Financials

Type of audit and related area affected

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

Description of the deficiencies identified

The firm selected for testing a control that consisted of a committee's review of certain assumptions used to estimate the quantitative component of the ACL. 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 a control that consisted of the review of the issuer's risk assessment for certain graded loans. This control included the issuer's assessment to determine which of these loans would be subject to an independent loan-grade review. The loan grades were an important factor in

estimating the ACL. The firm did not identify that this control excluded certain loans from the issuer's assessment. (AS 2201.42)

The sample sizes the firm used in certain of its substantive procedures to test the ACL 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 loan-grading control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer I – Consumer Discretionary

Type of audit and related areas affected

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

Description of the deficiencies identified

The issuer used forecasted information to monitor its compliance with contractual debt covenants as part of the evaluation of its ability to continue as a going concern. The firm selected for testing a control that consisted of the issuer's review of the reasonableness of this forecasted information. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of this forecasted information. (AS 2201.42 and .44)

The firm used certain forecasted information that it obtained from a third party to evaluate whether or not there was substantial doubt about the issuer's ability to continue as a going concern. The firm did not evaluate the relevance and reliability of this information. (AS 1105.04 and .06)

Issuer J – Financials

Type of audit and related area affected

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

Description of the deficiencies identified

The firm identified a control deficiency related to the accuracy and completeness of loan information entered into the issuer's loan systems at origination and that was used in the estimation of the ACL for certain loans. The firm identified and tested three compensating controls that it believed mitigated this deficiency. The firm did not identify that the control owners used loan information in the performance of these compensating controls that was produced by the loan systems that were subject to the control deficiency. (AS 2201.68)

In determining whether the control deficiency represented a material weakness, the firm did not sufficiently evaluate the magnitude of the potential misstatements because it did not consider the potential effects on the calculated ACL related to the deficiency described above. (AS 2201.62)

Issuer K – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the ICFR audit related to **Investment Securities** and **Insurance-related Assets and Liabilities, Including Insurance Reserves**.

Description of the deficiencies identified

With respect to **Investment Securities**:

The firm selected for testing a control that consisted of a committee's review of securities to determine whether they met certain quantitative or qualitative factors that would indicate that these securities should be evaluated for possible impairment. The firm did not test an aspect of the control that addressed whether securities that met certain of those qualitative factors were identified for evaluation. (AS 2201.42 and .44)

With respect to **Insurance-related Assets and Liabilities, Including Insurance Reserves**:

The issuer used policyholder data as the basis for its actuarial valuation of certain insurance-related assets and liabilities, including insurance reserves. The firm selected for testing a control that consisted of the reconciliation of policyholder data between the issuer's policy administration system and the issuer's actuarial valuation system. The firm did not identify and test any controls over the completeness of the reports generated from each of these systems that were used in the operation of this control. (AS 2201.39)

Issuer L – Industrials

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

The issuer recognized certain revenue when a product was shipped or upon completion of a service. The firm selected for testing a control over this revenue that consisted of the comparison of the terms of each sales transaction entered into the issuer's system to corresponding invoices, purchase orders, and shipping or service documents before revenue was recognized. The firm's procedures were not sufficient because the firm did not test whether the control owners reviewed evidence that products had been shipped or services had been rendered. (AS 2201.42 and .44)

The sample sizes the firm used in certain of its substantive procedures to test this revenue for these locations 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)

Audits with a Single Deficiency

Issuer M – Information Technology

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Going Concern**.

Description of the deficiency identified

During the year under audit, the firm identified conditions and events that indicated there could be substantial doubt about the issuer's ability to continue as a going concern for a reasonable period of time and concluded that the substantial doubt was alleviated by management's plans. The firm did not sufficiently evaluate certain assumptions that the issuer used to project that it would comply with its debt covenants, which was a significant factor in management's plans to overcome the adverse effects of the conditions and events. (AS 1105.04 and .06; AS 2415.08)

Issuer N – Financials

Type of audit and related area affected

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

Description of the deficiency identified

The issuer provided an external specialist certain demographic and employment data that were used to estimate the issuer's projected benefit obligation. The firm selected for testing a control that included a review of the accuracy of these data at an aggregated level and the investigation of year-over-year variances in the aggregated data. The firm did not evaluate whether the performance of the review at an aggregated level, in conjunction with certain thresholds the control owner used to investigate the variances, were sufficiently precise to detect misstatements that could be material. (AS 2201.42)

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 one of 10 audits reviewed, the firm's foreign affiliate had obtained letters of representation from management of certain of the issuer's non-U.S. components and provided the firm with these letters and sufficient information to enable the firm to reconcile the financial statement amounts audited by the foreign affiliate to the information underlying the consolidated financial statements, but the firm, as the principal auditor, did not retain such letters and information. In this instance, the firm was non-compliant with AS 1205, *Part of the Audit Performed by Other Independent Auditors*.
- In two of 54 audits reviewed, the firm did not include all relevant work papers in the final set of audit documentation it was required to assemble. In these instances, the firm was non-compliant with AS 1215, *Audit Documentation*.
- In one of 10 audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to the name, location, and planned responsibilities of an other accounting firm that performed audit procedures in the audit. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In nine of 45 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.

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 17, 2022

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 2021 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 2021 Inspection of KPMG LLP, dated September 14, 2022 (the "Report").

We respect and appreciate the commitment of the PCAOB staff, including its professionalism throughout the inspection process. The feedback and what we learn from the PCAOB inspection process are integral to how we consider our audit approach and provide opportunities for improvements going forward. We continue to design actions and decisions to promote audit quality that align with the root causes of matters identified during the PCAOB inspection process. We are strategically upskilling our auditors, developing and deploying technology, and designing and operating our system of quality control to sustainably and continually enhance audit quality. We are confident our ongoing investments will drive a more timely, streamlined, and technology-focused audit, better enabling our auditors to identify and respond to risks in the financial reporting process.

We highly value our shared goal with the PCAOB — maintaining integrity in the capital markets through high quality audits – and the PCAOB provides important perspectives and insights that enable us to do so. We remain committed to delivering high quality audits, grounded in a mindset of continuous improvement and integrity to the capital markets..

We have reviewed the observations identified in Part I of the Report and taken appropriate actions to address the engagement-specific findings in accordance with PCAOB auditing standards as well as our own policies and procedures.

We value and respect the inspection process and look forward to continued dialogue with the PCAOB on our audit quality improvements. We believe the audit quality initiatives we are driving will strengthen our audit process and the reliability of financial reporting more broadly to the benefit of the capital markets and global economy. This year's inspection cycle once again affirmed the important role the PCAOB plays in improving audit quality.

Sincerely yours,
KPMG LLP

Paul J. Knopp
Chair and CEO

Scott D. Flynn
Vice Chair - Audit

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