2021 Inspection KPMG LLP

(Headquartered in Toronto, Canada)

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PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

TABLE OF CONTENTS

2021 INSPECTION

In the 2021 inspection of KPMG LLP, 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. Our inspection was conducted in cooperation with the Canadian Public Accountability Board.

We selected for review nine audits of issuers with fiscal years 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.

2021 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 necessarily 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 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 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

	2021	2019
Firm data		
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	76	72
Total issuer audits in which the firm was not the principal auditor	30	44
Total engagement partners on issuer audit work[1]	67	68
Audits reviewed		
Total audits reviewed[2]	9	8
Audits in which the firm was the principal auditor	8	7
Audits in which the firm was not the principal auditor	1	1
Integrated audits of financial statements and internal control over financial reporting (ICFR)	9	8
Audits with Part I.A deficiencies	4	5

[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, *Supervision of the Audit Engagement*) 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 audit report 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 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 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 2021 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.

2021		2019	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Revenue and related accounts	5	**Revenue and related accounts**	7
Long-lived assets	6	**Long-lived assets**	4
Goodwill and intangible assets	3	**Business combinations**	1
Income taxes	2	**Derivatives**	1
Use of other auditors	2	**Allowance for loan losses**	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 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 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). 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 – Health Care

Type of audit and related area affected

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

Description of the deficiencies identified

The firm did not identify, and evaluate the significance to the financial statements of, an IFRS departure related to the valuation of certain inventory. (AS 2810.30)

The firm's approach for substantively testing the reserve for excess and slow moving inventory included developing an independent expectation of the issuer's net inventory, including finished goods inventory and work-in-process inventory. The firm developed its expectation using gross revenue data for the last three months of the year, the period of which was consistent with the return period for finished goods inventory. The firm did not perform procedures to support the appropriateness of using three months of gross revenue as the basis for developing its expectation of net inventory. (AS 2501.09, .10, and .12)[3]

Issuer B

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** and **Revenue**.

Description of the deficiencies identified

With respect to **Goodwill and Intangible Assets**:

The issuer identified indicators of potential impairment and performed an impairment analysis for each cash-generating unit. The firm selected for testing a control that consisted of the issuer's review of the carrying value and recoverable amount calculation used in the impairment analysis. The firm did not evaluate the specific review procedures that the control owner performed to assess the reasonableness of the carrying value and recoverable amount calculation used in these analyses. (AS 2201.42 and .44)

With respect to **Revenue**:

The issuer entered into a contract with a customer in which revenue was recognized on a gross or net basis, depending on the nature of the sales transactions and terms of the contract. In its testing, the firm identified evidence indicating that revenue from certain sales transactions, recognized on a net basis, may have met the criteria prescribed in International Financial Reporting Standard 15, *Revenue from Contracts with Customers* ("IFRS 15") for recognition on a gross basis. The firm did not perform any substantive procedures to evaluate (1) this contradictory evidence and the related effect on revenue recognition and (2) whether the issuer's recognition of revenue from these transactions was in conformity with IFRS 15. (AS 2810.03 and .30)

Issuer C – Financials

Type of audit and related area affected

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

Description of the deficiencies identified

For loans that were collectively evaluated for impairment, the issuer estimated the ALL using models and methodologies, based on assumptions, judgment, and other data, and applying certain post-model

[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.

adjustments. The issuer determined post-model adjustments by comparing the model to a benchmark and/or considering data for each loan portfolio. The following deficiencies were identified:

- The firm selected for testing a control that consisted of the issuer's review of the post-model adjustments for each loan portfolio. The firm did not evaluate the specific review procedures that the control owners performed to assess the appropriateness and reasonableness of certain post-model adjustments. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the (1) methods and assumptions used by the issuer to determine the benchmarks used in the operation of this control and (2) accuracy and completeness of certain data used in the operation of this control. (AS 2201.39)

- The firm selected for testing another control that consisted of the issuer's annual review of the appropriateness of the assumptions used in the model for each loan portfolio. The firm did not identify that this control was not designed to allow the issuer to evaluate whether certain factors would have an effect on the issuer's models due to the frequency and timing in which this control operated. (AS 2201.42)

- The firm's approach for substantively testing the ALL was to review and test management's process. The firm did not perform procedures to evaluate the reasonableness of the (1) methods and assumptions used by the issuer to determine the benchmarks and (2) assumptions used by the issuer to develop certain post-model adjustments, both of which were used by the issuer to determine the ALL. (AS 2501.09, .10, and .11)[4]

Issuer D – Information Technology

Type of audit and related area affected

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

Description of the deficiencies identified

The firm selected for testing controls that consisted of the issuer's reviews of forecasts and certain assumptions used in the annual goodwill impairment analyses. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of the forecasts and certain assumptions used in these analyses. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy and completeness of certain data used in the operation of one of these controls. (AS 2201.39)

Audits with a Single Deficiency

None

[4] This citation refers to AS 2501, *Auditing Accounting Estimates*, which was in effect for this audit. As noted above, 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.

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) or fulfill the objectives of its role in the audit(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 two audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to the issuer's critical accounting estimates. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees.*

- In one of eight audits reviewed, the year the firm began serving consecutively as the company's auditor that was included in the firm's audit report was incorrect. In this instance, 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*.

- In five of eight 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, or required to be 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 eight audits reviewed, the firm's communication of a critical audit matter in the audit report included language that was inconsistent with information in the firm's audit documentation. In this instance, 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*.

- In two of eight audits reviewed, the firm's report on Form AP either contained inaccurate information or omitted information related to the participation in the audit by an other accounting firm. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

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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Mr. George Botic
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August 19, 2022

Re: Response to Public Company Accounting Oversight Board (the "PCAOB") Draft Report on the 2021 Inspection of KPMG LLP

Dear Mr. Botic:

We are pleased to provide our response to the PCAOB's Draft Report on the 2021 Inspection of KPMG LLP (the "Report").

We have evaluated the matters identified by the PCAOB in Part I of the Report, have taken actions and will continue to take actions as appropriate in accordance with PCAOB standards and our policies.

We value and respect the important role of the PCAOB in improving audit quality. The inspection process serves to assist us in identifying areas where we can continue to improve our performance and strengthen our system of quality management. We appreciate the professionalism and commitment of the PCAOB staff and look forward to continuing to work with the PCAOB to achieve our shared objective of improving audit quality and serving investors and the public interest.

We understand our importance and responsibility to the capital markets and we remain dedicated to continuous improvement of our audit engagement performance and our system of audit quality management. Aligned with our global firm, we have implemented our new audit methodology and integrated workflow. We have also invested significant time and resources into implementing the forthcoming International Standard on Quality Management 1 that has and will continue to strengthen our system of quality management. We will continue to take action to enhance the skillset of our people, implement advanced technology, and invest in implementing changes to our policies, practices and quality controls in order to enhance audit quality.

Very truly yours,

KPMG LLP

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