Transparency report 2021

Dedicated to trust.
Committed to quality.

January 2022

audit.kpmg.us/auditquality/transparency

Audit quality is fundamental to maintaining public trust and is the key measure on which our professional reputation stands.

We define “audit quality” as the outcome when audits are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls.

All our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics, and integrity.

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Focus on quality through our Values

In 2020, we came together to meet the challenges of the global pandemic. In 2021, we sustained that sense of urgency, accelerating innovation to deliver to both our clients and our people a better audit experience. While numerous benefits are already being realized today, we are singularly determined to enhance quality in the years to come.

Our focus remains on aligning advances in technology with our methodology to fast-track innovation for a high-quality audit that is also more efficient and insightful—all grounded in our Values: Integrity, Excellence, Courage, Together, and For Better. We fully deployed our global smart audit platform, KPMG Clara, and continue to train more and more of our auditors on data and analytic capabilities and IT audits. To stay ahead of a rapidly digitizing business landscape, we recently transitioned more than 950 Technology Assurance professionals to our Audit practice.

The COVID-19 pandemic, ongoing economic uncertainty, and social unrest playing out across the globe have created a new reality. While buffeted by these events, our purpose-driven culture grounded us and ultimately strengthened our resolve. Dynamically responding to today's needs is making us stronger for tomorrow—finding solutions that will have enduring benefits for the firm and for audit quality.

The impact of these advances is only magnified by the context in which they occur. We've listened to our people to design our hybrid future. Providing flexibility on where and how our professionals engage with our clients and the market will allow us to attract, retain, and promote the best talent. Through Accelerate 2025[1], we will more rapidly diversify our workforce and strengthen our commitment to quality with unique voices and perspectives mirroring the communities in which our clients work. Committed to our Values, we will always foster a culture of equity and inclusion.

KPMG is dedicated to providing high-quality professional services, including audit services, in an ethical manner for all our constituents, including entities that are listed on global capital markets. In addition to complying with the high standards of our U.S. regulators, KPMG complies with the applicable requirements of audit regulators outside of the U.S. where entities we audit have listings or are otherwise subject to regulation. This 2021 Transparency Report provides details on our commitment to continually enhance audit quality through our system of quality control. The report and its supplemental documents cover the fiscal year ended September 30, 2021 and are published in accordance with the provisions of the New York Stock Exchange Listed Company Manual Section 303A.07 and Article 13 of the European Union's Regulation No. 537/2014.

We remain deeply committed to all of our stakeholders as we continually monitor and improve our system of quality control and invest in the future of audit.

Paul Knopp
U.S. Chairman & CEO

Scott Flynn
Vice Chair—Audit

[1] Our vision for our future is described in our 2021 U.S Diversity, Equity and Inclusion Transparency Report.

Our business, structure, and ownership

KPMG LLP (KPMG or the firm) provides audit, tax, and advisory services to a broad range of domestic and international entities. Our firm operates from more than 100 offices across the U.S. with more than 40,000 employees and partners. KPMG operates as a Delaware limited liability partnership, and we are wholly owned by our more than 2,200 partners and principals (referred to collectively as partners).[2] Full details about the services we offer can be found at home.kpmg/us/en/home.html.

Effective October 1, 2020, KPMG LLP and all other KPMG firms entered into new membership and associated documents, the key impact of which is that all KPMG member firms in the KPMG global organization became members in, or have other legal connections to, KPMG International Limited (KPMG International), an English private company limited by guarantee. KPMG member firms operate in 145 countries and territories, collectively employing more than 236,000 people, serving the needs of business, governments, public-sector agencies, not-for-profits, and the capital markets. More information about KPMG International, including the U.S. firm's relationship with it for the financial year ended September 30, 2021, is set out in the Transparency Report – Supplement: Additional Information Required by Article 13 of EU Regulation 537/2014.

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

Tone at the top

The tone at the top of any organization drives its culture and accepted behaviors and is an important part of a firm's system of quality control.

We strongly believe that tone at the top enables the right attitude and behavior throughout the firm through a focused and consistent voice.

There are a number of critical components to effective tone at the top, including:

- Culture, Values, and Code of Conduct, clearly stated and demonstrated in the way we work
- Focused and well-articulated strategy, incorporating audit quality at all levels
- Governance structure, with clear lines of responsibility and skilled and experienced people in the right positions to influence our quality agenda.

Our system of quality control is designed to meet applicable regulatory standards over quality control for a CPA firm. While this report is intended to cover our fiscal year ended September 30, 2021, we are taking this opportunity to highlight our progress of ongoing or upcoming initiatives in the coming year and our continuous approach to monitoring and enhancing our system of quality control.

Leadership responsibilities for quality within the firm

Our Chair and Chief Executive Officer (CEO) establishes the firm's strategies and direction, including our commitment to audit quality, ethical culture, and our promise of professionalism to investors and other participants in the capital markets, regulators, clients, and our partners and employees.

In an effort to reinforce our audit quality agenda, our structure closely aligns our leadership with our audit quality foundation:

- Our Vice Chair – Audit, who reports to the Chair and CEO and Deputy Chair and Chief Operating Officer (COO) as a member of the Management Committee, has responsibility for our Audit practice, including driving certain aspects of our system of quality control.
- Our National Managing Partner – Audit Quality and Professional Practice (AQPP), who reports to the Vice Chair – Audit, leads our Department of Professional Practice (DPP) and the firm's regional and business unit professional practice partners, and is also responsible for driving and supporting certain monitoring activities within our system of quality control.
- Our National Managing Partner – Audit Operations and Execution, who reports to the Vice Chair – Audit, is responsible for implementing quality control initiatives that facilitate engagement performance, resource management, talent development, and growth and financial strategies and also is responsible for supporting certain aspects of the firm's system of quality control.

We define and document the key roles and responsibilities associated with each of the quality control elements outlined in the standards, i.e., Public Company Accounting Oversight Board (PCAOB) QC Section 20, "System of Quality Control for a CPA Firm's Accounting and Auditing Practice," and American Institute of Certified Public Accountants (AICPA) QC Section 10, "A Firm's System of Quality Control (Redrafted)." We evaluate our leaders on their achievement of these responsibilities during the partner year-end review process.

Beyond the executive level, several important leadership bodies are responsible for audit quality across the firm's Audit practice:

Our nationally managed Audit practice is supported by East and West regional leadership teams, each with a designated regional managing partner, a regional professional practice partner, and a regional technology assurance leader. The regional managing partners, regional professional practice partners, and regional technology assurance leaders report to the National Managing Partner – Audit Operations and Execution, the National Managing Partner – AQPP, and the national technology assurance leader, respectively. The regional professional practice partners provide professional practice and audit quality leadership and direct adherence to firm policies, procedures, and professional standards within their respective regions.

Within those regions are 18 geographic business units, each generally led by a business unit partner in charge (BUPIC), who reports to the respective regional managing partner; a business unit professional practice partner (BUPPP), who reports to the respective regional professional practice partner; and a local technology assurance leader, who reports to the respective regional technology assurance leader. For each business unit, the BUPPP is responsible for audit quality and risk management for core audit professionals while the BUPIC is responsible for people management, operations, and quality growth and shares responsibility with the BUPPP in supporting audit quality. The local technology assurance leaders are responsible for these areas for technology assurance Audit professionals. In addition, the BUPIC, BUPPP, and local technology assurance leader are all responsible for professionalism and integrity in each business unit.

Professional practice partners

Together with the review and oversight of the regional professional practice partners, KPMG professional practice partners in each geographical business unit (BUPPP):

— Support and advise partners, managing directors, and engagement teams on entity-specific technical accounting, audit, risk management, and independence matters

— Assimilate and disseminate information pertaining to professional practice and risk management

— Monitor compliance with firm policies, our system of quality control, and professional standards

— Review policies and processes to continuously improve audit quality

— Provide performance feedback related to audit quality for Audit partners and managing directors in the business unit

— Assign the partner or managing director to lead (engagement leader) and the engagement quality control reviewer to review each engagement as well as evaluate the ongoing capacity of partners, managing directors, and managers to serve the client portfolio

— Evaluate new clients and new and continuing audit and attestation engagements along with the respective lead audit engagement partner or managing director to address audit risks and association or continued association with the client.

Department of Professional Practice

DPP comprises a broad network of partners, managing directors, senior managers, and other professionals who support our people in meeting their professional responsibilities in accordance with firm policies and the requirements of the PCAOB, the U.S. Securities and Exchange Commission (SEC), the AICPA, and other regulatory oversight organizations.

The DPP Partner in Charge (PIC), who reports to the National Managing Partner – AQPP, maintains operational responsibility and accountability for the day-to-day operations of DPP. The DPP PIC oversees timely and effective support to engagement teams for consultation on professional practice matters and sets and promotes a strong tone and culture supporting audit quality and a commitment to maintain objectivity, professional skepticism, ethics, and integrity throughout DPP. Additionally, the DPP-PIC oversees root-cause analyses, the system of quality control assessment activities, and audit-specific training, in addition to the Audit Quality Support Network (AQSN) program and the nomination and annual accreditation process of partners designated as SEC Reviewing Partners (SECRPs).

Our AQSN program encompasses select Audit partners and managing directors who recently completed a rotation in DPP and have returned to a local office. Each AQSN member goes through an annual accreditation process and works closely with local and national audit leaders to provide direct audit quality coaching and support to engagement teams in areas that will have the most significant effect on audit quality.

SECRPs are select Audit partners who meet certain qualifications and criteria to perform engagement quality control reviews of audits of issuers. Further information on the types of the firm's quality control reviews can be found in the "Quality control review" section of this report.

One of DPP's central functions is to provide technical accounting and auditing guidance to teams through consultations on engagement-related issues. DPP brings together into one integrated group our resources that respond to accounting and audit consultations.

The Root Cause and Collaboration Group (RCCG) is instrumental to enhancing our ability to identify, analyze, and address findings to continually improve our system of quality control and engagement performance. The RCCG and root cause analysis are discussed further in the "Commitment to Monitoring Quality and Continuous Improvement" section.

The System of Quality Control (SoQC) Group plans and conducts an annual assessment of the effectiveness of our system of quality control. As part of that assessment, the SoQC Group performs certain testing over the policies, procedures, processes, and controls that comprise the firm's system of quality control. The SoQC Group also considers the results of the firm's monitoring procedures, which includes its internal inspection program, its evaluation of external reviews, and the development of any necessary corrective actions, to continually improve the firm's system of quality control.

During 2021, we transformed our learning organization by centralizing our learning and development professionals into centers of excellence for instructional design, project management, program delivery, and measurement and evaluation. Content developers and curriculum leaders are now part of DPP, enabling a closer connection between our curricula and the source of the firm's policies, technical accounting and regulatory interpretations, and auditing guidance.

PCAOB Standards Group

The global PCAOB Standards Group (PSG) comprises a dedicated group of professionals with backgrounds in PCAOB auditing standards who promote consistency of interpretation of PCAOB auditing standards in KPMG member firms' audits of non-U.S. components of U.S. companies and of foreign private issuers and non-U.S. components of SEC issuers. The PSG also provides input into the development of training for auditors outside of the U.S. firm who work on PCAOB audit engagements and, where practicable, facilitates delivery of such training.

Ethics and integrity

Ethics, integrity, independence, and objectivity are the pillars of our firm and of the profession. Our obligations to all stakeholders in the capital markets are foremost in our mind at all times and, as required by the standards that bind us, we are committed to protecting the confidentiality of our clients' sensitive information.

Our environment is built on the principle that every individual must take personal responsibility for the ethical culture of the firm. As individuals, we live our Values—Integrity, Excellence, Courage, Together, For Better—by doing what is right, continually learning and improving, thinking and acting boldly, respecting one another and drawing strength from our differences, and doing what matters. We expect those who manage others to act as role models; enhance understanding; set appropriate goals; and be responsive, responsible, fair, and accountable.

The firm's Code of Conduct (the Code) is a cornerstone of our ethics and compliance program. It helps us articulate our standards of professionalism and integrity expected of all KPMG partners and employees. The Code sets forth our Values, shared responsibilities, channels of communication, key policies and protocols, and an ethical decision-making tool and provides a roadmap to guide how our individual and collective commitments to professionalism and integrity should be manifested and maintained. The Code supports and positively impacts how we achieve our strategic priorities, as we look to grow our business by working with companies that share our Values and by recruiting and retaining professionals who take pride in the positive contributions they make to our ethical culture.

When they join the firm, and each year thereafter as part of an annual confirmation process, every one of our people is asked to confirm that they have read the Code, understand it, and agree to comply with it, which includes adhering to our Values, shared responsibilities, commitments, and promises.

Ethics and Compliance Hotline

To further our commitment to integrity and an ethical culture, KPMG maintains an Ethics and Compliance Hotline that allows both phone and web reports to be made through an independent third-party provider by calling the toll-free number, 1-877-576-4033, or by submitting a report via the web at www.kpmgethics.com. We encourage use of the hotline when KPMG personnel wish to remain anonymous or feel uncomfortable reporting concerns about possible illegal, unethical, or improper conduct through normal channels.

The hotline is available to external parties as well, including personnel at entities we serve, vendors, and professionals from other KPMG International member firms. Reports filed through the hotline are directed to our Ethics and Compliance Group for review and, if necessary, for assignment of appropriate firm resources for investigation and resolution. All reports are handled confidentially (to the extent allowable by law and consistent with the needs of a thorough investigation). In addition, the KPMG International hotline serves as another mechanism for KPMG personnel, clients, and other third parties to confidentially report concerns they have relating to certain areas of activity by KPMG International, activities of KPMG member firms, or KPMG personnel.

Retaliation for good-faith reporting or for otherwise participating in an investigation is strictly prohibited, and the U.S. firm has a monitoring process designed to protect individuals who disclose their identities when raising their concerns and witnesses who participate in an investigation.

Commitment to audit quality during the COVID-19 pandemic

The ongoing COVID-19 pandemic has forced us all to think differently, and we continue to respond to and embrace this challenge. There is no doubt that the pandemic has added undue stress in our personal and professional lives. We recognize that our people are our greatest resource, and our firm is committed to helping them adapt successfully to and stay resilient during these challenging times.

We support the mental and total well-being of our people, which is why the firm provides several counseling and medical resources available through different platforms, such as video, phone, and chat, to meet the varying needs of our diverse personnel.

In addition, we issued guidance to assist teams in addressing the various accounting, financial reporting, and audit-related matters arising from the impacts of the COVID-19 pandemic. Our guidance has been updated throughout the pandemic as other significant auditing, accounting, and reporting issues have been identified.

We are a technology-enabled organization, with technology-based accounting guidance and tools as well as audit platforms and resources, permitting the near-thorough conversion to a remote working environment. Enhanced communication has been increasingly important to everyone during the COVID-19 pandemic. We have leveraged our investments in technology to provide our professionals with regular communications, including virtual meetings to share leading practices, knowledge, and guidance. In addition, we have enhanced our communication strategy to include specific COVID-19 pulse surveys to allow us to hear from our people in real time and shape our response accordingly.

As our people begin to return to offices and client sites using a hybrid workplace model, our technology enablement will continue to remain a strategic initiative.

Audit quality

Audit quality is fundamental to maintaining public trust in the capital markets and is the key measure on which our professional reputation stands.

We define "audit quality" as the outcome when audits are executed consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality controls.

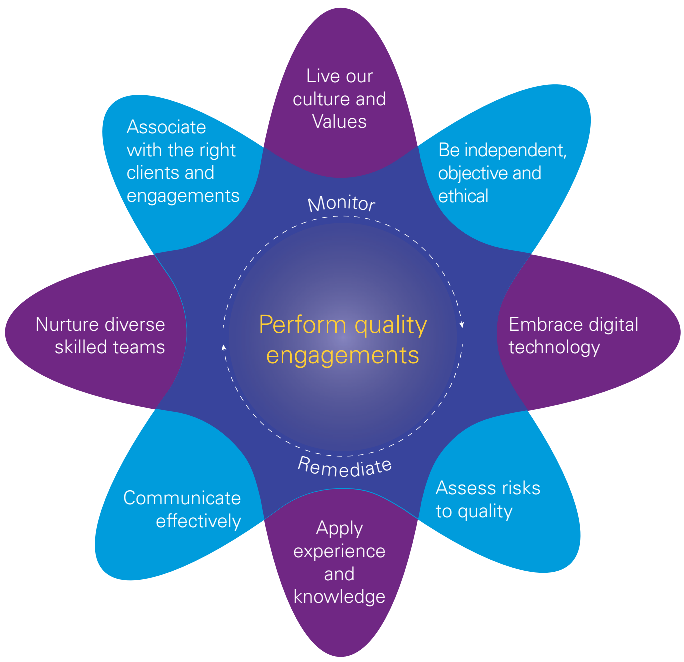
And all our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics, and integrity.

We continuously monitor our approach to audit quality to enhance our system of quality control and our audit methodology. Our firm's system of quality control is based on PCAOB and AICPA standards and is documented and assessed annually. Additionally, we are in the process of incorporating the impact that the new international standard on quality management (ISQM 1), issued by the International Auditing and Assurance Standards Board (IAASB), as well as the proposed statement on the quality management standards (SQMS No. 1) by the Auditing Standards Board of the AICPA and the project by the PCAOB to enhance its existing quality control standards, will have on our system of quality control.

To prepare for the adoption of ISQM 1, which will be effective beginning December 2022, KPMG International initiated a program to redesign the network-wide requirements for member firms' systems of quality management.[3] ISQM 1 requires each KPMG firm to design, implement, and operate a consistent system of quality management to deliver quality audits, and to evaluate the effectiveness of the system on an annual basis.

Our Global Audit Quality Framework

As we prepare for ISQM 1, KPMG International is adopting a new Global Audit Quality Framework to better outline how KPMG member firms deliver quality audits and how everyone at KPMG is accountable for its delivery. The principle of "Perform quality engagements" sits at the core along with our commitment to continually monitor and remediate our processes as necessary. At the same time, the Global Quality framework also meets the requirements of the current International Standards on Quality Control (ISQC 1), issued by the IAASB and the International Code of Ethics for Professional Accountants (including International Independence Standards Board for Accountants), which apply to professional services firms that perform audits of financial statements.



Global Audit Quality Framework

[3] While international quality control standards have shifted terminology from a "system of quality control" to a "system of quality management," standards in the U.S. continue to refer to a system of quality control. As a result, we refer to both throughout this report.

Association with the right clients

Rigorous entity and engagement acceptance and continuance policies are important to our ability to provide reasonable assurance that our firm:

- Minimizes the likelihood of association with an entity whose management lacks integrity
- Undertakes only those engagements that we can reasonably expect to complete with professional competence
- Considers the risks associated with providing professional services in particular circumstances.

Risk Management develops risk management policies for the Audit practice, including those relating to client and engagement acceptance and continuance. To be independent of the business, Risk Management reports outside of the Audit practice to the Vice Chair – Risk Management, and oversees relevant risk management systems, including the risk steps enabled through the Client/Engagement Acceptance and Setup system (CLEAS) and the Partner Rotation System, which helps the firm to monitor compliance with the SEC independence rules on partner rotation as well as the firm's rotation requirements.

KPMG has established policies and procedures for evaluating new and continuing professional relationships and whether to perform specific services for a particular entity. The risk evaluation enabled through CLEAS is used to manage and control the firm's acceptance of risk and the Client Engagement Acceptance and Continuance tool is used to document the results of the firm's acceptance and continuance processes. Our policies and procedures are designed to prohibit engagement teams from beginning work on an engagement or setting up an engagement code in the firm's financial system before potential risks are evaluated, any applicable safeguards are put in place, and approval is obtained from appropriate leaders, including those in Risk Management.

Prospective entity and engagement evaluation processes

Before accepting an audit engagement with a new entity, we require an evaluation of the entity, its principals, and its business. This typically includes a background investigation of the entity and select members of senior management.

Factors considered during the acceptance process include, but are not limited to:

- Client-related matters (reputation, character, and integrity of the management and owners of the prospective client, as well as internal controls considerations and accounting policy and reporting matters)
- Business-related matters (risk of potential litigation, whether association with the prospective client may harm the firm's professional reputation)
- Service-related matters (whether the engagement team possesses adequate knowledge, skills, and experience to respond to the engagement risks, fulfill our professional obligations, and provide appropriate professional services).

Resolving conflicts of interests

We accept only those engagements we can perform in a manner consistent with our high-quality standards and without conflicts of interest, which are circumstances or situations that have, or may be perceived to have, an impact on the ability of the firm and/or its personnel to be objective or otherwise act without bias. Firm personnel are trained to be alert to conflicts of interest between the firm and our clients or among our clients and to identify and evaluate actual and potential conflicts of interest to resolve, manage, or avoid such actual and potential conflicts in a timely manner.

With the assistance of the national Independence Group, engagement teams proposing to perform a new audit engagement conduct a review of relationships that the firm or certain individual professionals may have with the prospective client and its affiliates. The review also includes consideration of any nonaudit services we may provide or have provided. We use our proprietary tool, Sentinel™, to identify potential independence issues and other conflicts of interest within and across member firms in the KPMG International network. If a potential independence issue or conflict cannot be resolved satisfactorily, in accordance with professional and firm standards, then it will preclude the firm from accepting the prospective audit engagement.

Continuance and reevaluation process

Lead audit engagement partners and managing directors are required to review and evaluate their existing audit and attestation engagements with their professional practice partner at least annually. An engagement continuance evaluation is a process of formal approvals by various parties, generally including the BUPPP and, in certain situations, the regional professional practice partner, Risk Management, and the Independence group. The objective of these reviews is to identify those engagements where the firm should consider implementing additional safeguards to address audit risk or those instances where the firm should discontinue its professional association with the entity. In addition, certain factors that may alter the risk profile of the engagement, such as a significant change in the nature, size, structure, ownership, or management of an entity's business, prompt evaluation procedures applicable to the situation, such as additional independence procedures and background checks, to be conducted before the annual continuance process.

Withdrawal process

When we obtain information that indicates we should withdraw from an engagement or from a client relationship, we consult internally and identify any required legal, professional, and regulatory responsibilities. We also communicate as necessary with those charged with governance and any other appropriate bodies or authorities.

Engagement performance and effective audit tools

Engagement performance, including KPMG audit methodology, encompasses all aspects of audit design and execution in accordance with auditing standards, including supervision, consultation, documentation, review, and communication of audit results. Our system of quality control includes policies and procedures that prepare every KPMG professional performing audits with the information, tools, skills, and behaviors needed for their assigned responsibilities. Our professionals also receive training on incorporating the Ethical Decision Making tool, which provides a framework to guide professionals through doing the right thing in the right way.

Audit methodology

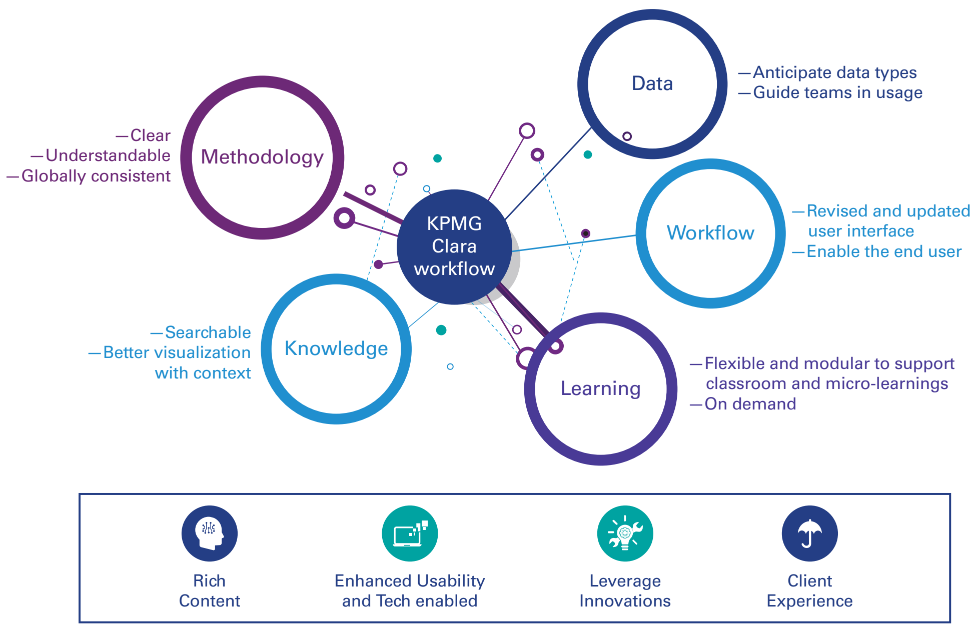
The KPMG audit methodology is based on the requirements of the PCAOB and AICPA, as well as the International Standards on Auditing. It is centered on identifying risks, assessing which risks present risks of material misstatements, and then focusing on the necessary audit response. Our methodology enables a consistent approach to planning, performing, and documenting audit procedures over key accounting processes.

The KPMG audit methodology is set out in the KPMG Audit Execution Guide (KAEG), used with the KPMG Clara workflow (described below), and includes our interpretation of how to apply the auditing standards to drive consistency in areas where the applicable standards are not prescriptive in the approach to be followed. The methodology emphasizes applying appropriate professional skepticism in the execution of audit procedures and requires compliance with relevant ethical requirements, including independence. KAEG is made available to all professionals supporting the audit and is required to be used, where necessary.

Enhancements to the audit methodology, guidance, and tools are made regularly to maintain compliance with standards and address emerging auditing areas of focus and audit quality results.

Effective audit tools

KPMG Clara is our smart and intuitive technology platform that is driving globally consistent audit execution. As a fully integrated, scalable, secure, cloud-based platform, it enables the enhanced audit methodology through a data-enabled workflow. The platform integrates new and emerging technologies, with advanced capabilities that leverage data science, audit automation, and data visualization.



KPMG Clara workflow

Full deployment in the U.S. of the KPMG Clara workflow, which is replacing our existing electronic audit tool, eAudIT, is effective for audits performed with fiscal year-ends after December 14, 2021. This follows a limited deployment of the KPMG Clara workflow in the U.S. during 2019 and 2020.

The KPMG Clara workflow includes a redesigned workflow linked to our revised methodology included in the KAEG. The workflow includes a robust risk assessment that enables the auditor to understand the company, its processes, and financial reporting risks and tailor the audit response to drive quality. The methodology and workflow are designed to build quality into the process and allow us to enhance our monitoring of the audit prior to issuance of the audit report. They are intended to deliver enhanced knowledge and guidance to engagement teams, allowing the auditor to read and understand the standards and how the KPMG methodology drives compliance with those standards, further standardizing our audit approach.

KPMG Clara also integrates the entity's general ledger data to provide meaningful insights during the audit. This assists the engagement team in obtaining an improved understanding of the business processes and underlying flow of transactions, enabling a more precise risk assessment and the development of a tailored audit approach. Current capabilities include the following:

— Assists in the analysis of journal entry transactions to allow for the identification of individual journal entries that are considered high risk, and automates related audit documentation

— Automates the preparation of analytics and enables dynamic comparison of current- and prior-year balances to highlight changes over time through visualization of balances and time series analysis

— Provides an enhanced understanding and visualization of transaction flows through accounts and processes

— Enables the performance of certain automated audit procedures using transactional subledger data from the entity's Enterprise Resource Planning (ERP) system.

Quality control review

KPMG continually seeks to strengthen and improve the role that the quality control reviewer plays in audits, as this is a fundamental part of the system of quality control. Every KPMG audit involves either an engagement quality control review or a limited-scope quality control review (collectively, a quality control review). The type of quality control review depends on the type of audit.

An engagement quality control review is performed for audits of financial statements of public entities, including those going public, and audits of internal control over financial reporting. Such a review includes an evaluation of any significant judgments and related conclusions as part of the overall conclusion on the engagement. A limited-scope quality control review is performed for audits that do not meet the criteria for an engagement quality control review. These reviews provide reasonable assurance that, among other things, the entity's financial statements comply with applicable accounting and reporting standards and relevant regulatory requirements and that the auditor's report is appropriate. All quality control reviewers must be independent of the entity and maintain integrity and objectivity.

Reviewers meet certain qualifications, training, and experience criteria to perform a quality control review for a particular engagement. Partners who perform engagement quality control reviews of public company audits receive additional internal training and are knowledgeable and experienced in SEC accounting and reporting matters and PCAOB standards (including, specifically, PCAOB Auditing Standard No. 1220, *Engagement Quality Review*). These partners are also supported by professionals who assist them in reviewing the engagement team's audit documentation.

KPMG requires a quality control review before the release date of the reports for financial statement audits, integrated audits, financial statement reviews, reviews of interim financial information, audits or reviews by component auditors (with certain exceptions), and other attest reports (except compilation reports) that may be used by more than one KPMG International member firm or relied upon by other parties.

At a minimum, quality control reviewers:

— Discuss significant engagement matters with the lead audit engagement partners or managing director

— Review documentation related to significant judgments and conclusions

— Review the appropriateness of the financial statements and related disclosures

— Review the reports to be issued

— For engagement quality control reviews, evaluate the audit engagement team's response and conclusions with respect to significant risks

— For an integrated audit, review management's report on internal control over financial reporting and the related auditor's report.

Our report is not released until completion of the quality control review.

Engagement documentation

Our audit documentation is completed and assembled according to the timeline established by firm policy, and we have implemented administrative, technical, and physical safeguards to protect the confidentiality and integrity of client and firm information.

KPMG policy requires engagement teams to clear all review notes before the report date and initiate file closure within two business days of the report release date. We also require engagement teams to complete the workpaper assembly and record retention process within five business days after the release of the report.[4] To make it easier for engagement teams to file and retain documentation, we automated the archiving and file closeout process. Our audit professionals are trained on the documentation assembly and record retention process in connection with this policy, process, and technology.

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

Independence

Our independence policies require that our firm, partners, management group, and the people assigned to each audit engagement be free from financial interests in and prohibited relationships with the entities we audit, their affiliates, individuals in financial reporting oversight roles, directors, and significant owners. We require adherence to applicable independence requirements and ethical standards, which meet or exceed the standards promulgated by the SEC, PCAOB, AICPA, Government Accountability Office (GAO), and other applicable regulatory bodies.

Our national Independence Group, which is a dedicated group of experienced partners and employees led by the National Partner in Charge, Independence and reporting to the National Partner in Charge, Risk Management – Audit and Independence, is responsible for our independence policies, processes, and controls in the areas outlined below. To promote the objectivity of the Independence Group, it is part of Risk Management led by the Vice Chair – Risk Management, who reports directly to the Chair and CEO and has no audit operational responsibilities.

Personal independence

Each professional has ultimate responsibility for maintaining personal independence.

In addition to policies prohibiting any partner or employee from trading on inside information, our partners, managing directors, managers, and those providing professional services to an entity we audit or its affiliates (collectively, restricted entities) may not have direct or material indirect investments in that restricted entity, regardless of whether they are in possession of inside information about such entities.

The KPMG Independence Compliance System (KICS) contains an inventory of SEC registrants and other entities from which we must be independent, along with the securities issued by those entities. These entities and securities are marked as "restricted" in KICS. Before purchasing a security, securing a loan, or initiating another financial relationship, all partners, members of the management group, and any professional providing professional services to an entity we audit or its affiliates are required to use KICS to determine whether the entity is restricted. Additionally, acquisitions and disposals of investments and loans must be reported in KICS, which automatically notifies professionals if a previously permissible investment or loan becomes "restricted." Other compliance monitoring processes also identify noncompliant activity (e.g., late reporting of an investment acquisition). For most investment activity, all managers and above are required to use brokers that link to and automatically feed into our professionals' KICS accounts, to enable timely reporting of investments and identification and disposal of potentially prohibited investments.

Certain firm professionals may also be subject to limitations related to other financial relationships (e.g., credit cards, insurance products, and bank accounts) with restricted entities. In addition, certain firm professionals may not have a close family member in an accounting or financial reporting oversight role with an audit client or, in certain cases, its affiliates.

Postemployment relationships

KPMG professionals are required to report promptly to the firm any discussions or contacts regarding possible employment that they may have with an audit client or its affiliates.

If an audit engagement team member intends to engage in possible employment negotiations with an audit client, they are immediately removed from the engagement. Their work is reviewed to assess whether the professional exercised appropriate skepticism and, when appropriate, the work may be reperformed.

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[4] PCAOB auditing standards require that a complete and final set of audit documentation be assembled for retention within 45 days after the report is released.

If a former KPMG professional accepts employment with an audit client or with certain affiliates, then the engagement team considers the appropriateness or necessity of modifying the audit procedures to adjust for the risk that the former professional's prior knowledge of the audit plan could reduce audit effectiveness.

For SEC issuer entities we audit, a former member of the audit engagement team may not accept employment in a financial reporting oversight role at such entity until the required "cooling-off" period, which in most cases is more than 12 months, has expired.

Rotation of audit partners

To comply with the Sarbanes-Oxley Act of 2002 and SEC independence rules, the firm's lead audit engagement partners and certain other partners and managing directors are subject to specific rotation requirements that limit the number of consecutive years certain individuals may provide services to an SEC-registered entity we audit. The firm's policies also limit the number of years certain individuals may provide services for audit clients not subject to SEC independence rules. To facilitate compliance with these requirements, the firm uses its Partner Rotation System, which assists in tracking assignments of certain personnel and initiating personnel changes on entities we audit. Additionally, Risk Management must approve any proposed change of a lead audit engagement partner of an SEC registrant if the change is for any reason other than required partner rotation or normal partner retirement. Our monitoring system also aids in the development of timely transition plans that help the firm to deliver consistent quality service to the entities we audit. The process of overseeing and tracking service periods and rotations is subject to compliance testing as part of various monitoring functions.

Firm financial independence

Our Independence Group reviews all new firm financial transactions, including direct investments in firm pension and employee benefit plans, for potential independence issues and conducts monthly reviews of firm investments and loans to confirm that there are no investments in, or loans from, restricted entities. We test ownership threshold levels to help ensure that any indirect financial interest in an entity we audit is not material.

KPMG also uses KICS to record its own direct investments in listed entities and funds (or similar investment vehicles) as well as in nonlisted entities or funds. This includes investments held in pensions and employee benefit plans.

Additionally, we are required to record in KICS all firm borrowing and capital financing relationships, as well as custodial, trust, and brokerage accounts that hold member firm assets.

Pursuits of SEC audit engagements

A client may request the firm and other bidders to respond to a Request for Proposal (RFP) through a competitive selection process before awarding work. During such a process, we do not allow our professionals to receive material information that would not be made available to other participants (e.g., other firms/bidders), as that would provide the firm with an unfair competitive advantage.

When there is a competitive RFP pursuit of an SEC audit engagement, we require our professionals on the pursuit team to confirm that during the pursuit process, they were in compliance with firm policies and professional standards regarding objectivity, integrity, and independence.

Approval of audit and nonaudit services

Our policies and Sentinel system help us prevent the provision of prohibited nonaudit services to audit clients, facilitate audit committee preapproval of permitted services (as required), and allow us to identify and manage potential conflicts of interest.

Lead audit engagement partners and managing directors are required to reflect the legal and ownership structures of audit clients and their affiliates in the firm's Sentinel system. Additionally, KPMG International member firms must enter every proposed engagement (and the client for which it relates) into the Sentinel system before starting work. The Sentinel system identifies if the proposed service is for an audit client or an affiliate of an audit client. When the engagement is for an audit client or affiliate, an evaluation of the permissibility of the service, including potential threats and safeguards, is required to be included in the Sentinel submission. The Sentinel system notifies the lead audit engagement partner or managing director of all services proposed for their audit client or its affiliates. For all services proposed for SEC-registered and certain nonpublic entities we audit, the lead audit engagement partner or managing director reviews and approves or denies the service. For approved proposed services, Sentinel designates a timeframe during which the approval remains valid. Upon expiration of the established timeframe, the services are required to be complete or be re-evaluated for permissibility; otherwise, the services are required to be exited.

For SEC-registered entities, the audit partner or managing director obtains preapproval of permitted services from the audit committee or designated representative prior to providing the service. For engagements subject to GAO standards, the lead audit engagement partner or managing director must approve nonaudit services before they begin.

Further, when an audit client plans to engage in a merger, acquisition, or other transaction that will result in a new entity becoming an affiliate of the audit client, the Sentinel system allows the firm to identify any services and other relationships that may exist between the firm or a KPMG International member firm and the potential new affiliate. The firm evaluates the need to exit or otherwise resolve any services or relationships or conflicts that may be impermissible under the independence rules should the entity become an audit client affiliate.

Business relationships, suppliers, and financial relationships

Firm policies and procedures help ensure that our business, supplier, and financial relationships with audit clients are identified, assessed, and maintained in accordance with applicable independence standards. The Independence Group monitors compliance with these policies and procedures.

Further, as part of the business relationship evaluation process, the firm considers the need for an exit strategy before entering into a business relationship with a nonaudit client should the firm be required to terminate the relationship due to independence requirements (i.e., if the entity were to become an affiliate of an audit client).

Business acquisitions and investments

If KPMG is in the process of considering the acquisition of, or investment in, a business, then we perform due diligence procedures on the prospective target to identify and address any potential independence and risk management issues before closing the transaction.

Training and confirmations

KPMG has established processes to communicate independence policies and procedures to our people. We require all professionals to complete annual independence training and affirm their independence when they join the firm and at least annually thereafter.

Independence monitoring

We monitor compliance with our independence policies related to personal financial interests through KICS as well as a personal independence compliance audit process. All partners are subject to independence compliance audits every five years and leadership[5] is subject to independence compliance audits every three years. Client service employees are subject to independence compliance audits on a sample basis.

Annually, the firm conducts over 900 independence compliance audits of its partners and employees in addition to other targeted monitoring activities. For all new partners, principals, and audit managing directors, we conduct detailed procedures before they join the firm or are promoted into such roles, to identify financial interests and relationships that would become impermissible in those roles. This allows the financial interest or relationship to be terminated or modified to prevent a violation prior to their joining the firm or the effective date of their promotion.

Through participation in the Audit, Advisory and Tax Quality Review Programs, the Independence Group evaluates a sample of audit engagements to determine compliance with independence requirements and related firm policies, including those pertaining to partner rotation; fees outstanding at commencement of the audit; maintenance of group legal, affiliate, and ownership structures in Sentinel; audit committee preapproval of services; required independence communications; and former partners in an accounting or financial reporting oversight role. A sample of nonaudit services provided by Advisory and Tax to SEC-registered audit clients is also reviewed to determine compliance with engagement setup and contracting requirements and to ensure permissibility under the SEC and PCAOB independence rules, including audit committee preapproval requirements.

Sanctions for independence violations

All professionals are required to report a potential independence violation as soon as it comes to their attention. Any violations of auditor independence regulations are reported to the audit committee or those charged with governance at the audit client.

KPMG has an established and documented disciplinary policy in relation to independence violations, with multiple sanction levels (including financial penalties) that correspond to the significance of the violations. A failure to comply with our independence policies, whether self-reported or identified through a personal independence compliance audit or other compliance monitoring process, is subject to discipline. A panel of firm leaders is charged with overseeing the imposition of sanctions for independence violations.

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

Compliance with laws, regulations, and standards is required and expected of everyone at KPMG. We have zero tolerance for bribery and corruption. We also do not tolerate illegal acts or unethical behavior by third parties, including by our clients, suppliers, or public officials.

KPMG professionals are required to take training covering compliance with laws, regulations, and professional standards relating to anti-bribery and corruption, including the reporting of suspected or actual noncompliance.

[5] Members of the Board of Directors and Management Committee

Objectivity

We are committed to maintaining our objectivity and avoiding undue influence. KPMG policies are in place to prohibit KPMG personnel from offering or accepting inducements, including gifts and hospitality to or from audit clients, unless the value is trivial and inconsequential, is not prohibited by relevant law or regulation, and is not deemed to have been offered with the intent to improperly influence the behavior of the recipient or which would cast doubt on the individual's or the firm's integrity, independence, objectivity, or judgment.

Confidentiality, information security, and data privacy

KPMG has policies and processes in place to help ensure that any nonpublic information that comes to the attention of our personnel as a result of their association with the firm (confidential information) is treated confidentially, in accordance with applicable laws, professional standards, and contractual requirements. All KPMG personnel are trained on and required to confirm their understanding of and adherence to the firm's confidentiality, information security, and data privacy policies when they join the firm and at least annually thereafter.

KPMG has dedicated information security and privacy teams and employs a combination of physical, technical, and administrative controls and assessments in the information security and privacy programs, both for internal systems and over third parties.

Recruitment, development, and assignment of appropriately qualified people

One of the key drivers of quality is ensuring that our professionals have the appropriate skills and experience, integrity, motivation, and purpose to deliver a high-quality audit. This requires appropriate recruitment, development, training, reward, promotion, retention, and assignment of professionals.

Recruitment and onboarding

Our recruitment strategy is focused on drawing talent from a broad base, including working with established universities, professional organizations, and leadership societies to build relationships with a diversified talent pool at all stages of their career.

The interview process includes recruiting individuals to regularly updated job descriptions and having technical experts participate in the interview process to assess an applicant's skill sets and knowledge base.

Before receiving an offer of employment, all experienced applicants receive the firm's independence guidelines to ensure they understand these requirements early in the recruiting process. Campus hires receive this information at the time of offer. Anyone who accepts an offer must complete an authorization for release of information, which allows the firm to conduct a background investigation that verifies certain information through independent sources. Upon joining the firm, new hires complete required training programs on independence, ethics, respect and dignity, protection of confidential information, document retention, and security, in addition to any applicable practice-related training. Situations involving independence or conflicts of interest are resolved before the individual can begin employment.

Professional development

To support our commitment to audit quality, we are committed to the growth and development of our professionals. We continuously evaluate and improve upon our methods of identifying the developmental needs of our professionals and our instruction by assessing results gathered through monitoring our audits, course evaluations, focus groups, testing, and follow-up surveys. Additionally, our professionals are required to maintain their technical competence and to comply with applicable regulatory and professional requirements regarding continuing professional education (CPE).

Recent changes include:

- The 2021 learning experience involved an enhanced focus on the development of our Audit professionals by assigning courses more closely aligned to their roles and responsibilities and at the appropriate learning point. Members of engagement teams, including Advisory and Tax professionals supporting the audit, were encouraged to plan their development as a team in a manner that supports the delivery of a quality audit.
- As part of our focus on the development of the learner and in our continued response to COVID-19, content was again delivered in 2021 through learning roadmaps, a series of short microlearnings and other activities, to allow the professional to apply the content into practice in a meaningful and immediate way. In addition to the learning roadmaps in 2021, Virtual Classroom sessions were designed leveraging features like breakout rooms, whiteboarding, and polling to facilitate peer-to-peer and peer-to-facilitator collaboration and knowledge sharing, coaching, and application of key concepts.

- Technology is absolutely critical to audit execution, and we prioritized the delivery of technology enablement to our professionals in 2021. As part of that prioritization, we delivered a series of industry-based workshops that were immersive and interactive to an initial set of engagement teams to enhance their development. The workshops provided engagement teams with the opportunity to work together on their actual engagements and plan the execution of several industry-specific automated audit routines.

In addition, in FY21, Audit professionals (at the associate level and above) completed in aggregate over 60,000 hours of learning on using data and enabling technologies in the audit. Nearly 4,000 auditors are upskilled on data and analytic capabilities, and more than 1,500 auditors are trained on Information Technology (IT) audits.

Client service professionals who are eligible to hold a certified public accountant (CPA) license (i.e., those who have passed the CPA exam and meet applicable state educational and experience requirements) must be licensed to practice in the state where their principal place of business is located and meet CPA licensing or reciprocity requirements in any other state in which they practice public accounting. We monitor license expiration and renewal for our professionals using a database, which generates a notification before license expiration. Professionals who are deficient in meeting our CPA licensing requirements may be subject to disciplinary action.

Our Ethics and Compliance Group tests and monitors compliance with firm policies related to CPE and licensing.

Audit continuous improvement

As part of our focus on audit quality, we maintain a team of process improvement professionals with extensive experience in improving the audit process in and around the audit. Our Continuous Improvement (CI) program helps audit teams improve project planning and management and apply process improvement techniques related to engagement execution. Engagement teams learn to improve audit quality, while driving operational excellence and enhancing the experience for our clients and people. The CI team supports our system of quality control through design and implementation of response initiatives. The CI program is deployed through several modes including workshops with engagement teams alone or with their client, better practices and solution sharing via the CI portal, and coaching provided by the local office CI champion network. The CI team also drives and supports Audit leadership in process improvement, including driving standardization, consistency, and measurement across all business processes to drive enhanced quality in audit execution and the way we run the business.

Diversity, equity, and inclusion

Diversity, equity, and inclusion (DEI) is a longstanding commitment and foundational component of our firm's Values and long-term business strategy. It is top-of-mind for our CEO and senior leadership team, Board, and our Chief DEI Officer, all working in concert to achieve our Accelerate 2025 vision as described in our 2021 U.S. DEI Transparency Report.

We are proud of our work over the past year and acknowledge that there is always more we can do within the firm and the broader society. To hold ourselves accountable, we have committed to greater transparency on delivering against these objectives.

At the end of fiscal 2021, the firm's workforce is represented by:

- Underrepresented groups at 66 percent, 40 percent at the partner and managing director level
- Women at 46 percent, 25 percent at the partner and managing director level
- People of color at 35 percent, 17 percent at the partner and managing director level.

Our goal is to establish ourselves as the leading professional services firm, with the most diverse representation and engagement at all levels of the organization. We want to compel and inspire others—including clients, vendors, and communities—to partner, collaborate, and share leading practices that will benefit the professional services industry. We invite you to review our 2021 U.S. DEI Transparency Report and look forward to sharing more information through our broader U.S. ESG report in 2022.

Performance measurement, advancement, and compensation

All partners and employees participate in annual expectation setting and semiannual performance evaluations. Our performance measurement model, which includes Values, Quality (for Partners/Managing Directors), Competencies, and Contributions, provides a consistent framework by which leadership and people management leaders may discuss performance relative to goals and objectives and career development aspirations. In addition to considering adherence to our firm's Values, we evaluate each professional on skills and behaviors that include a focus on quality, compliance with professional standards and firm policies, technical competencies, engagement execution, leading and developing people, and continuous learning. They are also assessed on their contribution to their practice and the firm, as measured through their achievement of their Individual Business Objectives, and if applicable, Key Metrics. Each professional's annual performance evaluation results directly affect their compensation and advancement, and in some cases, their continued association with our firm.

KPMG has compensation and promotion policies that are informed by market data and linked to the performance review process. This helps our employees know what is expected of them and what they can expect to receive in return. The connection between performance and reward is achieved by assessing relative performance across a peer group to inform reward decisions. Reward decisions are based on consideration of both individual and firm performance.

Our partnership admission process is thorough. Each candidate, whether a direct-entry or internal nomination, undergoes a due diligence process that includes a background check, independence review, ethics and compliance review, and consultation with the Office of General Counsel. Candidates are interviewed by several members of firm leadership, including a professional practice or risk management partner and a member of the Board. Each internal partner candidate also undergoes an extensive review by a number of departments, including Risk Management. All recommendations for admission to the partnership must be approved by our Management Committee and Board.

Audit partner compensation is determined annually by Audit leadership and approved by our Management Committee and Board. The professional practice partners have significant involvement in evaluating Audit partner performance, including consideration of audit quality indicators and compensation recommendations. Additionally, one of the factors considered in the compensation of Tax and Advisory partners who participate in audit engagements is their performance relative to audit quality.

Our policies for setting compensation amounts do not allow Audit partners (and certain other partners meeting the definition of an Audit partner for purposes of this policy) to be compensated for obtaining nonaudit service engagements with an entity that they audit.

All partners are compensated out of the firm's profits, which are based on the firm's results as a whole and are not dependent directly on the performance of any particular line of business or function. Individual partner compensation is set considering sustained quality, contributions, roles and responsibilities, and leadership values and behaviors.

Assignment of engagement teams

We assign people to specific engagements based on their skill sets, relevant professional and industry experience, the nature of the assignment or engagement, and available capacity. Lead audit engagement partners and managing directors, and quality control reviewers' assignments are approved by business unit leadership and may also be subject to regional and national leadership approval, including Risk Management, based on the individual characteristics of the specific engagement.

The lead audit engagement partner or managing director considers whether the engagement team collectively has the appropriate competencies and capabilities, including time, to perform the audit engagement in accordance with our audit methodology, professional standards, applicable legal and regulatory requirements, and firm policies. This may include involving specialists from our own firm, other KPMG member firms or external experts. Engagement team knowledge, skill, and ability include:

- An understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation
- An understanding of professional standards and legal and regulatory requirements
- Appropriate technical skills, including those related to relevant IT, tax, actuarial, and valuation
- Knowledge of relevant industries in which the audit entity operates
- Ability to apply professional judgment and professional skepticism
- An understanding of the KPMG SoQC
- Available time to fulfill the audit responsibilities.

Partner and employee surveys

Throughout the year, partners and employees are invited to participate in independent surveys that measure their overall level of engagement with the firm and cover areas of focus that are directly relevant to audit quality. The results provide leadership with information about drivers of business performance, employee engagement and motivation, audit quality and risk behaviors, upholding of KPMG Values, and attitudes to quality, leadership and tone at the top; enable leadership to see how the firm is progressing against strategic priorities; and provide metrics that identify potential areas that may require leadership attention.

Commitment to technical excellence and quality service delivery

All professionals are provided with the technical training and support they need to perform their roles. This includes access to employed KPMG specialists and DPP—which is made up of senior professionals with extensive experience in auditing, reporting, and risk management—either to provide resources to the engagement team or for consultation. Within our network of KPMG member firms are other KPMG professionals who have various skills and experiences and who are available for additional support or collaboration should the need arise.

To support our strategic focus on technology as the future of Audit, we recently transitioned approximately 950 IT professionals into Audit. This integration allows us to dramatically accelerate Audit's technology capabilities, which enhances audit quality and consistency and better aligns us with the expectations of our regulators.

Consultation and differences of opinion

We have established protocols for consultation regarding significant accounting, reporting, and auditing matters, including procedures to resolve differences of opinion on audit engagement issues. Consultation within the firm is encouraged and, in certain circumstances, required. Technical support for each engagement team comes from the DPP group and a network of professionals with experience in topics such as tax, valuation, technology, and other business areas, as well as from our Professional Practice Partners.

Differences of opinion may arise within the engagement team, with those consulted, or between the lead audit engagement partner or (for certain private entity audits) managing director and the quality control reviewer. When an engagement team member does not agree with the resolution of a difference of opinion, even after appropriate consultation including DPP, and believes it necessary to be disassociated from the matter, the individual documents the matter, including the basis for resolution, in the audit documentation. If there are disagreements within DPP over the conclusions reached, then the alternative view, with input from the dissenting DPP professional, is fully documented and the Chief Accountant or Chief Auditor in DPP and the DPP PIC are consulted.

We also do not issue the auditor's report until differences of opinion are documented and the final conclusion is implemented and documented.

Access to specialist network

Engagement teams have access to a network of highly skilled KPMG specialists employed locally and at other KPMG member firms, if needed. Engagement partners are responsible for ensuring that their engagement teams have the appropriate resources and competencies.

The need for and assignment of specialists to a specific audit engagement is considered throughout the audit engagement, including at acceptance and continuance. Specialists who are assigned to serve the engagement team have the competencies and objectivity to appropriately fulfill their role. Training on audit concepts is provided to these specialists.

Performance of effective audits

The KPMG audit is, where applicable, an integrated audit model, which incorporates both the audit of the financial statements and the audit of internal control over financial reporting. Our integrated audit is enhanced through timely communications with audit committees and company management throughout the audit process.

We use our knowledge and experience to identify and assess risks to determine the nature, timing, and extent of audit procedures. The higher the risk, the more persuasive the audit evidence needs to be to mitigate such risks. We exercise professional skepticism throughout the audit by gathering and objectively evaluating the sufficiency and appropriateness of audit evidence, which includes both confirming and disconfirming evidence.

The KPMG audit addresses our clients' manual and automated controls. We integrate our IT and Tax professionals into the core audit engagement team, when appropriate, and incorporate procedures to identify and respond to fraud risks.

The KPMG audit also guides the conduct of audits of financial statements consisting of two or more components (group audits) and clearly delineates responsibilities relative to managing group audits and the involvement of the group audit engagement team in the work performed by the component auditor. We have policies and guidance related to matters that merit special consideration in group audits, including:

- Performing the group risk assessment, including obtaining an understanding of the group, its components, and their environments
- Identifying significant components
- Identifying significant accounts/disclosures and relevant assertions at the group level
- Evaluating groupwide controls
- Establishing group and component materiality
- Communicating with component auditors
- Being involved in the component auditors' work
- Evaluating the results and findings of all work performed and considering whether sufficient appropriate audit evidence has been obtained.

Timely partner and manager involvement

The engagement partner is responsible for the direction, supervision, and performance of the engagement and therefore responsible for the overall quality of the audit engagement.

Involvement and leadership from the engagement partner during the planning process helps set the appropriate scope and tone for the audit and helps the engagement team obtain maximum benefit from the partner's experience and skill. Timely involvement of the engagement partner at other stages of the engagement allows the engagement partner to identify and appropriately address matters significant to the engagement, including critical areas of judgment and significant risks.

Early planning and risk assessment procedures is key to proper audit sequencing and achieving sustained audit quality. Engagement teams working in KPMG Clara are subject to milestones and project management deadlines. KPMG Clara includes a project plan that allows teams to assign work against those deadlines to members of the engagement team, including all individuals in the review chain. This information is repurposed throughout the workflow, so teams know the status of any piece of work at any time. The data from the project plan is visualized through various dashboards that interact with KPMG Clara, which help teams manage their metrics and implement continuous improvement methodologies. Certain metrics are also made available to business unit leadership through a monitoring program to help identify engagement teams that may need assistance in meeting their plans.

The engagement partner is responsible for the final audit opinion and reviews key audit documentation, including documentation relating to significant matters arising during the audit and conclusions reached. In preparing the auditors' report, engagement partners have access to reporting guidance and technical support from DPP. The engagement manager assists the partner in meeting these responsibilities and in the day-to-day liaising with the client and team, building a deep business understanding that helps the partner and team deliver a quality audit.

Critical assessment of audit evidence with emphasis on professional skepticism

The nature and extent of the audit evidence we gather is responsive to the assessed risks. We consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence. Further, each team member is required to exercise professional judgment and maintain professional skepticism throughout the audit engagement.

Professional skepticism involves a questioning mind and alertness to contradictions or inconsistencies in audit evidence. Professional skepticism features prominently throughout the auditing standards, and the KPMG audit emphasizes the importance of maintaining an attitude of professional skepticism throughout the audit.

Our professional judgment framework recognizes the need to be aware of, and alert to, biases that may pose threats to good judgment. We require engagement teams to follow a structured approach to auditing areas that require significant judgment, which involves:

- Identifying and evaluating estimates that contain a risk of material misstatement
- Performing retrospective reviews of the above identified estimates as well as those that were a risk of material misstatement in the prior year but are no longer considered a risk of material misstatement
- Explicitly documenting the sufficiency and appropriateness of audit evidence obtained for all estimates, in light of the risk assessment; the procedures performed; and any contradictory, inconsistent, or other disconfirming evidence identified.

The use of the professional judgment process and the application of professional skepticism is reinforced through coaching and training, acknowledging that judgment is a skill developed over time and with different experiences.

Supervision, review, and support for the engagement team

Supervision entails directing the efforts of professionals who are involved in meeting the objectives of the audit and determining whether those objectives were accomplished. Supervision includes instructing and guiding professionals; keeping informed of significant issues; reviewing work; addressing auditing, accounting, and reporting matters; and agreeing on appropriate conclusions.

Appropriate involvement of the quality control reviewer

Although the engagement partner is ultimately responsible for the resolution of financial reporting and accounting and auditing matters, the quality control reviewer must be satisfied that all significant questions raised have been resolved before an audit can be considered complete and the related report issued.

Communicating effectively

Insightful, open, and honest two-way communication

Effective two-way communication between the auditor and the audit committee and management is key to audit quality and is a key aspect of reporting and service delivery.

At KPMG, we stress the importance of keeping the audit committee and management informed of issues arising throughout the audit through guidance and support resources. We achieve this through a combination of reports and presentations, attendance at audit committee (and, as appropriate, board) meetings, and ongoing discussions with management and, when appropriate, members of the audit committee.

The firm provides templates to engagement teams to facilitate the relevance, timeliness, and quality of the communications between the auditor and audit committee in a manner consistent with the rules and regulations established by policymakers.

Audit Committee Institute

In recognition of the demanding and important role that audit committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, the KPMG Audit Committee Institute (ACI) aims to help audit committee members enhance their ability to implement effective audit committee oversight processes. As part of the KPMG Board Leadership Center, the ACI provides audit committee members with insights, programs, and resources, such as the KPMG Audit Committee Guide, on matters of interest to audit committees: updates on issues like EU audit reform, changes to accounting standards, cybersecurity, corporate culture, risk oversight, technical updates, awareness seminars, and the opportunity to network with their peers on common challenges and emerging governance practices.

Founded in the U.S. in 1999, ACIs are hosted by KPMG member firms in approximately 40 countries today.

Further details and insights on the ACI are available here.

IFRS Institute

KPMG's International Financial Reporting Standards (IFRS) Institute provides information and resources to help board and audit committee members, executives, management, stakeholders, and government representatives gain insight and access thought leadership about the evolving IFRS global financial and sustainability reporting frameworks. In addition, KPMG has specific education and experience requirements for professionals working on IFRS engagements in countries where IFRS is not the predominant financial reporting framework.

Commitment to monitoring quality and continuous improvement

KPMG is committed to continually improving the quality, consistency, and efficiency of our audits. Our quality monitoring and root-cause programs enable us to identify quality deficiencies; perform root-cause analysis; and develop, implement, and report remedial action plans, both in respect of individual audit engagements and our system of quality control. The following paragraphs discuss other elements of our commitment to continuous improvement, including our compliance with KPMG International key policies and procedures.

Monitoring

Our monitoring procedures include our firm's internal inspection program (Quality Performance Review [QPR]), our internal independence and compliance monitoring processes, preissuance monitoring programs, and other activities described in this report. We continuously evaluate our monitoring results, as well as the results of external regulatory inspections and peer reviews. We conduct ongoing consideration and evaluation of the following matters:

- Relevance and adequacy of the firm's messaging, policies, procedures, and practices
- Appropriateness of firm guidance materials, tools, and practice aids
- Effectiveness of professional development activities
- Results of external reviews, including by the PCAOB, other regulators and government bodies, and our peer review firm
- Compliance with professional and firm standards, policies, and procedures
- Effectiveness of action plans developed to address systemic findings related to audit engagement performance and our system of quality control.

Internal reviews

Inspections Group

We reinforce our commitment to audit quality through our Inspections Group, which is comprised of highly skilled professionals whose function is to monitor our audit and attest engagements and interact with external inspectors and peer reviewers.

The Inspections Group executes our annual internal inspection program for the Audit practice by performing preissuance inspections for in-process audits and postissuance inspections of completed audits and liaising closely with the Root Cause and Collaboration Group (previously defined as RCCG). The group also coordinates and acts as the principal interface for external audit quality reviews, including the annual PCAOB inspection of the firm and the triennial AICPA peer review program.

To further enhance the objectivity of those who conduct internal reviews and interact with external inspectors and peer reviewers, our Inspections Group is part of Risk Management. The Vice Chair – Risk Management reports directly to the Chair and CEO and has no audit operational responsibilities. This ensures that the group's internal inspections of the firm's audits are completely objective and free from any potential influence or perceived pressures from engagement partners or Audit leadership.

Internal inspection processes

Through our QPR program, which implements an aspect of the monitoring element of the quality control standards set by the PCAOB and AICPA, we review a selection of audits conducted during each annual audit cycle. We identify whether areas for improvement exist and use the findings to continuously enhance our audit process, guidance to our professionals, and training. During the inspections planning phase, the QPR program considers areas for improvement that were previously identified to assess our progress in those areas.

Our QPR program components include:

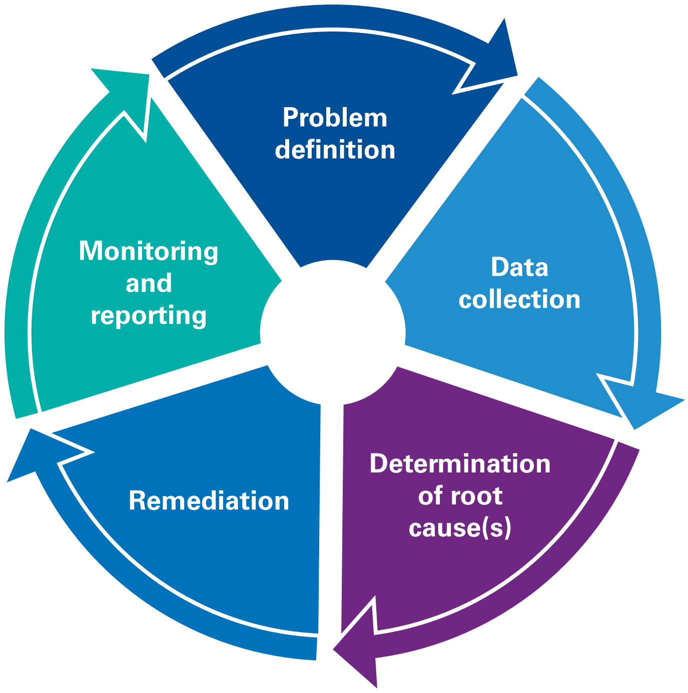
- The core Inspections Group, consisting of partners, managing directors, executive directors, directors, and senior managers, supplemented by other firm professionals with applicable industry and technical knowledge
- Systematic inspections of individual partner and managing director audit engagements of public and nonpublic entities that provide for a review of every engagement leader over a four-year period
- Systematic inspections of audit engagements of selected managers in a lead role for an SEC-registered entity
- Inspections of audit engagements using risk-based selection criteria
- Inspections of audit engagements on a random basis
- Inspections of in-process audit engagements
- Annual training for all reviewers participating in and overseeing the process, with a focus on topics of concern identified by audit oversight regulators and the need to be as rigorous as external reviewers.
- Frequent, timely reporting of inspection results
- Identification of common inspection findings, including those areas where audit quality can be improved, which are provided to the RCCG for consideration in its root-cause analysis.

Root-cause analysis

The role of the RCCG is to respond to engagement and firm-level audit quality control matters raised through internal and external inspections or through other channels by (1) gathering information associated with audit quality matters, identifying the root causes of those deficiencies, and supporting the development of remedial action plans designed to enhance audit engagement performance or quality controls; and (2) enhancing the firm's overall processes to build audit quality considerations into operational and business initiatives through ongoing collaboration with other Audit practice groups. The RCCG analyzes root causes associated with audit quality matters through a process tailored to specific circumstances, which involves defining the problem, collecting and analyzing data, and identifying root causes. To address root causes, the RCCG also helps develop, implement, and monitor remedial actions that are selected by the senior Audit leadership team in conjunction with other Audit practice groups and Audit professionals.

Our RCCG professionals are trained using the Global root-cause analysis (RCA) 5 Step Principles, which provides a common platform for advancing the practices and skills associated with resourcing, planning, and conducting RCA.

Global RCA 5 Step Principles



Risk compliance program

The firm is subject to an annual risk compliance program (RCP) as a condition of ongoing membership in KPMG International. The RCP is a cross-functional self-review program designed to provide KPMG firms with a consistent process to document, assess, and monitor the extent of compliance of their system of quality control with Global Quality and Risk Management (GQ&RM) policies and related procedures, which include the requirements of ISQC 1, and key legal and regulatory requirements. The RCP results are considered during our annual assessment of our system of quality control. Where findings are identified during the RCP, we are required to develop appropriate action plans and then monitor the status of each action item through to completion.

Global quality and compliance reviews

As a condition of ongoing membership in the KPMG International network, we are also subject to a cross-functional global quality and compliance review (GQ&CR), at various intervals based on identified risk criteria. KPMG International's GQ&CR team, which is external to KPMG LLP, performs the reviews and is objective and knowledgeable of GQ&RM policies. GQ&CRs assess compliance with select KPMG International policies and procedures and share leading practices among member firms. The GQ&CR provides an independent assessment of the firm's:

- Commitment to quality and risk management (tone at the top) and the extent to which our overall structure, governance, and financing support and reinforce this commitment

— Compliance with KPMG International policies and procedures

— Effectiveness in performing our own RCP.

We develop action plans to respond to all GQ&CR findings that indicate improvement is required and agree these with the GQ&CR team, which monitors our progress on these plans. Results are reported to the Global Quality and Risk Management Steering Group and to appropriate KPMG International and regional leadership, and we consider the GQ&CR results during our annual assessment of our system of quality control.

External reviews

Regulatory

The PCAOB oversees auditors of U.S. public companies to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports. The PCAOB conducts periodic inspections of registered public accounting firms, and we are subject to annual inspection. The PCAOB plays an important role in improving audit quality and the results of its inspection process provide areas of focus to enhance our engagement performance and strengthen our system of quality control.

KPMG has been subject to annual PCAOB inspections since 2003. In each PCAOB inspection, certain of our public company audit engagements were selected for review and certain procedures relating to the activities and responsibilities of our executive and national offices were performed. As initially published, the PCAOB's inspection reports include a public portion (Part I), which describes the PCAOB's observations related to the particular audits it inspected, and a nonpublic portion (Part II) that includes the PCAOB's criticisms of, or potential defects in, the firm's system of quality control. The quality control observations remain nonpublic if the firm demonstrates to the PCAOB's satisfaction that it has made substantial, good-faith progress toward remediating the quality control observations in the report within the 12 months following the initial publication of the report.

The status of the five most recent PCAOB inspections follows.

The PCAOB has not yet released its 2021 KPMG inspection report.

On November 1, 2021, the PCAOB released its 2020 KPMG inspection report. The public portions of the report are available on our website: home.kpmg/us/en/home/about/regulatory-and-peer-reviews.html. We will submit our response to the nonpublic portion of this report no later than September 2022.

On February 2, 2021, the PCAOB released its 2019 KPMG inspection report. The public portions of the report are available on our website: home.kpmg/us/en/home/about/regulatory-and-peer-reviews.html. We submitted our response to the nonpublic portion of this report in December 2021.

In June 2020, the PCAOB issued its 2018 KPMG inspection report. The public portions of the report are available on our website: home.kpmg/us/en/home/about/regulatory-and-peer-reviews.html. We submitted our response to the nonpublic portion of this report in March 2021.

In January 2019, the PCAOB issued its 2017 KPMG inspection report. The public portions of the report are available on our website: http://home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html. We submitted our response to the nonpublic portion of this report in January 2020. The PCAOB has determined that the firm satisfactorily addressed the quality control matters in the nonpublic portion of the 2017 KPMG inspection report.

KPMG does not publicize otherwise nonpublic portions of PCAOB inspection reports. However, we would be pleased to discuss with our clients significant information contained in the reports and the areas of focus for audit performance improvements.

Peer review

To comply with licensing requirements of state boards of accountancy, the GAO, and membership in the AICPA, we undergo external peer review every three years. Firms can receive a rating of pass, pass with deficiency(ies), or fail. The firm's most recent peer review report on our system of quality control applicable to engagements not subject to permanent PCAOB inspection (nonpublic entity accounting and auditing practice) for the year ended March 31, 2020 was issued with a pass rating by PricewaterhouseCoopers LLP in December 2020.

Our most recent peer review report and the AICPA's acceptance letter are public documents that are accessible through our website at http://home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html.

Statement of effectiveness of the system of quality control

As set forth earlier in this report, KPMG is committed to providing high-quality professional services, including audit services, in an ethical manner for all of our constituents, including entities that are listed on capital markets around the globe. Maintaining an effective system of quality control is paramount to achieving this commitment and the consistent performance of high-quality audits. The Audit practice performs an annual evaluation of the policies and procedures and operation of its system of quality control. The system of quality control includes, among other components of the system of quality control, monitoring the results of the Audit practice internal inspection program, as well as evaluating the results of external regulatory and peer reviews. The results of these activities, together with other activities described in further detail in the "Monitoring" section of this report, are reviewed on a recurring basis to determine and develop corrective actions, as needed, to continually improve the firm's system of quality control. Such evaluations have provided the basis to conclude that the overall system of quality control for the Audit practice is operating effectively.

About KPMG LLP

KPMG LLP is the U.S. firm of the KPMG global organization of independent professional services firms providing audit, tax, and advisory services. The KPMG global organization operates in 145 countries and territories and has more than 236,000 people working in member firms around the world.

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