2022 Inspection KPMG LLP

(Headquartered in New York, New York)

December 20, 2023

(as amended April 24, 2024)

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PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

EXECUTIVE SUMMARY

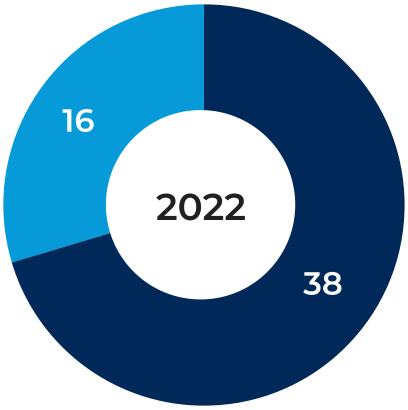
Our 2022 inspection report on KPMG LLP provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of what is included in this report:

- Part I.A of the report discusses deficiencies ("Part I.A deficiencies") in certain issuer audits that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or internal control over financial reporting (ICFR).
- Part I.B of the report discusses certain deficiencies ("Part I.B deficiencies") that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.
- Part I.C of the report, which is new commencing with our 2022 inspection reports, discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence ("Part I.C deficiencies").

If we include a Part I.A or Part I.B deficiency in this report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. If we include a Part I.C deficiency in this report, it does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. If we include a deficiency in Part I.A, Part I.B, or Part I.C of this report, it does not necessarily mean that the firm has not addressed the deficiency.

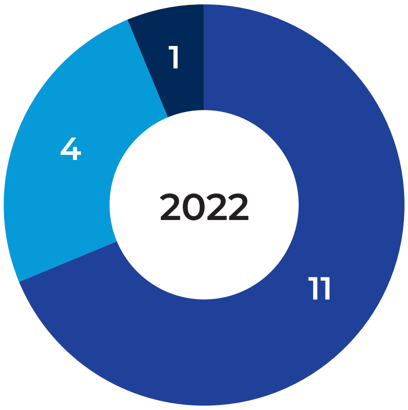
Overview of the 2022 Deficiencies Included in Part I

Sixteen of the 54 audits we reviewed in 2022 are included in Part I.A of this report due to the significance of the deficiencies identified. The identified deficiencies primarily related to the firm's testing of controls over and/or substantive testing of revenue and related accounts, deposit liabilities, and inventory.



30% Part I.A deficiency rate

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



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

The most common Part I.A deficiencies in 2022 related to testing of the design and/or operating effectiveness of controls selected for testing, testing related to a significant account or disclosure or to address an identified risk, and in some cases the resulting overreliance on controls when performing substantive testing.

The Part I.B deficiencies in 2022 related to retention of audit documentation, risk assessment, auditor tenure, Form AP, and audit committee communications.

The most common Part I.C deficiencies in 2022 related to audit committee pre-approval, indemnification clauses, financial relationships, and non-audit services.

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2022 INSPECTION

In the 2022 inspection of KPMG LLP, the PCAOB assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review 54 audits of issuers with fiscal years generally ending in 2021. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2022 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.
- **Part I – Inspection Observations:**
  - o **Part I.A:** Deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.
  - o **Part I.B:** Certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.
  - o **Part I.C:** Instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

  Consistent with the Act, it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II.
- **Part II – Observations Related to Quality Control:** Criticisms of, or potential defects in, the firm's system of quality control. Section 104(g)(2) of the Sarbanes-Oxley Act ("Act") restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.
- **Appendix A – Firm's Response to the Draft Inspection Report:** The firm's response to a draft of this report, excluding any portion granted confidential treatment.

2022 Inspection Approach

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

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

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

Our target team performs inspection procedures in areas of current audit risk and emerging topics and focuses its reviews primarily on evaluating the firm's procedures related to that risk or topic. In 2022, our target team focused primarily on audits of issuers that had recently completed initial public offerings and issuers that were recently formed by mergers between non-public operating companies and special purpose acquisition companies (SPACs).

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

OVERVIEW OF THE 2022 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2022 inspection as well as data from the previous two inspections. We use a combination of risk-based and random methods to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from year to year and firm to firm. As a result of this variation, we caution that our inspection results are not necessarily comparable over time or among firms.

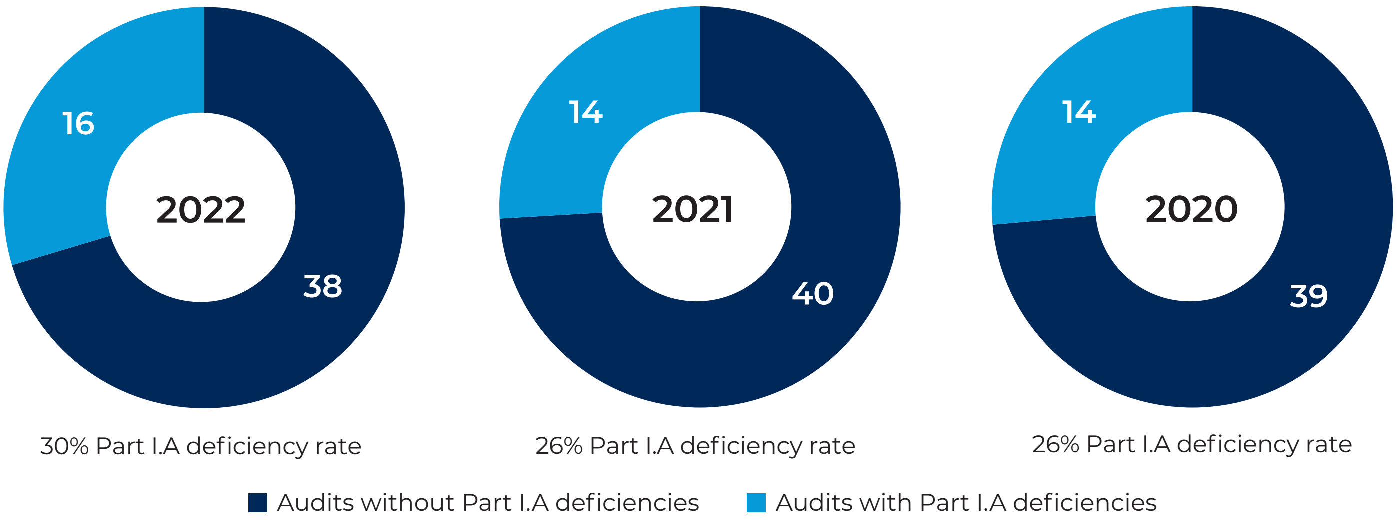
Audits Selected for Review

	2022	2021	2020
Total audits reviewed			
Total audits reviewed	54	54	53
Selection method			
Risk-based selections	37	25	37
Random selections	13	25	13
Target team selections[1]	4	4	3
Total audits reviewed	**54**	**54**	**53**
Principal auditor			
Audits in which the firm was the principal auditor	53	54	52
Audits in which the firm was not the principal auditor	1	0	1
Total audits reviewed	**54**	**54**	**53**
Audit type			
Integrated audits of financial statements and ICFR	43	45	47
Financial statement audits only	11	9	6
Total audits reviewed	**54**	**54**	**53**

[1] For further information on the target team's activities in 2021 and 2020, refer to those inspection reports.

Part I.A Deficiencies in Audits Reviewed

In 2022, 14 of the 16 audits appearing in Part I.A were selected for review using risk-based criteria. In 2021 and 2020, nine of the 14 audits appearing in Part I.A were selected for review using risk-based criteria.

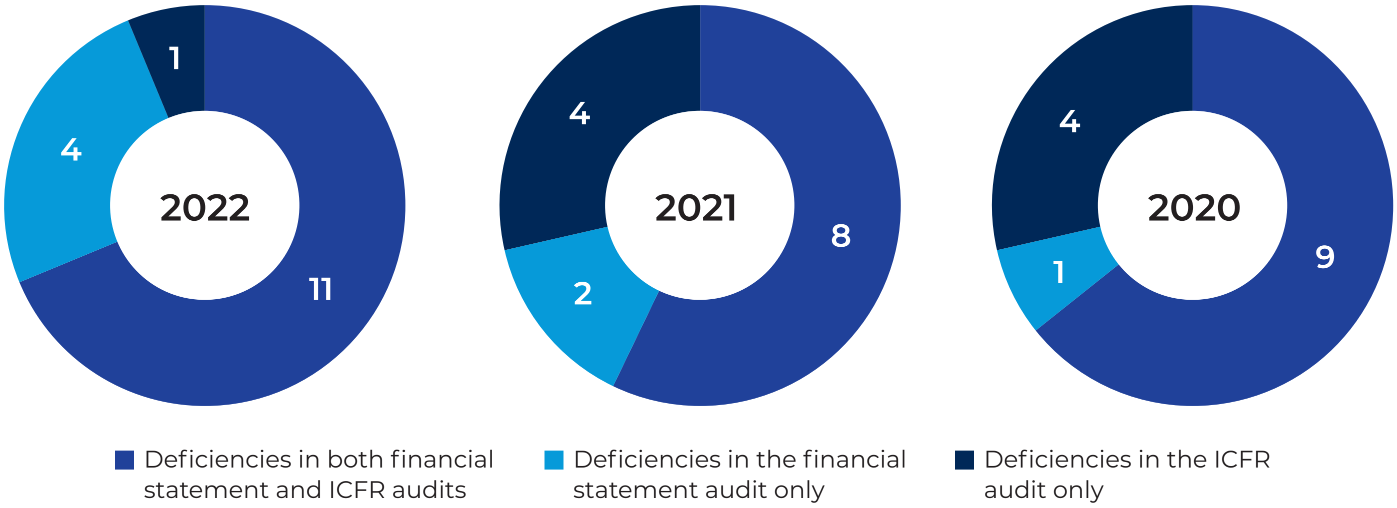


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional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

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

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

Audits Affected by the Deficiencies Identified in Part I.A



In connection with our 2022 inspection procedures for one audit, the issuer restated its financial statements to correct a misstatement, and the firm revised and reissued its report on the financial statements. The issuer also revised its report on ICFR, and the firm revised and reissued its report to include additional material weaknesses.

The following tables and graphs summarize inspection-related information, by inspection year, for 2022 and the previous two inspections. We caution against making any comparison of the data provided without reading the descriptions of the underlying deficiencies in each respective inspection report.

Most Frequently Identified Part I.A Deficiencies

Deficiencies in audits of financial statements	Audits with Part I.A deficiencies		
	2022	2021	2020
Did not perform sufficient testing related to a significant account or disclosure or to address an identified risk	6	1	2
Did not obtain sufficient evidence as a result of overreliance on controls (due to deficiencies in testing controls)	5	6	8
Did not perform sufficient testing of data or reports used in the firm's substantive testing	3	5	3
Did not sufficiently evaluate significant assumptions that the issuer used in developing an estimate	3	2	2

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2022	2021	2020
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	5	9	9
Did not identify and/or sufficiently test controls over the accuracy and completeness of data or reports that the issuer used in the operation of controls	4	6	5
Did not identify and test any controls that addressed the risks related to a significant account or relevant assertion	4	5	5

Audit Areas Most Frequently Reviewed

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

2022			2021			2020		
Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies
Revenue and related accounts	37	6	**Revenue and related accounts**	32	6	**Revenue and related accounts**	36	5
Inventory	16	2	**Long-lived assets**	15	1	**Business combinations**	13	1
Business combinations	13	1	**Debt**	12	0	**Investment securities**	12	4
Accruals and other liabilities	12	1	**Goodwill and intangible assets**	11	1	**Inventory**	12	1
Long-lived assets	11	1	**Cash and cash equivalents**	11	0	**Long-lived assets**	12	0

Audit Areas with Frequent Part I.A Deficiencies

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

Audit area	2022		2021		2020	
	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed
Revenue and related accounts	6	37	6	32	5	36
Deposit liabilities	2	4	0	1	0	2
Inventory	2	16	2	9	1	12
Allowance for credit losses/ Allowance for loan losses	1	9	3	9	2	11
Going concern	1	1	2	6	0	6
Investment securities	1	11	1	8	4	12

Revenue and related accounts: The deficiencies in 2022 related to substantive testing of, and/or testing controls over, revenue and deferred revenue. The deficiencies in 2021 and 2020 related to substantive testing of, and testing controls over, revenue.

Deposit liabilities: The deficiencies in 2022 related to substantive testing of, and testing controls over, items the issuer placed in certain cash and/or deposit suspense accounts for further evaluation.

Inventory: The deficiencies in 2022 related to substantive testing of, and testing controls over, inventory, including cycle-count controls. The deficiencies in 2021 primarily related to testing controls over the existence of inventory. The deficiencies in 2020 related to testing controls over the existence of inventory and the resulting overreliance on controls when performing substantive testing.

Allowance for credit losses/Allowance for loan losses: The deficiency in 2022 related to testing controls over the allowance for credit losses. The deficiencies in 2021 primarily related to testing controls over the allowance for credit losses. The deficiencies in 2020 related to testing controls over the allowance for loan losses.

Going concern: The deficiencies in 2022 and 2021 primarily related to substantive testing of the issuer's evaluation of its ability to continue as a going concern.

Investment securities: The deficiencies in 2022 related to substantive testing of, and testing controls over, the issuer's disclosures related to its investment securities. The deficiency in 2021 related to testing a control over the evaluation of investment securities for possible impairment. The deficiencies in 2020 related to substantive testing of, and testing controls over, investment securities.

Auditing Standards Associated with Identified Part I.A Deficiencies

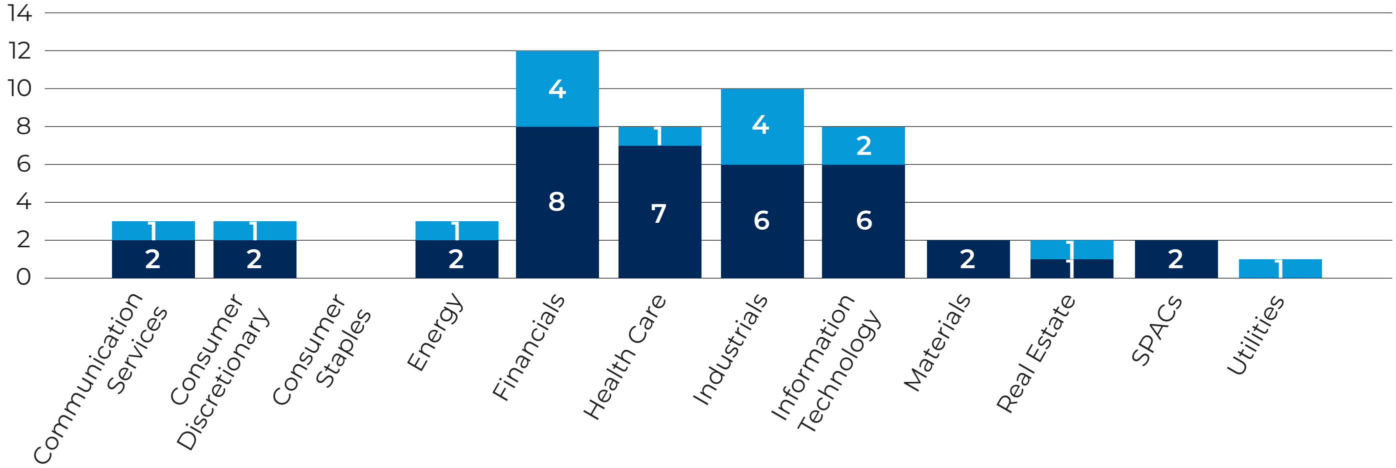
The following lists the auditing standards referenced in Part I.A of the 2022 and the previous two inspection reports, and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2022	2021	2020
AS 1105, *Audit Evidence*	9	11	3
AS 2101, *Audit Planning*	1	0	0
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	16	29	32
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	10	6	10
AS 2315, *Audit Sampling*	2	5	7
AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*	2	1	0
AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements* (effective for fiscal years ending on or after December 15, 2020)	3	2	-
AS 2501, *Auditing Accounting Estimates* (effective for fiscal years ending before December 15, 2020)	-	1	0
AS 2502, *Auditing Fair Value Measurements and Disclosures* (effective for fiscal years ending before December 15, 2020)	-	0	4
AS 2503, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities* (effective for fiscal years ending before December 15, 2020)	-	0	1
AS 2510, *Auditing Inventories*	1	1	0
AS 2601, *Consideration of an Entity's Use of a Service Organization*	0	1	0
AS 2810, *Evaluating Audit Results*	3	1	0

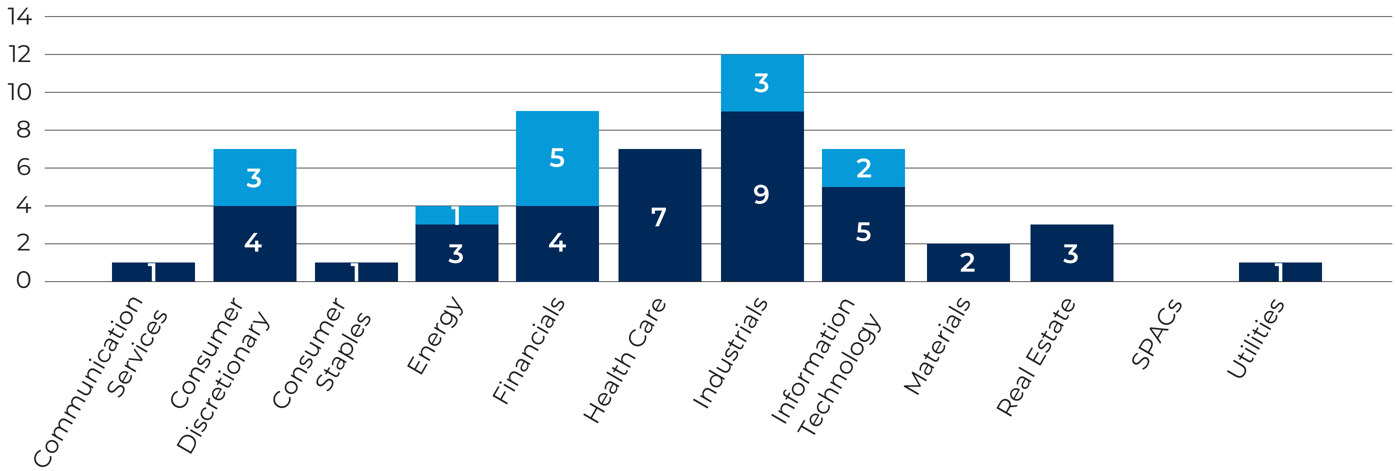
Inspection Results by Issuer Industry Sector

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

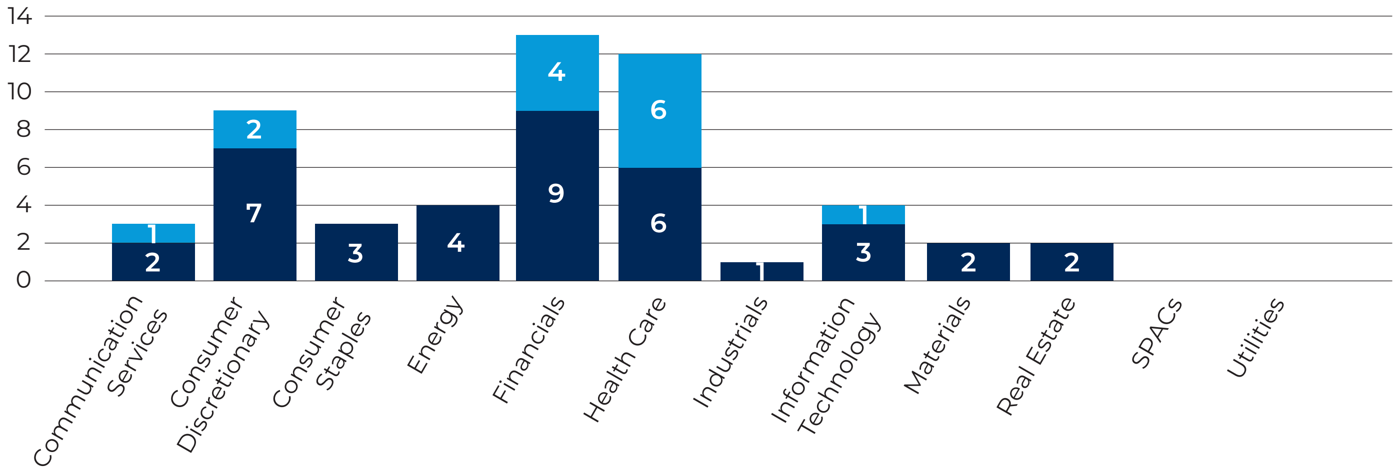
2022



2021



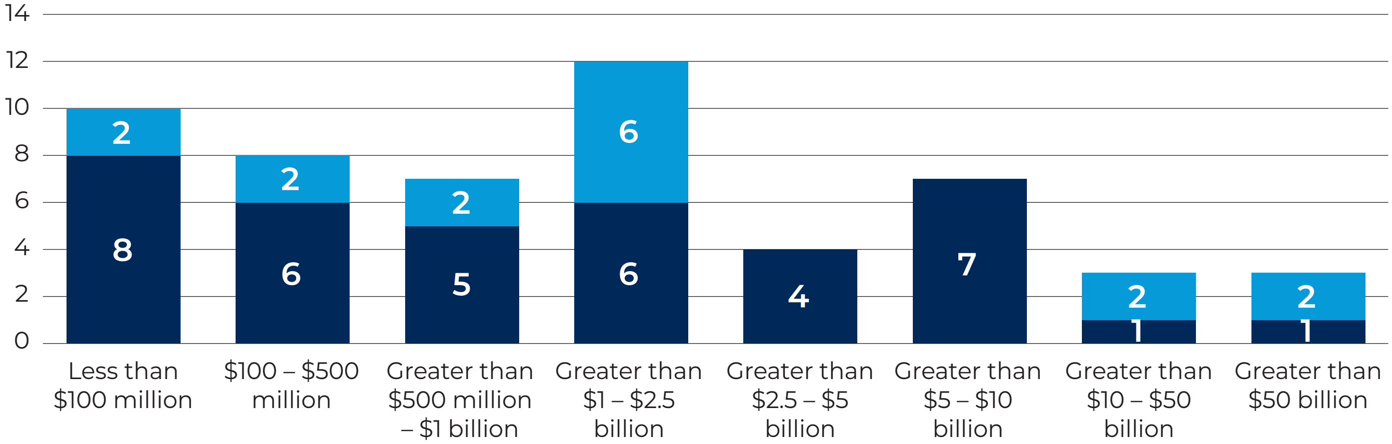
2020



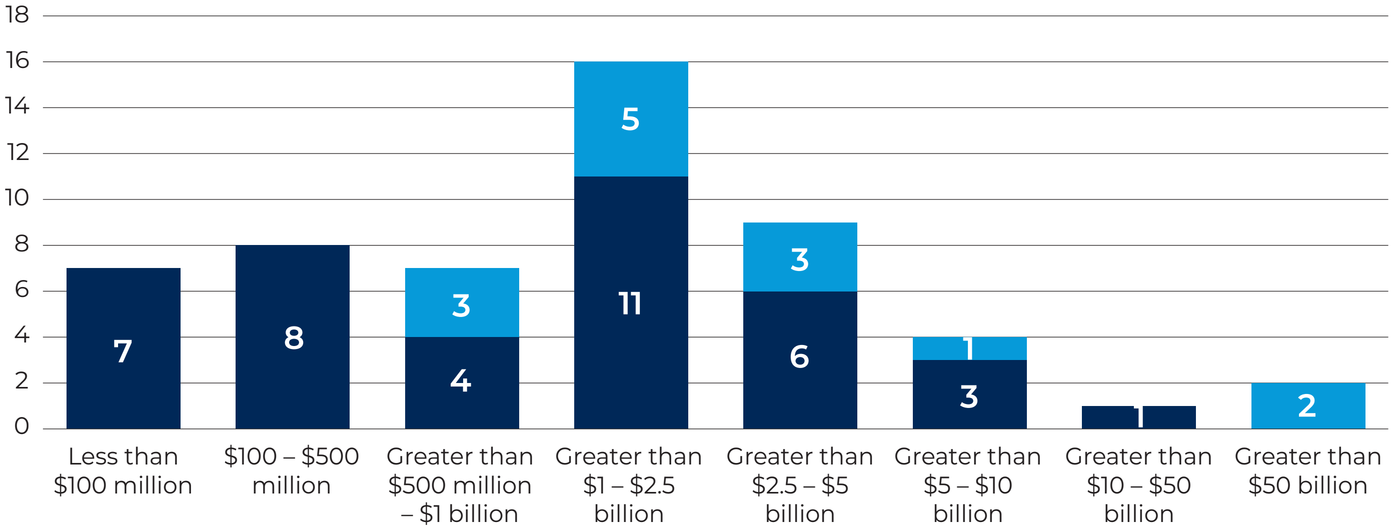
■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

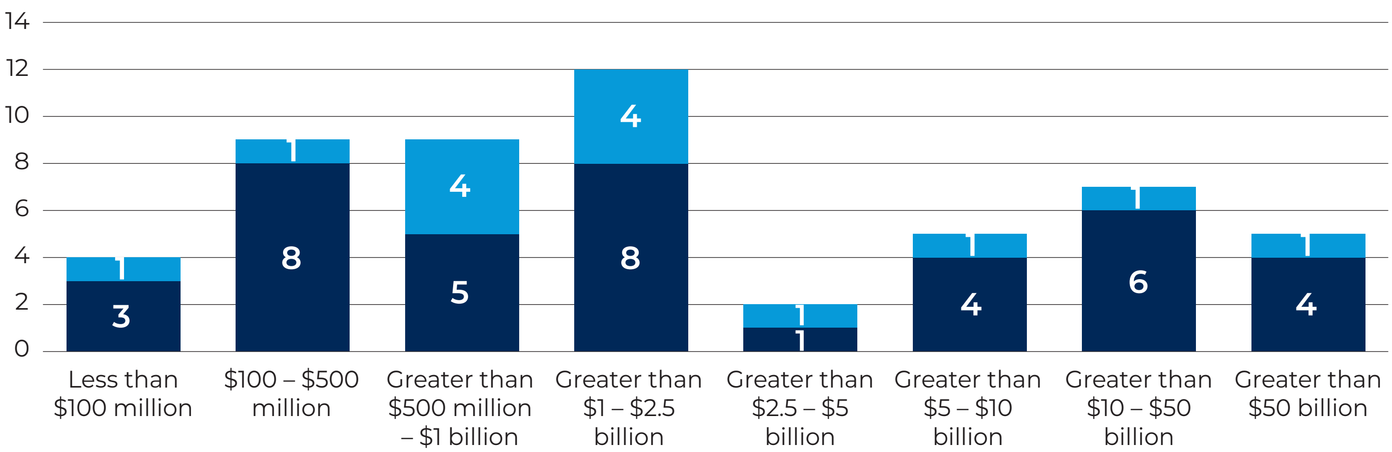
2022



2021



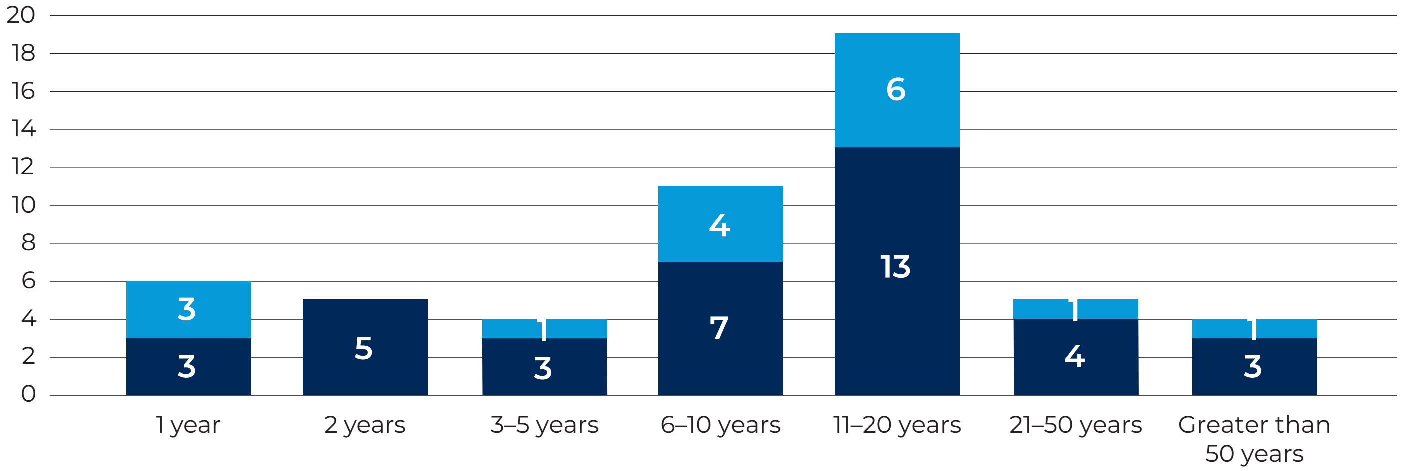
2020



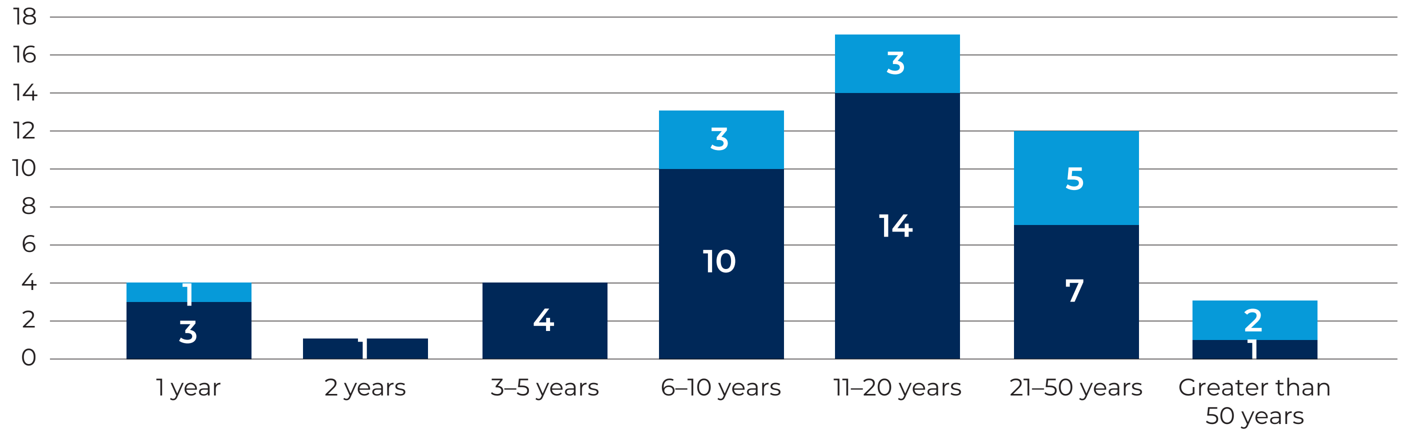
■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

Inspection Results by the Firm's Tenure on the Issuer

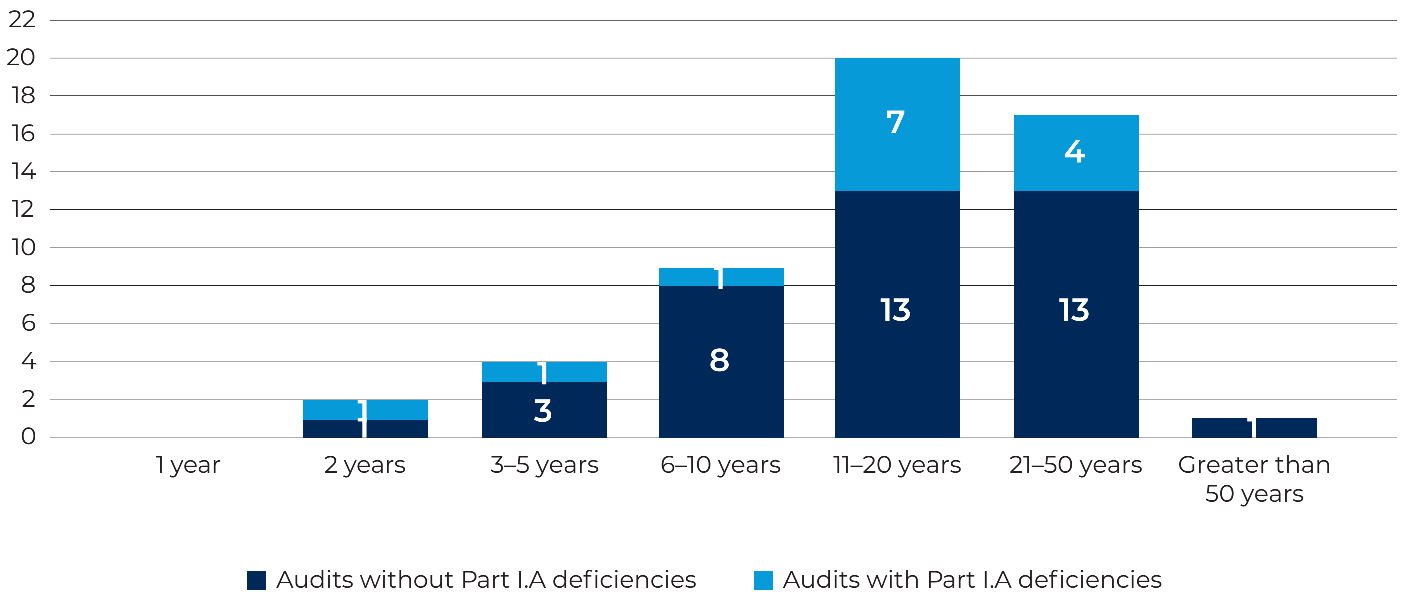
2022



2021



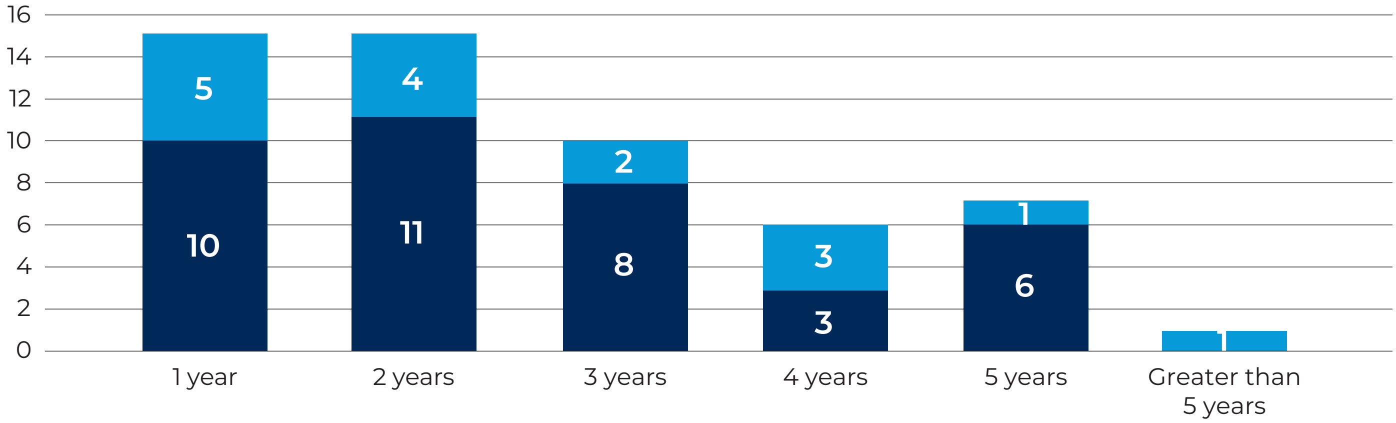
2020



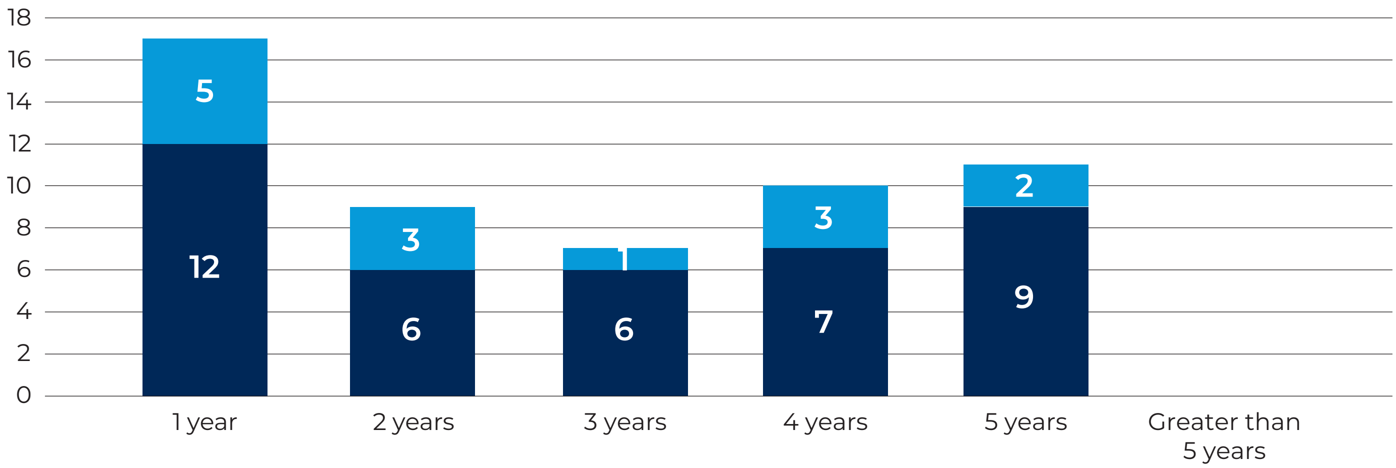
Inspection Results by the Engagement Partner’s Tenure on the Issuer

For audits in which the firm was not the principal auditor, the engagement partner's tenure on the issuer may be up to seven years.

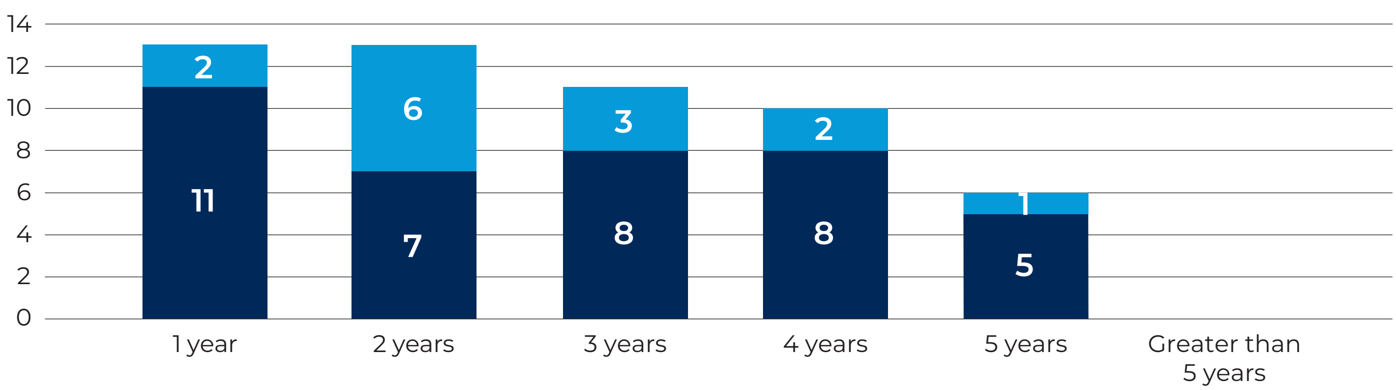
2022



2021



2020



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

Classification of Audits with Part I.A Deficiencies

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

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

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

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

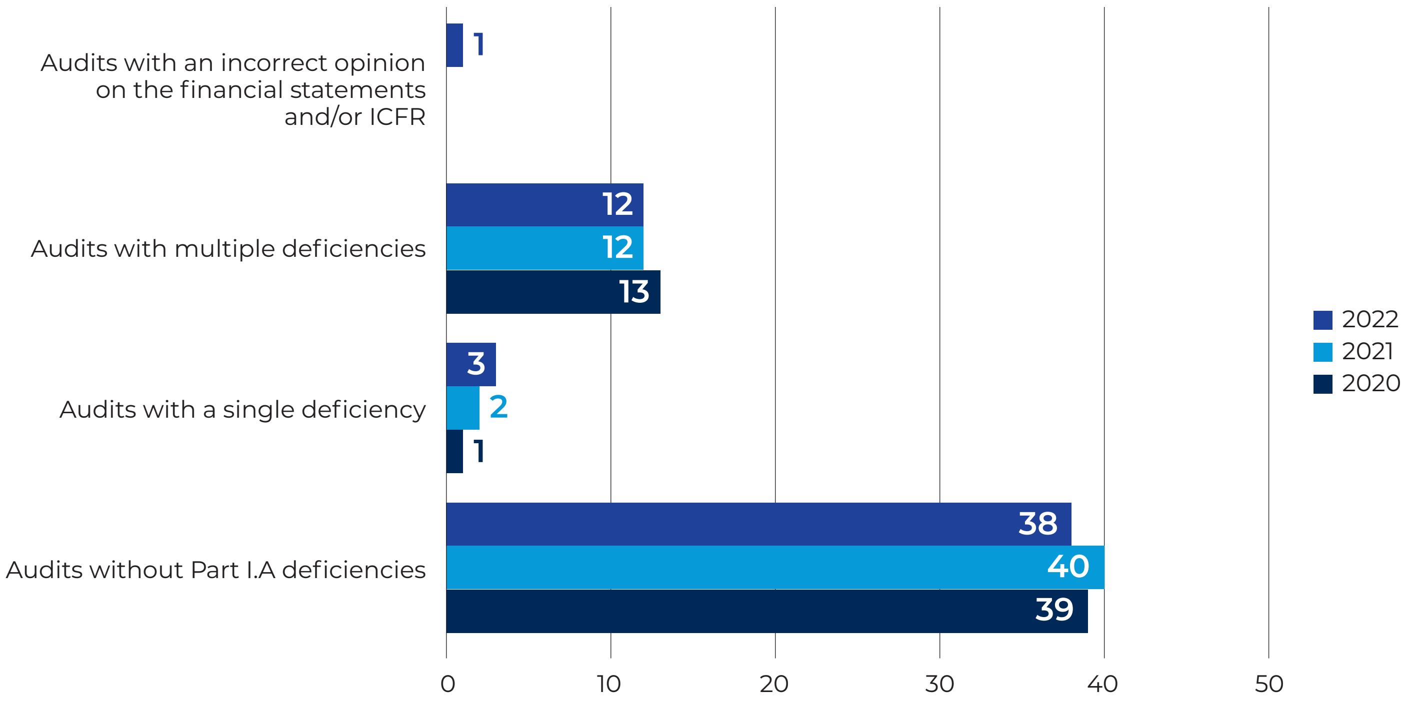
Audits with Multiple Deficiencies

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

Audits with a Single Deficiency

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

Number of Audits in Each Category



PART I: INSPECTION OBSERVATIONS

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

Part I.B discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Part I.C discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

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

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

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

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

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

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

Issuer A – Information Technology

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Going Concern**, for which the firm identified a significant risk:

The issuer used forecasted cash flows that it developed using various assumptions, including forecasted revenue and gross margins, in its evaluation of its ability to continue as a going concern. Subsequent to year end but prior to the issuance of the financial statements, the issuer entered into a debt agreement that included a guarantee that required it to make payments to holders of this debt if certain criteria were met. The following deficiencies were identified:

- The firm selected for testing a control that included the issuer's review of the forecasted cash flows used in its going concern evaluation. The firm did not evaluate the specific review procedures that the control owner performed to assess (1) the reasonableness of the forecasted revenue and gross margin assumptions and (2) whether any potential payments related to the guarantee should have been included in the forecasted cash flows. (AS 2201.42 and .44)
- In evaluating the reasonableness of the forecasted cash flows, the firm did not perform any procedures, beyond inquiring of management, to evaluate significant differences between the forecasted revenue for the first two months of the forecast and the actual results for this same period. (AS 1105.04 and .06; AS 2415.03) In addition, the firm did not perform any procedures to evaluate whether the issuer's exclusion of any potential payments related to the guarantee from the forecasted cash flows was appropriate. (AS 1105.04 and .06; AS 2415.03)
- The firm selected for testing a control that included the issuer's review of its subsequent events disclosures. The firm did not evaluate the specific review procedures that the control owners performed to assess whether these disclosures were in conformity with GAAP. (AS 2201.42 and .44)
- The firm did not perform any procedures to evaluate whether the issuer should have included information related to the potential payments related to the guarantee in its subsequent events disclosures. (AS 2301.08)

In connection with our review, the issuer reevaluated whether any potential guaranteed payments should have been included in its evaluation of its ability to continue as a going concern and concluded that a material misstatement existed that had not been previously identified. The issuer subsequently restated its financial statements, and the firm revised and reissued its report on the financial statements. The issuer also reevaluated its controls over its going concern evaluation and subsequent events disclosures and concluded that material weaknesses existed that had not been previously identified. The issuer subsequently reflected these material weaknesses in a revision of its report on ICFR, and the firm revised and reissued its report to include these additional material weaknesses.

With respect to **Goodwill**:

The issuer performed its annual analysis of goodwill for potential impairment as of an interim date. The following deficiencies were identified:

- The firm selected for testing a control that consisted of the issuer's quarterly assessment of qualitative and quantitative factors to determine whether indicators of potential impairment of goodwill existed. The firm did not identify that this control was not designed to identify and evaluate certain qualitative indicators of potential impairment. (AS 2201.42) In addition, in testing the operating effectiveness of this control at year end, the firm did not evaluate the specific review procedures that the control owner performed to evaluate certain indicators of potential impairment. (AS 2201.44)
- The firm did not evaluate certain indicators of potential impairment that existed at year end for one of the issuer's reporting units. (AS 2301.08; AS 2810.03)

Audits with Multiple Deficiencies

Issuer B – Industrials

Type of audit and related areas affected

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

Description of the deficiencies identified

The issuer used an internally developed information-technology (IT) system to calculate the amount of revenue and the related deferred revenue to be recorded for certain revenue transactions. The following deficiencies were identified:

- The firm selected for testing a control over change management for this revenue system but did not perform any procedures to determine whether the population of changes from which it made its selections for testing represented the complete population of changes made to this system. (AS 1105.10)

- The firm selected for testing certain automated and IT-dependent manual controls over this revenue and the related deferred revenue. The firm's approach to testing these controls depended on effective IT general controls (ITGCs), including controls over change management. As a result of the deficiency in the firm's testing of the control discussed above, the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2201.46)

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

During the year, the issuer recorded revenue as a result of a change in accounting estimate related to certain revenue that was previously deferred. The firm did not identify and evaluate the issuer's omission of disclosures related to this change in estimate that were required under FASB ASC Topic 250, *Accounting Changes and Error Corrections*. (AS 2810.30 and .31)

Issuer C – Health Care

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**, for which the firm identified a fraud risk.

Description of the deficiencies identified

The issuer recognized revenue based on contractual rates and hours incurred for services provided to its customers, and the firm selected a sample of these revenue transactions, by business unit, for testing. The following deficiencies were identified:

- For revenue for two business units, the firm did not perform any procedures to test the contractual rates and hours incurred. (AS 2301.08 and .13)

- For revenue for another business unit, the firm used contractual rate and service hour information from one of the issuer's systems in its testing but did not perform any procedures to test, or test any controls over, the accuracy of the contractual rates and the accuracy and completeness of the service hours. (AS 1105.10)

- For revenue for two other business units, the firm used service hour information from another of the issuer's systems in its testing but did not perform any procedures to test, or test any controls over, the accuracy and completeness of this information. (AS 1105.10) In addition, for revenue for one of these business units, the firm did not perform any procedures to test the contractual rates. (AS 2301.08)

Issuer D – Utilities

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Derivatives** and **Revenue**:

The issuer determined that certain of its derivative contracts qualified for the scope exception for normal purchases and normal sales under FASB ASC Topic 815, *Derivatives and Hedging*, and recorded revenue for transactions related to these contracts. The firm did not perform any procedures to evaluate whether the issuer's accounting for these contracts, including the revenue recognized, was appropriate. (AS 2301.08)

With respect to **Revenue**:

The issuer disclosed the amount of revenue assigned to each of its reportable segments. The firm selected for testing an automated control that used information from the issuer's general ledger to assign revenue to each reportable segment in the issuer's financial reporting system. The firm did not evaluate, beyond inquiring of management, whether this control was designed to assign revenue related to a business acquired during the year to the appropriate reportable segments. (AS 2201.42)

The firm used the assigned revenue amounts from the issuer's financial reporting system in its substantive testing of this disclosure but did not test, or (as discussed above) sufficiently test the control over, the appropriateness of the revenue assigned to the reportable segments. (AS 1105.10)

Issuer E – Industrials

Type of audit and related areas affected

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

Description of the deficiencies identified

The firm selected for testing a control that included the issuer's review of its revenue disclosures. The firm did not test the aspect of this control related to the control owner's review of the accuracy and completeness of the issuer-prepared schedules used in the operation of this control. (AS 2201.42 and .44)

The firm used these issuer-prepared schedules in its substantive testing of certain revenue disclosures. The firm did not perform any procedures to test, or (as discussed above) sufficiently test controls over, the accuracy and completeness of these schedules. (AS 1105.10)

During the year, the issuer acquired a business. The firm excluded from the scope of its financial statement audit the post-acquisition revenue and cost of revenue for this acquired business but did not evaluate certain factors that were relevant to the assessment of the risks of material misstatement associated with these accounts, including the materiality of this revenue and cost of revenue and the complexity of the issuer's contracts with its customers. (AS 2101.11 and .12)

Issuer F – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to the **Allowance for Credit Losses (ACL)** and **Deposit Liabilities**.

Description of the deficiencies identified

With respect to the **ACL**:

The issuer used a service organization to estimate the quantitative component of the ACL. The firm obtained a service auditor's report and identified a complementary user control that the service auditor's report described as necessary. The firm did not perform any procedures to evaluate whether the issuer had implemented this control. (AS 2201.39 and .B22)

With respect to **Deposit Liabilities**:

The issuer placed items in deposit suspense or certain cash accounts when the items required further evaluation. The firm selected for testing controls that included reviews of the reconciling items in these accounts. The firm did not evaluate the specific review procedures that the control owners performed to assess whether items that had been cleared from these accounts had been appropriately resolved. (AS 2201.42 and .44)

To substantively test deposit liabilities, the firm tested certain deposit suspense and cash account reconciliations. The firm did not perform any substantive procedures to evaluate whether items that the issuer had cleared from these accounts had been appropriately resolved. (AS 2301.08)

Issuer G – Communication Services

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and **Deferred Revenue**. This was the firm's initial audit of this issuer.

Description of the deficiencies identified

The issuer used an internally developed information-technology (IT) system to process certain revenue and the related deferred revenue. The firm selected for testing a control over change management for this revenue system but did not perform any procedures to determine whether the population of changes from which it made its selections for testing represented the complete population of changes made to this system. (AS 1105.10)

The firm selected for testing certain automated and IT-dependent manual controls over this revenue and the related deferred revenue. The firm's approach to testing these controls depended on effective IT general controls (ITGCs), including controls over change management. As a result of the deficiency in the firm's testing of the control discussed above, the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2201.46)

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

Issuer H – Financials

Type of audit and related area affected

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

Description of the deficiencies identified

The issuer recorded an estimated liability for deferred compensation expense related to certain of its employees. The firm did not identify and test any controls over this liability. (AS 2201.39)

The firm did not perform any substantive procedures to test the issuer's estimate for this liability. (AS 2501.07)

Issuer I – Financials

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Investment Securities**. This was the firm's initial audit of this issuer.

Description of the deficiencies identified

The firm did not identify and test any controls over the observability of the pricing inputs, at the individual instrument level, that the issuer used to determine the categorization of certain of its investment securities within the fair value hierarchy as set forth in FASB ASC Topic 820, *Fair Value Measurement*. (AS 2201.39)

The firm did not perform any substantive procedures to evaluate the appropriateness of the issuer's categorization of these investment securities within the fair value hierarchy, beyond tracing the balances that were disclosed for each category to an issuer-prepared analysis. (AS 2301.08)

Issuer J – Industrials

Type of audit and related area affected

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

Description of the deficiencies identified

The issuer performed cycle counts of certain inventory. The firm selected for testing a control that consisted of the issuer's review of the cycle-count results. The firm did not evaluate whether this control was designed to address whether this inventory was counted with sufficient frequency in accordance with the issuer's cycle-count policy. (AS 2201.42)

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

Issuer K – Financials

Type of audit and related area affected

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

Description of the deficiencies identified

The issuer placed items in deposit suspense accounts when the items required further evaluation. The firm selected for testing a control that consisted of the issuer's reconciliation of these deposit suspense accounts. The firm did not identify and test any controls over the accuracy and completeness of the system-generated reports used in the operation of this control. (AS 2201.39)

The firm used these system-generated reports in its substantive testing of deposit liabilities but did not perform any procedures to test, or (as discussed above) test any controls over, the accuracy and completeness of these reports. (AS 1105.10)

Issuer L – Consumer Discretionary

Type of audit and related area affected

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

Description of the deficiencies identified

The firm did not identify and test any controls over in-transit inventory for one of the issuer's business units. (AS 2201.39)

The firm did not perform any substantive procedures to test this inventory. (AS 2301.08)

Issuer M – Real Estate

Type of audit and related area affected

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

Description of the deficiencies identified

The firm selected for testing two controls over the issuer's review of the reasonableness of the fair values of acquired real estate investment properties. The firm did not evaluate the specific review procedures that the control owner performed to determine whether all items that required investigation had been identified. (AS 2201.42 and .44)

Audits with a Single Deficiency

Issuer N – Information Technology

Type of audit and related area affected

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

Description of the deficiency identified

The firm did not identify and evaluate a misstatement in a required disclosure under FASB ASC Topic 740, *Income Taxes*.[2] (AS 2810.30 and .31)

[2] The firm did not obtain sufficient appropriate audit evidence to support its opinion on the issuer's financial statements.

Issuer O – Energy

Type of audit and related area affected

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

Description of the deficiency identified

During the year, the issuer acquired a business. The firm did not perform any substantive procedures to test the fair values of the assets acquired and the liabilities assumed. (AS 2501.07)

Issuer P – Industrials

Type of audit and related area affected

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

Description of the deficiency identified

The issuer recognized revenue from a contract over time using an input method based on labor hours incurred. The firm did not perform any substantive procedures to evaluate the reasonableness of the estimated labor hours to complete this contract at year end, beyond inquiring of management and, for a sample of employees, confirming their labor hours budgeted for the contract as of year end. (AS 2501.16)

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

This section of our report discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

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

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

- In two of 54 audits reviewed, the firm did not include all relevant work papers in the final set of audit documentation it was required to assemble. In these instances, the firm was non-compliant with AS 1215, *Audit Documentation*.
- In two of 54 audits reviewed, the firm did not evaluate certain factors when determining that there were no risks of material misstatement related to a significant account and disclosure. In these instances, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In two of 14 audits reviewed and in one other audit, the year the firm began serving consecutively as the company's auditor that was included in the firm's audit report was incorrect. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.
- In 16 of 54 audits reviewed, the firm's report on Form AP either included inaccurate information or omitted information related to the participation in the audit by one or more other accounting firms. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.
- In one of 10 audits reviewed, the firm did not discuss with the audit committee the potential effects of permissible tax services on the independence of the firm. In this instance, the firm was non-compliant with PCAOB Rule 3524, *Audit Committee Pre-Approval of Certain Tax Services*.

PART I.C: INDEPENDENCE

This section of our report discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence. An instance of potential non-compliance with SEC rules or an instance of non-compliance with PCAOB rules does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. Although this section includes instances of potential non-compliance that we identified and the firm brought to our attention, there may be other instances of non-compliance with SEC or PCAOB rules related to independence that were not identified through our procedures or the firm's monitoring activities.

PCAOB-Identified

We identified the following instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence:

- Under Rule 2-01(c)(7) of Regulation S-X, an accountant is not independent if it does not obtain audit committee pre-approval for audit and non-audit services. We identified two instances for one issuer in 10 audits reviewed in which this circumstance appears to have occurred related to certain non-audit services.
- An audit client's agreement to indemnify its auditor with respect to certain liabilities is inconsistent with the general standard of independence set out in Rule 2-01(b) of Regulation S-X and impairs the accountant's independence with respect to an audit client. We identified six instances for one issuer in 10 audits reviewed in which this circumstance occurred.

Firm-Identified

During the inspection, the firm brought to our attention that it had identified, through its independence monitoring activities, 24 instances across 19 issuers,[3] representing approximately 2% of the firm's total issuer audits, in which the firm or its personnel appeared to have impaired the firm's independence because it may not have complied with Rule 2-01(c) of Regulation S-X related to maintaining independence. Approximately 33% of these instances of potential non-compliance involved non-U.S. associated firms.

While we have not evaluated the underlying reasons for the instances of potential non-compliance, the number, large or small, of firm-identified instances of potential non-compliance may be reflective of the size of the firm, including the number of non-U.S. associated firms in the global network; the design and effectiveness of the firm's independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of the issuer. Therefore, we caution against making any comparison of these firm-identified instances of potential non-compliance across firms.

The most common instances of potential non-compliance related to financial relationships, audit committee pre-approval, and non-audit services:

- The firm reported eight instances of potential non-compliance with Rule 2-01(c)(1) of Regulation S-X regarding financial relationships, all but one of which occurred at the firm or involved its personnel. Of these instances, four related to investments in audit clients, and four related to other financial relationships with audit clients. Four of the financial relationships were instances where a partner in

[3] The firm-identified instances of potential non-compliance do not necessarily relate to the issuer audits that we selected for review.

the same office as the engagement partner for an issuer had a financial relationship with that issuer. Two of the financial relationships related to a member of an engagement team. Of the four instances related to investments in audit clients, two instances related to investments in broad-based funds.

- The firm reported eight instances of potential non-compliance with Rule 2-01(c)(7) of Regulation S-X regarding audit committee pre-approval, four of which related to services performed by non-U.S. associated firms. All of these instances related to non-audit services provided without the firm obtaining audit committee pre-approval.
- The firm reported three instances of potential non-compliance with Rule 2-01(c)(4) of Regulation S-X regarding non-audit services. All of these instances related to services provided by the firm or by non-U.S. associated firms that the firm determined to be prohibited, such as performing management functions for a company that was an affiliate of an issuer.

The firm has reported to us that it has evaluated these instances of potential non-compliance and determined in all instances that its objectivity and impartiality were not impaired.

PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

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

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

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

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

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

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

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

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

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October 30, 2023

Ms. Christine Gunia
Acting Director - Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: Response to Part I of the Draft Report on the 2022 Inspection of KPMG LLP

Dear Ms. Gunia:

KPMG LLP is pleased to provide our response to the Public Company Accounting Oversight Board's ("PCAOB") Draft Report on the 2022 Inspection of KPMG LLP, dated September 28, 2023 (the "Report").

We highly value our shared goal of maintaining integrity in the capital markets through high quality audits. We recognize that performing high quality audits is a cornerstone of market integrity and for that reason it is our top priority. We believe that the trust the market places on our audits is one that we have to earn every single day. To that end, we are committed to a continuous improvement mindset and have made significant and important changes in the execution of our audits in the past several years. These changes have strengthened our audits. And we are focused on being a market leader in the profession.

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

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

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

Sincerely yours,

KPMG LLP

Paul J. Knopp
Chair and CEO

Scott D. Flynn
Vice Chair – Audit