



Audit Quality Report 2020

**Dedicated to trust.
Committed to quality.**

Updated February 2021

read.kpmg.us/auditquality



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



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Letter to our stakeholders

2020 was not the year we expected. It challenged us in many ways and uncertainty became the norm. But we pivoted quickly, and we couldn't be prouder of how our firm came together to continue to serve clients and operate effectively every day.

The COVID-19 pandemic, ongoing economic uncertainty and social unrest playing out across the globe have created a new reality. As everything seemed to shift, our culture and purpose grounded us and ultimately strengthened our resolve.

In the early days of COVID-19, KPMG formed a Pandemic Response Committee to oversee all aspects of our response to the current global health crisis. Our values guided our actions and our decisions, and we have supported one another through some trying months with a much brighter future ahead. Our top priority has been, and continues to be, to do right by our people.

Some of our people have thrived on the ability to work from home and the increased flexibility this has offered. Others have found it harder to find a sustainable way to balance their work and personal lives in the current environment — challenges that are often more pronounced for parents and caregivers.

Working remotely during the COVID-19 pandemic has accelerated our rate of innovation as we help our people work effectively in a remote environment, but it has not diminished our focus on quality and excellence. Our substantial investments are delivering results, and digital innovation is driving audit quality through all aspects of how we run our Audit practice.

KPMG Clara, our global smart audit platform, uses advanced analytics to harness clients' data for high quality evidence; it simplifies complexity, visualizes risk and provides data-driven insights.

Smart Glasses provide seamless, two-way, real-time communications that enable remote inventory observations. The Virtual Audit Room recreates the physical audit room to help us carry out audits effectively in a remote environment. And our Roadmap Learning series for audit professionals recreates the in-person learning experience virtually.



Tools facilitate our effectiveness, but it is our culture that provides the backdrop for ensuring that our people are supported and can succeed in this new environment.

Related to work-life balance, we have encouraged people to explore solutions that work for their personal circumstances. This has included building flexibility into working hours (without a formal arrangement) and considering a reduced work schedule. These actions have allowed us to retain talent while responding to the challenges of the current environment.

Looking further ahead, we want more individuals from underrepresented groups to choose KPMG as their employer of choice, build careers at KPMG, and advance to leadership positions within our firm and within the profession. Our goal is to be a role model for the professional services industry. To help us achieve that objective, in 2020 we launched a targeted but bold effort: Accelerate 2025.

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.

Within this setting, we are proud to present our 2020 Audit Quality Report, highlighting how we are harmonizing efforts across all

areas of our business to continuously support and reinforce audit quality within a strong system of quality control.

We never forget that audit quality is foundational to instilling confidence and public trust in the capital markets. It has been, and always will be, KPMG’s fundamental promise to investors, companies, audit committees, communities and other stakeholders that we serve.



Paul Knopp
U.S. Chair & CEO

Scott Flynn
Vice Chair—Audit



A KPMG audit

Today's KPMG audit is digital-based, embedding leading solutions that drive all aspects of how we run our Audit practice.

KPMG auditors are empowered to own their careers, proactively learning skills that will be the hallmark of the next-gen auditor. And our culture is how we do things, driven by our values.

Taken together, this is how we deliver a high quality audit, which is our fundamental promise to investors, companies, audit committees, communities and other stakeholders that we serve. It is also how we deliver a better audit experience for our clients and our teams.





Our Audit practice

Audit professionals

	FY20		FY19		FY18	
Partners/Managing Directors	1,061 ¹	36%	1,022	34%	977	33%
Managers	2,250	59%	2,164	59%	2,108	57%
Associates	6,093 ²	64%	5,794	63%	5,410	62%
Total	9,404	60%	8,980	59%	8,495	57%

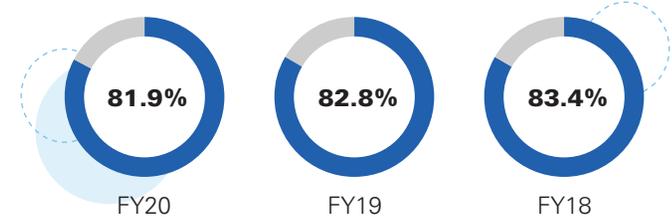
■ Number of core professionals

■ Percentage from all underrepresented groups (women and people of color); read about [Accelerate 2025](#)

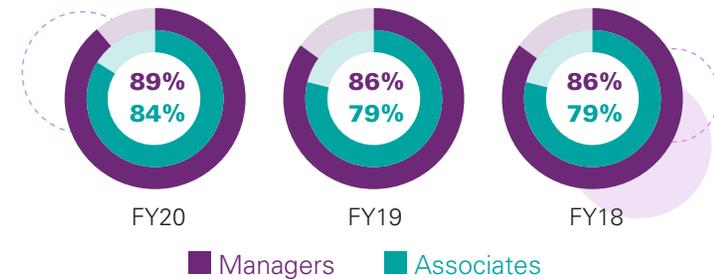
¹The average experience was 21 years.

²Includes October 2020 hires; read about our [COVID-19 response](#).

Audit utilization rates



Audit retention rates



Audit hiring

Campus hires



Based on calendar year to better align with varying graduation dates.

Experienced hires



Of the total FY20 experienced hires, over 30% were referred by existing partners and employees.

In addition to core professionals, our Center for Audit Solutions executed **over 10%** of audit hours in FY20, and specialists **over 12%**.



KPMG actions in 2020

These key actions had a direct bearing on audit quality, which remains our highest priority.





Today's KPMG audit is digital-based, embedding leading solutions that drive all aspects of how we run our Audit practice.

Our substantial investments are delivering results and **profoundly changing audit execution** — enabling our core teams to focus on areas of risk and uncovering more robust insights.

The outcome: a high quality audit.



John Farrell
Chief Strategy & Transformation Officer—Audit



Matt Bishop
Chief Technology Officer—Audit



Bill Tomazin
National Managing Partner—Audit Operations & Execution



The audit all in one place

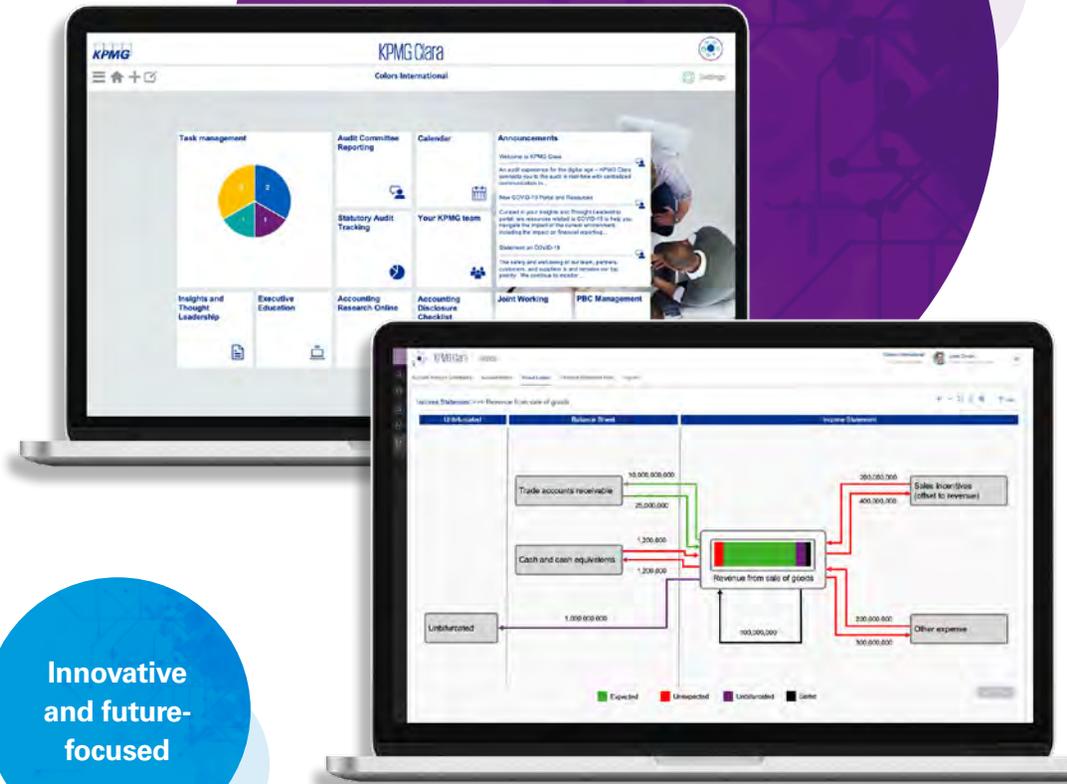
We have made tremendous investments to reimagine the audit experience for our clients and our audit professionals. Bringing clarity to the audit process through a modernized approach and methodology that expands the use of innovative technology has been our focus.

The result is KPMG Clara, our new global, web-based and cloud-enabled platform supporting the delivery of a smarter, data-driven audit that focuses on audit quality, enhances productivity and leads to deeper insights.

KPMG Clara empowers greater alignment with clients' industries, business processes and financial statements — enhancing the audit experience, and providing confidence for stakeholders.

See how the audit experience has been reimaged with [KPMG Clara](#).

KPMG Clara is now fully deployed at **over 3,500 client sites**, including **about 75%** of our public company audits.





Smarter, faster, better

Collaboration platform

A next-gen audit facilitated by a digitized, efficient and transparent audit process.

KPMG Clara dramatically improves the efficiency of document and information exchange, the ability to collaborate, and the transparency into the audit status.

The human touch is irreplaceable, but digitization enhances what we value in the human touch and enables a more efficient and tailored experience.



● We continue to invest in capabilities that enable our auditors to navigate our clients' multiple ERP systems—streamlining data extraction and then more efficiently pre-processing, cleansing and joining data for risk assessments and automated responses to risk.

Data extraction and transformation

Streamlined data extraction and transformation to power the audit.

We strive to maximize our clients' investments in technology to best leverage data in our audit.

We consider clients' data—and how technology interacts with that data—to design a better, smarter and more efficient risk assessment and response.

We leverage this data to obtain audit evidence, enhance the quality of the audit, and bring clients a greater range and depth of insights into risks and anomalies.

And we are committed to protecting clients' data, consistent with industry-leading practices and standards.



Focused, efficient, robust

Our risk assessment approach

A more targeted and effective audit response.

Our methodology embedded in KPMG Clara leads us to a more granular approach in identifying the risks of misstatement. This in turn leads us to more precise or refined testing while retaining the same high standard of evidence necessary to conclude.

With the methodology embedded, we create consistency that facilitates the intended thought process and documentation, allowing our auditors to focus on decisions requiring judgment.

When coupled with the use of data and technology, we are more focused, deliberate and precise in our evaluation of risk factors. We can evaluate an expansive set of transactions across the risk continuum with the end goal of optimizing the nature, timing and extent of our substantive work.



Automation through our response

End-to-end automation enabling a consistent and efficient response.

Automation across key audit processes enables our auditors to complete testing in a consistent and effective manner. Automation facilitates more effective controls testing, not just substantive testing.

Our collective investments in technology are paying off in driving toward end-to-end automation across the response to risk.

KPMG Clara Advanced Capabilities leverage data, automation and technology to provide meaningful insights during risk assessment and planning, as well as the audit execution phase of the audit — focusing on journal entry analysis.



Automation as normal

These are examples of the tools we use to facilitate our modern and intelligent approach.



Journal Entry Insight Dashboard provides insights into complex data through an interactive dashboard.



Automated Hedge Fund Routines perform portions of various substantive audit procedures over investments for private fund audit engagements.



Automated Vouching Tool reduces routine tasks by automating invoice vouching procedures.



Commercial Mortgage Loan Application Tool saves time and increases consistency by extracting and presenting data from loan files in a dynamic workflow.



Financial Statement Math Accuracy Intelligent Tool performs footing, cross-footing, recalculation and prior period tie-outs on financial statements and checks for internal consistency.



KPMG Platform for Intelligent Automation is a collection of bots used to automate and standardize elements of control testing, enhance overall efficiency and reduce manual tasks.



DocuSign is e-signature technology that replaces the need to send hard copy documents for wet signature.



Tools for today

Powered by our [Ignition Centers](#), and working with our [Strategic Alliance Partners](#), we apply design thinking methodologies to explore data-driven technologies, emerging trends and the latest analytics that promote audit quality. We have used our learnings to accelerate solutions for working in a COVID-19 remote environment, while providing longer term benefits.

Microsoft Teams, an industry leading virtual collaboration technology, is now used for more than 30 million KPMG interactions a month globally, allowing us to work together more effectively. KPMG was awarded the *Global SI Digital Transformation 2020 Microsoft Partner of the Year Award*, recognizing our work in developing and delivering exceptional Microsoft-based solutions during the past year.

Illustrating our deepening commitment to investing in technology innovation, KPMG has been granted a patent by the United States Patent and Trademark Office for [KPMG Ignite](#), our artificial intelligence platform and capabilities; specifically, our system and method for analysis of structured and unstructured data.



Smart Glasses provide seamless, two-way, real-time communications that enable remote inventory observations. The audit team can enlarge images and adjust lighting features to scrutinize the inventory. Using Smart Glasses, we can provide more transparency and insights into inventory checks — quickly escalating and investigating issues.



The Virtual Audit Room recreates the physical audit room to help us carry out audits effectively in a remote environment. Connected to KPMG Clara, the Virtual Audit Room allows a team to communicate, share and collaborate on files, execute the audit, and own their working norms.



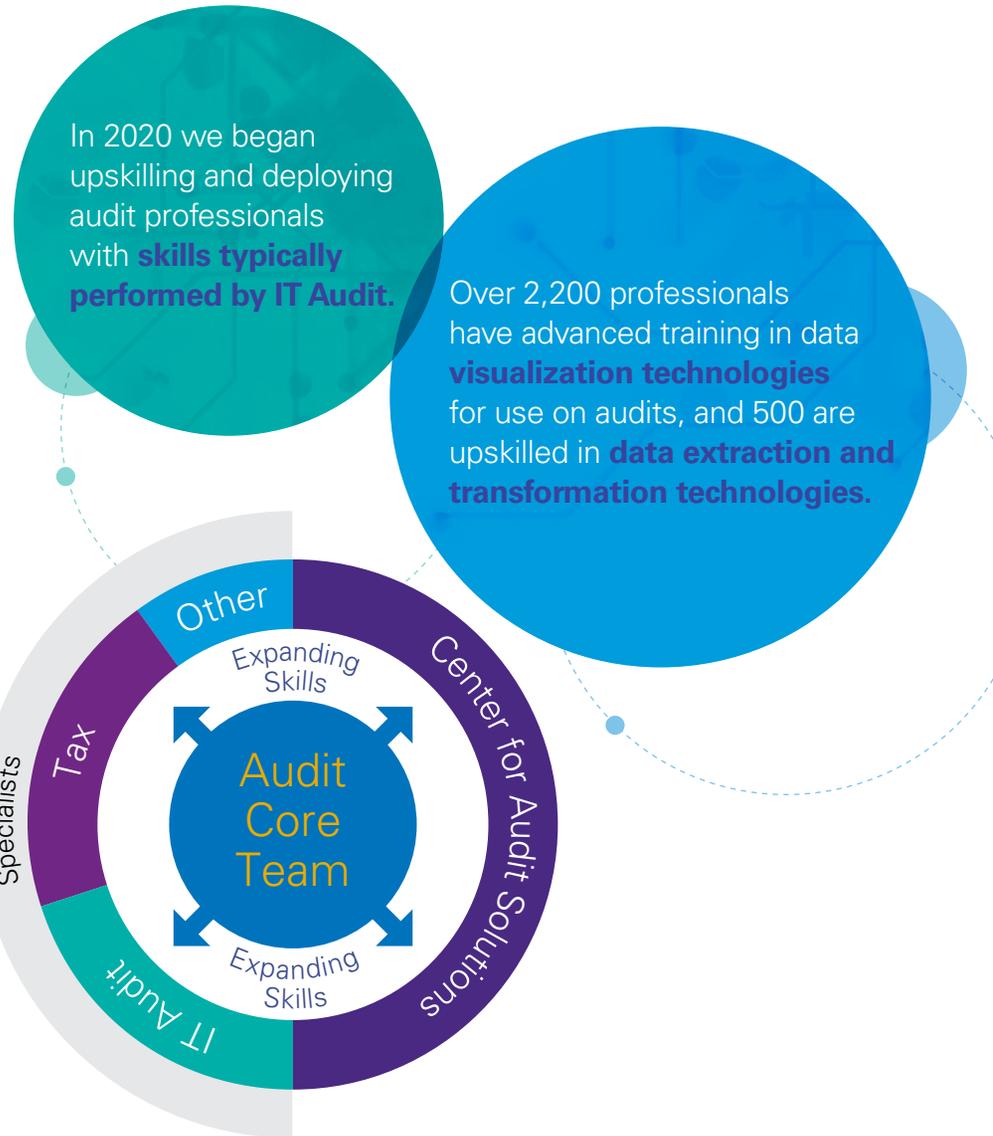
Evolving service delivery

The adoption of enabling technologies is increasingly creating opportunities to standardize aspects of our methodology and centralize certain procedures — empowering audit professionals to expand their skills in areas such as data visualization and IT.

In addition, leveraging our Center for Audit Solutions, we are increasingly centralizing resources that standardize and promote the consistency of our work product, and improve audit quality. The following are examples:

- | Performing risk assessment procedures and testing the **valuation of investment securities**
- | Reviewing **SOC 1 reports**
- | Supporting **independence processes**
- | Auditing **employee benefit plans.**

In addition to audit hours performed by core audit professionals, our Center for Audit Solutions executed over 10% of audit hours in fiscal 2020, and specialists over 12%. In addition to the engagement-specific contributions of other specialists such as valuation professionals and our Department of Professional Practice, DPP provided rapid-response expertise firmwide in response to emerging issues such as [COVID-19](#).





We want KPMG auditors to feel empowered and inspired—to think differently, to innovate, and to develop new skills at their own pace. To own their careers.

From first contact, we seek to provide an exceptional experience that values diversity of thought and skills, technical aptitude, professional skepticism and personal accountability.

The outcome: a high quality audit.



Darren Burton
Chief Human Resources Officer



Becky Sproul
Talent and Culture Leader—Audit



Corey Muñoz
Chief Learning Officer



A broad talent pool

Key to our [Accelerate 2025](#) commitment, we want more individuals from underrepresented groups to choose KPMG as their employer of choice, build careers at KPMG, and advance to leadership positions within our firm and within the profession.

To help make that vision a reality, we are deploying a new virtual recruiting strategy and technology platform. We are transitioning to an open application process, new applicant tracking system, automated assessment tools and video interviewing so that we can maximize our reach.

Our internship programs offer a consistent national training experience for all audit, tax and advisory interns—and provide one-on-one mentorship to inspire and guide these rising professionals.

In 2020 we provided over 1,750 internships in Audit, and all summer interns who successfully completed their virtual internship received a full-time offer. This is one of the ways that we are supporting students in the face of COVID-19 and these uncertain times. New hires commenced their full-time positions in October 2020, experiencing our first virtual onboarding process.



Of the 1,605 campus hires who embarked on their KPMG careers in the Audit practice in 2020, 48% were women, 31% were people of color, and 64% were from the total of these underrepresented groups. Read about [Accelerate 2025](#).



In addition to our practice internship, we offer our [Embark Scholars program](#), a multi-week internship for students of color featuring national training and rotations in audit, tax and advisory.



We are accepting applications for our annual [Rise Leadership Institute](#), a leadership program for high-performing college freshmen and sophomores who identify as a person of color, veteran, person with disability, LGBTQ+ and/or first-generation college student.



In November 2020 we opened applications for the fifth [KPMG Future Leaders Program](#). A charitable initiative focused on developing future generations of women leaders, the Class of 2021 is open to high school seniors planning to enroll in a four-year undergraduate program for the upcoming 2021 fall semester.



Own your career

Our Audit Core Competency Framework establishes defined performance expectations grounded in professional standards and linked to performance evaluations. We are focused on values, competencies, contributions and long-term development to inform promotions and determine compensation.

Central to this, we have positioned audit professionals to own their careers by providing flexibility and encouraging them to seek development opportunities that allow professional growth structured around and defined by the Framework.

As we evolve our [service delivery model](#) and the next-gen auditor, professionals have opportunities to find new career paths and diverse opportunities to engage their passions. They are encouraged to learn new skills that will open doors throughout their careers.

The following are examples of the integrated upskilling opportunities that were available in 2020:

- | **Data analytics skills through** accreditation to use one or more of our technology tools [on audits](#)
- | **IT skills** through on-the-job and formal training that can be used [on audits](#)
- | **Advanced project management skills** through facilitated workshops, guides and continuous improvement bulletins.

KPMG Innovation Factory is our online collaboration tool that facilitates innovation and idea management. Used firmwide, the Innovation Factory has hosted over 400 challenges, generating over 7,000 ideas by over 9,000 users. The following is one recent challenge focused on the current remote environment.





New reality, new opportunities

In the early days of COVID-19, KPMG formed a Pandemic Response Committee to oversee all aspects of our response to the current global health crisis. Our top priority has been, and continues to be, to do right by our people.

Some of our people have thrived on the ability to work from home and the increased flexibility this has offered. Others have found it harder to find a sustainable way to balance their work and personal lives in the current remote environment. The challenges of fully disconnecting and establishing adequate boundaries between work and home life are often more pronounced for parents and caregivers.

Related to work-life balance, we have encouraged our people to explore solutions that work for their personal circumstances. This has included options from building flexibility into working hours (without a formal arrangement), to considering a reduced work schedule, to taking a sabbatical if necessary.

Our actions and the changes introduced are providing more flexibility in working arrangements and widening our talent pool; we are able to manage the wellbeing of our people while performing high quality audits.

Our people have indicated in surveys that they appreciate these changes, and we expect the future work environment to be more of a hybrid, combining the best of in-person and virtual collaboration.

This has also been a period of focused and accelerated innovation that facilitates high quality audits. These are some examples:





Roadmap Learning

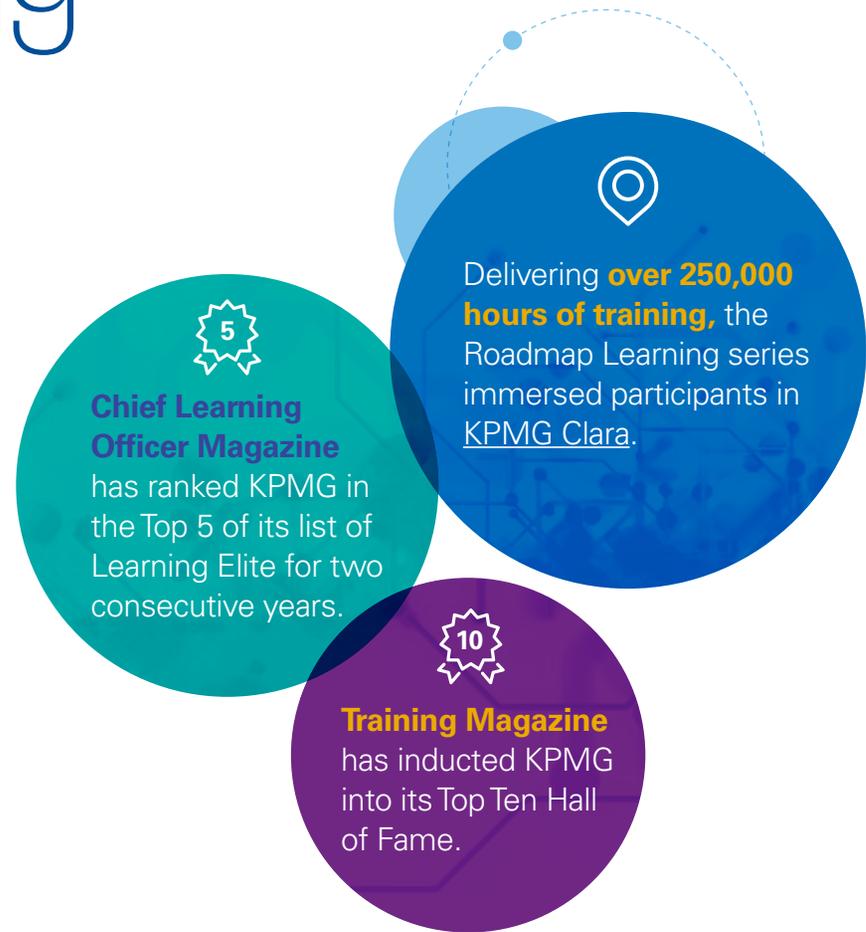
For several years, KPMG has worked to raise the bar on active, collaborative learning, giving our professionals opportunities to try out new skills and receive real-time coaching. [KPMG Lakehouse](#), designed to create an environment that will help us take sharing and collaboration to the next level, opened in January 2020.

We are unable to use Lakehouse as a site for in-person learning while COVID-19 remains at the current level of risk, but our mission has not changed—to actively engage and fully support learners to drive continuous professional development and improved business outcomes.

In 2020 we embraced technology and innovation to recreate the in-person experience virtually, combining opportunities for self-study, on-the-job and engagement team supported learning, and instructor-led training in one comprehensive package: our Roadmap Learning series for audit professionals.

This multi-layered training approach enables participants to self-pace, allowing them to learn in small blocks to enhance retention; and the microlearnings are easily accessible as needed in the future.

In 2020 each audit manager, managing director and partner completed at least 56 hours of training, and each associate completed at least 60 hours. Key areas of training included auditing requirements and accounting standards, and training on innovation, data and analytics, and emerging technologies.



Delivering **over 250,000 hours of training**, the Roadmap Learning series immersed participants in [KPMG Clara](#).

Chief Learning Officer Magazine has ranked KPMG in the Top 5 of its list of Learning Elite for two consecutive years.

Training Magazine has inducted KPMG into its Top Ten Hall of Fame.

In addition, spread throughout the year, training included 12 hours dedicated to ethics, compliance and integrity. This training marked the rollout of an enhanced learning and development strategy, founded on a research-based ethical decision-making model.



Our specialist expertise

Our Department of Professional Practice is a national team dedicated to providing real-time support for audit teams, covering both audit and accounting technical requirements. In 2020 DPP continued its support for the new standard on the auditor's report. DPP also prepared the Audit practice as we implemented the new standards on auditing accounting estimates and using the work of specialists. In fiscal 2020, over 10% of audit partners and managing directors were dedicated to providing professional practice support.

In addition, our Audit Quality Support Partner program, overseen by the KPMG Chief Auditor, continued to provide real-time engagement team support. The program now includes 50 accredited partners. Each partner in the program has completed a recent rotation in DPP, to enhance technical auditing and accounting skills in the most critical aspects of audit execution.

Here are two examples of technical support implemented in 2020, providing real-time specialized knowledge and a rapid response to emerging issues.



DPP developed our **COVID-19 guidance and tools** in response to the audit risks posed by the pandemic and related market uncertainty as well as the specific financial reporting issues that might arise.

DPP is using its expertise to monitor the issues, and related regulatory and standard-setting responses, and provide real-time guidance and support to audit teams as issues arise and evolve. Extensive guidance, including the accounting implications of the CARES Act and other relief, is published on [KPMG Financial Reporting View](#).



The newly formed global **PCAOB Standards Group** is a team of dedicated professionals with a background in PCAOB auditing standards. The PSG promotes the consistent interpretation of the standards by KPMG member firms outside of the United States.



Culture is how we do things, driven by our values. It's the combination of how we think, the actions we take (both big and small) every day, and how we support the work being done.

We commit to values-driven action so that our people do not merely have a place to work, but a place to thrive.

The outcome: a high quality audit.



Elena Richards
Chief Diversity & Inclusion Officer



Claudia Saran
Chief Culture Officer



Stacy Nahas
Chief Growth Officer—Audit



Culture year in review

In our 2018 culture assessment, we identified a number of areas where we could take meaningful, measurable action toward a culture that further supports our values and vision. That marked the beginning of a very deliberate and intentional journey to shape, reinforce, nurture and sustain our culture.

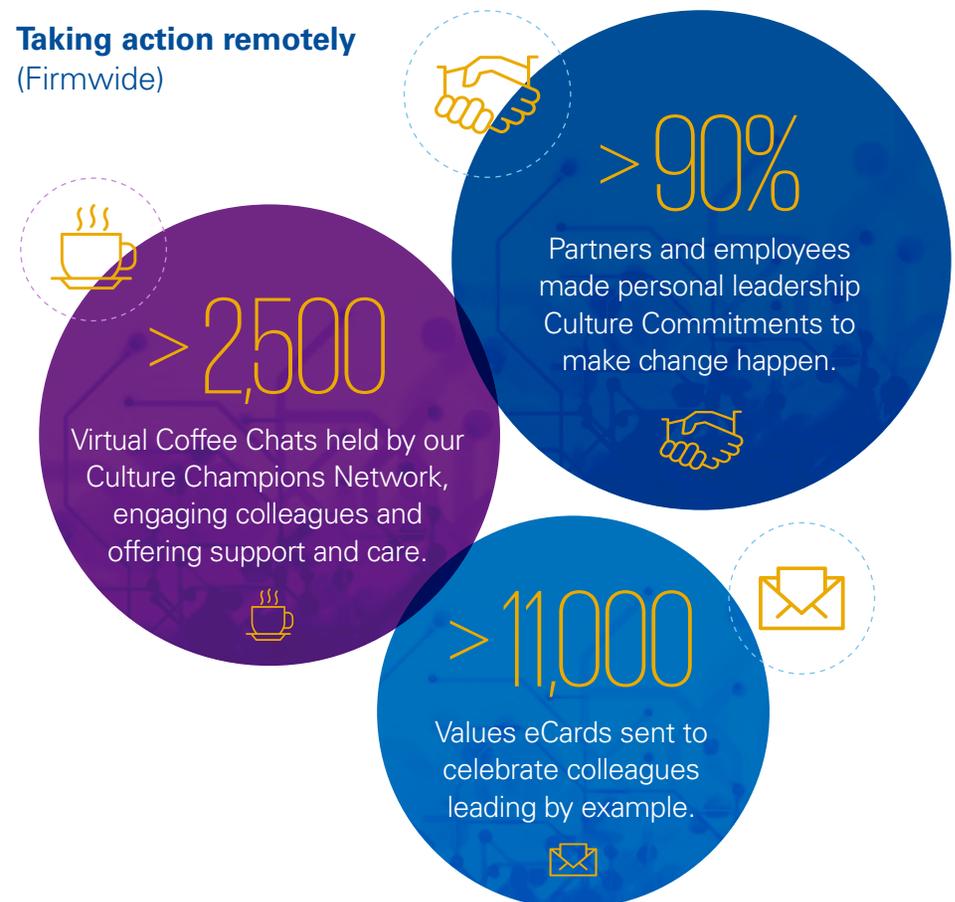
2020 began with our [refreshed values](#) and commitment to Heads Up thinking ... to being more candid and connected, and looking forward ... setting the standard for cultural excellence and trust, by living our values every day and unleashing the full power and passion of our people.

Only a few months later, life as we knew it was upended by COVID-19, economic uncertainty and social unrest playing out across the globe. Through the adversity, we all stepped outside of our comfort zones, thinking differently, learning and adapting in real time. We looked to and leaned on one another, and on our values — providing care, support and compassion to one another. We challenged each other to have new, deeply personal and sometimes uncomfortable conversations about race, and resolved to be and do better. All of this took courage.

We have come a long way in a short time, during a period of extraordinary challenge. Our Culture Champions Network now has over 4,200 members who engage and empower our people. And 63 Culture Councils have been established across geographies to drive local adoption.

Confidence in our culture effort has [grown significantly](#), and we are seeing how our values influence our day-to-day actions. We are feeling more supported and feel a deep responsibility to step up and speak out when others are not living our values.

Taking action remotely (Firmwide)





Measuring culture

Our success depends on establishing a long-term sustainable culture framework to continually support and embed desired values and cultural attributes that drive our vision for audit quality.

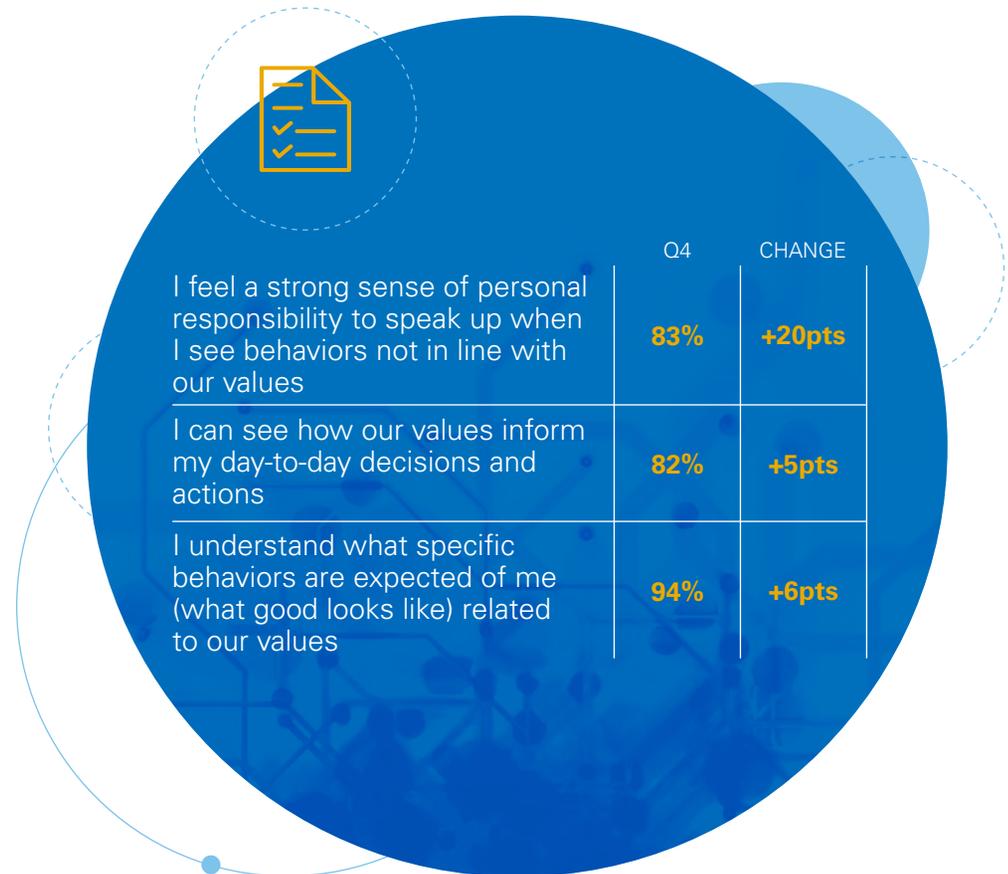
Our system of monitoring and measuring culture progress includes lead, lag, qualitative, quantitative, internal and external metrics to inform our success and tell our culture story.

In fiscal 2020, we conducted quarterly Culture Pulse Surveys with representative samples of partners and employees, followed by a number of focus group sessions. We realized notable improvements across many areas, as well as areas requiring continued attention. These surveys help inform every next step in nurturing our culture.

As acknowledgment of our efforts to strengthen our culture and care for our employees, we are proud to be recognized by these organizations in 2020:



Below is how audit partners and employees responded to key questions in the pulse survey in Q4 of fiscal 2020, and the change compared to Q1. We are proud of these results in the face of COVID-19 and the workplace challenges in 2020.





Our commitment to clients

This is what you can expect from your KPMG audit team.

Integrity

Honest, forthright views and execution

- | We will keep our commitments and provide context if, and when, the situation changes.
- | We will have conversations at the right time, and the courage to have the tough conversations.
- | You will see us do the right thing even when it is hard.

Excellence

Actions to deliver quality and confidence

- | We will deliver our work with passion and quality.
- | We will bring a professional growth mindset, to learn, improve and adapt with you.
- | We will solicit feedback and act on it to go above and beyond.
- | We will acknowledge when we don't have the answer, but then go find it.

Courage

Bold and innovative ideas

- | We will provoke new thinking, share fresh insights and bring an openness to change.
- | We will show a bias for action and make tough decisions.
- | We will engage in candid conversations and deal with challenges head on.

Together

Smart and inclusive approach

- | We will bring humility and diversity to solve your biggest challenges.
- | We will draw on the best thinking and experience from across KPMG.
- | We will actively listen to drive clarity and understanding.
- | We will treat everyone with respect and dignity, always.

For better

Bigger and broader impact

- | We will help you see the bigger picture and broader impact.
- | We will do the small things every day that make a big difference.
- | We will help you cut through daily noise and provide insights to navigate a changing world.



Accelerate 2025

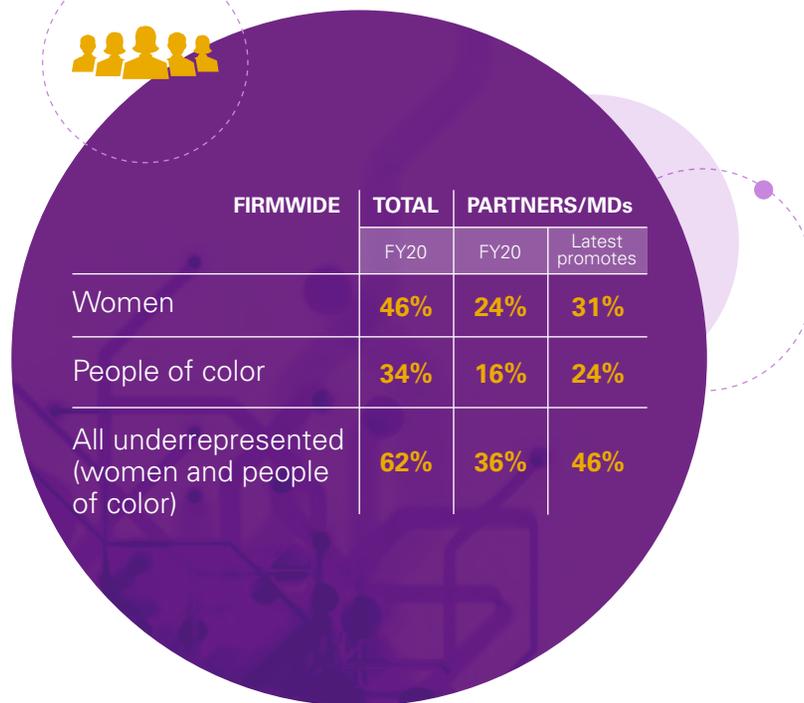
Diversity and inclusion is a longstanding commitment and foundational component of our values and strategy.

In 2020 we announced a renewal of that commitment through Accelerate 2025—a targeted but bold effort to help ensure that more individuals from underrepresented groups choose KPMG as their employer of choice, build careers at KPMG, and advance to leadership positions within our firm and within the profession.

Our goal is to be a role model for the professional services industry, 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, share best practices and lead.

Across the country, we have over 220 local Business Resource Group chapters and Inclusion Councils that comprise over 13,500 members, including: African Ancestry, Abilities in Motion, Asian Pacific Islander, Hispanic Latino, KPMG Network of Women, pride@KPMG and Veterans.

We are proud of our work and Accelerate 2025, but also recognize there is always more to do. Part of this effort is committing to greater transparency on delivering against those objectives. We look forward to sharing more information through an in-depth D&I report on our efforts and progress.



As acknowledgment of our efforts to foster a diverse and inclusive workplace, we are proud to be recognized by these organizations in 2020:





Action and impact

Helping out and caring for one another, we are committed to doing what’s right and supporting our colleagues, our clients and the communities where we live and work.

We envision a world in which there is equitable access to transformational education opportunities for all, and targeted support and customized programs and efforts designed to empower everyone to be a lifelong learner. At KPMG we have always looked beyond ourselves to make a broader impact. We are in this together.

These are the resources that we committed in fiscal 2020:

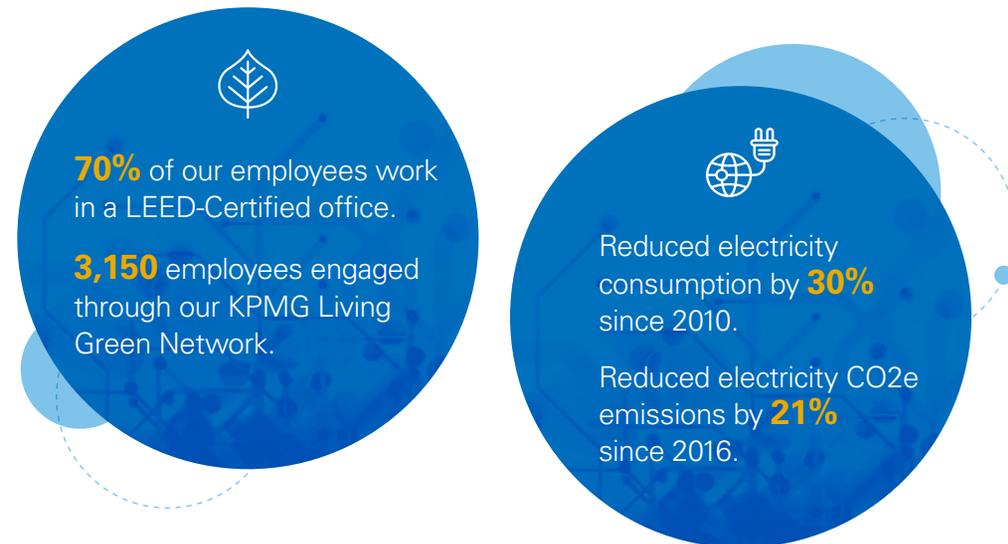


Learn more about KPMG programs, people and efforts that highlight the impact we continue to make: [KPMG Community Impact and KPMG U.S. Foundation, Inc. Report](#).

“Living green” is an essential element of our business strategy. Our efforts are focused on reducing our own environmental footprint using energy-efficient technologies, addressing local challenges through grants and pro bono support, and engaging the broader marketplace by enabling our clients to reduce their own environmental impact.

In 2019 we surpassed our goal of purchasing 100% of electricity from renewable sources. In November 2020 KPMG announced its intention to become a [net-zero carbon organization](#) globally by 2030.

The following are some fiscal 2020 highlights from our sustainability agenda:





Audit quality remains our highest priority and is critical to fulfilling our role in the capital markets. All of our actions are concentrated on the drivers of audit quality and delivering high quality audits.

Our own internal monitoring and external inspections are essential to identifying opportunities to improve audit execution and strengthen our system of quality control.

This section includes recent highlights of our work in response to our quality monitoring that we believe has improved our system of quality control.



Christian Peo
National Managing Partner—
Audit Quality & Professional Practice

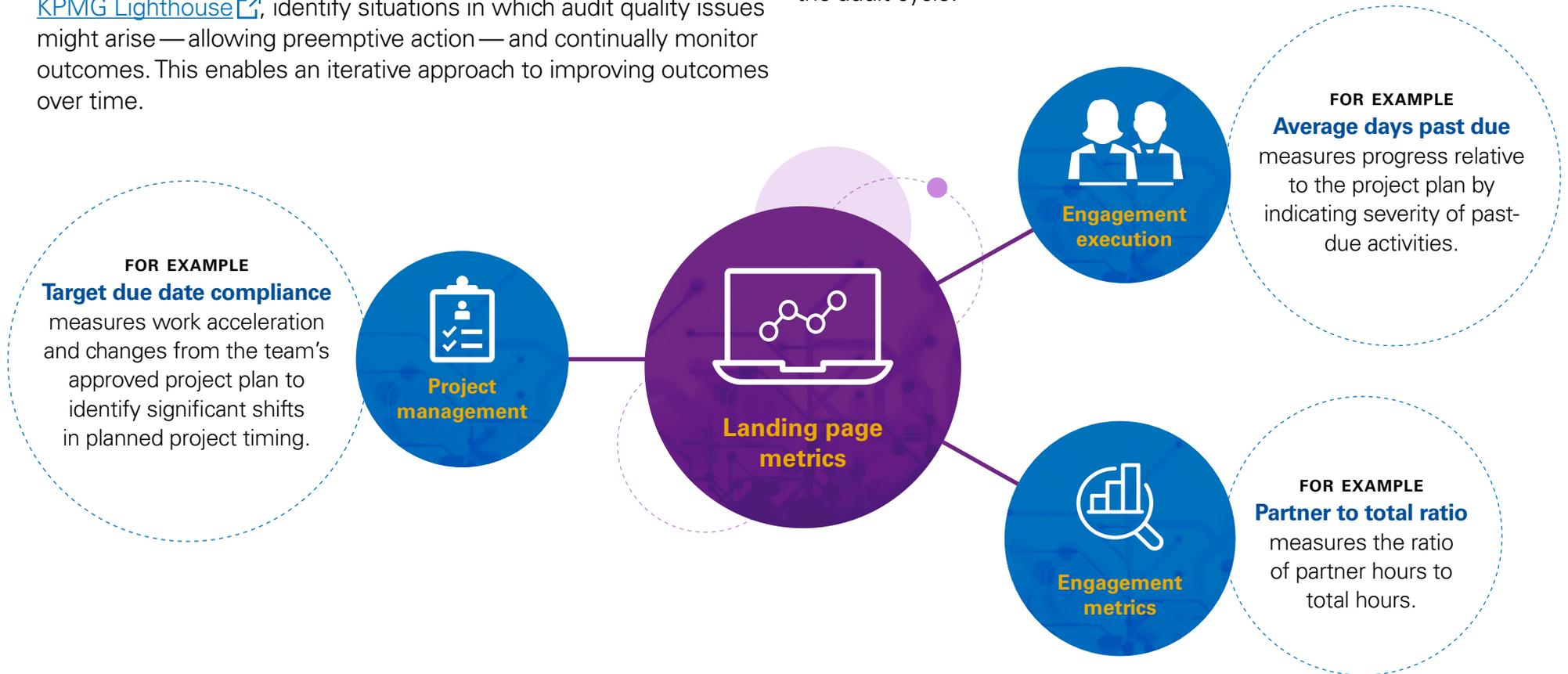


Metrics and monitoring

In 2020 we deployed audit quality indicators that apply machine learning and predictive analytics to observable information at the firm level, the business unit level, and the engagement level.

These indicators, developed with the support of data scientists at [KPMG Lighthouse](#), identify situations in which audit quality issues might arise — allowing preemptive action — and continually monitor outcomes. This enables an iterative approach to improving outcomes over time.

A new landing page establishes a consistent way for engagement teams and business unit leadership to work together to monitor engagement progress, identify positive activity, and take action to address challenges to engagement completion and quality earlier in the audit cycle.





Continuous improvement

Globally KPMG defines 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 control. Our system of quality control initiative is based on the PCAOB and AICPA system of quality control standards and continuously reviews all of our processes that support audit quality to ensure they are designed and implemented in a manner that achieves the quality control objectives.

Because the quality of each audit rests on our foundational quality controls, we continually evaluate our overall system of quality control and our implementation of the quality control standards applicable to our work. This continual evaluation, together with our relentless attention to addressing inspection findings, has been —and will continue to be— a powerful catalyst driving our audit quality actions.

In practical terms, this means that we perform a robust root cause analysis on internal and external inspection results, identify root causes and focus on holistic solutions that allow us to make sustainable changes to our audit process.

Internal control and estimates

We have made significant investments in our new audit methodology and global smart audit platform (KPMG Clara) to support the execution of our audits. These investments include a specific focus on auditing internal controls over financial reporting

(ICFR) and estimates. More broadly, KPMG Clara clearly aligns with the auditing standards and facilitates audit execution.

We accelerated certain elements of our new methodology in 2018 and 2019 to improve the quality, consistency and efficiency of our audits. In 2020 we made additional changes to our audit methodology for auditing estimates, including fair value measurements, and contemporaneously developed a consistent methodology to assist engagement teams in understanding and complying with the PCAOB's revised auditing standard.

As part of our 2020 Roadmap Learning, we delivered new mandatory training to develop the knowledge and skills of our audit professionals around understanding and applying auditing standards in the areas of risk assessment, testing controls and auditing estimates.

Supervision of the audit and engagement quality review

We recognize the importance of our responsibilities related to supervision and review, and engagement quality control reviews. We have increased training, clarified roles, modified processes and reinforced accountability to ensure enhanced execution in these areas. Our 2020 Roadmap Learning included exercises that required virtual team collaboration to discuss how the learnings apply to real engagements.



Internal inspections

Our Inspections Group reports outside of our Audit practice to our Vice Chair—Risk Management. The group serves no engagement support role, ensuring that activities are directed solely to a critical assessment of our professionals' performance. The output of our own monitoring and the results of external inspections are synthesized through our root-cause analysis to ensure that we develop remedial actions that are responsive to our control deficiencies.

PCAOB inspection

In February 2021 the PCAOB released its 2019 report (primarily on the inspection of KPMG's 2018 calendar year-end public company audits). Seventeen of the 58 Issuer audits reviewed in 2019 were included in Part I.A of the 2019 report. By comparison, the number of audits identified in Part I of our prior PCAOB reports were 19 out of 52 reviewed in 2018, and 26 out of 52 reviewed in 2017. The 2019 deficiencies primarily related to the firm's testing of controls over and/or substantive testing of revenue, business combinations and inventory.

External inspections may identify areas requiring the restatement of financial statements or the revision of previously issued ICFR opinions. Of the 162 KPMG audits inspected from 2017 to 2019, one audit required a restatement of the financial statements and had an incorrect ICFR opinion, and there were two audits with an incorrect ICFR opinion.

The nonpublic portion of the PCAOB report, Part II, includes criticisms or potential defects in a 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.

Peer review

To comply with licensing requirements of state boards of accountancy, the Government Accountability Office 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](#). 



Our system of quality control

This report highlights the steps we have taken in 2020 to evolve and enhance our Audit practice and our firm. It provides an overview of how we are embedding technology in our audits, how we are empowering our people to own their careers, and how we continue to strengthen our culture. All of these efforts are carried out and connected within the framework of our system of quality control—a system that ensures our performance meets the highest professional standards.

Read about our system of quality control in the KPMG Transparency Report and accompanying supplements.

Visit our website: read.kpmg.us/auditquality



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