Transparency Report 2020

Supplement

Assisting audit committees in meeting NYSE rules on auditor communications

January 2021

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1.1 System of quality control

KPMG LLP (KPMG or the firm) maintains a system of quality control that is designed to meet applicable regulatory standards over quality control for a CPA firm. The accompanying document, *Transparency Report 2020*, describes that system in more detail and encompasses:

— Tone at the top, including leadership responsibilities, ethics and integrity, and audit quality

— Association with the right clients

— Relevant ethical requirements, including independence, objectivity and confidentiality

— Recruitment, development and assignment of appropriately qualified people

— Commitment to technical excellence and quality service delivery and performance of effective audits

— Commitment to monitoring quality and continuous improvement, including internal and external reviews.

KPMG periodically reviews its policies and practices to respond timely to changes in regulatory and professional requirements.

2. Review action plans

As part of our continuous improvement and quality control efforts, KPMG has dedicated audit quality functions that determine root causes for audit quality deficiencies; participate in the development of remedial action plans; and monitor the timely implementation, execution and effectiveness of those plans.

3. Internal and external inspections and other inquiries or investigations of audits carried out by the firm

We are not aware of any matter arising out of an internal or external inspection, any inquiry, or any investigation by government or regulatory authorities respecting an independent audit carried out by KPMG within the preceding five years that would have a material adverse effect on KPMG's operations or our ability to fulfill our obligations as independent auditor.

However, in resolving certain investigations, the firm has agreed to enhance specific areas of its policies and procedures. Accordingly, KPMG notes the following:

SEC Order of June 17, 2019[1]

On June 17, 2019, the U.S. Securities and Exchange Commission (SEC) issued an order (the Order) instituting public administrative and cease and desist proceedings against KPMG in relation to the two matters described below.

(a) In early 2017, KPMG learned that an individual who had joined the firm from the Public Company Accounting Oversight Board (PCAOB) subsequently received confidential information from the PCAOB and shared it with other KPMG personnel. When KPMG's leadership became aware of the misconduct, the firm immediately reported the matter to the PCAOB and the SEC, took steps to separate implicated individuals from KPMG and retained outside counsel to investigate. That investigation revealed that some KPMG individuals may have had information suggesting improper access to information regarding upcoming PCAOB inspections and failed to report that information in a timely manner.

In January 2018, the U.S. Attorney's Office for the Southern District of New York announced that it had criminally charged five of the individuals who had been separated from KPMG in early 2017. The SEC also instituted administrative proceedings against the same individuals. Four of these individuals have entered guilty pleas, and two of these individuals – one partner and one director – also have agreed to settlements with the SEC.

On March 11, 2019, a former KPMG partner was convicted following a jury trial of four of the five charges against him, including wire fraud and conspiracy to commit wire fraud. On January 15, 2020, the SEC suspended this same partner from appearing or practicing before the SEC. KPMG cooperated fully with the U.S. Attorney's Office and the SEC in connection with this matter and took several remedial actions designed to prevent the sort of individual misconduct at issue in this matter, including updating the firm's Code of Conduct and conducting a comprehensive culture assessment assisted by an independent advisory firm.

1 Following the SEC Order of June 17, 2019, a number of state regulatory bodies have initiated inquiries into the facts and circumstances related to this matter. Certain state regulators may take action against KPMG and, to date, KPMG has reached settlements with the California and Texas state boards of accountancy.

(b) The second matter resolved by the Order relates to training exams and was discovered by KPMG in late 2018. Some of the firm's professionals shared the answers to open-book tests that were administered in connection with internal, firm-sponsored training. In the context of investigating the training exams, KPMG discovered that prior to 2016, certain individuals had manipulated the hyperlink associated with the training exams to ensure passing scores. KPMG immediately reported this misconduct to its regulators, and KPMG's Board of Directors established a Special Committee to oversee the investigation conducted by outside counsel.

The Order censured KPMG for violating PCAOB Rule 3500T and other standards. Rule 3500T requires KPMG and associated persons to comply with ethics standards mandated by the American Institute of Certified Public Accountants. The Order also found that the violations of Rule 3500T caused KPMG to fail to be in compliance with PCAOB QC Section 20.09, which requires firms to establish policies and procedures that provide reasonable assurance that personnel "perform all professional responsibilities with integrity." The Order required the firm to cease and desist from committing or causing any future violations of PCAOB Rule 3500T and imposed a $50 million civil monetary penalty and remedial undertakings upon the firm. The remedial undertakings obligate the firm to take certain actions, including but not limited to an internal review of the firm's policies and procedures related to ethics and integrity and the completion of the Special Committee's investigation related to the training exams. KPMG agreed to provide the SEC with reports summarizing the review and investigation. The review and investigation have been evaluated by an independent, third-party consultant retained by KPMG, the reports provided to the SEC, and for the past year the firm has been providing additional ethics and integrity training to its professionals.

Miller Energy settlement

On August 15, 2017, the SEC announced a settlement with the firm and one of its partners with respect to the firm's audit of the fiscal year 2011 financial statements of former client Miller Energy Resources, Inc. (Miller Energy) and the firm's review of Miller Energy's financial statements for the third quarter of fiscal year 2011. As part of the settlement, the firm agreed to the entry of an administrative order censuring it and obligating it to complete a number of undertakings. The undertakings included, among other things, conducting a firmwide internal review of the adequacy of the firm's policies and procedures with respect to the audit areas in which the SEC found deficiencies and providing the SEC with a detailed report (the KPMG Report) summarizing both the review itself and any changes that the firm made in those areas between 2011 and 2017, as well as any additional changes that the firm determined to make as a result of the review. In addition, as required by the settlement, KPMG hired an independent consultant, to whom the firm provided the KPMG Report, and who conducted his own review of the same areas. At the conclusion of his engagement, the independent consultant provided KPMG and the SEC with a report summarizing the review, noting that he concurred with the firm's finding that relevant policies, procedures, and training programs are adequate and sufficient to provide reasonable assurance of compliance with all relevant SEC regulations and PCAOB standards and rules. The consultant did not make any recommendations for additional changes.

KPMG remains fully committed to maintaining a system of quality control that meets or exceeds all applicable standards.

About KPMG LLP

KPMG LLP is the U.S. firm of the KPMG global organization of independent professional services firms providing Audit, Tax and Advisory services. The KPMG global organization operates in 147 countries and territories and has more than 219,000 people working in member firms around the world.

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