Transparency Report 2023 supplement

Assisting audit committees in meeting NYSE rules on auditor communications

January 2024

audit.kpmg.us/auditquality/transparency.html

1. System of quality control

The accompanying document, Transparency Report 2023, describes that system in more detail, which encompasses living our culture and values, applying expertise and knowledge, embracing digital technology, nurturing diverse and skilled teams, associating with the right entities and engagements, being independent and ethical, performing quality audits, assessing risks to quality, monitoring and remediation, and communicating effectively.

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

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

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 with respect to an independent audit carried out by KPMG within the preceding five years that would have a material adverse effect on our operations or the ability of KPMG to fulfill our obligations as an 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 leadership 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 internal 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 individuals who had been separated from KPMG in early 2017. The SEC also instituted administrative proceedings against the same individuals. Four of these individuals, three former partners and a former director, entered guilty pleas in the criminal actions and separately agreed to settlements with the SEC suspending them from appearing or practicing before the SEC.

On March 11, 2019, the fifth individual, a former KPMG partner, was convicted by a jury of four of the five criminal charges against him, including wire fraud and conspiracy to commit wire fraud. On January 15, 2020, as a result of the conviction, the SEC automatically suspended this same partner from appearing or practicing before the SEC. The former partner appealed his convictions, and, due to a subsequent decision from the United States Supreme Court impacting interpretation of the federal wire fraud statutes, the U.S. Attorney's Office has moved to remand his case to the District Court so it can be dismissed. KPMG cooperated fully with the U.S. Attorney's Office and the SEC in connection with this matter and took various remedial actions designed to prevent the sort of individual misconduct at issue, 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 initiated inquiries into the facts and circumstances related to this matter. To date, several state regulatory bodies determined not to pursue sanctions against the firm, and KPMG has resolved matters through settlement or consent orders with other states: California, Florida, Texas, Idaho, Nebraska, Washington, Pennsylvania, North Carolina, Connecticut, New York, Louisiana, New Mexico, Virginia. Certain other state regulatory bodies may take action against KPMG.

(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 also 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, including the SEC, and the firm's Board of Directors established a Special Committee to oversee the internal investigation conducted by outside counsel. KPMG cooperated fully with the SEC and took various remedial measures to prevent the sort of misconduct at issue, in addition to the undertakings described below.

The Order found that KPMG violated PCAOB Rule 3500T. PCAOB 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 KPMG failed to be in compliance with, among other standards, 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 censured the firm, required it to cease and desist from committing or causing any future violations of PCAOB Rule 3500T, imposed a $50 million civil monetary penalty, and imposed remedial undertakings. The remedial undertakings obligated 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 were evaluated by an independent consultant retained by KPMG, and the reports were provided to the SEC.

All recommendations from the internal KPMG reviews and independent consultant reviews were adopted and implemented as of September 30, 2021. Since October 2018, the firm has been providing additional ethics and integrity training to its professionals.

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