2024 Inspection

KPMG LLP

(Headquartered in New York, New York)

February 26, 2025

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

PCAOB RELEASE NO. 104-2025-039

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

EXECUTIVE SUMMARY

Our 2024 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).

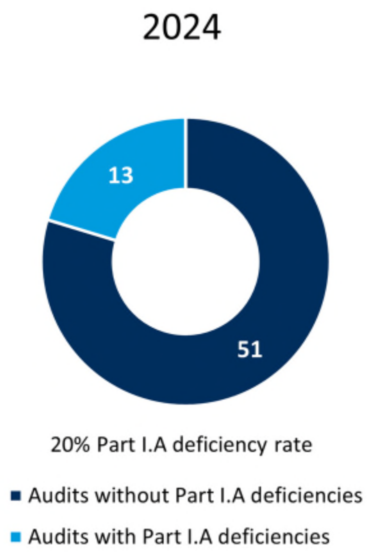
- Part I.B of the report discusses certain deficiencies ("Part I.B deficiencies") that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances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

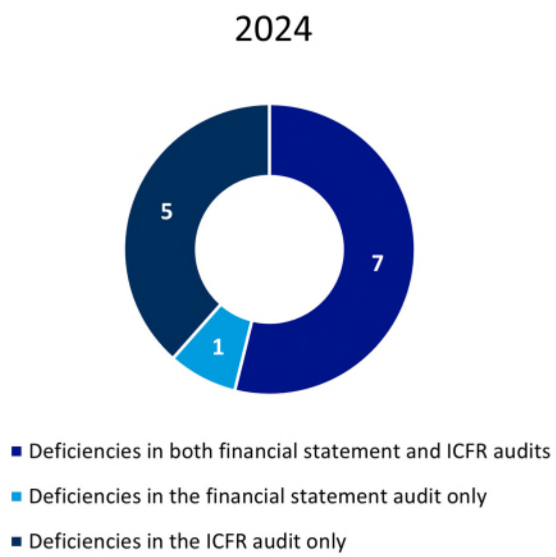
- Part I.C of the report discusses instances of apparent non-compliance with rules related to maintaining independence ("Part I.C deficiencies").

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 2024 Deficiencies Included in Part I

Thirteen of the 64 audits we reviewed in 2024 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 and allowance for credit losses.





The most common Part I.A deficiencies in 2024 related to testing the design or operating effectiveness of controls selected for testing, testing controls over the accuracy and completeness of data or reports used in the operation of controls, identifying controls related to a significant account or relevant assertion, and performing substantive testing to address a risk of material misstatement.

The Part I.B deficiencies in 2024 related to retention of audit documentation, audit committee communications, audit planning, risk assessment, the firm's audit report, and critical audit matters.

The most common Part I.C deficiencies in 2024 related to audit committee pre-approval, financial relationships, non-audit services, and indemnification clauses.

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2024 INSPECTION

In the 2024 inspection of KPMG LLP, the PCAOB assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of issuers.

We selected for review 64 audits of issuers with fiscal years generally ending in 2023. 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 2024 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.
- **Part I – Inspection Observations:**
  - **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.
  - **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 apparent non-compliance with rules related to maintaining independence.
  - **Part I.C:** Instances of apparent non-compliance with rules related to maintaining independence.

  Consistent with the Sarbanes-Oxley Act ("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 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.

2024 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 2024, our target team focused primarily on the firm's initial audit of an issuer, on the firm's procedures to identify and assess risks of material misstatement, on audits of issuers with significant investment in artificial intelligence technologies, on audits of issuers in the biotechnology industry that had recently completed initial public offerings, and on the firm's procedures to test the statement of cash flows and segment reporting.

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

OVERVIEW OF THE 2024 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2024 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.

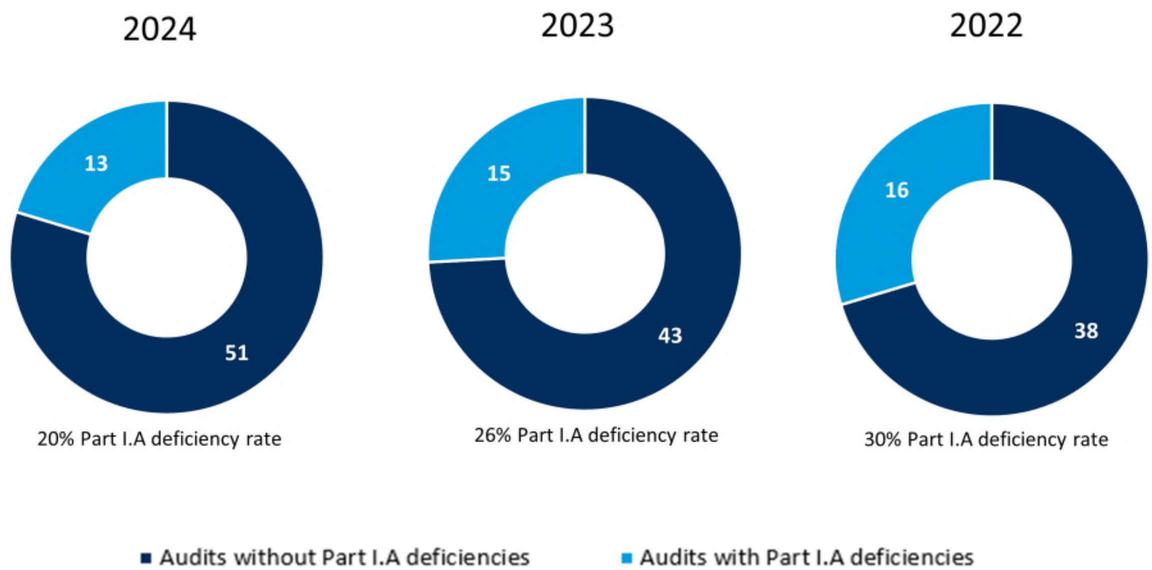
Audits Selected for Review

	2024	2023	2022
Total audits reviewed			
Total audits reviewed	64	58	54
Selection method			
Risk-based selections	48	43	37
Random selections	12	10	13
Target team selections[1]	4	5	4
Total audits reviewed	**64**	**58**	**54**
Principal auditor			
Audits in which the firm was the principal auditor	63	57	53
Audits in which the firm was not the principal auditor	1	1	1
Total audits reviewed	**64**	**58**	**54**
Audit type			
Integrated audits of financial statements and ICFR	58	52	43
Financial statement audits only	6	6	11
Total audits reviewed	**64**	**58**	**54**

[1] For further information on the target team's activities in 2023 and 2022, refer to those inspection reports.

Part I.A Deficiencies in Audits Reviewed

In 2024, 12 of the 13 audits appearing in Part I.A were selected for review using risk-based criteria. In 2023, 11 of the 15 audits appearing in Part I.A were selected for review using risk-based criteria. In 2022, 14 of the 16 audits appearing in Part I.A were selected for review using risk-based criteria.

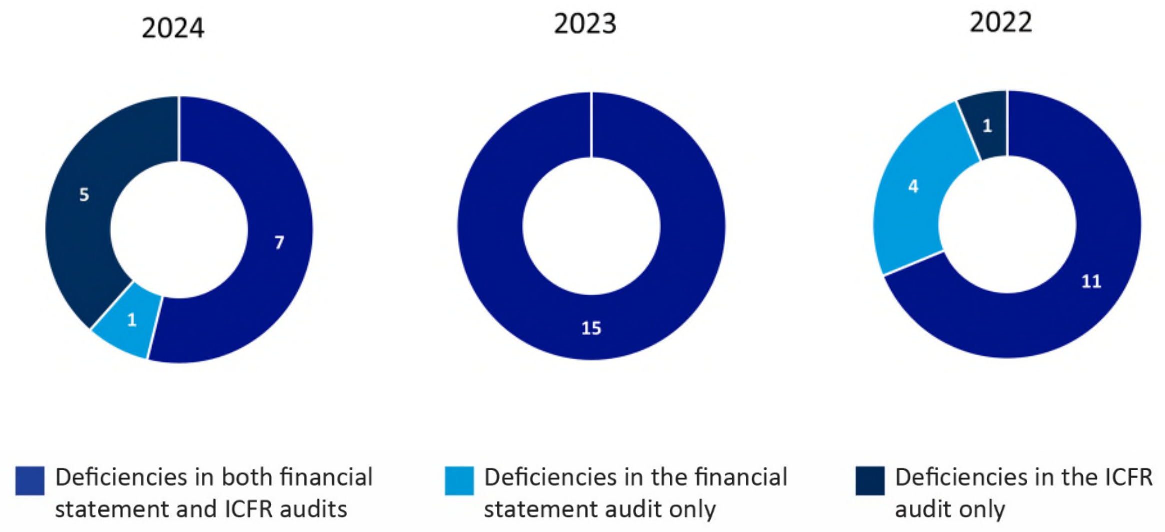


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In certain cases, the firm may have performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing 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 2024 inspection procedures for one audit, the issuer corrected a misstatement in a subsequent filing by adjusting the prior-period amounts.

In connection with our 2023 inspection procedures for one audit, the issuer corrected a misstatement in a subsequent filing by adjusting the prior-period amounts.

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 2024 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		
	2024	2023	2022
Did not perform sufficient testing related to a significant account or disclosure or to address an identified risk	4	9	6
Did not sufficiently test an estimate	3	2	3
Did not perform sufficient testing of data or reports used in the firm's substantive testing	3	6	3

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2024	2023	2022
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	8	6	5
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	5	8	4
Did not identify and test any controls that addressed the risks related to a significant account or relevant assertion	4	8	4

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.

2024			2023			2022		
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	45	4	**Revenue and related accounts**	40	6	**Revenue and related accounts**	37	6
Goodwill and intangible assets	16	1	**Inventory**	20	2	**Inventory**	16	2
Business combinations	13	2	**Investment securities**	13	7	**Business combinations**	13	1
Inventory	12	0	**Goodwill and intangible assets**	10	1	**Accruals and other liabilities**	12	1
Investment securities	11	2	**Business combinations**	9	0	**Long-lived assets**	11	1

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	2024		2023		2022	
	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	4	45	6	40	6	37
Allowance for credit losses	4	9	2	5	1	9
Business combinations	2	13	0	9	1	13
Investment securities	2	11	7	13	1	11
Inventory	0	12	2	20	2	16
Deposit liabilities	1	4	1	2	2	4

Revenue and related accounts: The deficiencies in 2024 primarily related to testing controls over revenue. The deficiencies in 2023 primarily related to substantive testing, and testing controls over, revenue. The deficiencies in 2022 related to substantive testing of, and/or testing controls over, revenue and deferred revenue.

Allowance for credit losses: The deficiencies in 2024 related to substantive testing of, and/or testing controls over, the allowance for credit losses. The deficiencies in 2023 related to the substantive testing of, and/or testing controls over, the allowance for credit losses, including model validation controls. The deficiency in 2022 related to testing controls over the allowance for credit losses.

Business combinations: The deficiencies in 2024 related to substantive testing of, and testing controls over, data used by company specialists to determine the fair values of assets acquired and/or liabilities assumed. The deficiency in 2022 related to substantive testing of the fair values of assets acquired and liabilities assumed.

Investment securities: The deficiencies in 2024 and 2023 related to substantive testing of, and/or testing controls over, the valuation and disclosures of investment securities. The deficiencies in 2022 related to substantive testing of, and testing controls over, the issuer's disclosures related to its investment securities.

Inventory: The deficiencies in 2023 primarily related to substantive testing of, and testing controls over, the valuation of inventory. The deficiencies in 2022 related to substantive testing of, and testing controls over, inventory, including cycle-count controls.

Deposit liabilities: The deficiencies in 2024 and 2023 related to disclosures for 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.

Auditing Standards Associated with Identified Part I.A Deficiencies

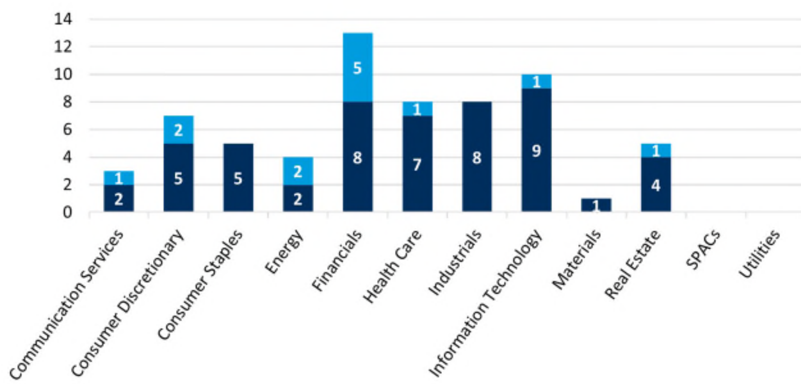
The following lists the auditing standards referenced in Part I.A of the 2024 and the previous two inspection reports, and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2024	2023	2022
AS 1105, *Audit Evidence*	10	7	9
AS 1201, *Supervision of the Audit Engagement*	1	1	0
AS 2101, *Audit Planning*	1	0	1
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	30	36	16
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	5	19	10
AS 2305, *Substantive Analytical Procedures*	1	3	0
AS 2315, *Audit Sampling*	1	4	2
AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*	0	1	2
AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements*	3	2	3
AS 2510, *Auditing Inventories*	0	0	1
AS 2810, *Evaluating Audit Results*	1	6	3

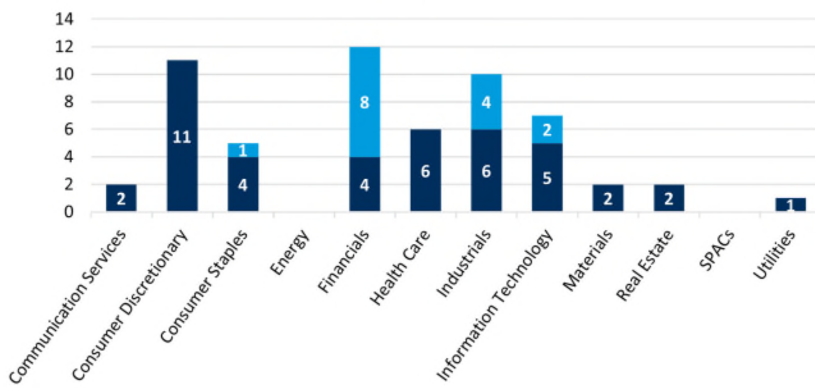
Inspection Results by Issuer Industry Sector

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.

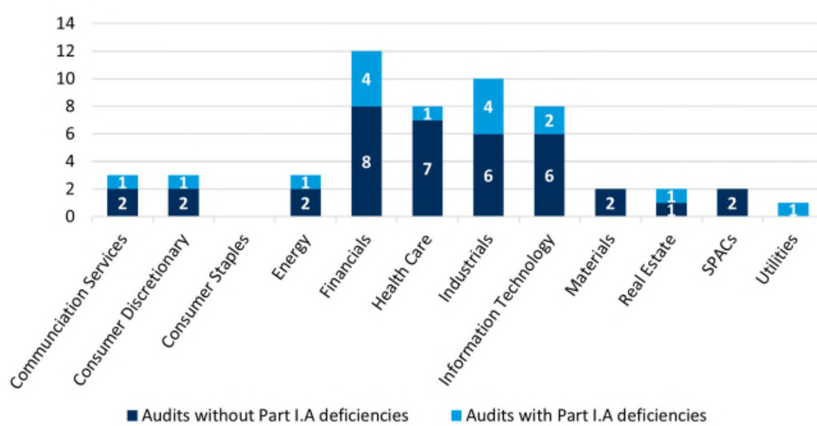
2024



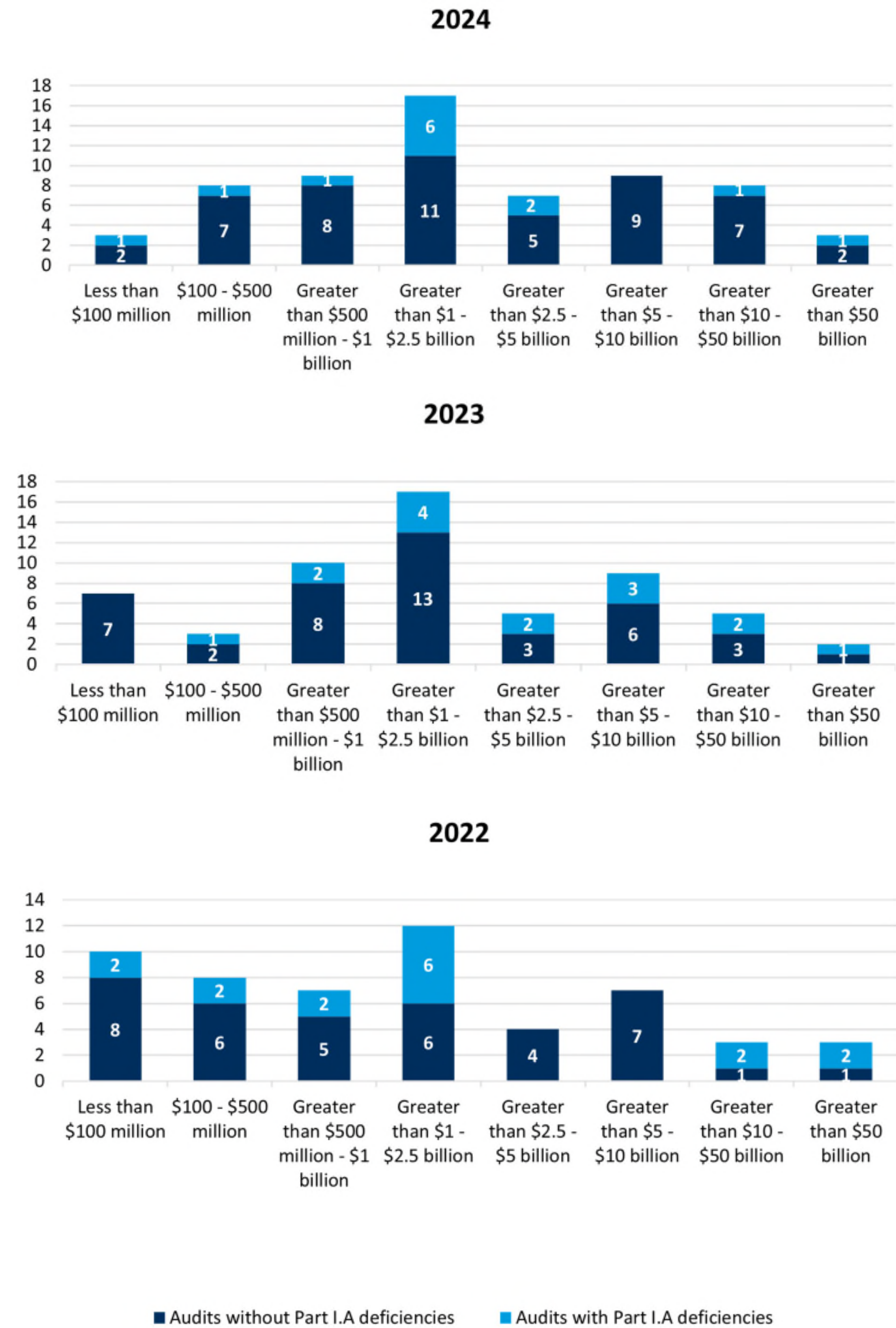
2023



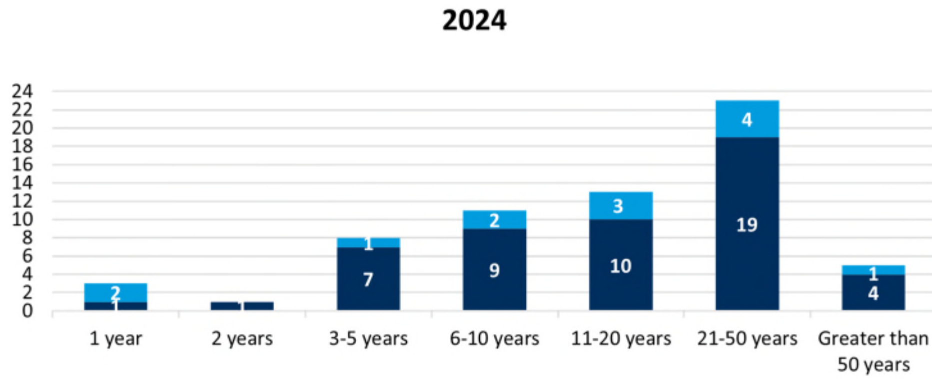
2022

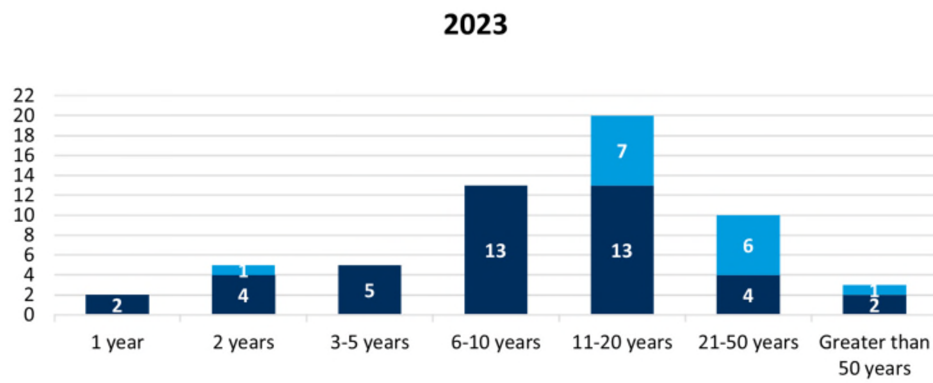


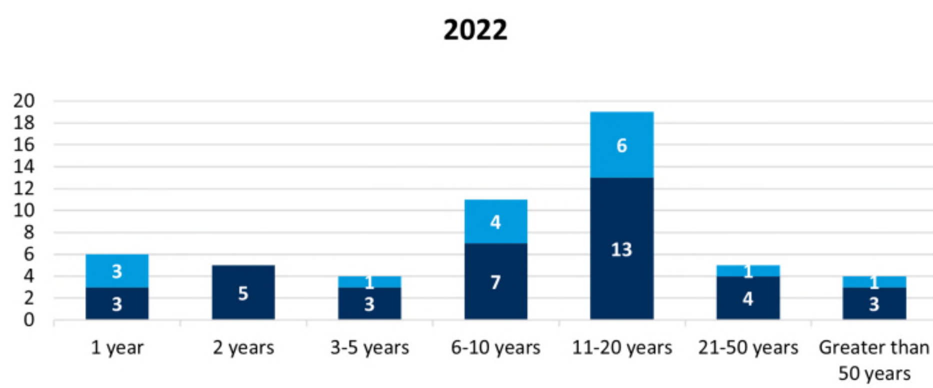
Inspection Results by Issuer Revenue Range



Inspection Results by the Firm’s Tenure on the Issuer



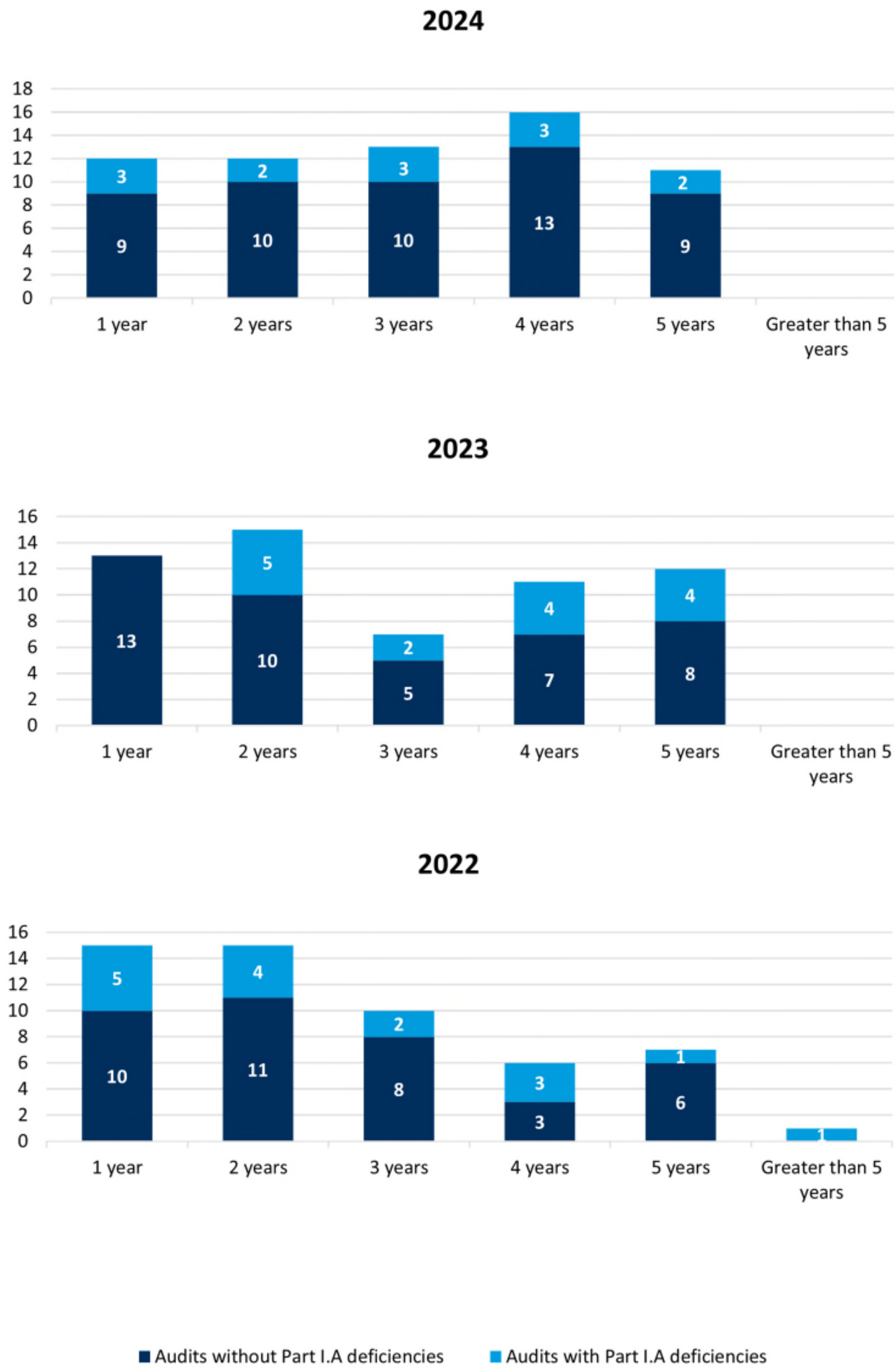




■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

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.



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.

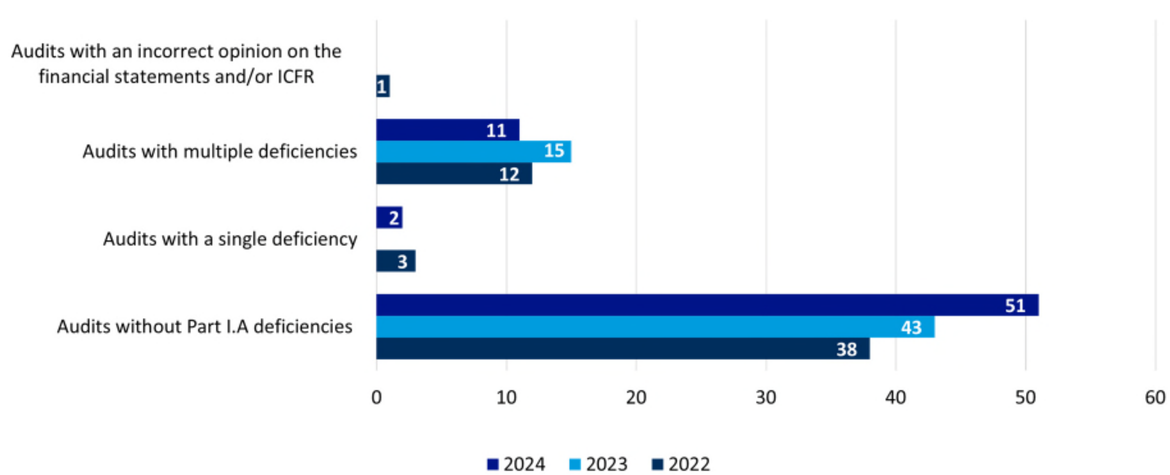
Audits with Multiple Deficiencies

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 apparent non-compliance with rules related to maintaining independence.

Part I.C discusses instances of apparent non-compliance with 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

None

Audits with Multiple Deficiencies

Issuer A – Financials

Type of audit and related areas affected

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

Description of the deficiencies identified

During the year, the issuer completed a business combination where the issuer's operations from before the transaction remained on the issuer's existing information systems ("legacy systems") and continued to be recorded in these systems separately from the other company's operations.

With respect to a **Business Combination**, for which the firm identified a significant risk:

The issuer engaged a specialist to assist it in determining the fair value of the loans acquired and the deposits assumed in connection with the business combination. The firm selected for testing various controls over the acquired loans and assumed deposits data that were provided to and used by the company's specialist. The firm did not identify and test any controls over the accuracy and completeness of certain of the data from the legacy systems that were used in the operation of these controls. (AS 2201.39)

With respect to the **ACL**, for which the firm identified a fraud risk:

The firm used certain loan data from the legacy systems in its testing of the ACL but did not perform any procedures to test, or test any controls over, the accuracy and completeness of these data. (AS 1105.10)

The issuer assigned certain loans a loan risk rating, which was an important input in estimating the quantitative component of the ACL. The firm selected for testing a control that consisted of the issuer's review, for a sample of loans, of the loan risk ratings assigned to certain types of loans. The firm did not evaluate the criteria the control owners used to select loans for review. (AS 2201.42)

The issuer determined the qualitative reserve component of the ACL using qualitative factors and developed one of these factors using various data, including appraisal data prepared by the company's specialists and certain external data. The following deficiencies were identified:

- The firm selected for testing controls that consisted of the issuer's review of the ACL, including an assessment of this qualitative factor for reasonableness. The firm did not evaluate the specific review procedures that the control owner performed to assess the reasonableness of this qualitative factor. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy and/or completeness of the appraisal and external data used to develop this factor. (AS 2201.39)
- The firm's approach for substantively testing the qualitative component of the ACL was to test the issuer's process, and the firm used an auditor-employed specialist to evaluate the methods and certain significant assumptions used by the issuer. The firm did not sufficiently evaluate the reasonableness of these significant assumptions because it did not identify that the auditor-employed specialist's procedures were limited to inquiring of management and reading an issuer-prepared memorandum. Further, the firm used a sample of appraisal reports prepared by the company's specialists in its testing of these significant assumptions without performing any procedures with respect to its use of the work of the company's specialists as audit evidence. (AS 1105.A1 - .A10, AS 1201.C6 and .C7; AS 2501.16)
- The firm used the appraisal and external data in its substantive testing of the qualitative component of the ACL but did not perform any procedures to test, or (as discussed above) test any controls over, the accuracy and/or completeness of these data. (AS 1105.10)

With respect to **Investment Securities**:

The issuer used a manually prepared spreadsheet to compare the fair values recorded for its available-for-sale and held-to-maturity securities to prices obtained from various sources. The firm selected for testing controls over the review of this spreadsheet but, when evaluating the design of these controls, did not identify that the control owner did not perform any procedures that addressed whether the pricing information that was included in the spreadsheet was accurate and complete. (AS 2201.42)

With respect to **Deposit Liabilities**:

The issuer disclosed the size, categories, and maturity date of certain of its deposit liabilities. The following deficiencies were identified:

- The firm selected for testing a control that consisted of the issuer's review of these disclosures but did not identify and test any controls over the accuracy and completeness of the information from the issuer's legacy systems that the control owners used in the operation of this control. (AS 2201.39)
- The firm used this information in its substantive testing of these disclosures but did not perform any procedures to test, or (as discussed above) test controls over, the accuracy and completeness of this information. (AS 1105.10)

Issuer B – Financials

Type of audit and related areas affected

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

Description of the deficiencies identified

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

The issuer reported loans receivable at two business units. The firm excluded from the scope of its audits the ACL related to one of these business units but did not evaluate whether the risks of material misstatement that the firm associated with the ACL subject to audit procedures also applied to the excluded ACL. (AS 2101.11 and .12; AS 2201.B10)

With respect to the ACL subject to audit procedures:

- The firm identified and tested controls that consisted of the issuer's review of the quantitative component of the ACL but did not identify and test any controls over certain inputs the control owners used in the operation of those controls. (AS 2201.39)
- The firm did not identify and test any controls over the qualitative component of the ACL. (AS 2201.39)
- The firm's approach for substantively testing the ACL was to test the issuer's process. The firm did not perform any procedures to evaluate the reasonableness of certain significant

assumptions the issuer used to develop the quantitative component and any significant assumptions the issuer used to develop the qualitative component. (AS 2501.16)

During the year, the issuer sold certain loans receivable to external parties. The firm did not identify and evaluate that the issuer's accounting for, and presentation and disclosure of, the gain on the sale of these loans was not in conformity with FASB ASC Topic 310, *Receivables*, and FASB ASC Subtopic 860-20, *Transfers and Servicing – Sales of Financial Assets*. (AS 2810.30 and .31)

In connection with our review, the issuer reevaluated its accounting and presentation of this sale of loans receivable and determined that an error existed that had not been previously identified. The issuer did not file an amended Form 10-K or Form 8-K indicating that its previously issued financial statements should not be relied on. Instead, the issuer adjusted this accounting and presentation in a subsequent filing.

With respect to **Investment Securities**:

The issuer recorded certain investment securities at fair value based on cash-flow models and classified these securities as held-to-maturity (HTM). The following deficiencies were identified:

- The firm selected for testing controls over the valuation of these securities, including the issuer's review of its cash-flow models. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of the values determined by these models. (AS 2201.42 and .44)

- The firm did not perform any substantive procedures to test the valuation of these securities. (AS 2501.07)

- The firm did not identify and test any controls that addressed whether the issuer's classification of these securities as HTM was appropriate. (AS 2201.39)

- The firm did not perform any substantive procedures to evaluate whether the issuer's classification of these securities as HTM was appropriate. (AS 2301.08)

Issuer C – Consumer Discretionary

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 multiple information-technology (IT) systems to initiate, process, and record transactions related to revenue and deferred revenue. In its testing of controls over these accounts, the firm tested various automated and IT-dependent manual controls that used data and reports generated or maintained by these IT systems. As a result of the following deficiencies in the firm's testing of IT general controls (ITGCs), the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2201.46)

With respect to change management:

The issuer had various change management processes for these IT systems, including the use of a tool to manage and migrate changes into the production environment. The firm selected for testing controls over change management for certain systems, including a control that consisted of the issuer's periodic review of access to the production environment. The following deficiencies were identified:

- The firm did not evaluate the specific review procedures the control owner performed to determine whether user access to the production environment that had been previously granted continued to be appropriate. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy and completeness of certain information that the control owners used in the operation of this control. (AS 2201.39)
- To test certain other change management controls, the firm selected changes from the issuer's change management tool but did not test, or test any controls over, the completeness of the population of changes from which it selected its samples for testing. (AS 1105.10)

With respect to user access:

- The firm selected for testing a control over user access for certain systems. The firm did not evaluate the specific review procedures the control owner performed to determine whether access was appropriately granted for the instances selected for testing. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy and completeness of certain information that the control owner used in the operation of this control. (AS 2201.39)

As a result of the firm's control testing deficiencies discussed above, the firm did not perform sufficient substantive procedures to test certain revenue and deferred revenue because it did not test, or sufficiently test controls over, the accuracy and completeness of certain system-generated data or reports the firm used in its substantive testing, including substantive analytical procedures. (AS 1105.10; AS 2305.16)

Issuer D – Communication Services

Type of audit and related area affected

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

Description of the deficiencies identified

At two of the issuer's business units, the issuer recognized certain revenue over time based on information that was provided by an external party. The following deficiencies were identified:

- The firm did not identify and test any controls over the reliability of the information provided by the external party. (AS 2201.39)
- The sample sizes the firm used in its substantive procedures to test this 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 deficiency in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

At certain other business units, the following deficiencies were identified:

- The firm did not identify and test any controls that addressed whether the performance obligations had been satisfied before revenue was recognized. (AS 2201.39)
- The firm did not perform substantive procedures, beyond observing the issuer's processing of one revenue transaction, to evaluate whether the performance obligations had been satisfied before revenue was recognized. (AS 2301.08)

Issuer E – Energy

Type of audit and related area affected

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

Description of the deficiencies identified

During the year, the issuer acquired a business. The acquired assets primarily consisted of oil and gas properties that had oil and gas reserves assigned. The issuer used company-employed specialists to determine the fair value of the acquired oil and gas properties based on discounted cash flows that they developed using various assumptions, including future production volumes. The company's specialists used historical production data produced by the acquired business and certain other non-financial assumptions developed by the company's specialists to develop the future production volumes. The following deficiencies were identified:

- The firm did not identify and test any controls over the reliability of the historical production data used by the company's specialists. (AS 2201.39)
- The firm selected for testing a control that included the issuer's review of the future production volumes assumption but did not evaluate the specific review procedures that the control owner performed to assess the reasonableness of certain significant non-financial assumptions that were developed and used by the company's specialists. (AS 2201.42 and .44)
- The firm did not evaluate the reliability of the historical production data used by the company's specialists. (AS 1105.A8a)
- The firm did not perform procedures to evaluate the reasonableness of certain significant non-financial assumptions that were developed and used by the company's specialists, beyond comparing the assumptions for the first year of the discounted cash flows for a selection of acquired properties to the historical production data of the acquired business and the issuer's other properties. (AS 1105.A8b)

Issuer F – Energy

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Long-Lived Assets**.

Description of the deficiencies identified

The issuer's policy was to group its property, plant, and equipment as a single asset group when evaluating its long-lived assets for possible impairment because the cash flows were interdependent. The following deficiencies were identified:

- The firm selected for testing a control over the impairment of property, plant, and equipment, which included the determination of its asset grouping. The firm did not evaluate the specific review procedures that the control owner performed to assess whether the issuer's use of a single asset group was in conformity with FASB ASC Topic 360, *Property, Plant, and Equipment*. (AS 2201.42 and .44)
- The firm did not perform substantive procedures, beyond reading an issuer-prepared memorandum, to evaluate whether the issuer's use of a single asset group was in conformity with FASB ASC Topic 360. (AS 2301.08)

Issuer G – Real Estate

Type of audit and related area affected

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

Description of the deficiencies identified

The issuer held investments in multiple unconsolidated entities, including certain entities that were managed by the issuer. The following deficiencies were identified:

- The firm selected for testing a control over the issuer's disclosure of these investments. The firm did not identify and test any controls over the accuracy and completeness of an issuer-prepared schedule that the control owner used in the operation of this control. (AS 2201.39)
- The firm selected for testing a control over the valuation of the investments in unconsolidated entities managed by the issuer. The firm did not identify and test any controls over the accuracy and completeness of the unconsolidated entities' financial statements that the control owners used in the operation of this control. (AS 2201.39)
- The firm used the unconsolidated entities' financial statements and the issuer-prepared schedule in its substantive testing of these investments but did not perform any procedures to test, or (as discussed above) test any controls over, the accuracy and completeness of this information. (AS 1105.10)

Issuer H – Information Technology

Type of audit and related area affected

In our review, we identified deficiencies in the ICFR audit related to **Revenue**.

Description of the deficiencies identified

The issuer recognized certain revenue over time from contracts for which it had an enforceable right to payment for inventory that did not have an alternative use to the issuer. The issuer's IT system for this revenue was configured to recognize revenue upon shipment, and the issuer recorded manual adjustments to recognize revenue at period end based on the progress it made to manufacture goods in inventory that had not been shipped. The firm selected for testing 1) an automated control that included the designation of sales orders in the system as "on hold" until the issuer completed a review of each sales order prior to shipment and 2) the control related to the issuer's review of each sales order with the "on hold" designation in the system to ensure it was associated with a valid contract. The following deficiencies were identified:

- For the automated control, the firm did not test the aspect that addressed whether all types of sales orders received this "on hold" designation. (AS 2201.42 and .44)
- For the sales order review control, the firm did not perform sufficient procedures to test the completeness of the population of items from which it selected its samples because it did not perform any procedures over the completeness of the population of sales orders associated with goods in inventory that the issuer had begun to manufacture. (AS 1105.10)
- The firm identified a control deficiency related to the lack of a requirement for the sales order review control to be performed before the issuer began to manufacture the inventory. In determining whether the deficiency represented a material weakness, the firm did not sufficiently evaluate the severity of this deficiency because (1) its procedures to evaluate the magnitude of the potential misstatement were limited to determining the total inventory amount that would represent a material misstatement and (2) the firm did not perform procedures to evaluate whether there was a reasonable possibility that the issuer's controls would fail to prevent or detect a misstatement beyond concluding that the possibility of that type of misstatement would be remote without performing procedures to support that conclusion. (AS 2201.62)

Issuer I – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the ICFR audit related to **Goodwill** and the **Statement of Cash Flows**.

Description of the deficiencies identified

With respect to **Goodwill**:

The issuer engaged a specialist to assist it in determining the fair value of its reporting units. The firm selected for testing controls that consisted of the issuer's determination of an expected range of reasonable outcomes for certain assumptions and comparison of those expected ranges to the assumptions determined by the company specialist. The firm did not evaluate, beyond inquiry, the procedures the control owner performed to determine the expected ranges. (AS 2201.42 and .44)

With respect to the **Statement of Cash Flows**:

The firm selected for testing the issuer's control over the configuration of a system-generated report used in the preparation of its statement of cash flows. The firm did not evaluate the specific review procedures that the control owners performed to assess the configuration of this report. (AS 2201.42 and .44)

Issuer J – Financials

Type of audit and related area affected

In our review, we identified deficiencies in the ICFR audit related to the **ACL**, for which the firm identified a fraud risk. The firm's internal inspection program had inspected this audit and reviewed this area but did not identify the deficiencies below.

Description of the deficiencies identified

The firm selected for testing controls that consisted of the issuer's review of the ACL, including a committee's reviews of certain assumptions used to estimate the qualitative component. The firm did not evaluate the specific review procedures that the control owners performed to assess the reasonableness of these assumptions. (AS 2201.42 and .44)

Issuer K – Financials

Type of audit and related area affected

In our review, we identified deficiencies in the ICFR audit related to the **ACL**, for which the firm identified a significant risk.

Description of the deficiencies identified

The firm selected for testing controls that consisted of the issuer's validation of the models it used to estimate the quantitative component of the ACL for loans and leases collectively evaluated for impairment. The issuer's validation included a comparison of the modeled results to the actual results that identified two types of errors and, by design, assessed one of these types of errors. In evaluating the design of these controls, the firm did not evaluate the effect of the issuer not assessing one type of error on the controls' ability to effectively prevent or detect a material misstatement. (AS 2201.42)

Audits with a Single Deficiency

Issuer L – Consumer Discretionary

Type of audit and related area affected

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

Description of the deficiency identified

The issuer recognized certain revenue based, in part, on transaction data provided by an external service provider. The firm did not identify and test any controls that addressed the reliability of the majority of these data. (AS 2201.39)

Issuer M – Health Care

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 perform any procedures to determine whether the issuer's presentation of a certain tax receivable as a current asset was appropriate. (AS 2301.08)

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 apparent non-compliance with 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 three of 64 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 nine of 62 audits reviewed, the firm did not make one or more required communications to the audit committee related to (1) the name, location, and planned responsibilities of other accounting firms or other persons not employed by the firm that performed audit procedures in the audit; (2) corrected misstatements; and/or (3) certain significant accounting policies and practices. In one of these audits, the firm did not make another required communication prior to the issuance of the auditor's report. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 62 audits reviewed, the firm did not communicate to the audit committee certain significant changes to the significant risks that had initially been identified and communicated to the audit committee and the reasons for such changes. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 62 audits reviewed, the firm did not provide a copy of the management representation letter to the audit committee. In one additional audit reviewed, the firm did not provide a copy of the letter to the audit committee prior to the issuance of the auditor's report. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*, and AS 2805, *Management Representations*.
- In three of 63 audits reviewed, the firm did not perform procedures to determine whether all individuals who participated in the audit were in compliance with independence requirements. In these instances, the firm was non-compliant with AS 2101, *Audit Planning*.
- In 13 of 63 audits reviewed, the firm did not inquire of, or make all required inquiries of, certain members of management, the internal audit function, and/or others within the company about the risks of material misstatement, including fraud risks. In these instances, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.

- In one of 64 audits reviewed, the firm did not appropriately evaluate certain factors when determining that there were no risks of material misstatement related to a relevant assertion for a significant account and disclosure. In this instance, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.

- In two of 57 audits reviewed, the firm's audit report on the issuer's financial statements did not include a required paragraph related to the firm's audit of the issuer's ICFR. In these instances, the firm was non-compliant with AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.

- In one of 56 audits reviewed, the firm did not inform the audit committee that it had communicated to management, in writing, all control deficiencies identified during the audit. In these instances, the firm was non-compliant with AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.

- In four of 58 audits reviewed, the engagement team performed procedures to determine whether or not matters were critical audit matters but, in performing those procedures, did not include one or more matters that were communicated to the audit committee and that related to accounts or disclosures that were material to the financial statements. 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*. These instances of non-compliance do not necessarily mean that other critical audit matters should have been communicated in the auditor's report.

PART I.C: INDEPENDENCE

PCAOB Rule 3520, *Auditor Independence*, requires a firm and its personnel to be independent of the firm's audit clients. This requirement encompasses not only an obligation to satisfy the independence criteria set out in PCAOB rules and standards but also an obligation to satisfy all other independence criteria applicable to an engagement, including the independence criteria set out by the SEC in Regulation S-X, 17 C.F.R. § 210.2-01, *Qualifications of Accountants* ("Rule 2-01").

This section of our report discusses identified instances of apparent non-compliance with PCAOB Rule 3520. An instance of apparent non-compliance with PCAOB Rule 3520 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 apparent non-compliance with PCAOB Rule 3520 that we identified and the firm brought to our attention, there may be other instances of non-compliance with rules related to independence that were not identified through our procedures or the firm's monitoring activities.

PCAOB-Identified

We did not identify any instances of apparent non-compliance with PCAOB Rule 3520.

Firm-Identified

During the inspection, the firm brought to our attention that it had identified, through its independence monitoring activities, for a 12-month period, 49 instances across 28 issuers,[2] representing approximately 3% of the firm's total reported 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(b) and/or Rule 2-01(c) or PCAOB Rules 3523 or 3500T related to maintaining independence. Approximately 76% of these instances of apparent non-compliance involved non-U.S. associated firms.

While we have not evaluated the underlying reasons for the instances of apparent non-compliance with PCAOB Rule 3520, the number, large or small, of firm-identified instances of apparent 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 apparent non-compliance across firms.

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

- The firm reported 22 instances of apparent non-compliance with Rule 2-01(c)(7) regarding audit committee pre-approval, 21 of which related to services performed by non-U.S. associated firms. Seventeen of these instances related to non-audit services provided without those engagements having been pre-approved by the audit committee.

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

- The firm reported 10 instances of apparent non-compliance with Rule 2-01(c)(1) regarding financial relationships, all but one of which occurred at the firm or involved its personnel. Of these instances, seven related to investments in audit clients and three related to other financial relationships with audit clients. The majority of the financial relationships were instances where a partner in the same office as the engagement partner for an issuer had a financial relationship with that issuer.
- The firm reported seven instances of apparent non-compliance with Rule 2-01(c)(4) regarding non-audit services. All of these instances related to services provided 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 reported six instances of potential non-compliance regarding indemnification clauses that appear to be inconsistent with the general standard of independence set out in Rule 2-01(b). All of these instances related to non-U.S. associated firms including clauses in their engagement letters with subsidiaries of an issuer audit client that may have resulted in the subsidiaries agreeing to indemnify the associated firms with respect to certain liabilities for the audits.

The firm has reported to us that it has evaluated these instances of apparent non-compliance and determined in all instances that its objectivity and impartiality were not impaired. The firm also reported to us that it communicated, or has plans to communicate, these instances to the issuers' audit committees, or to those charged with governance, as required by PCAOB Rule 3526.

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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February 14, 2025

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

Re: Response to Part I of the Draft Report on the 2024 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 2024 Inspection of KPMG LLP (the "Report").

We respect and appreciate the importance of our shared commitment to maintaining the integrity of financial information used by capital markets through our execution of high quality audits. KPMG and our professionals recognize the essential role that audit quality plays in upholding market confidence. The trust the market places in our audits is earned through relentless dedication and focus on audit quality and continuous improvement each and every day.

Likewise, we recognize and appreciate the professionalism and dedication of the PCAOB staff throughout the inspection process. The insights and feedback we receive from these inspections are critical components of our ongoing continuous improvement process including our efforts to strengthen our system of quality control. We are committed to analyzing the root causes of observations provided during the PCAOB inspection process and implementing appropriate actions to address them. This includes ongoing investments in continually developing our people, advancing our audit technology, and refining our methodology to ensure audit quality is consistent with our high expectations and continues to improve.

We have carefully reviewed the observations detailed in Part I of the Report and taken appropriate measures to address the engagement-specific findings in strict adherence to PCAOB auditing standards and our internal policies and procedures.

The inspection process is important to our efforts to continue to improve our audit quality. The initiatives and actions we have undertaken because of your observations are designed to strengthen our processes and controls and further improve the quality of our audits, thereby benefiting the capital markets and the global economy. We look forward to continuing our constructive dialogue with the PCAOB on our actions and their resulting impacts on our system of quality control and audit quality.

Thank you for the opportunity to respond to the Report. We remain steadfast in our goal of driving audit quality and maintaining the highest standards of integrity and excellence.

Sincerely yours,
KPMG LLP

Paul J. Knopp
Chair and CEO

Scott D. Flynn
Vice Chair - Audit