

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

In the Matter of)	PCAOB Release No. 104-2019-003
KPMG LLP's)	
Quality Control Remediation)	
Submissions)	January 25, 2019
)	
)	

I.

The Public Company Accounting Oversight Board ("Board" or "PCAOB") has evaluated the submissions of KPMG LLP ("Firm") pursuant to PCAOB Rule 4009(a) for the remediation periods ended October 15, 2016 and November 9, 2017 concerning the Firm's efforts to address certain quality control criticisms included in the nonpublic portions of the Board's October 15, 2015 and November 9, 2016 inspection reports on the Firm ("Reports"). The Board has determined that as of October 15, 2016 and November 9, 2017, respectively, the Firm had not addressed certain criticisms in the Reports to the Board's satisfaction. Accordingly, pursuant to Section 104(g)(2) of the Sarbanes-Oxley Act of 2002 ("Act") and PCAOB Rule 4009(d), the Board is making public the portions of the Reports that deal with those criticisms.¹

The Firm has notified the Board that it will not seek Securities and Exchange Commission review of the determination, which the Firm has a right to do under the Act and Commission rules. The Firm has requested that a related statement by the Firm be attached as an Appendix to this release, and the Board has granted that request. By allowing the Firm's statement to be attached as an Appendix to this release, however, the Board is not endorsing, confirming, or adopting as the Board's view any element of the Firm's statement.

¹ Those portions of the Reports are now included in the versions of the Reports that are publicly available on the Board's website. Observations in Board inspection reports are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability.

II.

The quality control remediation process is central to the Board's efforts to oversee firms' efforts to improve the quality of their audits and thereby better protect investors. The Board therefore takes very seriously the importance of firms making sufficient progress on quality control issues identified in an inspection report in the 12 months following the report. The Board devotes considerable time and resources (particularly with the largest firms, which are inspected annually) to critically evaluating whether a firm did in fact make sufficient progress in that period. The Board makes the relevant criticisms public when a firm has failed to do so to the Board's satisfaction.

It is not unusual for an inspection report to include nonpublic criticisms of several aspects of a firm's system of quality control. Any Board judgment that results in later public disclosure is a judgment about whether a firm has made sufficient effort and progress to address the particular criticisms articulated in the report on that firm in the 12 months immediately following the report date. It is not a broad judgment about the effectiveness of a firm's system of quality control compared to those of other firms, and it does not signify anything about the merits of any additional efforts a firm may have made to address the criticisms after the 12-month period.

ISSUED BY THE BOARD.

/s/ Phoebe Brown

Phoebe W. Brown
Secretary

January 25, 2019



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Statement of KPMG LLP on the PCAOB's January 25, 2019 Release No. 104-2019-003

Nothing is more important to KPMG LLP than fulfilling our critical role in the capital markets by performing high-quality audits and consistently executing on our responsibilities to audit committees and investors. We recognize and support the Public Company Accounting Oversight Board's ("PCAOB") mission of promoting high quality auditing, and we are committed to resolving the concerns identified in the PCAOB's inspection reports. We appreciate the professionalism and commitment of the PCAOB and its staff, and value the important role the PCAOB plays in improving audit quality at our firm and across the profession.

The PCAOB has made public portions of Part II of its Reports on the 2014 and 2015 Inspections of KPMG LLP (the "Reports") because the PCAOB determined that the firm had not satisfactorily addressed the quality control criticisms within the 12-month period after the publication of the Reports. We agree with the PCAOB's determination.

We take seriously our failure to timely address these criticisms. Notably, during a significant portion of the applicable periods, remediation efforts were being led by individuals who engaged in conduct that undermined the integrity of the regulatory process through their inappropriate use of PCAOB confidential information. The conduct of these individuals was contrary to the firm's Code of Conduct, what we expect and demand of our people, and intolerable. Upon learning of such conduct through an internal source in February 2017, the firm took immediate remedial actions that clearly demonstrated the firm's commitment to professional integrity, audit quality and the regulatory process. We immediately informed the PCAOB and the Securities and Exchange Commission ("SEC") and opened an investigation conducted by outside counsel. Since then, when information came to the firm's attention that indicated that individuals, including those responsible for leading the Audit practice at the time, had engaged in conduct contrary to both the letter and the spirit of the regulatory process, our Code of Conduct, or the firm's system of internal controls, the firm took appropriate remedial action, including separating responsible individuals from the firm.

Over the last 18 months, we have made significant changes to our audit leadership team, including the appointment of a new Vice Chair-Audit, a new National Managing Partner-Audit Quality and Professional Practice, a new National Managing Partner of Audit Operations, a new Chief Auditor, and a new Inspections Leader. All were chosen for their roles, first and foremost, because of their demonstrated record of sound judgment, professionalism, ethics, integrity, as well as their ability to inspire the trust of our people and command confidence from our clients. We also enhanced our overall governance process with the addition of two independent directors to our Board of Directors. In addition, over the last year we undertook an enterprise-wide culture assessment with external experts in organizational ethics and culture change, to explore how we can integrate culture more explicitly into our sustainable operating model. We listened, collected and analyzed responses



to inform an integrated, comprehensive and multidisciplinary approach to achieve progress toward improving our firm's culture. We believe that our new leaders and directors, our focus on our culture and the quality focused investments and audit quality actions described below, make clear a new tone at the top and underscore our commitment to audit quality.

Internal control and estimates

We have made significant investments in a new audit methodology and the related workflow technology that supports the execution of our audits. These investments in particular are specifically focused on auditing internal controls over financial reporting and estimates. These investments, to be fully implemented in 2020, will ensure a clear alignment of our audit methodology with the auditing standards and the facilitation of audit execution through a new technology platform. Certain elements of the methodology related to risk assessment have been accelerated into 2018 to expedite improvement in the auditing of internal controls over financial reporting and estimates.

Professional skepticism, supervision and review, and engagement quality control review

We recognize the importance of our responsibilities related to professional skepticism, supervision and review, and engagement quality control reviews ("EQCR"), and we have increased training, clarified roles, modified processes, and enhanced accountability to ensure improved execution in these areas. For example, we have enhanced our workflow to require and document early partner and EQCR involvement in key areas of the audit, bringing essential expertise and a critical viewpoint to all phases of the work.

Monitoring programs

We have changed our approach to engagement monitoring and the oversight of our Inspections Group. This group now reports outside of our Audit practice and into our Vice Chairman – Legal, Risk and Regulatory. It serves no engagement support role (that role now being confined to the Audit practice itself), ensuring that its 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 and meet the standards required of those actions.



Accountability

Under new leadership, responsibilities for audit quality have been clearly defined for roles from the engagement partner to the Chairman and CEO, which has given us a framework to ensure accountability for audit quality beyond the engagement team. We have implemented performance assessment and compensation processes to align with those roles and responsibilities. More broadly, we have initiated a project to more clearly delineate core competencies by organizational level. Our training curriculum and promotional processes will align directly to this core competency framework.

Our commitment to continuous improvement

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. We have gained global alignment on this definition to ensure our professionals have a clear vision of our view of quality at both the engagement level and related to our overall system of quality controls. Because the quality of each audit rests on our foundational quality controls, we are building a process to document and continually evaluate our overall system of audit quality controls and our implementation of the quality control standards applicable to our work.

We believe that the significant actions we have taken in the past 18 months demonstrate that we are dedicated to reinforcing a tone at the top that reflects our unwavering commitment to improved audit quality and respect for the regulatory process. We require our professionals to exhibit the highest level of professionalism and integrity and to embrace their roles in driving audit quality and improving our system of audit quality control. We take seriously our responsibility to the capital markets and are committed to continuously improving our firm and working constructively with the PCAOB to maintain the public's trust.

Very truly yours,

KPMG LLP

Lynne M. Doughtie
Chairman and Chief Executive Officer

Frank E. Casal
Vice Chair - Audit