



FY23
Audit
Quality
Report

kpmg.com/US



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Letter to stakeholders

We are in the era of “compound volatility,” the combination of more frequent disruptive events and powerful longer-term structural changes in our economy.

For business leaders, mastering compound volatility requires planning for and investing in the future while becoming more agile and nimble to confront present-day risks. That means investing differently in your talent pipeline to better compete in a tight labor market while quickly reimagining your supply chain in the wake of global disruption. It’s charting your decarbonization path to lead the energy transition while rethinking your digital transformation strategy accounting for generative AI.

Our [2023 CEO Outlook](#) underscored this challenge. Executives are prioritizing strategic investments in artificial intelligence (AI), environmental, social and governance (ESG) and transformational M&A opportunities against headwinds posed by rising geopolitical, supply chain, cyber and regulatory risks, among many others.

Moreover, underlying the challenges posed by compound volatility is declining trust. This includes trust in our society’s institutions, information reported and our collective ability to solve big, complex problems.

These twin challenges do not just confront business leaders. They raise new questions for investors, employees, regulators and all those invested in our capital markets.

At KPMG, we are focused on navigating compound volatility while enhancing trust in our capital markets. In our 2023 Audit Quality and Transparency Reports, we detail how our continuous improvement mindset is enhancing our audit approach, quality management system and use of technology in the audit. Through these efforts, we are continuing to empower our people to plan for disruption, more deeply identify and understand risks to audit quality and accelerate innovation to meet rising expectations from stakeholders on ESG reporting, as well as technology attestations and assurance.

Across our firm, we are investing \$2B+ in AI and cloud solutions, partnering with leading technology companies, and empowering our people to innovate to stay ahead of the market. The rapid rise in the use of AI will disrupt business models, creating new opportunities and challenges for business leaders, as well as novel financial reporting risks. Likewise, AI will transform how and what we audit.

Throughout all our efforts, our Values guide our actions. A strong culture grounded in ethics and independence makes us more agile and resilient, laying the foundation for sustaining quality. We are focused on fostering that culture of Integrity through learning and development, leadership accountability and delivery of an exceptional experience for our people and the companies we audit.

In both our Audit Quality and Transparency Reports, we cover a wide range of topics. Along the way, you will find spotlights on how our people Make the Difference to enhance trust in our capital markets.

We encourage you to engage with us throughout the year. Audit quality is an ongoing commitment, and we will continue to share updates on our audit journey as well as insights on trending topics. You can find those updates on our [website](#) and in the [KPMG Financial Reporting View](#).



Paul Knopp
KPMG US Chair and CEO



Scott Flynn
KPMG US Vice Chair – Audit

Definition of audit quality

Audit quality is fundamental to maintaining public trust in the capital markets and protecting investors. It 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 regulatory requirements and intent of applicable professional standards, within a strong and responsive quality management system.

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

Section I

Overview
of our approach

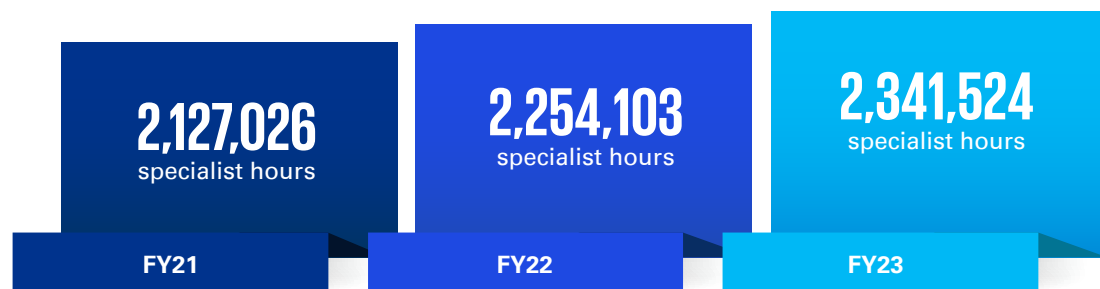
As executives, investors, regulators, employees and other stakeholders strive to effectively navigate compound volatility, so do we. In this section, we highlight five ways we are enhancing audit quality and fostering trust in the capital markets:

- 1. Preparing for disruption:** We are enabling our teams to best identify new and emerging risks and effectively respond in accordance with the professional standards.
- 2. Boldly investing in our AI future:** We are partnering with leading organizations and putting AI in the hands of our people to capitalize on this once-in-a-generation opportunity to drive innovation and transform the audit.
- 3. Fostering empowered and accountable leadership:** We empower leaders to drive our audit strategy and foster a strong and ethical culture while also holding those leaders accountable for delivering quality outcomes.
- 4. Continuously strengthening independence:** Independence empowers our auditors to challenge assumptions, processes and findings during the audit to sustain audit quality.
- 5. Engaging the entire financial reporting ecosystem:** Beyond executing quality audits, we constructively engage audit committees, management, controllers, students and teachers and the policy community to enhance trust in our capital markets.

Continuously improving our audit approach

The KPMG approach promises a better audit experience. Central to this promise is executing a well-managed audit that pulls work forward, enabling more time to focus on areas of highest risk to the business. The result is an audit tailored to the business being audited, which meets the rising expectations of investors and regulators.

Bringing the power of our full firm to the audit



Note: Audit engagement hours by Audit, Tax, and Advisory professionals with specialized skills

How do we deliver this better audit experience?

We bring together the right mix of people.

With deep industry knowledge and unique technology experience, our partners and professionals can deliver audits that better identify and respond to data-driven insights. All these efforts occur within our system of quality control that focuses on increasingly standardizing, centralizing and automating the audit to drive consistency across our portfolio. Importantly, by pulling work forward, our engagement teams can more fully benefit from our expanded pre-issuance review process, national consultation teams and team-wide supervision and reviews. [Click here to learn more about our quality management system.](#)

We continuously refine the skills of our auditors.

We emphasize learning and development opportunities aligned with our audit strategy and industry dynamics while creating room for self-direction. All our auditors are trained locally, virtually and at KPMG Lakehouse. It's not the volume of learning that's important, but the value created. This approach empowers our Audit professionals to own their experience as they engage our curriculum centered on the professional standards, project management, industry trends, data and technology, AI and ethics, ESG and more. [Click here to learn more about how we are investing in the Next Gen Auditor.](#)

We use the full resources of our multi-disciplinary firm.

As we drive more effective audits using technology, we also continue to tap people with specialized skills at the right time. In fact, last year, Audit, Tax and Advisory professionals with specialized skills dedicated 2,341,524 hours to our audits, up 4% from FY22. Within Audit, our 1,000+ technology assurance professionals are ensuring we stay ahead of IT attestation trends as businesses increasingly digitalize their systems. Moreover, with Europe and California forging ahead with ESG reporting requirements, people across our firm have conducted nearly 60,000 hours of training in FY23 to help businesses connect their ESG strategy to reporting, enhance financial value and meet ever-complex requirements. [Click here to learn more about how we are investing in new capabilities to enhance technology and ESG assurance.](#)



Spotlight

The power of our multidisciplinary partnership in delivering quality audits

By Scott Flynn

Our multidisciplinary model brings together the unique skills of our Audit, Advisory and Tax colleagues to deliver quality audits in the era of compound volatility. The world is increasingly complex. Firms that invest in and bring together disciplines will drive better solutions. Firms that scale investments in technology will accelerate innovation. And firms that achieve true scale with deep knowledge and broad market reach are positioned to provide high-quality audits to effectively serve the capital markets.

At KPMG, we are truly Together, For Better.

Our multidisciplinary model not only improves our work today but also attracts, retains and develops the best talent needed to tackle tomorrow's challenges. Our people get exposure to different skill sets and benefit from diverse career paths. For example, in our financial statement audits, we regularly tap into tax and technology capabilities outside our practice to drive audit quality. Moreover, in recent years, thousands of people have moved from one function to another within KPMG. It's no wonder that even when people leave, boomerangs provide an incredible source of talent. Over the past decade, roughly 10% of experienced hires were former KPMG professionals who returned to the firm.

In addition to enhancing our talent, our multidisciplinary model positions us to boldly invest in artificial intelligence and cloud capabilities while allowing us to scale innovation across our business. This year, we announced a \$2B+ global investment

in AI and cloud. This followed a \$1.5B global investment in ESG capabilities in 2021 and a \$5B global investment in digital capabilities in 2019. Verdantix recently named KPMG a global market leader, stating "KPMG stands out for its climate risk strategy and emissions data assurance capabilities." Meanwhile, our Audit practice has been a finalist for Digital Innovation of the Year two years running.

Additionally, our multidisciplinary model's impact on our innovation, ethical culture and ability to provide quality audits can feel difficult to isolate and quantify, but they are abundantly clear.

The power of our multidisciplinary model is only amplified by our partnership model. When I look across audit committees, they know I am confident in the quality of our audits because I have skin in the game. There is nothing more powerful. That same dynamic is what pushes us to move boldly and quickly on continuous improvement. It drove our \$500M investment in KPMG Lakehouse and speed-to-market efforts to put KPMG Audit Chat in the hands of nearly 10,000 professionals in October.

Innovation, talent and agility have defined KPMG for over 125 years. Our multidisciplinary and partnership models enhance the power of our firm and underscore our commitment to audit quality. We remain unquestionably committed to both.

Investing in an AI-powered, people-driven audit

AI will completely transform the audit. With AI fully integrated into KPMG Clara, our global smart audit platform, our people will be able to unlock real-time, data-driven insights and enhance the quality of our audits in ways we could have barely imagined a decade ago. Though AI will power us, the core of the audit will always be people-driven.

“An AI-powered audit will fundamentally reshape how our partners and professionals approach the audit and how companies manage risk,” said **Scott Flynn, Vice Chair – Audit**. “AI capabilities can accelerate more real-time auditing that allows deeper analysis of full data sets and better positions auditors to engage earlier in the audit cycle, assessing risks with more information and context to challenge assumptions.”



Our approach recognizes that all businesses are unique, requiring a deep ecosystem of innovation to build and deploy a full suite of fit-for-purpose solutions. To that end, we've focused on finding the right partners, empowering our people and embedding trust along the way.

- **Finding the right partners.** Last year, KPMG [announced](#) a \$2B+ global investment in our expanded alliance with Microsoft to embed AI throughout our business. We've also worked with our first Audit global alliance partner, MindBridge, to deploy its advanced statistical, machine learning and rules-based analytics technology to enhance audit quality through deployment in nearly 3,000 audits across more than 60 member firms.
- **Empowering our people.** AI is the ultimate enabler, and by changing the day-to-day nature of the job in a way that reduces stress and improves flexibility, AI will help attract more top talent into the profession. For example, this year, after a 500+ person pilot, we released our proprietary KPMG Audit Chat to our entire practice with ~60 validated prompts using KPMG's audit methodology to enhance audit quality and drive efficiency.

- **Embedding trust into AI.** Responsible and ethical use of AI is paramount to our approach. Last fall, we announced our updated [KPMG Trusted AI foundational principles](#), which demonstrates our commitment to being Values-driven, human-centric and trustworthy in our integration of AI. These principles are grounded in 10 ethical pillars across the AI lifecycle, such as fairness, security, transparency and privacy.

To learn more, read [how AI is changing how we audit](#) and [what we audit](#).

Nurturing a strong ethical culture

Our 2023 CEO Outlook found that executives believe successfully leading on both ethics and integrity and AI is intertwined. In fact, ethical challenges are the most cited obstacle to successfully implementing generative AI. More broadly, 83% of CEOs say their organization's success, including growth objectives, depends on having a strong ethical culture.

At KPMG, our investments in culture and learning put long-term commitments to ethics and integrity into action.

We also believe an ethical culture is not just about a strong tone at the top but also having skin in the game. To that end, in recent years we've implemented compensation clawbacks for national and local leaders tied to key audit quality and independence outcomes.

For example:

- Our quality management system is geared toward supporting all engagement teams in meeting quality objectives. With insights from ongoing monitoring, business unit leaders work with regional and national leaders to act early to improve an engagement team's ability to navigate challenges in the audit.
- We conduct internal audits of independence compliance by job level throughout the year, creating quarterly reports with recommendations for leadership engagement.
- As discussed later in this report, our audit strategy focuses on empowering engagement teams to pull audit work forward, tracking progress throughout the year. Audit and business unit leaders are held accountable for acting early so teams meet these milestones.

In all these areas, leadership support is paired with leadership accountability. If our goals are not met, then the relevant leaders at the national and/or local level are assessed financial penalties.

This emphasis on aligning our Values-based culture with responsibility and accountability also stretches across our firm through our system of quality control.

“We are now four years into an innovative, permanent and agile ethics and integrity learning strategy that promotes a positive and supportive culture centered on the pillars of trust, integrity, independence and ethical conduct,” said **Tim Walsh, National Managing Partner – Audit Operations.**

“We reviewed our learning and development curriculum and acted on comprehensive recommendations to ensure that we are providing a safe, collaborative work environment where we can do our best work and all our people have our trust agenda top of mind.”



“Our ability to deliver quality and enhance trust in the capital markets is directly related to advancing our ethical culture, support systems and focus on accountability,” said **Flynn.**

“With aligned incentives, along with actionable information and resourcing support, our leaders are accelerating transformation and delivering quality outcomes.”

This firmwide effort ensures audit quality has KPMG’s full attention. Importantly, we require leadership certifications of our system of quality control, which are backed by internal testing of controls. Today, we are in year 5 of essentially performing a SOX 404 audit on ourselves.

More information on our efforts to comply with ISQM-1 can be found in our [Audit Transparency Report](#).

Grounding our culture in independence to empower our teams

“Independence infuses audit professionals with the confidence to exercise professional skepticism throughout the audit,” said **Shawn Gilbert, Partner-In-Charge Risk Management – Audit.** “Through our rigorous system of quality control, we are well positioned to help all of our people achieve our ultimate goal – delivering quality audits and building trust in the capital markets.”

- As part of *firmwide independence*, we believe the capital markets benefit from our multi-disciplinary model. Whenever we provide non-audit services to audit clients, we thoroughly evaluate each potential non-audit service to ensure we maintain independence and do not compromise audit quality. One outcome of this focus is that we have the lowest rate of permissible non-audit services compared to audit services among the Big 4.
- When it comes to *personal independence*, we educate and support our people on independence rules that can be complex and difficult. We offer unique solutions to our professionals, like our personal independence concierge services. Additionally, through required annual trainings, certifications and optional virtual office hours to address independence-related questions, our people have a safe environment in which they can understand the importance of independence and access resources to confidently comply.

All this effort is supported by our independence team, comprised of 14 partners and 206 professionals. This year, our team conducted approximately 43,000 independence consultations and inquiries, responding to inquiries on various personal independence matters, such as financial, employment and close personal relationships, as well as inquiries that are engagement and firm-related, such as permissibility of non-audit services, rotation of audit engagement personnel, determination of audit client affiliates, audit committee communications, and business relationships, including our vendors and suppliers, among many others.

For more information on our independence efforts, please review our [Audit Transparency Report](#).

“We go beyond compliance to embed our continuous improvement mindset into our audit quality initiatives,” said **Christian Peo, National Managing Partner – Audit Quality and Professional Practice.** “Even prior to the International Standard on Quality Management (ISQM) 1, we embraced our responsibility to the capital markets by documenting and testing controls that form our system of quality control.”



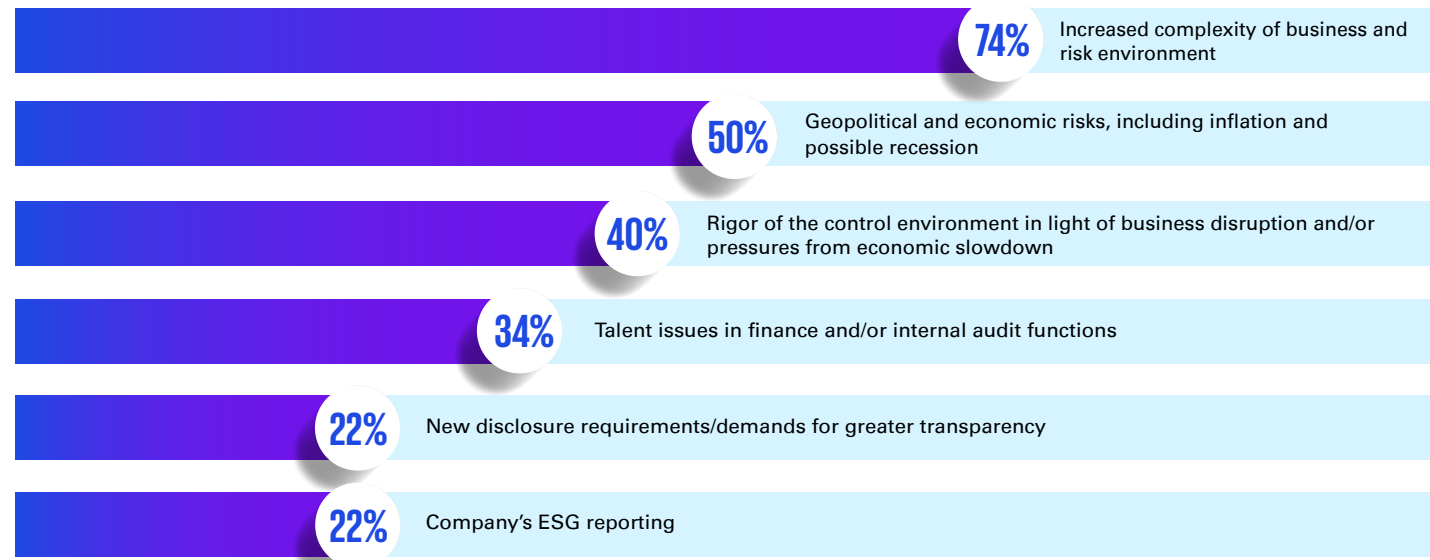
Engaging financial reporting stakeholders

In our financial statement audits, we are focused on executing audits consistently, in line with the requirements and intent of applicable professional standards, within a strong system of quality control.

However, the expectations for the auditor continue to evolve as our capital markets change.

“We are focused on continuously engaging financial reporting stakeholders on new market opportunities and risks, new regulatory requirements and accounting standards, and the dynamics shaping financial reporting and the audit,” said **Flynn**. “A heads-down, narrow focus on auditing to the standards ignores the broader conversation and can widen the expectations gap between auditors and stakeholders, creating potential risks for investors.”

Which macrotrends will have the greatest impact on your audit committee’s focus and agenda in the months ahead?



Source: 2023 Audit committee survey insights (kpmg.us)

Multiple responses allowed

Spotlight

KPMG Board Leadership Center

Engaging board directors and audit committees on emerging issues is integral to supporting the capital markets. The KPMG Board Leadership Center (BLC) has deep experience engaging directly with board directors and audit committees on the critical issues making up their agendas today. This year, the BLC, which includes our Audit Committee Institute, developed and released 48 publications, podcasts and webcasts. Additionally, in FY23, the BLC held approximately 80 board-level conversations.

“Audit committees are tasked with staying current on evolving disclosure rules. It is challenging for leadership and audit committees to digest these new rules and determine their direct impact on the company,” said **John Rodi, Audit Partner and Leader, KPMG Board Leadership Center**.

Our [research](#) found that by mid-year 2023, generative AI and geopolitical uncertainty were top items on companies’ boardroom agendas. And with regulatory developments on climate, cybersecurity, human capital management and other topics emerging in 2023, boards were keenly focused on reassessing and adjusting governance structure accordingly.

Separately, 2023 proxy season trends were largely focused on matters related to ESG, with these proposals accounting for 90% of all shareholder proposals. Most, however, were unsuccessful in gaining majority support from shareholders.

Wendy Lewis

This year, KPMG **Audit Partner Wendy Lewis** became chair of the Virginia Board of Accountancy, becoming the first Black woman to serve in that role. “I am excited about the important work of opening doors to the CPA profession for people from a variety of backgrounds, as well as leading the board through the overall transformation and evolution of the accounting profession,” said Lewis.

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Our engagement of the capital markets takes many forms, including:

Engaging professional bodies

We partner with institutions, including the [Center for Audit Quality](#) and [AICPA and CIMA](#), on key issues defining the profession. This includes standard-setting conversations, the use of technology and talent.

Hosting events on leading topics

We host hundreds of events nationally, locally and virtually, bringing together groups big and small to dissect issues driving financial reporting. Of note, our annual Accounting and Financial Reporting Symposium, Audit Committee Leadership Forum and Board Leadership Conference gather hundreds of leaders together to discuss key financial reporting challenges as well as hot topics facing audit committees, board members and the C-suite.

Issuing timely & relevant thought leadership

In 2023, KPMG Audit, including our Department of Professional Practice, issued 261 insights, including publications, videos, webcasts, podcasts and other collateral. That content garnered more than 20 million touchpoints.

Providing professional education

66,000+ people outside of our firm, including people in companies we audit and the general public, earned more than 250,000 CPE credits through 1,000+ courses provided by our KPMG Executive Education program.

“The trends that are driving business conversations today — artificial intelligence, geopolitical and economic risk, ESG regulation, cybersecurity, social issues, talent and more — are increasingly manifesting at the sector level and rising to the top of board and audit committee agendas,” said **Dana Foote, Audit – National Head of Markets**. “Stemming from these overarching trends is a host of sector-specific risks, creating further complexity in accounting and financial reporting.”



Engaging talent at the high school level

Today, KPMG is effectively attracting, developing, and retaining quality audit professionals from all backgrounds to execute our audits. However, the CPA shortage poses a risk to our firm, and is impacting other accounting firms and financial reporting teams here and now. According to reporting by the [Financial Times](#), it's already creating challenges and raising costs in our public sector at the state and local levels.

At KPMG, our Empower High School Experience, a joint effort with the KPMG U.S. Foundation, introduces high school students from all backgrounds to careers in public accounting and professional services through a 3.5-week paid internship. The inaugural program held last summer included 177 participants across 11 of our regional markets. 500+ KPMG volunteers engaged with interns from six nonprofits — Accounting Career Awareness Program, All Stars Project, Big Brothers Big Sisters of America, Cristo Rey Network, Junior Achievement USA and NAF — unlocking potential and providing career insights.

We are also proud to work across our profession through the Center for Audit Quality on [Accounting+](#), a national brand awareness campaign focused on reaching Black, Hispanic and Latino students at the high school and early college levels. Accounting+ meets students where they are – on social media platforms and in their classrooms. In addition to social media and content marketing, Accounting+ provides students with access to resources and continued support along their journeys, from initial discovery about how a career in accounting can match their own passions and goals, to ultimately choosing accounting as a major of study in college. In under two years, 50,000+ students have subscribed to [Accounting+](#) for ongoing engagement on their accounting journey. So far, its partnership with EVERFI will engage nearly 3,000 high schools by the end of 2024, reaching 40,000 students and 2,300 teachers.

Constructive public policy engagement

KPMG constructively engages with the PCAOB's rule-making process, offering support and feedback on proposed updates to the standards and other matters. We support the PCAOB's efforts to update and modernize the standards as well as enhance audit quality through the inspections process. Recently, the firm has issued comment letters on PCAOB proposals related to the use of [technology](#), [non-compliance with laws and regulations](#), and [auditor liability](#). We also offered public comments on proposals related to a firm's [system of quality control](#) and the [general responsibilities of the auditor](#).

In combination with our audit approach and commitment to independence and a strong, ethical, diverse and inclusive culture, these efforts enhance trust in our profession and the capital markets.



Section II

Our system of quality control

This section highlights key focus areas within our system of quality control and efforts led by our Department of Professional Practice. For more on this topic, please [click here](#) for discussion within our Audit Transparency Report.

The Department of Professional Practice

The KPMG Department of Professional Practice (DPP) is a national team dedicated to providing real-time support for audit teams for both audit and accounting technical requirements. There are 167 partners and managing directors, or more than 13% of all Audit partners and managing directors, working within DPP to provide professional practice support.

Additionally, our Audit Quality Support Network, DPP Client Liaison program, SEC Review Partner Team program and Risk Management – Inspections Group are integral to our quality management system.

Standardization, centralization and automation

We are focused on standardizing, centralizing and automating key areas of the audit to pull work forward, enabling pre-issuance reviews, consultations and enhanced supervision and review to strengthen audit quality.



Standardize

Consistently applying our methodology through KPMG Clara workflow, industry-standardized risk assessment and response, establishing expected substantive procedures, and standardizing control testing and project management milestones

Centralize

Scaling centralized services for engagement teams, including data analysis, actuarial services for pension plans, national pricing deck, SOC 1[®] reviews, and support for teams with alternative investments, emerging growth/IPO plans, and broker-dealers

Automate

Integrating tech stacks and automated routines for risk assessment and audit response, building an integrated D&A platform that connects our solutions like transaction scoring and technologies in a single platform

These efforts create more capacity for engagement teams to tailor their audits, focusing on areas of higher risk and uncovering more audit insights for audit committees and management.

Supporting engagement teams with enhanced centralized services

By Tim Walsh

A fully integrated, quality audit demands close coordination and collaboration that brings the right expertise and capabilities together at the appropriate time. Our engagement teams work with centers of excellence to deliver a consistent audit tailored to the unique risks of the business.

We support engagement teams through the KPMG Center for Audit Solutions, our rapidly growing home to 18 centralized services, and through our Global Delivery Center (GDC) in India. These teams help increase productivity and audit quality by providing increasingly specialized skills and shared services to support our engagements. By delivering quality and timely work, these centralized services also prepare engagement teams to communicate with audit committees and management more effectively.

In both our onshore and offshore organizations, we've taken significant actions to attract and develop talent, strengthen our quality control and improve our audit teams' ability to effectively coordinate and review work.

For example, in FY23, core audit teams saved nearly 40,000 hours by leveraging the Center for Audit Solutions' SOC Service Offering as well as 30,000+ hours using the Alternative Investments Centralized Services. This time savings allowed engagement teams to focus more of their time on areas of

higher risk. We also successfully transitioned more than 100 Actuarial Services professionals from our Advisory practice into our Center for Audit Solutions this year, streamlining the communications and coordination among actuarial professionals on Audit engagements and the companies we audit.

In our GDC, centralized services are coordinating with engagement teams to execute standardized elements of both public and private audits, including certain expected substantive procedures as well as components of asset management audits.

The KPMG Center for Audit Solutions and GDC delivered nearly 20% of our Audit engagement hours, excluding our federal government practice. All of our centralized services follow our system of quality control, which emphasizes and requires proper supervision and review from engagement team members.



Executing orderly and timely audits

Our multi-year practice-wide effort and investment has fundamentally changed the audit lifecycle. Partners and professionals within our engagement teams, centralized services and DPP are collaborating to conduct more work earlier in the audit cycle, creating capacity for more extensive pre-issuance reviews.

In fact, for 2023 audits, we will be conducting our most extensive pre-issuance reviews to date, covering 100% of public audits.

How did we get here?

1. We set milestones and monitor progress at the engagement team, business unit, regional, and national level to best support all engagement teams during the audit.

Our monitoring efforts track 1) project management, 2) engagement execution and 3) key audit quality indicators at moments in the audit cycle, working closely with our resource management teams and leaders across the firm to properly support audit engagements.

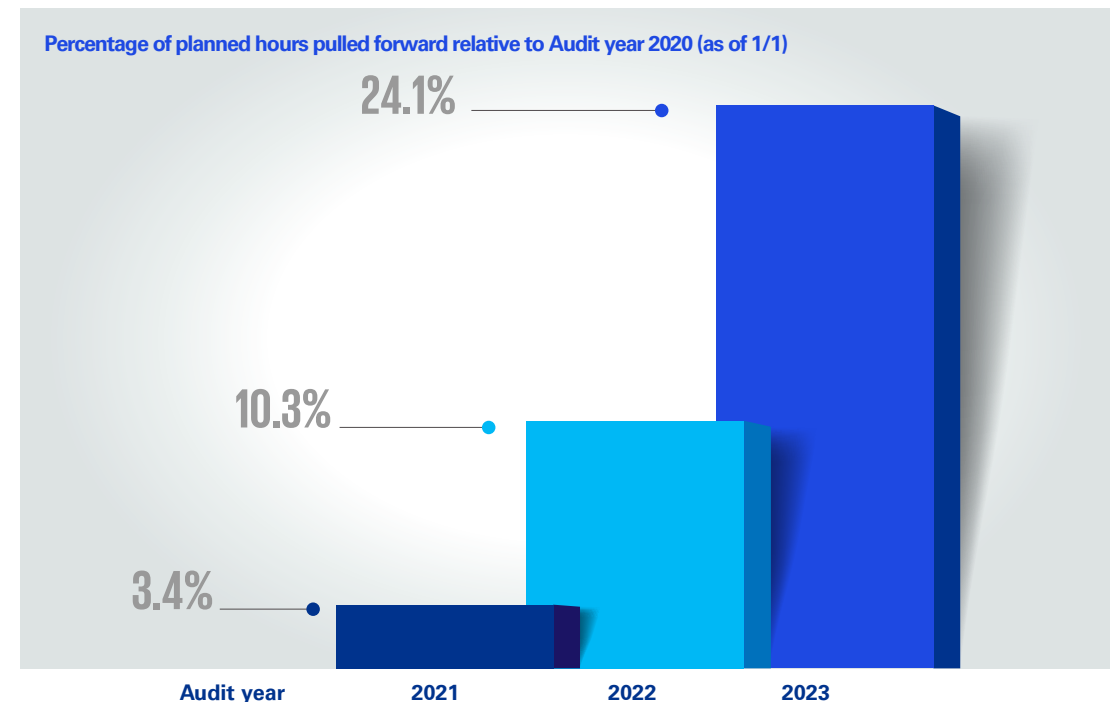
Each category monitored includes a number of metrics. For example, project management monitoring will identify if teams shift due dates in significant ways, whereas engagement execution will identify if reviews of workpapers are lagging. Audit quality indicators include ratios of partner hours to total team hours and manager hours to associate hours, among others. This effort ensures our audits are being executed as planned with audit quality top of mind.

Across three key dates that span a 6-month period in the audit, we've increased the percentage of our audits meeting our milestones over the past three years. This monitoring allows us to better support all engagements with the appropriate resourcing, coaching and guidance to address any challenges early in the audit cycle.

2. This effort enables more of our teams to pull work forward, completing more audit workpapers and planned hours by key dates in the audit cycle.

When evaluating 12/31 year-end audits, we are conducting far more work earlier in the audit cycle for public integrated audits. We set milestones to complete 40% of all workpapers by mid-October and 60% of workpapers by January 1.

This effort also translated to significant changes in when our teams' hours were executed. Compared to 2020, this effort moved 10.3% of planned audit hours out of the traditional busy season in FY22 and 24.1% in FY23.



Additionally, in 2023, we expanded this pull-forward effort from 100% of public integrated audits to all public financial statement audits and private engagements greater than 2,000 hours. Engagements subject to these processes now make up nearly 90% of total audit hours compared with just over 50% in the prior year.

3. Ultimately, this effort creates the capacity for expanded pre-issuance reviews of more areas of the audit.

Pre-issuance reviews involve assessments of our audit procedures, analysis and documentation by partners and professionals outside the core engagement team. These reviews enhance quality, drive consistency and help teams continue to improve over time. Over the past three years, these reviews have been driven by our Department of Professional Practice (DPP), Risk Management – Inspections and SEC Reviewing Partner Team.

Our effort to pull work forward enables more pre-issuance reviews, covering more and more areas of the audit.

- In our 2021 audits, we conducted pre-issuance reviews for 100 engagements, focusing on materiality and group scoping for 50 engagements and certain audit work over business processes for the other 50.
- In our 2022 audits, we conducted 400+ pre-issuance reviews, covering 100% of our public integrated audits. This effort combined work from Risk Management and the Audit practice and focused on two processes related to walk-throughs, risk assessments, and testing the design of controls.
- In our 2023 audits, we are further expanding this effort and are aiming to conduct nearly 700 pre-issuance quality reviews, including all client entities that file a Form 10-K. The scope for the portion of those reviews performed by members of the SEC Reviewing Partner Team expanded once again to include reviews of control effectiveness, in addition to substantive testing and disclosures.

Expanded pre-issuance reviews



By coordinating efforts among Risk Management – Inspections, DPP and our SEC Reviewing Partner Team, we can deliver pre-issuance reviews at scale. Our SEC Reviewing Partner Team includes 281 partners and 263 assistants, which represents a 26% increase in total team size compared to the same time last fiscal year. With more time and resourcing to review engagement teamwork, this effort is able to drive enhanced audit quality across our portfolio.

“We are effectively channeling our firmwide capabilities to enhance audit quality and more effectively deliver value for our clients,” said **Jeremy Croucher, Partner in Charge – Department of Professional Practice**. “As the regulatory and accounting environment evolves, our focus continues to be on ensuring our engagement teams and clients stay on top of emerging risks and enabling them with our collective industry and technical expertise.”





Victoria Saravia Bazoberry

Every year, we celebrate our Elijah Watt Sells Award winners, who obtain a cumulative average score above 95.50 across all four sections of the CPA exam. Victoria was one of just 50 winners in 2022 across the profession. A graduate of Notre Dame, Victoria is an Audit senior associate in New York and represents the bright future of our Audit practice.

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National office consultations

KPMG has policies and procedures in place to ensure quality engagements, including a requirement to consult with the partners and professionals in DPP on difficult or contentious matters and implement agreed-upon conclusions. These consultations are collaborative, involving a thorough understanding of the entity's views as well as the analysis and judgments of both DPP and the engagement team. For the businesses we audit, these consultations lead to improved communications, providing more transparency and insight into decisions. In FY23, these partners and professionals provided guidance on nearly 6,000 accounting and auditing consultations.

Additionally, DPP has a Client and Industry Liaison Program. Our Client Liaison Program is designed to enhance the audit experience by providing a single point of contact within DPP who helps bring DPP's full capabilities to participating companies and engagement teams who typically have audits with a pattern of complex accounting and/or auditing matters. Currently, over 35 DPP partners and managing directors support participating clients and engagement teams in the Client Liaison Program.

Our Industry Liaison Program supports the Audit sector leaders in their efforts to transform our firm's differentiated capabilities and insights into value for the companies we audit. In FY23, we had 15 national office partners serving as Industry Liaisons, providing support across industry sectors. The industry liaisons monitor emerging industry issues, standard-setting, and regulatory matters specific to their industries and assist the Audit Sector Leaders in evaluating their impacts.

Recent PCAOB inspection trends underscore the impact of ongoing quality initiatives

KPMG takes a holistic approach to measuring audit quality, including evaluating our PCAOB inspection results, restatement trends, milestone efforts, resourcing and utilization, learning and development and use of technology. You can find our progress on all these efforts across this report.

“We highly value the inspections process, including Part II results, which informs our root cause analysis to sustainably improve audit quality,” said **Peo**. “Our Part 1.A results have improved over the past years due to a multi-year effort encompassing our approach to auditing, use of technology, learning and development, and quality management system.”



The PCAOB has not released its 2022 Inspections Report related to our 2021 issuer audits since the publication of our last Audit Quality Report. Our 2021 report included reviews of 54 issuer audit engagements in total, 14 of which were included in Part 1.A. At a time when our competitors saw increases in their Part 1.A deficiency rates, KPMG was the only Big 4 firm to have a consistent deficiency rate between 2020 and 2021 inspections results.

While we remain focused on continued improvement, our Part 1.A deficiency rate declined from 37% to 26% since 2018. Additionally, of the 217 KPMG audits inspected from 2018 to 2021, there was one audit requiring a financial restatement and three audits with a restated ICFR opinion identified in connection with a PCAOB inspection.

When looking at restatements across public audits, the firm continues to perform well, maintaining a restatement rate among the lowest in the Big 4 in recent years.

Additionally, the upcoming 2022 PCAOB Inspections Report will include a new Part 1.C. This new section will highlight firms’ performance on independence, specifically non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence either identified by the PCAOB or by firms.



Section III

Technology

This section highlights our use of technology in the audit and our innovation mindset. For more information on these topics, click [here](#).

In previous Audit Quality Reports, we have discussed how other emerging technologies are shaping the audit. This year, we'll focus more on how AI is poised to revolutionize financial reporting and the audit. Our recent [survey of financial reporting leaders](#) found that 65% are already using AI in their financial reporting function. Moreover, 71% expect to use it extensively in the next three years, with 49% already piloting or deploying generative AI solutions.



In the context of the audit, 72% of financial reporting leaders believe external auditors are ahead of financial reporting functions on using AI, and they expect auditors to use AI to challenge assumptions and identify new risks.

To meet this expectation, we are investing \$2B+ to embed AI and cloud capabilities throughout our Audit, Tax and Advisory businesses.

“Our vision is to accelerate an AI-powered audit that strengthens our ability to understand control environments, better analyze and test data in real time, and frees up our people to focus on areas of risk that require human judgment,” said **Thomas Mackenzie, Chief Technology Officer – Audit.**

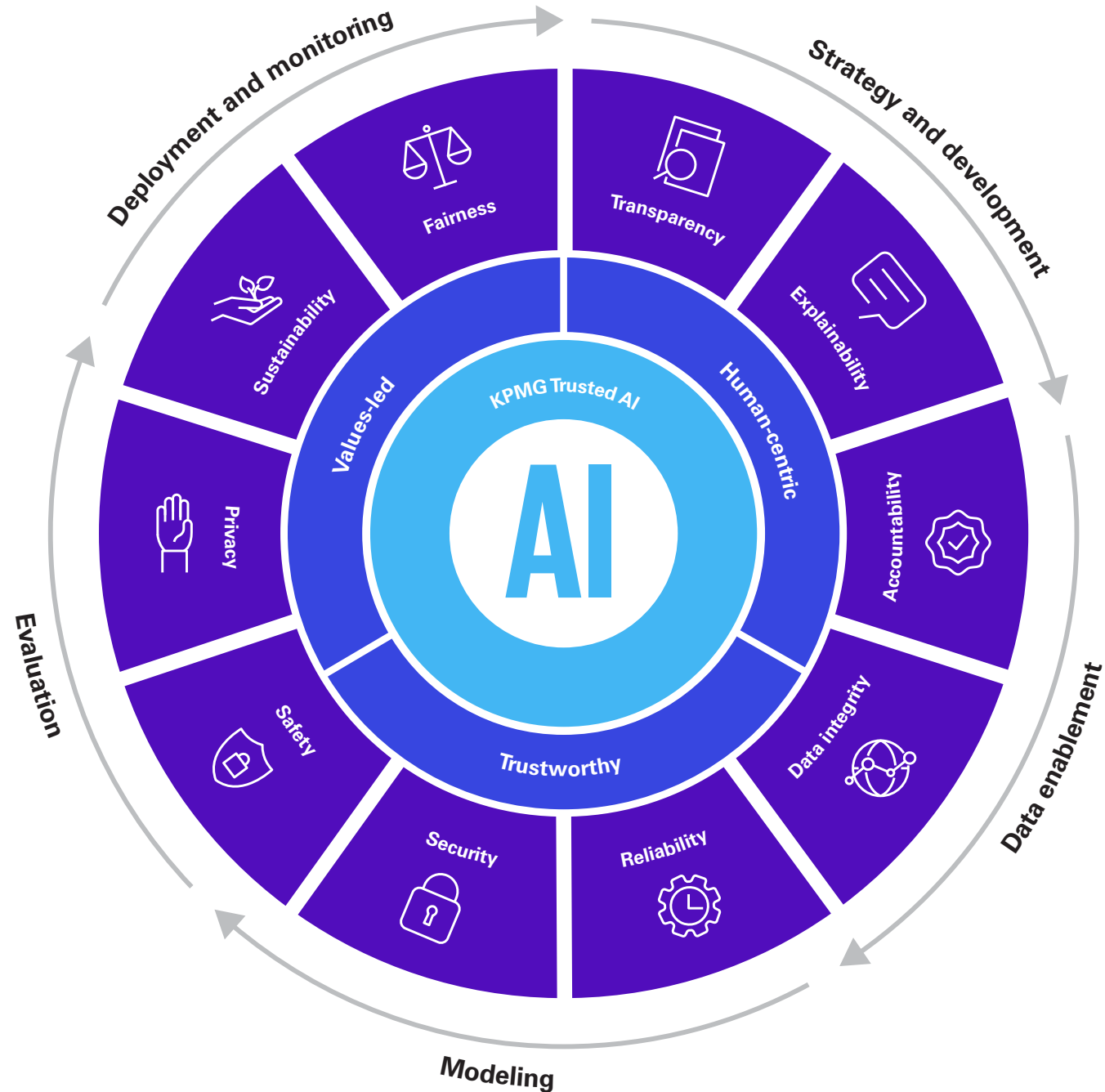
Importantly, KPMG has been investing in AI with a laser focus on trust for the past decade to allow us to scale quickly. This focus is not merely conceptual. It's been embedded in our investment strategy, training, policies and approach. For example:

- In June 2023, more than 500 KPMG users began piloting KPMG Audit Chat, our proprietary generative AI tool built on the back of Microsoft Azure's OpenAI Service. By October, we launched that capability to our nearly 10,000 auditors with ~60 use cases focused on audit quality and productivity.
- Also in 2023, after working with MindBridge for multiple years, we officially penned our first global audit alliance with the company and are embedding its AI and machine learning capabilities into KPMG Clara. We call this solution KPMG Clara Transaction Scoring. This effort will enable us to analyze 100% of the transactional general ledger population, enabling rapid conclusions over accounts and identification of outlier transactions to focus on underlying issues.
- All this work will be integrated with KPMG Clara, our global smart audit platform that brings collaboration, workflow, analytics and automation together. Today, more than 90,000 audit professionals across the world use KPMG Clara.

Our focus on speed to market is only surpassed by the rigor we apply to validate our approach.

- All our technology is deployed within the requirements of our established software audit tool testing policies and procedures. Moreover, we require upfront training prior to usage. This empowers our audits to use technology as an enabler while professionals critically engage outputs and exercise professional skepticism.
- For example, our KPMG Audit Chat pilot fielded and evaluated potential prompts and engaged reviewers with diverse skillsets to drive quality outputs. Our prompt engineering process tested ~60 prompts with virtually countless variations, adding specificity to our audit methodology, audit standards and more to fine-tune the probabilistic model and drive high-quality outputs. At the same time, we evaluated how to enable our people to responsibly use KPMG Audit Chat, including requiring upfront training, building out local support networks and mandating that all final decisions and documentation be people-validated.
- Likewise, in the U.S., in FY23 we tested our KPMG Clara Transaction Scoring outputs next to our current approach to risk assessment. We are now moving toward limited deployment this coming year, with full deployment expected in FY25.

Ethics and values are the watermark running through our use of AI. Trusted AI is our strategic approach and framework to designing, building, deploying and using AI solutions in a responsible and ethical manner. It is values-led, human-centric and trustworthy. In FY23 alone, Audit partners and professionals spent 23,000+ hours learning about the connection between AI and ethics.



AI in the audit

Our vision of an AI-powered, human-driven audit will deliver quality in four main ways:

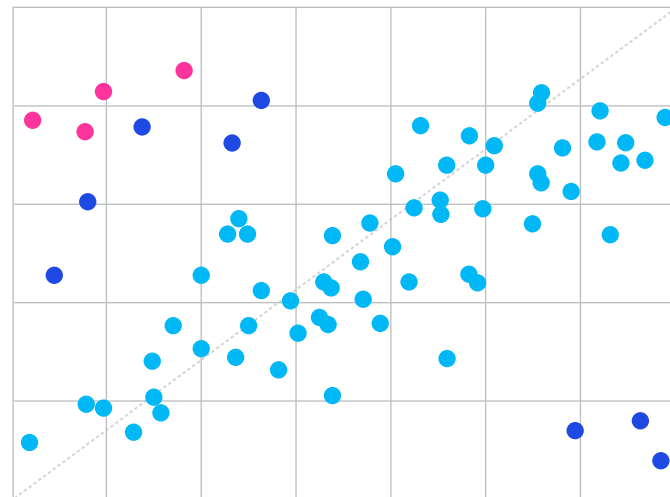
1. Harnessing big data to reduce burdens on companies' financial reporting functions:

We've developed a suite of technologies and data extraction capabilities to automate the transfer of data used in the audit. Approximately 3,000 auditors are trained to use these advanced data transformation capabilities.

2. Analyzing full data populations: AI, coupled with advanced analytic routines, will drive speed to insights through more robust analysis of accounting records and information used in the audit. This effort will deliver enhanced risk assessments and audit insights for boards, audit committees and management teams.

After pilots last year in the U.S., KPMG Clara Transaction Scoring is being deployed in 200+ engagements this year, with full deployment next year. Globally, we are already using its AI capabilities for transaction scoring on nearly 3,000 audits across more than 60 member firms.

Transaction scoring



● Low risk ● Medium risk ● High risk



Sophisticated technology applies logic, statistical analysis, and AI to score transaction-level data for automated audit evidence.

Interactive analytics provide opportunity for further investigation where needed, as well as insights into your business.

We have also developed and deployed 100+ automated routines, many of which are industry specific, up from ~60 in FY22. Today, nearly 900 engagements have deployed these routines, nearly double that of the previous year. Likewise, we continue to deploy new routines across operating expenses, lease recalculations and revenue.

3. Delivering a better audit experience by adding a new team member throughout the audit in KPMG Audit Chat:

Our current deployment of KPMG Audit Chat is just one step in our AI journey. Over time, this capability will be integrated into KPMG Clara, along with Microsoft Copilot, creating a new, highly efficient team member. It will help engagement teams more effectively track and report audit progress, navigate KPMG Clara workflow, expand transaction scoring, improve documentation, deliver deeper audit insights and more.

4. Conducting more real-time audits:

While we continue to focus on more seamless data extractions, we are also investing in a future in which AI/ML analytics sit on top of our clients' data environments. Analytics will run more in real time without spending time – including the time of the business we audit – on extracting data.

As spotlighted in our discussion of the quality management system, our focus is on standardizing, centralizing and automating more areas of the audit, which enables audit teams to focus on areas of highest risk. Our AI-powered, people-driven audit accelerates our already rapid improvements in this area.

AI-enabled asset management audits

For asset management audits, our proprietary industry-specific platform, KPMG Clara Automated Funds Toolkit, combines data from multiple sources to automate testing over 100% of investment holdings and related transactions. Data is sourced from fund administrators, third-party brokers and custodians throughout the audit cycle and transformed for analysis, easing the burden on the funds we audit. This data is paired with our National Pricing Desk database to perform specific testing procedures, with 14 automated routines built in to respond to identified risks. The net result is a far more effective audit that focuses on higher-risk transactions to deliver more in-depth audit insights on the causes and frequency of outlier transactions.

Spotlight

The intersection of talent and technology

Our promise is a better audit experience for all, including our people. AI often feels like a double-edged sword in this context. To some, technology is seen as a threat to their jobs. To others, it's an opportunity. At KPMG, we believe the audit will always be people-driven. Our methodology, audit standards, industry dynamics and a business's particular risks are integrated through human judgment and decision making. Our research found that financial reporting leaders agree, with 55% reporting they do not expect AI to shrink the size of their teams. In fact, 21% believe AI will grow the size of reporting teams by enhancing the value they provide to the company. Moreover, 1 out of 6 financial reporting leaders believe an increase in AI usage will be a positive for diversity, equity and inclusion.

AI will not only promote audit quality but also improve the audit experience. Audit professionals are hungry for technology. They want to innovate the audit. Our efforts to standardize more audit work are based on innovations by our Audit professionals.

This hunger for innovation is best illustrated by our Tech Stars program. Our auditors earn stars for investing in their personal career development by demonstrating their increasing expertise to infuse audits with fit-for-purpose technology. **By the end of FY23, 23,600 Tech Stars have been awarded, up from 17,000 in FY22. In total, more than 3,500 people have taken part in the program.**

Digital Innovation of the Year

We are proud to have been nominated as a finalist for the **Digital Innovation of the Year** award (International Accounting Forum & Awards 2023).



Alanna Pundsack

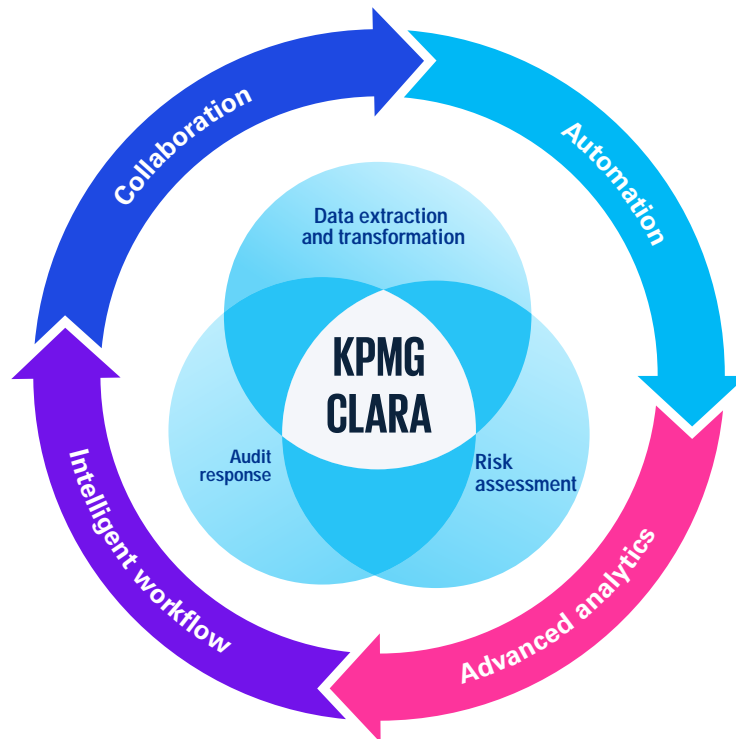
This year, as part of a first-place win in the In Pursuit of Health Equity Hackathon, Audit **Senior Associate Alanna Pundsack** leveraged firm-enabled technologies for her winning project: creating tailored data sets that crystallized healthcare access gaps in cities across the U.S.

KPMG. Make the Difference.



KPMG Clara – our audit quality foundation

Our efforts to use AI in the audit are all driven toward enhancing KPMG Clara, our global smart audit platform, which was fully deployed to our global network this year. This technology effort, which supports more than 90,000 auditors worldwide, facilitates consistent use of collaboration, workflow, automation and analytics to drive a consistent, efficient, and data-driven audit across the globe.



A POWERFUL APPROACH

One centralized platform

We deliver a better audit experience through a modernized approach that effectively coordinates the audit, powers our process with automation and analytics, and supports clear and transparent communication throughout the cycle.

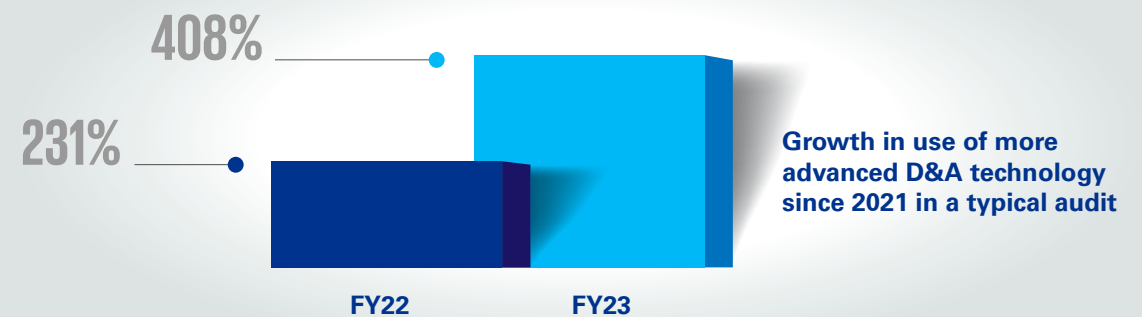
Our technology journey has led to deeper engagement across our KPMG Clara capabilities.

- **Collaboration:** KPMG Clara collaboration is a cloud-based application that facilitates real-time secure interaction between our teams and the businesses we audit. We have more than 3,000 collaboration sites across our portfolio.

- **Workflow:** All KPMG U.S. audits are executed using KPMG Clara workflow, which features on-demand learning and connects our methodology directly to the standards, improving decision-making and documentation. Today, KPMG Clara workflow is being used across the globe with methodologies tailored to jurisdictional requirements.
- **Automation:** As described above, we are driving automation across data extraction, risk assessment, controls and substantive testing. For IT audits, we've deployed algorithmic approaches to meet 45 control test objectives. These algorithmic bots were run more than 7,000 times last year. Additionally, for blockchain audits, our proprietary patented Chain Fusion technology enables us to verify cryptocurrency holdings and transactions directly against multiple blockchains.
- **Analytics:** Analytics are at the heart of our processes, driving a truly risk-based audit. We will continue to dive deep on transaction scoring against the full population of data sets, using industry-specific approaches to find and understand outliers. This effort builds on long-standing capabilities to analyze journal entries, planning analytics and more.

When evaluating our progress, we track our deployment of more advanced data extraction, transformation, analytic, and visualization capabilities over time. Certain solutions are developed for specific industries or types of audits. However, it's important that we continue to drive a more technology-enabled audit across our portfolio. Compared to FY21, we had a 231% increase in the use of more advanced technology solutions in our audits in FY22, and a 408% increase in FY23. We are incredibly proud of the results and are excited for what the future holds.

Breadth and depth of advanced D&A technology use across our portfolio



Section IV

People

This section highlights our people. For more information, please review our [KPMG Impact Plan](#), which provides an in-depth overview of KPMG U.S. Planet, People, Prosperity and Governance commitments and progress.

Our people — their passion, dedication and collaborative spirit — are the backbone of our commitment to audit quality. Continuing to attract, retain and develop top talent while engaging people on our audit quality commitments, ethical culture and innovation mindset is central to meeting our stakeholders' expectations. To that end, in FY23, we continued to act through the lens of people with an emphasis on work-life balance, mental health and well-being, and learning and development.

Enhancing work-life balance: Improving the traditional busy season experience

We've discussed the quality benefits of pulling work forward. However, this effort is also central to delivering our people a better experience. In particular, we are focused on improving the traditional busy season. Fewer hours and free weekends during this time are not only more enjoyable but improve decision-making in the audit.

When reviewing the most intense part of the busy season — the 8-week period from early January through the first week of March — our audit professionals' experience has improved dramatically compared to FY21. Specifically:

- Audit engagement hours per professional decreased by 11%, from 51 per week to 45 per week on average.
- The percentage of people who worked no weekend hours on their audits jumped from 18% to 29%, while those who worked a total of 50+ hours over those eight weekends declined from 31% to 17%.
- Total utilization declined by 11%, going from 126% in FY21 to 112% in FY23.

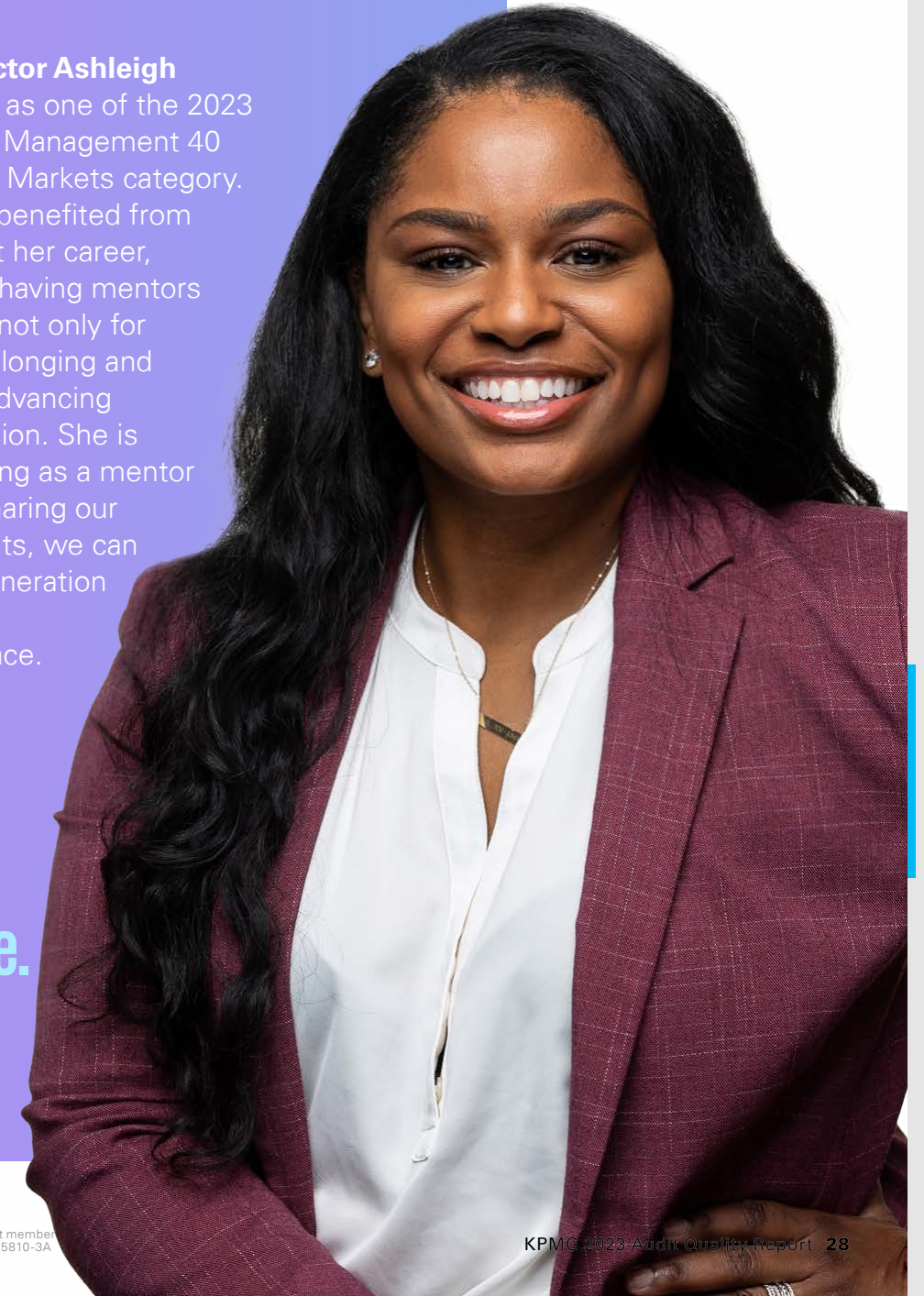
Importantly, the benefits of pulling work forward through more standardization, centralization, and automation extend beyond this period. We've focused on applying this approach to both public and private accounts with various fiscal year-end dates. This effort distributes benefits of our experience and quality throughout the practice.

We believe this effort has improved morale and retention. Managers' voluntary attrition declined from 16% in FY22 to 10% in FY23, and staff attrition declined from 27% to 19%.

Ashleigh White

Audit Managing Director Ashleigh White was recognized as one of the 2023 Black Women in Asset Management 40 under 40 in the Private Markets category. As someone who has benefited from mentorship throughout her career, Ashleigh believes that having mentors and allies is important not only for ensuring a sense of belonging and inclusion but also for advancing the accounting profession. She is passionate about serving as a mentor and believes that by sharing our experiences and insights, we can help foster the next generation of leaders and create a more inclusive workplace. Congrats, Ashleigh!

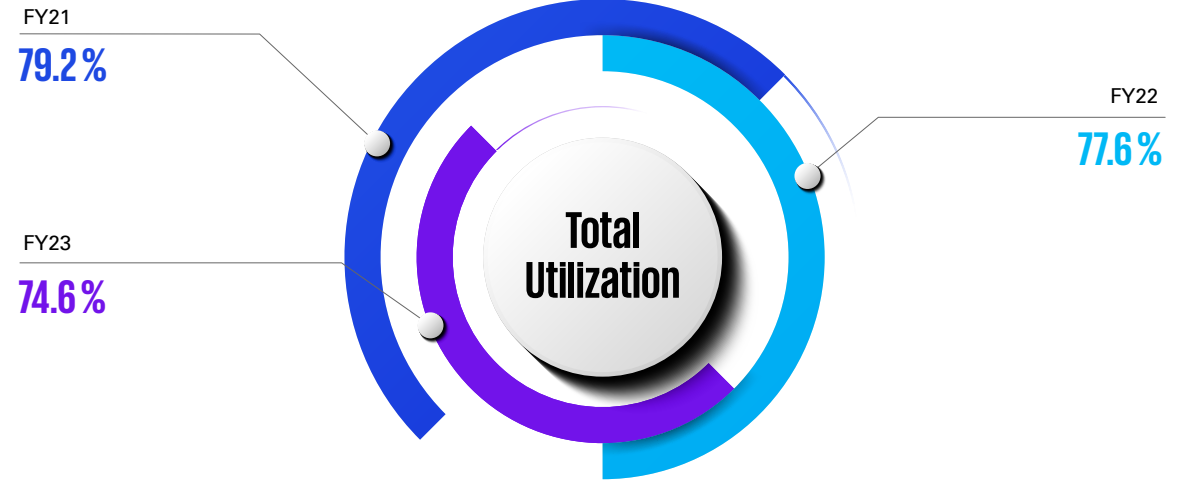
**KPMG. Make
the Difference.**



“Our goal is an audit experience that’s more structured and balanced, with our people having more time to rest and recharge,” said **Becky Sproul, Audit National Talent & Culture Leader**. “Avoiding burnout or anxiety tied to this time period also gives our auditors the energy to continue investing in their skills.”



Total Utilization



Note this metric includes technology assurance partners and professionals across all three years. It is restricted to onshore engagement hours.

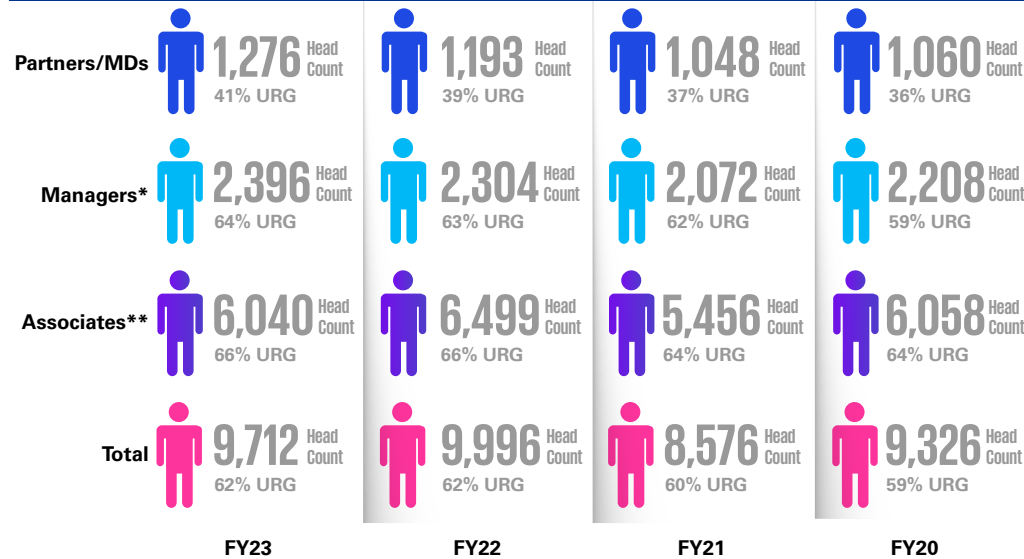
Mental health is health

Our efforts above complement broader programs to support our people’s mental health and well-being. Specifically, we are focused on championing mindful ambition, combining the concepts of owning one’s career by investing in new skills and well-being to not only avoid burnout but thrive in one’s role.

“Our people are highly career-motivated and also face risks of burnout, anxiety, and other mental health challenges,” said **Flynn**. “We are committed to taking the necessary steps to support our people, elevating these discussions internally to eliminate any stigma.”



Our people



At KPMG, underrepresented groups (URG) are defined as groups that have been historically underrepresented and make up a smaller percentage of the KPMG workforce compared with the external population, including people of color, women, LGBTQ+ individuals, people with disabilities, and military service members.

*Includes senior managers

**Includes senior associates



To support our people as they invest in themselves and their skills, we have engaged in a number of initiatives, including:

Embracing proactive rest

Preventing burnout through work-life balance and proactive rest is essential. To that end, our Jumpstart Fridays enable partners and professionals to log off two hours early in the summer on Fridays. Additionally, summer and winter shutdowns provide two 9-day periods in which our entire firm shuts down, ensuring a break is indeed a break. This effort is in addition to 7 federal holidays, which are observed throughout the year, and 15, 20, or 25 paid eight-hour vacation days (depending on job classification and tenure).

Providing leading mental well-being support

Prevention is our focus, but support and treatment are also essential. All KPMG partners and professionals have access to 10 free counseling sessions per mental health issue per year with a master's level clinician. Additionally, our people have access to online therapy options, on-the-go mental health support for their children, resources for managers trying to help their team members, and more.

Mental Health Day

This May, we partnered with our Abilities in Motion Business Resource Group (BRG) to engage our people with programming tied to mental health. This included hosting a panel discussion with experts and encouraging people to log off to disconnect.

Healthcare and support for families

We provide a wide array of health and well-being benefits. Our caregiver leave, parental leave, and concierge programs, expanded in 2022, bring the support of our Total Rewards not only to our people but also to their families.

“Audit quality and our people’s well-being are interconnected; we can’t deliver the former without channeling the mindful ambition of the latter,” **Sproul** added.



This foundational approach complements more targeted efforts to reach professionals on a personal level. In Audit, we piloted an Energy Check-In Initiative, using a data-driven approach to identify people who potentially risk burnout *before* it occurs. We review key metrics such as utilization, call time and unused PTO that have historically correlated with burnout. By tracking these metrics on a regular basis, we’re able to direct managers to hold conversations with their teams to devise personalized strategies to reduce burnout. 88% of our managers report these check-in prompts are helpful, and 77% of individuals who engaged in these conversations report they were helpful in supporting their overall well-being.



Abby Rawls

This year, **Audit Associate Abby Rawls** took the initiative to lead her local office through a Mental Health Seminar. Her efforts led to open and honest conversations among our team members and inspired Mindful Mondays, a series of one-hour sessions that create a safe environment to discuss mental health and well-being. Thank you, Abby, for leading this effort to elevate the importance of mental health, removing any related stigmas, and supporting your colleagues.

KPMG. Make the Difference.



Purpose-led learning and development

Confident and empowered auditors crave learning opportunities to grow their skills. “We favor hands-on learning and development tied to our audit strategy over volume-based training,” said Sproul. “Empowering greater personal ownership of learning tracks also helps our audit professionals own their experience.”

To that end, in FY23, we:

- Redesigned the core curriculum to focus on priority skills aligned to our strategy, launching new foundational learning opportunities in the fall of 2023;
- Created a mock audit at Lakehouse to give new associates hands-on practice; and,
- Deployed contextual guidance learning assets in KPMG Clara for the most-used substantive procedures in the flow of work.

From an experience perspective, while our overall hours of learning ebb and flow, our efforts have aligned learning and development with our key strategic areas. Moreover, we plan for learning and development, scheduling time for our people to dedicate to learning.

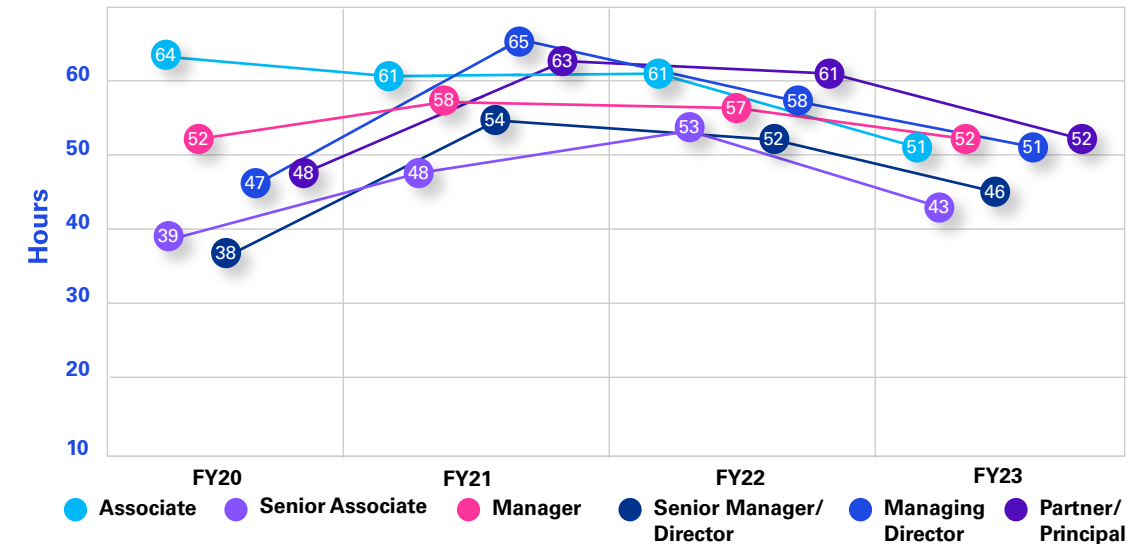
This fiscal year, our Audit professionals completed:

- 13,000+ hours focused on engagement management to drive our efforts to pull work forward,
- 23,000+ hours on AI and ethics, including five required courses and three electives to help us responsibly accelerate our AI journey, and
- 30,000+ hours aligned to industry-specific areas, including audit and accounting issues, risk assessment standardization and new technology routines. This effort encompasses all sectors, including asset management, banking, consumer goods, energy, healthcare, industrial manufacturing, life sciences, media & telecom, retail, technology and federal audits.

Additionally, professionals across our firm have engaged in nearly 60,000 training hours on ESG in FY23. This cross-functional effort will help us support businesses as they connect their ESG strategy to reporting to not only comply with growing requirements, but also realize financial value.

As stated above, our goal is quality, not volume, and our learning and development hours and topics will continue to vary year to year based on our strategy.

Total CPE hours by level over time



This learning and development is driven through a combination of virtual and in-person Live@Lakehouse experiences.

- **On-demand learning** is delivered through our learning and development platform, Degreed, which hosts all virtual learning and development opportunities across our firm. Contextual guidance is also available in KPMG Clara to our Audit professionals, with 76 total learning assets aligned with the flow of work. This includes guidance related to the top 25+ expected substantive procedures.
- **Live@Lakehouse experiences** engage all our people. Across our firm, 30,000+ KPMG partners and professionals visited Lakehouse in FY22. In Audit, every professional was invited to a session at Lakehouse, usually occurring over multiple days, to make connections, learn new skills and reacquaint themselves with our cultural aspirations. This most recent learning year, which occurs from April 2023 through January 2024, we expect nearly 12,000 visits to Lakehouse by Audit partners and professionals, engaging in ~50 learning programs.

These focus areas lay the groundwork for how we help all people get to, succeed, and lead at KPMG. Below is an overview of specific efforts to advance our goals.

Getting here

The potential “CPA shortage” is top of mind for our firm and the profession. Our investments in future talent and university partnerships have helped us effectively attract top talent from diverse backgrounds to our Audit practice.

The cornerstone of these efforts is our broad and deep university engagements. Our Master of Accounting with Data and Analytics (MADA) program supports auditors for the increasingly complex business landscape, helping students build the D&A skills required of the Next Gen auditor. Since 2022, the program has provided over \$5 million in scholarship funding thus far and expanded to 15 universities, including four historically Black colleges and universities.

Our support for talent can also mean helping college students explore the professional services industry. For college students, our Embark Scholars program provides rotations through our Tax, Audit and Advisory functions over the course of eight weeks. With cross-functional networks of mentors and a collaborative capstone project, Embark scholars gain integrated, hands-on experience and KPMG culture.

More broadly, our firm hosted nearly 6,000 students at Lakehouse, along with ~150 faculty, as part of eight student-focused programs.

Succeeding here

Support for top talent goes beyond getting one’s foot in the door. We offer a wide range of learning and development and mentorship opportunities throughout one’s career. Programs like CPA Kickstart and Audit 90, for example, give our people the support they need to succeed in their KPMG careers.

Since its pilot in FY22, our CPA Kickstart program has helped professionals from all backgrounds pass the CPA and reduced inequities in the CPA pipeline. This year, with representation from every business unit, 266 summer participants in the two-month, 40 hour-per-week program received time, compensation and benefits to study for the CPA exam and transition smoothly to full-time work. People of color made up ~40% of total enrollments.

Audit 90, our holistic 18-month development experience, is designed to improve the retention of high-performing women in our Audit practice. Through 360-degree assessments, one-on-one coaching, interactive workshops, networking and cohort support, this program has supported 365 women since 2015. As more women are promoted out of the program, graduates have become co-facilitators and cohort leads for their junior counterparts.

These programs complement ongoing efforts to bring people into our culture and put them on a path to success. For example, Live@Lakehouse sessions with new hires focus on core professional skills. New professionals practice scenarios involving conflict within teams, introducing oneself to a business, presentation training and more. Additionally, our resource management technology enables partners to quickly see the diversity of their engagement team. This helps engage all our people effectively while recognizing the value of diverse perspectives in delivering quality audits.

Leading here

Supporting our people’s development means helping everyone gain access to mentorship, learning and development and benefits that support them in every stage of life. Importantly, it also requires fostering a culture of diversity, equity and inclusion, including addressing unconscious bias in everyday interactions as well as in our review, promotion and succession planning process.

Since 2020, the percentage of partners and managing directors from underrepresented groups has grown from 36% to 41%, driven by our growth of women partners and professionals (27% in 2020 and 31% in 2023). The percentage of Asian (7.3% to 9.0%) and Black (1.6% to 3.0%) partners and managing directors has also increased during this window. The percentage of Hispanic/Latinx partners and managing directors has remained flat at 3%.

Within our firm’s management committee, people from underrepresented groups account for 55% of the team. On our board, they account for 58%.








In Audit, as we measure gender diversity, we define leadership in several ways:

- **National leadership:** Two of our six leaders are women.
- **Service line, regional, and business unit leadership:** 30% of these leaders are women.

We are proud of our progress but recognize that we have far more work to do to ensure people from all backgrounds can see themselves in leadership roles across our practice.

Engaging all our people

Our Business Resource Groups (BRGs) provide points of connection for our people. As cross-functional, multigenerational communities of partners and employees, BRGs provide some of our firm's greatest listening channels, support our professionals in locating affinity and ally space, and create channels through which we can support our people's unique needs. In FY24, we officially welcomed new Middle East North Africa and Interfaith BRGs, after piloting, and launched a pilot for a Jewish Ancestry BRG.

BRGs in FY23	Number of members
 African Ancestry	3,795
 Asian Pacific Islander	4,900
 Abilities in Motion	2,927
 Somos KPMG	3,570
 KPMG Network of Women (KNOW)	10,949
 pride@kpmg	3,989
 Veterans	2,769



Section V

The future of the profession

Throughout earlier sections, we've discussed how we are engaging on issues shaping the future of the audit profession, including training, artificial intelligence, the CPA pipeline and diversity, equity and inclusion. All these topics will shape how we conduct our engagements to continue enhancing audit quality. This section will focus on how the audit is changing, spotlighting business digitalization and environmental, social and governance trends. For more information on both of these issues, see the [technology assurance](#) and [ESG sections](#) on our website.

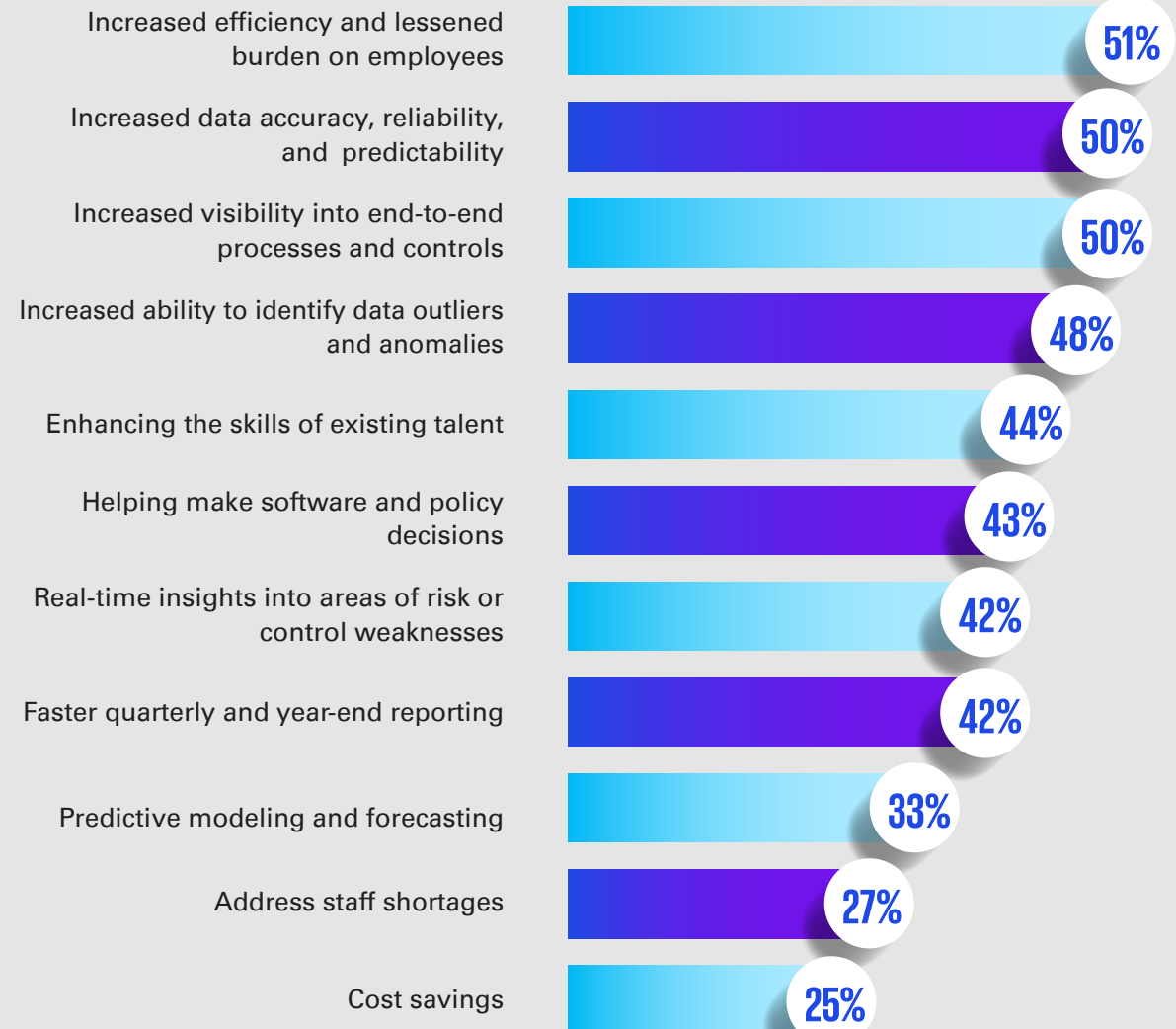
AI and the audit

As our [KPMG US 2023 CEO Outlook](#) highlighted, businesses today are increasingly navigating compound volatility – the combination of greater disruption and long-term structural changes taking shape across industries, geographies, technology, regulations and society. To continue driving long-term growth and value for stakeholders, firms must stay on top of near- and long-term risks and opportunities.

For many CEOs, generative AI is both a priority and a possible answer to the risks of compound volatility. This fall, we [surveyed financial reporting leaders](#) to understand their engagement on AI, and they are optimistic about the technology's ability to improve financial reporting.

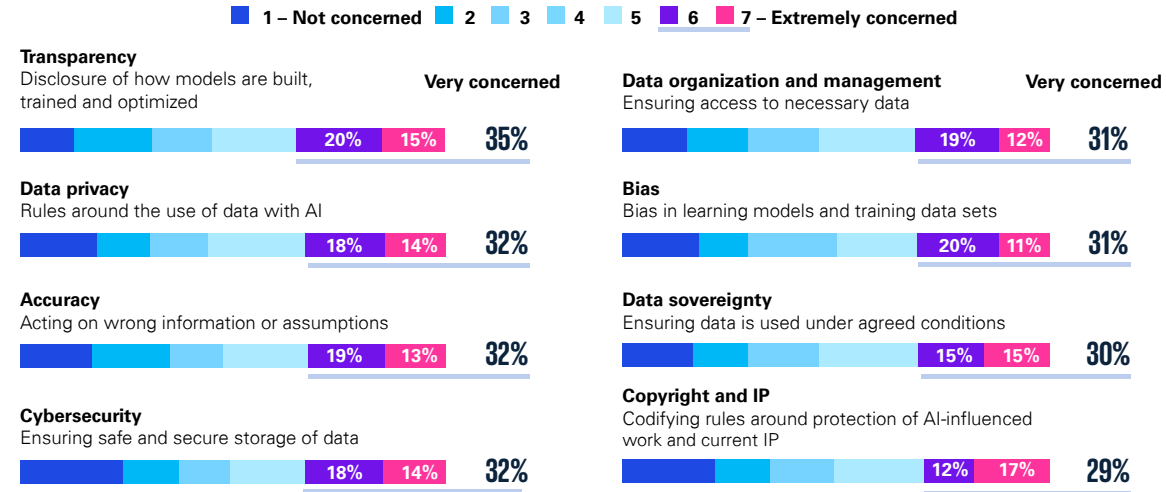


Benefits AI will provide to financial reporting



At the same time, the pace of AI's adoption and the nature of this technology underscore the need to focus on trust. Financial leaders are attuned to these risks. Most (65%) report they want auditors to help with their responsible use of AI, either through detailed review of the control environment (36%) or third-party attestations (29%). Moreover, 51% report third-party attestations will be valuable in the near future.

Concerns about genAI financial reporting



Our approach

Over the past few years, we've integrated more than 1,000 technology assurance professionals into the Audit practice, enhancing collaboration, cross-training and innovation to improve audit quality. We bring together experienced professionals with deep know-how in process and technology risk management and IT to understand the technology environment of the businesses we audit and develop tailored solutions to meet their unique needs. Importantly, we are focused on moving away from volume-based manual activities toward more modern, risk-based work that delivers audit insights for our stakeholders in public and private companies.

Our technology assurance partners and professionals are integrated into our audit quality journey, standardizing, centralizing and automating key aspects of the audit and enabling engagement teams to tailor their focus on the areas of highest risk. To that end, in FY23, we focused on:

- Enhancing our audit platform and methodology to address ICFR considerations at every layer of technology;
- Building more standardized and centralized approaches and processes to allow our professionals to leverage their knowledge, experience and automation in a more efficient way; and
- Expanding the testing library of assets to test controls and platform-specific configurations more comprehensively.

These actions are part of our ongoing multi-year investments to keep pace with evolving risks in the audit. This mindset is also embedded in a growing set of service offerings that include assessments of AI, digital transformations, IT environments, cybersecurity, compliance frameworks, third parties and data privacy.

Related specifically to AI, especially in the context of the October 2023 executive order on AI development, we are building out our model validation processes, and any resulting assurance needed for attestations. In alliance with AI providers and governance framework considerations, we are enhancing the process by identifying what attestation must look like, and the criteria most relevant to industry and client leaders.

Innovation platforms drive our ability to audit technology with technology

To better design, test and deploy solutions in a secure and controlled environment, KPMG has developed a suite of technology environments and platforms that provide access to established and emerging technologies, including ERP, cloud, AI, blockchain and Internet of Things. Engaging with these technologies in a safe and secure environment helps develop and refine the solutions of today and tomorrow. Moreover, we bring together our network of domain-specific experts to support collaboration and knowledge-sharing, serving as a valuable resource for teams looking to explore new solutions in a controlled ecosystem.

As we digitize our business, and as our clients do too, we're leaning on AI, RPA and analytics to transform the audit. Already, we're seeing the key role of technology: For IT audits, we deployed 45+ bots to test controls, which ran 7,000+ times in the last year. This focus is directly connected to our learning path for technology assurance professionals.

“Never before have reporting requirements been tethered to a scope of technology risks that are as rapidly evolving, hard to quantify and complex as those traditionally aligned to financial reporting processes,” said **Matt Johnson, Audit Technology Assurance Leader**. “With this confluence of technology and accounting, we’ve put specific skill-building structures in place, along with a test-and-learn mentality that allows us to quickly consider the changing nature of risk facing our clients and develop and deliver fit-for-purpose solutions to drive compliance and build trust.”



As mentioned above, the full Audit practice is engaging with AI, including the ethics of AI, with 23,000+ training hours alone this year.

Within Audit, our technology assurance professionals are focused on tapping into a learning and development curriculum aligned to our strategy and their aspirations. This core curriculum is complemented by more specialized training through such programs as our ERP Academy that was delivered to over 250 technology assurance professionals, as well as continued focused training on Cyber, AI, ESG and Emerging Technologies plus rotations that provide greater exposure to work tied to our overall audit quality strategy.

ESG

While the SEC is the topic of most ESG conversations in the accounting profession, more regulations on climate and other ESG-related reporting topics are increasing at the state, national and international level. To prepare for new disclosure requirements, stakeholders are paying close attention to ESG-related risks and opportunities.

From investors and customers to suppliers and employees, stakeholders in public and private companies’ value chains are demanding heightened transparency in qualitative and quantitative ESG information. In fact, per [KPMG’s ESG and Financial Value Survey](#), nearly 90% of business leaders say they are feeling at least some pressure from supply chain partners to engage with ESG, while more than 80% report pressure from employees, institutional investors, customers), and regulators. Assurance is also top of mind, yet according to [recent KPMG research](#), only 25% of companies feel they have the global ESG policies, skills and systems in place to be ready for ESG assurance.

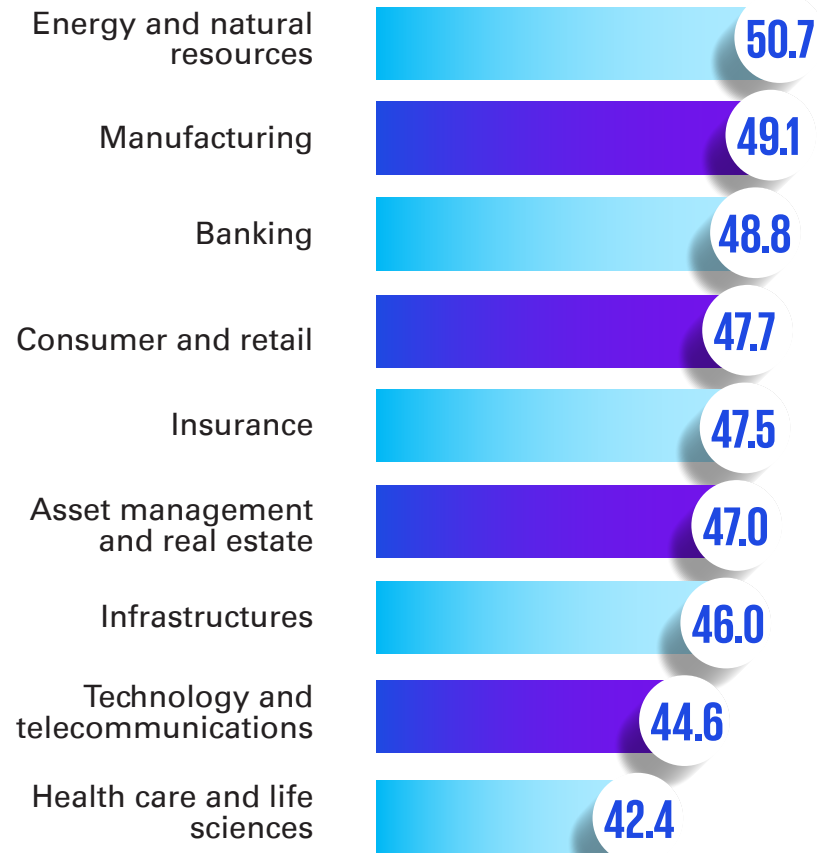
KPMG Community Impact

At KPMG, our Community Impact efforts focus on education and lifelong learning as we believe that learning is the key to unlocking potential and creating a foundation for future success. In August, we hosted our second annual Community Impact Day, when over 21,000 volunteers collaborated with around 500 nonprofit organizations across the country to bring about positive change in the communities where they live and work. KPMG employees contributed over 60,000 volunteer hours, and the KPMG U.S. Foundation provided significant financial support to many of the nonprofit organizations. This event showcased KPMG’s ESG commitments, demonstrated the firm’s Values, fostered connections among colleagues and supported our purpose-driven culture.

Spotlight

ESG Maturity Index

Index score by industry



Proposed and final regulations have the potential to affect the lion's share of companies, and KPMG is committed to helping firms meet their compliance requirements while keeping financial value creation at the forefront of business strategy.

We have embedded our new global assurance manual into our cloud-based electronic workflow and KPMG Clara. We have also launched an industry-leading learning experience platform which enables our professionals to discover, curate and monitor ESG learnings in one central location. This year, we've made five hours of basic greenhouse gas emissions training available for all audit professionals.

These new offerings supplement our existing ESG learning and development materials, which include web-based trainings, in-person courses with group exercises, 10- to 15-minute micro learnings, podcasts and thought leadership. Through our ESG education curriculum roadmap, our Audit, Tax and Advisory professionals can upskill on the ESG topics that suit their clients' needs.

In Audit specifically, we continue to enhance our ESG Center of Excellence. It includes partners through senior associates who sit at the nexus of sustainability and finance, serving as translators of ESG and accounting concepts to the varying stakeholders now engaged in ESG reporting.

Importantly, we recognize that ESG is a highly cross-functional subject area. KPMG's partners and professionals use our multidisciplinary model to help companies connect the dots between different functions. For example, we bring in our accounting and Advisory teams for assurance readiness, while our Tax teams are helping our clients think through considerations from the Inflation Reduction Act.

Thank you

Thank you for engaging with our Audit Quality Report. We hope you find this resource useful in understanding our efforts to enhance quality and deliver a better audit experience. Please contact us if you have any questions or would like to discuss.

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