Report on the Firm’s System of Quality Control

March 21, 2018

To the Partners of KPMG LLP and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended March 31, 2017. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm’s Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remEDIATE engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer’s Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm’s compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under Government Auditing Standards, including compliance audits under the Single Audit Act, audits of employee benefit plans, audits performed under FIDICIA, audits of carrying broker-dealers, and examinations of service organizations [SOC 1 and SOC 2 engagements].

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Deficiency Identified in the Firm’s System of Quality Control

We noted the following deficiency during our review:

1. Certain individuals of the firm, including former members of senior management for part of the peer review year ended March 31, 2017, participated in or were aware of improper actions related to audit engagement selections ahead of planned inspections by one of the firm’s regulators. These individuals failed to take action to prevent or properly report the knowledge or possession of confidential information by either overriding or failing to enforce controls established by the firm.
Actions by these individuals including the involvement of senior audit management caused us to conclude that the failure of these individuals to comply with the firm’s quality control policies and procedures related to leadership responsibilities, relevant ethical requirements and monitoring could have created a situation during the peer review year ended March 31, 2017 in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects. Accordingly, we have concluded that this matter presented a deficiency in the firm’s system of quality control during the applicable period. The firm is taking responsive actions to remediate this deficiency.

Opinion

In our opinion, except for the deficiency previously described, the system of quality control for the accounting and auditing practice of KPMG LLP applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended March 31, 2017, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies), or fail. KPMG LLP has received a peer review rating of pass with deficiency.