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Order Instituting Disciplinary Proceedings, Making Findings and Imposing Sanctions

In the Matter of KPMG,

Respondent.

PCAOB Release No. 105-2021-008

September 13, 2021

By this Order, the Public Company Accounting Oversight Board (“Board” or “PCAOB”) is imposing sanctions upon KPMG (“KPMG Australia,” the “Firm,” or “Respondent”). The Board is:

- (1) censuring the Firm;
- (2) imposing a \$450,000 civil money penalty on the Firm; and
- (3) requiring the Firm to undertake certain remedial actions as described in Section IV of this Order.

The Board is imposing these sanctions on the basis of its findings that KPMG Australia violated PCAOB rules and quality control standards over several years in connection with the Firm’s internal training program.

In ordering these sanctions, the Board took into account the Firm’s extraordinary cooperation in this matter, including self-reporting, substantial assistance, and personnel and policy actions, as described in more detail below.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (“Act”), and PCAOB Rule 5200(a)(1) against Respondent.

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent has submitted an Offer of Settlement (“Offer”) that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board’s jurisdiction over Respondent and the subject matter of these proceedings, which is admitted, Respondent consents to entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (“Order”) as set forth below.¹

III.

On the basis of Respondent’s Offer, the Board finds that:

A. Respondent

1. **KPMG** is an unincorporated partnership in Australia, and headquartered in Sydney, New South Wales, Australia. It is a member firm of the KPMG International Limited global network of firms (“KPMG Global”). At all relevant times, the Firm was registered with the Board pursuant to Section 102 of the Act and PCAOB rules. During the period covered by this Order, the Firm served as the auditor for one issuer audit client. Additionally, at all relevant times, the Firm performed audit work that other PCAOB-registered firms, including member firms of KPMG Global, used or relied on in issuing audit reports for their issuer clients.

B. Summary

2. From at least 2016 until early 2020, KPMG Australia violated PCAOB rules and quality control standards related to integrity and personnel management by failing to establish appropriate policies and procedures for administering and monitoring training tests, including tests designed to help the Firm’s audit professionals satisfy the requirements for maintaining their accounting licenses. Those quality control failures prevented the Firm from identifying that more than 1,100 Firm personnel, including more than 250 of its auditors, were involved in improper answer sharing—either by providing or receiving answers—in connection with tests for mandatory training courses covering topics that included professional independence, auditing, and accounting.

¹ The findings herein are made pursuant to Respondent’s Offer and are not binding on any other person or entity in this or any other proceeding.

3. After discovering the training-related misconduct in February 2020, KPMG Australia reported the matter to the PCAOB within 15 days and began implementing remedial policies and procedures.

C. KPMG Australia Violated PCAOB Rules and Standards

i. Applicable PCAOB Rules and Quality Control Standards

4. PCAOB rules require that a registered public accounting firm comply with the Board's quality control standards,² which provide that a registered firm "shall have a system of quality control for its accounting and auditing practice."³

5. As part of a firm's system of quality control, "[p]olicies and procedures should be established to provide the firm with reasonable assurance that personnel . . . perform all professional responsibilities with integrity."⁴ In addition, PCAOB quality control standards related to personnel management state that "policies and procedures should be established to provide the firm with reasonable assurance that . . . [w]ork is assigned to personnel having the degree of technical training and proficiency required in the circumstances."⁵ Moreover, "policies and procedures should be established to provide the firm with reasonable assurance that . . . [p]ersonnel participate in general and industry-specific continuing professional education and other professional development activities that enable them to fulfill responsibilities assigned, and satisfy applicable continuing professional education requirements of . . . regulatory agencies."⁶

6. PCAOB quality control standards recognize that "[t]he elements of quality control are interrelated,"⁷ and that monitoring procedures are necessary "to provide the firm with reasonable assurance that the policies and procedures related to each of the other elements of quality control are suitably designed and are being effectively applied."⁸ Under

² See PCAOB Rule 3400T, *Interim Quality Control Standards*.

³ QC § 20.01, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

⁴ QC § 20.09.

⁵ QC § 20.13.b; QC § 40.02.b, *The Personnel Management Element of a Firm's System of Quality Control—Competencies Required by a Practitioner-in-Charge of an Attest Engagement*.

⁶ QC § 20.13.c; QC § 40.02.c.

⁷ QC § 20.08.

⁸ *Id.*; QC § 30.02, *Monitoring a CPA Firm's Accounting and Auditing Practice*; see also QC § 20.20.

PCAOB standards, monitoring involves an ongoing consideration and evaluation of, among other things, the effectiveness of professional development activities and compliance with the firm's policies and procedures.⁹

ii. Training Requirements for KPMG Australia Personnel

7. As part of KPMG Australia's personnel management system, the Firm administers a training program for all of its professionals. The Firm has designed its training program to serve multiple purposes, including to provide Firm personnel with technical instruction, to further their professional development, and to satisfy some of the continuing professional education requirements imposed by the accountancy boards that license the Firm's auditors. The Firm's training requirements vary by each professional's position, role, and industry practice area, and are intended to be relevant to, among other things, the independence of its personnel, the audit work they perform, and the integrity with which they carry out their professional responsibilities. The Firm's internal training often includes a testing component.

8. Since at least 2016, the Firm has utilized an online platform to offer training to its personnel. The platform enables the Firm to deliver, track, and record completion of mandatory training and testing. The platform records the dates and times when personnel access and complete mandatory training and testing. For training courses with a testing component, the Firm does not credit personnel with completing the training until they satisfactorily pass the related test.

9. Since at least 2016, the Firm has required all personnel to take certain online courses, including courses on "Independence." These courses include a testing component at the end. During the same period, the Firm has also administered a number of online courses related to auditing, including "Audit Foundations," "Spotlight" (bi-annual training for the Firm's audit personnel covering accounting and auditing standards), and "US GAAP and GAAS training." The particular courses the Firm's auditors must take vary based on their experience levels. These audit-related courses include a testing component and are mandatory for audit personnel.

⁹ See QC § 20. 20.c-.d; QC § 30.02.c-.d.

iii. Failures by KPMG Australia to Establish Adequate Quality Control Policies and Procedures Related to Integrity and Personnel Management

10. Between 2016 and 2020, KPMG Australia had in place certain quality control policies and procedures intended to address integrity and personnel management, including the training aspect of personnel management. For example, with respect to integrity, the Firm's Code of Conduct generally advised personnel that the Firm does not "tolerate behavior . . . that is . . . unethical." The Firm also stated in its audit training policy document that "employees should ensure that the results of the online assessments . . . reflect their own capabilities and not those of their peers." Further, in connection with annual Independence Training, the Firm informed personnel that they should complete the training test without the assistance of others. In administering all other training courses, however, the Firm failed to communicate this expectation. During the same time period, the Firm also employed certain monitoring procedures related to internal training, but those procedures were limited to tracking completion of courses and related tests. The monitoring procedures were not designed to detect other compliance issues, such as answer sharing.

11. As described below, these policies and procedures were inadequate to prevent or detect the extensive answer sharing on training tests that occurred among Firm personnel over multiple years.

iv. Widespread Sharing of Answers to Training Tests at KPMG Australia

12. From at least 2016 to early 2020, more than 1,100 KPMG Australia personnel were involved in improper answer sharing when taking training tests. Firm personnel primarily shared answers using email, by attaching documents containing answers to training test questions. In addition, individuals also shared answers using text messages or instant message services, by providing the answers in hard copy documents, by saving the answers to test questions on a shared server, or orally when taking tests in the presence of others.

13. Instances of improper answer sharing occurred in connection with tests that were a part of the Firm's mandatory training, including the Independence Training, Audit Foundations, Spotlight, and U.S. GAAP and GAAS courses.

14. Improper sharing of training test answers occurred at all levels of the Firm. After Firm leadership learned of the practice and conducted an internal investigation, the Firm sanctioned 1,131 individuals, or approximately 12% of Firm personnel, for their involvement in answer sharing. The Firm's investigation revealed that the misconduct was widespread within the Firm's audit practice, including among those who performed work on audits governed by

PCAOB standards. With respect to audit training tests, at least 277 personnel engaged in answer sharing.

15. As illustrated by the misconduct described above, from 2016 to early 2020, KPMG Australia failed to establish policies and procedures, including monitoring procedures, to provide the Firm with reasonable assurance that (1) Firm personnel performed all professional responsibilities with integrity; (2) work was assigned to personnel having the degree of technical training and proficiency required in the circumstances; and (3) personnel participated in general and industry-specific continuing professional education and other professional development activities that enable them to fulfill responsibilities assigned and satisfy applicable continuing professional education requirements of regulatory agencies. Accordingly, the Firm violated PCAOB quality control policies related to integrity and personnel management.¹⁰

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondent's Offer.

In ordering sanctions, the Board took into account the Firm's extraordinary cooperation in this matter.¹¹ First, the Firm voluntarily self-reported the matter to PCAOB staff within fifteen days of learning about the misconduct. Second, the Firm provided substantial assistance to the PCAOB's investigation by conducting, and providing to the PCAOB the results of, a thorough internal investigation, including evidence relating to each of the Firm's interviews of the 1,172 individuals it suspected of engaging in improper answer sharing. The Firm also held regular update calls with PCAOB staff and provided a root cause analysis of the underlying misconduct, as well as a detailed written report of the results of its internal investigation. Third, the Firm promptly instituted remedial measures, including retaining an independent consultant to undertake a systemic review of the Firm's culture, conduct, and ethics; and requiring personnel to re-take certain training and testing. The Firm also took disciplinary action against 1,131 personnel, ranging from requiring individuals to retire to issuing verbal cautions. Absent the Firm's extraordinary cooperation, the civil money penalty imposed would have been significantly larger, and the Board may have imposed additional sanctions.

¹⁰ See QC § 20.09, .13.b-.c, .20; QC § 30.02; and QC § 40.02.b-.c.

¹¹ See *Policy Statement Regarding Credit for Extraordinary Cooperation in Connection with Board Investigations*, PCAOB Rel. No. 2013-003 (Apr. 24, 2013).

Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), KPMG is hereby censured;
- B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), the Board imposes a civil money penalty of \$450,000 on KPMG. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. KPMG shall pay this civil money penalty within ten days of the issuance of this Order by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service postal money order, certified check, bank cashier's check, or bank money order (a) made payable to the Public Company Accounting Oversight Board; (b) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006; and (c) submitted under a cover letter which identifies KPMG as the Respondent in these proceedings, sets forth the title and PCAOB Release Number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006; and
- C. Pursuant to Section 105(c)(4)(G) of the Act and PCAOB Rule 5300(a)(9), KPMG is required:
 1. Within 90 days of the entry of this Order, to establish, revise, or supplement, as necessary, policies and procedures, including monitoring procedures, to provide the Firm with reasonable assurance that (a) personnel perform all professional responsibilities with integrity; (b) work is assigned to personnel having the degree of technical training and proficiency required in the circumstances; (c) personnel participate in general and industry-specific continuing professional education and other professional development activities that enable them to fulfill responsibilities assigned and satisfy applicable continuing professional education requirements of regulatory agencies; and (d) the above-described policies and procedures are suitably designed and are being effectively applied.
 2. Within 120 days of the entry of this Order, to provide a certification, signed by its CEO, to the Director of the PCAOB's Division of Enforcement and Investigations, stating that the Firm has complied with paragraph IV.C.1.

above. The certification shall identify the actions undertaken to satisfy the conditions specified above (including any remedial actions taken prior to the date of this Order), provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. KPMG shall also submit such additional evidence of, and information concerning, compliance as the staff of the Division of Enforcement and Investigations may reasonably request.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

September 13, 2021