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## Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

*In the Matter of KPMG LLP (United Kingdom),*

Respondent.

PCAOB Release No. 105-2022-031

December 6, 2022

By this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (“Order”), the Public Company Accounting Oversight Board (“Board” or “PCAOB”) is:

- (1) censuring KPMG LLP (“KPMG UK,” the “Firm,” or “Respondent”);
- (2) imposing a civil money penalty in the amount of \$600,000 on KPMG UK; and
- (3) requiring KPMG UK to undertake and certify the completion of certain improvements to its system of quality control.

The Board is imposing these sanctions on the basis of its findings that, in connection with four audits of an issuer from 2017 through 2020, KPMG UK used audit work performed by KPMG Audit SRL, a Romanian KPMG affiliate that was not registered with the Board yet played a substantial role in each of the four audits. Specifically, the Board finds that KPMG UK failed to reasonably supervise KPMG Audit SRL, failed to comply with the Board’s requirements for communicating with audit committees, and violated the Board’s quality control standards. In addition, in connection with audits of multiple issuers, the Firm made numerous inaccurate Form AP filings with the Board, several of which indicated that PCAOB-registered firms had participated in KPMG UK audits when in fact unregistered firms had participated.

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 against Respondent pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the “Act”), and PCAOB Rules 5200(a)(1) and (2).

I.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, KPMG UK 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 the entry of this Order as set forth below.<sup>1</sup>

II.

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

**A. Respondent**

1. **KPMG LLP** is a limited liability partnership organized under the laws of the United Kingdom and headquartered in London, United Kingdom. It is a member firm of the KPMG International Limited global network of firms (“KPMG Global”). At all relevant times, KPMG UK was registered with the Board pursuant to Section 102 of the Act and PCAOB rules. During the period covered by this Order, the Firm annually served as the principal auditor for 13 or more issuer audit clients.

**B. Issuers**

2. Endava PLC (“Endava,” formerly “Endava Ltd.”) is a public limited company incorporated under the laws of England and Wales with its principal place of business in London, United Kingdom. Endava’s public filings disclose that it is a software and technology services provider. At all relevant times, Endava was an issuer as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). KPMG UK issued audit reports that Endava included in a Form F-1 filed with the U.S. Securities and Exchange Commission (“Commission”) for the fiscal year (“FY”) ended June 30, 2017, and Form 20-Fs for FY 2018, 2019, and 2020, respectively (collectively, the “Endava Audits”).

3. Barclays Bank PLC (“Barclays Bank”) is a public limited company incorporated under the laws of England and Wales with its principal place of business in London, United Kingdom. Barclays Bank’s public filings disclose that it is a wholly-owned subsidiary of Barclays PLC, and is a banking and financial services provider. At all relevant times, Barclays Bank was an

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<sup>1</sup> The findings herein are made pursuant to KPMG UK’s Offer and are not binding on any other person or entity in this or any other proceeding.

issuer as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). KPMG UK issued an audit report that Barclays Bank included in its Form 20-F filed with the Commission for the fiscal year ended December 31, 2019.

4. Barclays PLC is a public limited company incorporated under the laws of England and Wales with its principal place of business in London, United Kingdom. Barclays PLC's public filings disclose that it is a global financial services provider engaged in wholesale, retail, and investment banking, and wealth and investment management services. At all relevant times, Barclays PLC was an issuer as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). KPMG UK issued an audit report that Barclays PLC included in its Form 20-F filed with the Commission for the fiscal year ended December 31, 2019.

5. British American Tobacco p.l.c. ("BAT") is a public limited company incorporated under the laws of England and Wales with its principal place of business in London, United Kingdom. BAT's public filings disclose that it manufactures and sells cigarettes, tobacco, and other nicotine products. At all relevant times, BAT was an issuer as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). KPMG UK issued an audit report that BAT included in its Form 20-F filed with the Commission for the fiscal year ended December 31, 2019.

6. Micro Focus International plc ("Micro Focus") is a public limited company incorporated under the laws of England and Wales with its principal place of business in Newbury, United Kingdom. Micro Focus' public filings disclose that it is a global enterprise software provider. At all relevant times, Micro Focus was an issuer as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). KPMG UK issued an audit report that Micro Focus included in its Form 20-F filed with the Commission for the fiscal year ended October 31, 2020.

### **C. Other Relevant Entities**

7. KPMG Romania SRL ("KPMG Romania") is a limited liability company headquartered in Bucharest, Romania. At all relevant times, KPMG Romania was registered with the Board pursuant to Section 102 of the Act and PCAOB rules. At all relevant times, it was licensed by the Romanian Chamber of Chartered Accountants (Lic. No. 000151/26.01.2000), but not licensed to perform local statutory audits in Romania.

8. KPMG Audit SRL ("KPMG Audit") is a limited liability company headquartered in Bucharest, Romania. At all relevant times, KPMG Audit was the sole KPMG-affiliated firm that performed statutory and non-statutory audits in Romania, including international engagements pursuant to PCAOB standards. At all relevant times, it was registered with the Camera

Auditorilor Financiarilor Din Romania (autorizatie/certificat No. 9). KPMG Audit is not now, and never has been, registered with the Board.<sup>2</sup>

9. KPMG (“KPMG India,” a/k/a KPMG Assurance and Consulting Services LLP) is a limited liability partnership headquartered in Mumbai, India. At all relevant times, KPMG India was registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

10. KPMG India Private Limited (“KPMG India Private”) is a company limited by shares headquartered in Mumbai, India. KPMG India Private provided assurance services on estimates of fair value to KPMG UK during the FY 2018 Endava audit. KPMG India Private is not now, and never has been, registered with the Board.

11. B S R & Co. LLP (“B S R & Co.”) is a limited liability partnership headquartered in Mumbai, India. At all relevant times, B S R & Co. was registered with the Board pursuant to Section 102 of the Act and PCAOB Rules.

12. B S R & Associates LLP (“B S R & Associates”) is a limited liability partnership headquartered in Bengaluru, India. B S R & Associates provided assurance services to KPMG UK during the FY 2020 Micro Focus Audit. B S R & Associates is not now, and never has been, registered with the Board.

13. KPMG Romania, KPMG Audit, KPMG India, KPMG India Private, B S R & Co., and B S R & Associates are all member firms of KPMG Global.

#### D. Summary

14. This matter concerns KPMG UK’s repeated violations of PCAOB rules and standards in connection with its use of, and reporting on, the work of other accounting firms.

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<sup>2</sup> KPMG Audit submitted a registration application to the Board in late 2021, which was subsequently disapproved by Board order. *See In re Registration Application of KPMG Audit SRL*, PCAOB Rel. No. 101-2022-002 (July 7, 2022). In the order, the Board found that the firm had violated Section 102(a) of the Act and PCAOB Rule 2100 by playing a substantial role in the Endava Audits. The Board’s order provided that with respect to any new application for registration after the longer of one year from the date of the order, or a six-month period following the date upon which a cooperative agreement is entered into between the PCAOB and Autoritatea pentru Supravegherea Publica a Activitatii de Audit Statutar (“ASPAAS”) (or any relevant Romanian regulator) that allows for PCAOB inspections in Romania, the Board will not issue a notice of hearing to determine whether to approve or disapprove such application based solely on the violations that are the subject of the findings in the order.

15. *First*, KPMG UK improperly allowed its unregistered Romanian affiliate, KPMG Audit, to play a substantial role in four consecutive audits of the financial statements of issuer client Endava from 2017 through 2020. KPMG UK knew that KPMG Audit was required to register with the Board before it played a substantial role in any issuer audits. KPMG UK, however, failed to take adequate steps to ensure that KPMG Audit's participation in the Endava Audits was consistent with PCAOB registration requirements, that is, that KPMG Audit did not "play a substantial role" in the Endava Audits.<sup>3</sup>

16. KPMG Audit's participation in the Endava Audits far exceeded the substantial role threshold each year from 2017 through 2020, including one year in which KPMG Audit incurred 74% of the total audit hours. Due to its inadequate planning and oversight of KPMG Audit's participation in the Endava Audits, KPMG UK failed to reasonably supervise an associated person pursuant to Section 105(c)(6) of the Act and failed to comply with PCAOB rules and standards concerning due professional care and audit planning.

17. *Second*, in each audit year at issue, KPMG UK failed to communicate to Endava's audit committee that KPMG Audit had played a substantial role in the Endava Audits despite not being registered with the PCAOB. In fact, during the FY 2020 audit of Endava, KPMG UK incorrectly communicated to Endava's audit committee that KPMG Romania, not KPMG Audit, had participated in the audit. Due to its inaccurate communications, KPMG UK violated PCAOB standards governing communications with audit committees.

18. *Third*, the repeated violations described above demonstrate that, from 2017 through 2020, KPMG UK failed to establish and implement adequate quality control policies and procedures, including monitoring procedures, concerning the use of the work of other accounting firms, in violation of PCAOB quality control standards.

19. *Finally*, KPMG UK failed to file accurate Form APs in connection with audits of multiple issuers from 2017 through 2020, in violation of PCAOB rules. Specifically, the Firm failed to report KPMG Audit's participation in the FY 2017 through FY 2019 audits of Endava and its FY 2019 BAT audit. Instead, in violation of PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*, KPMG UK incorrectly reported that PCAOB-registered firm KPMG Romania, not KPMG Audit, had participated in those audits.<sup>4</sup> In addition, KPMG UK's Form APs for its FY 2018 Endava and FY 2019 Barclays Bank and Barclays PLC audits identified KPMG India, a PCAOB-registered firm, as having participated in the audits when it had not done so. Further, in

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<sup>3</sup> See PCAOB Rule 1001(p)(ii), *Play a Substantial Role in the Preparation or Furnishing of an Audit Report* (defining what it means to play a substantial role).

<sup>4</sup> With respect to the FY 2020 audit of Endava, KPMG UK identified KPMG Audit as the other participating accounting firm in its 2020 Form AP, filed October 15, 2020, at a 30% to 40% level.

its Form AP for the FY 2020 Micro Focus audit, KPMG UK incorrectly attributed to PCAOB registrant B S R & Co. work that was in fact performed by B S R & Associates, a firm not registered with the PCAOB. KPMG UK ultimately corrected these errors by filing amended Form APs.

## **E. Requirements Related to Playing a Substantial Role in an Audit**

20. Section 102(a) of the Act makes it “unlawful” for an accounting firm that is not registered with the Board “to prepare or issue, or to participate in the preparation or issuance of, any audit report with respect to any issuer, broker, or dealer.”<sup>5</sup>

21. In addition, Section 106(a)(2) of the Act states:

The Board may, by rule, determine that a foreign public accounting firm (or a class of such firms) that does not issue audit reports nonetheless plays such a substantial role in the preparation and furnishing of such reports for particular issuers, brokers, or dealers, that it is necessary or appropriate, in light of the purposes of this Act and in the public interest or for the protection of investors, that such firm (or class of firms) should be treated as a public accounting firm (or firms) for purposes of registration under, and oversight by the Board in accordance with, this subchapter.<sup>6</sup>

22. In furtherance of these provisions, the Board adopted Rule 2100, *Registration Requirements for Public Accounting Firms*, which requires any accounting firm, foreign or domestic, that “plays a substantial role in the preparation or furnishing of an audit report with respect to any issuer, broker, or dealer” to register with the Board.

23. PCAOB Rule 1001(p)(ii) defines the phrase “play a substantial role in the preparation or furnishing of an audit report” to mean, among other things, “perform[ing] material services that a public accounting firm uses or relies on in issuing all or part of its audit report.” The phrase “material services” means “services, for which the engagement hours or fees constitute 20% or more of the total engagement hours or fees, respectively, provided by the principal auditor in connection with the issuance of all or part of its audit report.”<sup>7</sup>

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<sup>5</sup> 15 U.S.C. § 7212(a).

<sup>6</sup> 15 U.S.C. § 7216(a)(2).

<sup>7</sup> Rule 1001(p)(ii), at Note 1.

## F. Background

24. In connection with each of the Endava Audits, KPMG UK and KPMG Audit entered into a Multi-Firm Engagement (“MFE”) agreement that governed KPMG Audit’s participation in those audits. The MFE agreements made clear both the identity of the Romanian firm that would be participating in the Endava Audits and the significance of that participation.

25. For example, an MFE agreement, dated November 8, 2018, detailed that KPMG Audit personnel who would work on the FY 2019 Endava audit included an audit partner, director, manager, senior in charge, and any other personnel deemed necessary by KPMG UK. That MFE agreement also expressly stated that KPMG Audit “is performing [the] audit of significant elements of the Endava Limited group consolidated accounts” and estimated that KPMG Audit would receive €175,000 in fees for its work.

26. The MFE agreements between KPMG UK and KPMG Audit did not indicate that any Romanian affiliate of KPMG other than KPMG Audit would participate in the Endava Audits.

27. Pursuant to the MFE agreements, KPMG Audit participated in the Endava Audits and invoiced KPMG UK for services rendered. For the FY 2017, 2018, and 2019 audits of Endava, KPMG Audit exceeded the 20% substantial role threshold in terms of both total hours and total fees. For the FY 2020 Endava audit, KPMG Audit exceeded the 20% substantial role threshold for total hours. As shown in the table below, KPMG Audit’s hours incurred on the Endava Audits ranged from 36% to 74% of the total audit hours and KPMG Audit’s fees ranged from 16% to 34% of the total audit fees.<sup>8</sup>

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<sup>8</sup> During the Endava Audits, KPMG UK structured the Endava Audits so that its engagement team was required to directly supervise the work of KPMG Audit pursuant to AS 1201, *Supervision of the Audit Engagement*.

Substantial Role Audit	% Total Audit Hours Incurred by KPMG Audit	% Total Audit Fees Apportioned to KPMG Audit
Audit of Endava’s FY 2017 financial statements	63%	34%
Audit of Endava’s FY 2018 financial statements	74%	22%
Audit of Endava’s FY 2019 financial statements	61%	21%
Audit of Endava’s FY 2020 financial statements	36%	16%

28. With respect to the Endava Audits, KPMG UK failed to take adequate steps to plan or supervise the audits in a manner that would ensure that only firms registered with the PCAOB played a substantial role in the audits. To the extent any personnel at KPMG UK believed that KPMG Romania, a PCAOB-registered firm, was the entity providing services in connection with the Endava Audits, any such belief was contradicted by the MFE agreements that KPMG UK had entered into with KPMG Audit, by the invoices that KPMG Audit sent to KPMG UK for its work, and by various other communications between the two firms. Moreover, even after KPMG Audit personnel put KPMG UK on notice in October 2019 that KPMG UK had been identifying the wrong Romanian affiliate in its Form AP filings with the PCAOB, KPMG UK still failed to take any steps to determine whether KPMG Audit was eligible to play a substantial role on the Endava Audits.

**G. KPMG UK Failed to Reasonably Supervise KPMG Audit and Violated PCAOB Rules and Standards**

29. During each of the Endava Audits, KPMG Audit incurred more than 20% of the total engagement hours. KPMG Audit’s fees also amounted to more than 20% of the total engagement fees in the FY 2017, 2018, and 2019 audits of Endava. Accordingly, KPMG Audit played a substantial role in each of the Endava Audits without being registered with the Board, in violation of Section 102(a) of the Act and PCAOB Rule 2100.

30. KPMG UK failed to reasonably supervise KPMG Audit’s participation in the Endava Audits in a manner designed to avoid violations of Section 102(a) of the Act and PCAOB Rule 2100, and KPMG UK likewise failed to properly plan the audits.

**i. KPMG UK Failed to Reasonably Supervise KPMG Audit**

31. Section 105(c)(6) of the Act provides that the Board may impose sanctions on a registered public accounting firm if the Board finds that (1) the firm has failed reasonably to



supervise an associated person, either as required by the rules of the Board relating to auditing or quality control standards, or otherwise, with a view to preventing violations of the Act or the rules of the Board; and (2) such associated person commits a violation of the Act or Board rules.

32. Under Section 2(a)(9) of the Act, the term “person associated with a registered public accounting firm” includes “any . . . entity that, in connection with the preparation or issuance of any audit report—(i) shares in the profits of, or receives compensation in any other form from, that firm; or (ii) participates as agent or otherwise on behalf of such accounting firm in any activity of that firm.”

33. KPMG Audit invoiced KPMG UK for the services it provided in connection with the Endava Audits. Thus, KPMG Audit “receive[d] compensation” from KPMG UK in connection with the preparation and issuance of KPMG UK’s audit reports. In addition, because it performed audit work at the direction, and under the supervision, of KPMG UK, KPMG Audit acted as an “entity that, in connection with the preparation or issuance of [KPMG UK’s] audit report[s,] . . . participate[d] as agent or otherwise on behalf of [KPMG UK].” Accordingly, KPMG Audit was an “associated person” of KPMG UK during the FY 2017 to 2020 Endava Audits.

34. KPMG UK had a responsibility to reasonably supervise its associated persons during its issuer audits. It failed to do so.

35. During the Endava Audits, KPMG UK knew that PCAOB standards required substantial role participants to be registered. Indeed, Firm guidance specifically stated: “Any public accounting firm that prepares or issues the auditors’ report with respect to any issuer (including foreign private issuers), broker, or dealer, or ‘plays a substantial role in the preparation or furnishing of the auditors’ report’ with respect to any issuer, broker, or dealer, must register with the PCAOB.” Related Firm guidance also provided the relevant definitions contained in PCAOB Rule 1001(p)(ii). Firm guidance for completing Form AP templates during the FY 2019 and 2020 audits of Endava similarly indicated that for “significant component auditors [KPMG UK is] required to use registered audit firms.”

36. Despite this guidance, KPMG UK failed to take adequate steps to ensure that the Romanian affiliate it used to play a substantial role in the Endava Audits was registered with the Board. As noted above, KPMG UK knew, or should have known, from its MFEs, KPMG Audit’s invoices, and other communications with KPMG Audit that KPMG Audit was the other accounting firm in Romania under KPMG UK’s supervision. KPMG UK also knew or should have known from readily available public information, such as the PCAOB website, that KPMG Audit was not registered with the Board. However, KPMG UK failed to accurately determine throughout the Endava Audits which KPMG affiliate firm in Romania it was supervising, information that was necessary to ensure compliance with applicable professional standards, regulatory requirements, and the Firm’s standards of quality.

37. That failure continued even after personnel from KPMG Audit in October 2019 informed a member of the KPMG UK Endava engagement team that KPMG Audit was not registered, that it was the only KPMG-affiliated entity conducting audits in Romania, and that KPMG Romania was “more of a holding company.” Despite having been provided that information, KPMG UK continued to use KPMG Audit to play a substantial role in the FY 2020 Endava audit.

38. Because KPMG Audit incurred more than 20% of the total audit hours during the Endava Audits and accounted for more than 20% of the total audit fees in the FY 2017 to 2019 audits of Endava, it performed material services used by KPMG UK in issuing KPMG UK’s audit reports. KPMG Audit therefore violated Section 102(a) of the Act and Rule 2100 by playing a substantial role in the Endava Audits without being registered with the Board.

39. As detailed above, KPMG UK failed to reasonably supervise KPMG Audit under Section 105(c)(6) of the Act with a view to preventing KPMG Audit’s violations of the registration requirements.

#### **ii. KPMG UK Violated PCAOB Rules and Standards**

40. In connection with the preparation or issuance of an audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board’s auditing and related professional practice standards.<sup>9</sup>

41. PCAOB standards provide that, as part of audit planning, the auditor should establish an overall audit strategy.<sup>10</sup> The auditor should take into account “[t]he factors that are significant in directing the activities of the engagement team” and “[t]he nature, timing, and extent of resources necessary to perform the engagement.”<sup>11</sup> PCAOB standards also require that “[d]ue professional care . . . be exercised in the planning and performance of the audit and the preparation of the report.”<sup>12</sup>

42. In establishing the overall audit strategy for the Endava Audits, KPMG UK failed to adequately take into account: (1) the fact that KPMG Audit was an unregistered firm whose substantial role participation in the Endava Audits would constitute a violation of PCAOB rules, as KPMG UK knew or should have known; (2) the nature of the resources necessary to perform

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<sup>9</sup> PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards*.

<sup>10</sup> AS 2101.08, *Audit Planning*.

<sup>11</sup> AS 2101.09.

<sup>12</sup> AS 1015.01, *Due Professional Care in the Performance of Work*.

the audits, insofar as those resources included the involvement of an unregistered firm; and (3) for the FY 2020 audit, the fact that, prior to the execution of the FY 2020 MFE, KPMG Audit had communicated to certain KPMG UK personnel that it was not registered with the PCAOB, that it was the only KPMG-affiliated operational entity in Romania conducting audits, and that the PCAOB-registered firm KPMG Romania was merely a holding company.<sup>13</sup> As a result of these failures, KPMG UK did not engage in adequate planning to ensure that KPMG Audit would not violate PCAOB registration requirements.

43. Accordingly, KPMG UK violated AS 2101. KPMG UK also violated AS 1015 by failing to exercise due professional care in planning the Endava Audits.

#### **H. KPMG UK Failed to Make Required Audit Committee Communications**

44. AS 1301, *Communications with Audit Committees*, requires the auditor to communicate certain matters related to the conduct of an audit to the issuer's Audit Committee.<sup>14</sup> Among the matters that the auditor must communicate, as part of communicating the overall audit strategy, are: "The names, locations, and planned responsibilities of other independent public accounting firms or other persons, who are not employed by the auditor, that perform audit procedures in the current period audit."<sup>15</sup>

45. In adopting AS 1301, the Board explained the rationale for the provision governing identification of other independent public accounting firms:

The audit committee should be aware of all the participants in the audit. This communication regarding other participants in the audit would enable the audit committee to inquire or otherwise determine, for example, whether the other participants are registered with the Board and are subject to PCAOB inspections and whether they have disciplinary history with the Board or other regulators . . . [T]he amount of detail the auditor generally would communicate to the audit committee regarding the participation of other auditors would be greater for

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<sup>13</sup> See AS 2101.05 ("Planning is not a discrete phase of an audit but, rather, a continual and iterative process that . . . continues until the completion of the current audit.").

<sup>14</sup> AS 1301.01.

<sup>15</sup> AS 1301.10.d.

participants that perform a significant portion of the audit or that perform procedures related to significant risks.<sup>16</sup>

46. During the Endava Audits, KPMG UK failed to inform Endava’s Audit Committee that KPMG Audit, an unregistered firm, had participated in each of the audits. During the FY 2020 Endava audit, KPMG UK also incorrectly communicated to Endava’s audit committee that KPMG Romania would be participating in the audit. For example, in a slide deck presentation dated January 29, 2020, KPMG UK indicated that “KPMG UK and KPMG Romania SRL work as one team on the same audit file. This slide sets out split of work between the UK and Romania which is crucial to the audit.”

47. As a result of the omissions and errors in KPMG UK’s communications to Endava’s Audit Committee, KPMG UK violated AS 1301 and AS 1015 during the Endava Audits.

## I. KPMG UK Violated PCAOB Quality Control Standards

48. PCAOB rules require that a registered firm comply with PCAOB quality control standards.<sup>17</sup> Those standards require a firm to “have a system of quality control for its accounting and auditing practice.”<sup>18</sup> As part of this requirement, “[p]olicies and procedures should be established to provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm’s standards of quality.”<sup>19</sup>

49. PCAOB quality control standards also recognize that monitoring procedures are necessary “to provide the firm with reasonable assurance that the policies and procedures relating to each of the other elements of quality control are suitably designed and are being effectively applied.”<sup>20</sup> Under PCAOB standards, monitoring involves an ongoing consideration and evaluation of, among other things, compliance with the firm’s policies and procedures.<sup>21</sup>

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<sup>16</sup> *Auditing Standard No. 16 – Communications with Audit Committees; Related Amendments to PCAOB Standards; and Transitional Amendments to AU SEC. 380*, PCAOB Release No. 2012-004, (Aug. 15, 2012), at A4-15.

<sup>17</sup> PCAOB Rule 3400T, *Interim Quality Control Standards*.

<sup>18</sup> QC § 20.01, *System of Quality Control for a CPA Firm’s Accounting and Auditing Practice*.

<sup>19</sup> QC § 20.17.

<sup>20</sup> QC § 30.02, *Monitoring a CPA Firm’s Accounting and Auditing Practice*; see also QC § 20.20.

<sup>21</sup> See QC § 20.20.d; QC § 30.02.d.

50. KPMG UK failed to establish and implement adequate policies and procedures, including monitoring procedures, to provide the Firm with reasonable assurance that the work performed by engagement personnel met applicable regulatory requirements related to using the work of other accounting firms.

51. Although KPMG UK had certain quality control policies and procedures in those areas, the Firm failed to implement and monitor them in an adequate manner. As a result, KPMG UK repeatedly used an unregistered firm to play a substantial role in the Endava Audits.

52. Accordingly, KPMG UK failed to comply with QC § 20 and QC § 30.

## **J. KPMG UK Failed to File Accurate Form APs in Violation of PCAOB Rule 3211**

### **i. KPMG UK Failed to Make Accurate Form AP Filings for the FY 2017, 2018, and 2019 Audits of Endava**

53. PCAOB Rule 3211, which took effect for issuer audit reports issued on or after January 31, 2017, provides that each registered public accounting firm must provide information about engagement partners and other accounting firms that participate in audits of issuers by filing a Form AP, *Auditor Reporting of Certain Audit Participants*, for each audit report issued by the firm for an issuer.

54. In particular, Rule 3211(a) provides that, “[f]or each audit report it issues for an issuer, a registered public accounting firm must file with the Board a report on Form AP in accordance with the instructions to that form.”

55. The Form AP Instructions for “Part IV – Responsibility for the *Audit Is Not Divided*” require that an auditor who uses an “other accounting firm” that incurs more than 5% of the total audit hours “[s]tate the legal name of *other accounting firms* and the extent of participation in the *audit*” in its Form AP.<sup>22</sup>

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<sup>22</sup> In the adopting release for Rule 3211, the Board indicated that information provided on Form AP was intended to “help investors understand how much of the audit was performed by the accounting firm signing the auditor’s report and how much was performed by other accounting firms,” and allow investors to “research publicly available information about the firms identified in the form, such as whether a participating firm is registered with the PCAOB, whether it has been inspected and, if so, what the results were and whether it has any publicly available disciplinary history.” *See Improving the Transparency of Audits: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form and Related Amendments to Auditing Standards*, PCAOB Rel. No. 2015-008, at 4 (Dec. 15, 2015).

56. As described above, in connection with the Endava Audits, KPMG UK used the work of KPMG Audit each year to perform a portion of the audit. Following each of the Endava Audits, KPMG UK filed a Form AP pursuant to Rule 3211.

57. KPMG UK did not accurately report KPMG Audit's participation in its Form AP filings for the FY 2017, 2018, or 2019 audits of Endava. Instead, KPMG UK incorrectly indicated in those filings that KPMG Romania was the other participating accounting firm in its audits of Endava.

58. With respect to the Form AP filing for the FY 2019 Endava audit, KPMG UK's erroneous identification of KPMG Romania as playing a substantial role in the audit occurred just two days after KPMG Audit had informed certain KPMG UK personnel that KPMG Romania was not an operating entity and that KPMG Audit was not registered with the PCAOB. In fact, KPMG Audit shared that information with KPMG UK specifically in response to inquiries the Endava engagement team had made in connection with KPMG UK's upcoming Form AP filing. Despite being put on notice that KPMG Romania was not the entity that had played a substantial role in the FY 2019 audit, KPMG UK continued to misidentify it as having done so in its 2019 Form AP filing.

59. KPMG UK's Form AP filing for the FY 2018 Endava audit also incorrectly identified KPMG India, a PCAOB-registered firm, as participating at a 10% to less than 20% level in the audit. KPMG India did not, however, participate in the FY 2018 Endava audit. Rather, another India-based entity, KPMG India Private, which has never been registered with the PCAOB, did.

60. KPMG UK's failure to accurately report KPMG Audit's substantial role participation in the FY 2017, 2018, and 2019 audits of Endava, as well as its incorrect identification of KPMG Romania (for FY 2017 through 2019) and KPMG India (for FY 2018) as participating in the audits, constituted violations of PCAOB Rule 3211.

61. On February 17, 2021, nearly three years after making its first incorrect Form AP filing related to the Endava Audits, KPMG UK filed amended Form APs (using Form AP/A) for the FY 2017, 2018, and 2019 audits of Endava. Each Form AP/A correctly identified the unregistered firm KPMG Audit as the participating other accounting firm in Romania. KPMG UK failed to correct its identification of KPMG India as a participating other accounting firm in the FY 2018 audit of Endava until more than three years after making its original Form AP filing for that audit, when it filed another Form AP/A on August 4, 2022.

**ii. KPMG UK Failed to Make Accurate Form AP Filings for its FY 2019 Barclays Bank and Barclays PLC Audits, FY 2019 BAT Audit, and FY 2020 Micro Focus Audit**

62. KPMG UK also filed incorrect Form APs in connection with its FY 2019 Barclays Bank and Barclays PLC audits, its FY 2019 BAT audit, and its FY 2020 Micro Focus audit.

63. KPMG UK's Form AP filing for its FY 2019 Barclays Bank audit incorrectly identified KPMG India as participating in the audit when it did not. Instead, B S R & Co. had participated in the audit.

64. KPMG UK's Form AP filing for its FY 2019 Barclays PLC audit incorrectly identified KPMG India as participating in the audit when it did not. Instead, B S R & Co. had participated in the audit.

65. In the Form AP for its FY 2019 BAT audit, KPMG UK incorrectly identified KPMG Romania as having participated in the audit when it had not. Instead, unregistered KPMG Audit had participated in the audit.

66. In connection with the FY 2020 Micro Focus audit, KPMG UK used the work of two India-based firms, B S R & Co., which is registered with the PCAOB, and B S R & Associates, which is not. The participation of each of the India-based firms was at a level that required reporting on Form AP. In its Form AP for the FY 2020 Micro Focus audit, however, KPMG UK incorrectly identified B S R & Co. as the only India-based firm that participated, failing to identify B S R & Associates' participation.

67. KPMG UK eventually corrected the above-described errors by filing amended Form APs for its FY 2019 Barclays Bank, Barclays PLC, and BAT audits and its FY 2020 Micro Focus audit, but not until February 17, 2021, 10 months after the original filing in the case of BAT, March 28, 2022, 12 months after the original filing in the case of Micro Focus, and August 4, 2022, more than two years after the original filing in the cases of Barclays Bank and Barclays PLC.

68. Accordingly, KPMG UK also violated PCAOB Rule 3211 in connection with its Form AP filings for its FY 2019 Barclays Bank, Barclays PLC, and BAT audits and its FY 2020 Micro Focus audit.

### III.

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. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rules 5300(a)(5), KPMG LLP is 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 \$600,000 on KPMG LLP. 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. Respondent 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 money order, bank money order, certified check, or bank cashier's check (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 the entity or person as a 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.
- C. Pursuant to Section 105(c)(4)(G) of the Act and PCAOB Rule 5300(a)(9), the Board orders that:
  1. Review by KPMG LLP. Within three months of the date of this Order, KPMG LLP shall review and evaluate its quality control policies and procedures to assess whether those policies and procedures provide the firm with reasonable assurance that its personnel and other associated persons comply with applicable regulatory requirements (a) when the firm uses audit work performed or supervised by other accounting firms and (b) when the firm makes required regulatory filings.
  2. Reporting. Within three months of the date of this Order, KPMG LLP shall submit a written report to the Director of the Division of



Enforcement and Investigations summarizing the review and evaluation of the areas specified in paragraph C.1 above (“Report”). The Report shall describe any modified or additional policies or procedures adopted or to be adopted by KPMG LLP or, if KPMG LLP concludes no such modifications or additions should be adopted, a detailed and satisfactory explanation of why the firm believes changes are not warranted. In addition, KPMG LLP shall submit any additional information and evidence concerning the Report, the information in the Report, and KPMG LLP’s compliance with this Order as the staff of the Division of Enforcement and Investigations may reasonably request.

3. Certificate of Implementation. Within six months of the date of this Order, KPMG LLP’s managing partner shall certify in writing (“Certificate of Implementation”) to the Director of the Division of Enforcement and Investigations that KPMG LLP has implemented all of the modifications and additions to its policies and procedures that were described in the Report. The Certificate of Implementation shall provide written evidence of KPMG LLP’s adoption of such modifications and additions in narrative form, identify the actions taken to implement such modifications and additions, and be supported by exhibits sufficient to demonstrate implementation. KPMG LLP shall also submit such additional evidence of, and information concerning, implementation as the staff of the Division of Enforcement and Investigations may reasonably request.
4. Noncompliance. KPMG LLP understands that a failure to satisfy these undertakings may constitute a violation of PCAOB Rule 5000 and could provide a basis for the imposition of additional sanctions in a subsequent disciplinary proceeding.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

December 6, 2022