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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. 105-2022-032

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 imposing sanctions upon KPMG LLP (“KPMG UK,” the “Firm,” or “Respondent”). The Board is:

- (1) censuring the Firm;
- (2) imposing a \$2 million 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 UK violated PCAOB rules and quality control standards over several years in connection with the Firm’s internal training program.

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 as set forth below.¹

III.

On the basis of Respondent’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. Summary

2. From at least 2018 until March 2021, KPMG UK violated PCAOB rules and quality control standards related to integrity and personnel management by failing to establish appropriate policies and procedures for administering and overseeing internal training tests, including tests designed to help the Firm’s audit professionals satisfy the requirements for maintaining their professional certifications. Those quality control failures prevented the Firm from identifying that hundreds of Firm professionals, including personnel from an entity based in India that provides support for KPMG UK’s issuer audit work, KPMG Resource Centre Private Limited (“KRC”), were involved in improper answer sharing—either by providing answers, or receiving answers without reporting such sharing—in connection with tests for mandatory internal training courses covering topics that included auditing, accounting, and professional independence. All of these professionals performed work for the Firm’s Assurance practice.

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.

C. KPMG UK Violated PCAOB Rules and Standards

i. Applicable PCAOB Rules and Quality Control Standards

3. 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

4. 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

5. 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 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

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.

⁹ See QC § 20.20.c-d; QC § 30.02.c-d.

ii. KRC's Support of KPMG UK's Issuer Audits

6. KRC is a service delivery center not registered with the PCAOB. KRC is half-owned by KPMG UK and provides issuer audit support services to various member firms of the KPMG Global network. Employees of KRC are assigned to support a specific KPMG Global network firm, so KRC employees assigned to support KPMG UK in its audits of issuers principally perform professional services on behalf of KPMG UK. Such KRC employees perform limited audit procedures on KPMG UK issuer audits under the direction of the KPMG UK audit engagement teams. These KRC employees perform professional services for which KPMG UK is responsible.

7. KPMG UK has an obligation to establish policies and procedures to provide the Firm with reasonable assurance that, among other things, these KRC employees perform all professional responsibilities with integrity, the employees have the degree of technical training and proficiency required to perform the work assigned to them, and the employees 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.¹⁰

iii. Training Requirements for KPMG UK and KRC Personnel

8. As part of KPMG UK's and KRC's personnel management systems, KPMG UK and KRC administer internal training programs for all of their professionals. KPMG UK and KRC designed their training programs to serve multiple purposes, including to provide personnel with technical instruction, to further their professional development, and to help employees satisfy some of the continuing professional education requirements imposed by the accountancy boards that license KPMG UK's and KRC's auditors. KPMG UK's and KRC's training requirements are intended to be relevant to, among other things, the independence of their personnel, the audit work they perform, and the integrity with which they carry out their professional responsibilities. However, the training requirements can vary by a professional's position, role, and industry practice area. Both KPMG UK's and KRC's internal trainings often include a testing component.

9. Since at least 2018, KPMG UK and KRC have utilized online platforms to offer training to their personnel. The platforms enable KPMG UK and KRC to deliver, track, and record completion of mandatory training and testing. The platforms record the dates and times when personnel access and complete mandatory training and testing. For training courses with

¹⁰ See *supra* at nn. 4-6; see also footnote 4 to QC § 20.03 (providing that “[t]he term *personnel* refers to all individuals who perform professional services for which the firm is responsible, whether or not they are CPAs”).

a testing component, the firms do not credit personnel with completing the training until they satisfactorily pass the related test.

10. Since at least 2018, KPMG UK and KRC have required all personnel to take certain online courses, including courses containing content regarding professional independence and performing professional responsibilities with integrity. These courses include a testing component at the end. During the same period, KPMG UK and KRC also have administered a number of online courses related to auditing and accounting. The particular courses KPMG UK and KRC auditors must take vary based on their experience levels. Many of these audit-related courses include a testing component and are mandatory for the KPMG UK and KRC audit personnel.

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

11. Between 2018 and March 2021, KPMG UK had in place certain quality control policies and procedures intended to address integrity and 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." However, those policies were not specifically designed to provide reasonable assurance that Firm personnel acted with integrity when taking internal training tests. With respect to only a limited set of exams administered in this period, KPMG UK formally advised its audit personnel that they should perform training tests on their own. But the Firm failed to communicate this expectation to KPMG UK or KRC personnel in connection with other training tests during this period. During this time period, KPMG UK 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.

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

v. Sharing of Answers to Training Tests at KPMG UK and KRC

13. From at least 2018 to March 2021, hundreds of KPMG UK personnel and KRC personnel assigned to support KPMG UK issuer audits were involved in improper answer sharing related to training tests. They shared answers primarily through emails attaching documents that contained answers to training test questions.

14. Instances of improper answer sharing primarily occurred in connection with tests that were a part of KPMG UK's and KRC's mandatory training. At KPMG UK, individuals engaged in answer sharing in connection with tests for trainings entitled Update for Auditors, IFRS, US Auditing Standards Periodic Update, and SEC Baseline. At KRC, individuals engaged in answer sharing in connection with tests for trainings entitled Audit Foundations, Update for Auditors, IT Auditing, US GAAP/ICOFR, and IFRS.

15. As illustrated by the misconduct described above, from at least 2018 to March 2021, KPMG UK failed to establish policies and procedures, including monitoring procedures, to provide the Firm with reasonable assurance that (1) KPMG UK personnel, and KRC personnel assigned to support KPMG UK audits of issuers, performed all professional responsibilities with integrity; (2) KPMG UK and KRC personnel to whom work was assigned for KPMG UK had the degree of technical training and proficiency required in the circumstances; and (3) KPMG UK personnel, and KRC personnel assigned to support KPMG UK audits of issuers, participated in general and industry-specific continuing professional education that enabled 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.¹¹

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. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), KPMG LLP is hereby censured;
- B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$2 million is imposed 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. KPMG LLP shall pay this civil money penalty within ten (10) 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, 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

¹¹ See QC § 20.09, .13.b-.c, .20; QC § 30.02; and QC § 40.02.b-.c.

Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006; and (c) submitted under a cover letter which identifies KPMG LLP 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. With respect to any civil money penalty amounts that KPMG LLP shall pay pursuant to this Order, KPMG LLP shall not, directly or indirectly, (a) seek or accept reimbursement or indemnification from any source including, but not limited to, any current or former affiliated firm or professional or any payment made pursuant to any insurance policy; (b) claim, assert, or apply for a tax deduction or tax credit in connection with any federal, state, local, or foreign tax; nor (c) seek or benefit by any offset or reduction of any award of compensatory damages, by the amount of any part of KPMG LLP's payment of the civil money penalty pursuant to this Order, in any private action brought against KPMG LLP based on substantially the same facts as set out in the findings in this Order; and

- C. Pursuant to Section 105(c)(4)(G) of the Act and PCAOB Rule 5300(a)(9), KPMG LLP 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 internal training and tests associated with such training with integrity; (b) personnel to whom work has been assigned have the degree of technical training and proficiency required in the circumstances; (c) personnel participate in general and industry-specific continuing professional education 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 LLP 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

December 6, 2022