Public Company Accounting Oversight Board (PCAOB) disciplinary action regarding KPMG cheating		
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Contact	Senior Executive Leader	Executive Director
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s 22 [redacted]	s 22 [redacted]	s 22 [redacted]

Key messages

- ASIC does not have the authority to act against KPMG Australia (KPMG) in relation to partners and staff cheating on internal training by sharing answers to eLearning courses.
- The PCAOB was able to act against KPMG because the PCAOB registers firms that come with their regulatory ambit and there were breaches of PCAOB rules.
- ASIC registers individuals to conduct audits and the matter concerned KPMG's internal training. There was no contravention of the *Corporations Act 2001* by the individual audit partners or staff or by KPMG.

Background

- On 13 September 2021, the US Public Company Accounting Oversight Board (PCAOB) imposed sanctions on KPMG by censuring it, imposing a US$450,000 civil penalty on it and requiring KPMG to undertake certain remedial actions.
- The sanctions were imposed because KPMG violated PCAOB rules and quality control standards over several years in connection with KPMG's internal training program.
- The violations which apparently occurred from at least 2016 to early 2020 involved 1,131 KPMG personnel (including about 250 audit partners and staff) improperly sharing answers (either by providing or receiving the answers) in connection with tests for KPMG's mandated training covering topics that included profession independence, auditing and accounting.
- KPMG self-reported these violations to the PCAOB, ASIC and Chartered Accountants Australia and New Zealand (CA ANZ) in late March 2020.
- After KPMG's leadership found out about the cheating it conducted and internal investigation and sanctioned 1,131 individuals (or approximately 12% of KPMG's personnel) for their involvement in answer sharing.

- The media reported that KPMG forced two partners to retire over the cheating and 16 partners received formal warnings and had their income docked by tens of thousands of dollars. We understand that most were not registered company auditors (RCAs).
- ASIC regulates RCAs under the Corporations Act for compliance with auditing standards and whether they are fit and proper to carry out their role as a RCA.
- Reasons ASIC cannot act in relation to KPMG's internal training include:
  1. The PCAOB's action concerned a breach of an audit quality control standard. While the Australian quality control standard was made as an auditing standard under the Corporations Act 2001, ASIC can only take action against a lead audit partner for non-compliance with an auditing standard in the conduct of an individual audit;
  2. Unlike the PCAOB, ASIC registers individual audit partners as RCAs, not audit firms and has no ability to take action against a firm, or staff of a firm who are not RCAs or in relation to conduct or training of staff;
  3. ASIC has imposed a condition on all auditors registered since 2004 to undertake the number of hours education required by the professional accounting bodies. We understand that the RCAs involved complied with this condition; and
  4. Absent a possible breach of a provision of the Corporations Act 2001, ASIC had no power to obtain any documents under notice from KPMG concerning the matter.
- s 37(2)(b), s 47C, s 47E (d) [redacted].
- There has been media coverage over CA ANZ not taking action against the KPMG partners and staff, most of whom would be CA ANZ members. In response, CA ANZ has indicated that it is considering the matter. This is a matter for CA ANZ.
- CPA Australia advised its members last Wednesday 20th October that it has communicated with KPMG about the misconduct. KPMG has confirmed it will cooperate fully with CPA Australia's investigation and will provide a detailed explanation of its investigation, the conduct identified and any action taken including remedial actions and sanctions applied. This is a matter for CPA. Note that KPMG is CPA Australia's external auditor.